Lessons from ODA relevant to providing improved access to adequate, predictable and sustainable financial support

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1. This annex aims at providing views on the experience of official development assistance (ODA). The present ODA policy was mostly designed during and immediately after the Second World War. Its activities developed first as United States assistance and reconstruction, or development finance offered by imperial powers to their colonies. After independences in the early 60s, ODA was progressively offered by most OECD countries, some communist countries, and even some large developing countries such as China and India.

Progress in econometrics has improved the understanding of aid effectiveness. Many different financial channels have been designed. There has been intensive donor cooperation since the last fifteen years to improve aid governance and effectiveness. The description of some limited activities hereafter, some of which being no longer operational, does not intend to offer a full picture, but to introduce the reader to a selected number of possibly inspiring schemes; some of them may have proven too specific or not effective, but may still be kept in mind as a source of inspiration.

This part will shortly present some debates on aid effectiveness, one of which being that ODA globally has not been able to provide developing countries with a predictable financial mechanism. ODA could be looked at under two different aspects : as investment finance and as an insurance mechanism. Each relevant mechanism will be presented according to a comparable approach under the following items : Description, Financial equation, Allocation, History and evaluation.

2. Debates regarding aid effectiveness

In addition, although public opinion widely supports the idea of ODA, there is a general suspicion that it is poorly implemented, although indispensable and probably successful. Compared with other public policies, ODA has the characteristic of a bigger distance between the tax payer and the final operation financed : it is implemented by an administration of his country by delegation to the administration of another country, moreover, an "exotic" one, and may bear fruit after a long time. Therefore, automatic financing schemes such as budget funding with ex post conditionality to be assessed in consideration of exogenous factors, such an approach that might allow aid to depart from an authoritative model (which dates back to its colonial roots – Pacquement, Iddri 2009).

Although aid is quite controversial (see Center for Global development web site, Easterly, etc.), this paper will shortly present only four most relevant debates for the purpose of this report : volatility, grants vs loans, bilateral vs multilateral, aid allocation.

2.1. ODA has not been able to provide developing countries with a predictable financial mechanism. This is a problem for aid dependent countries and in terms of general aid effectiveness.

Aid flows to poor, aid dependent countries are highly volatile and pro-cyclical[1] . The volatility is not only important in itself, but it is also more important than the volatility of government revenues and it is aggravated by a global procyclicality of aid flows (as observed for a group of 72 aid-dependent countries).

This result is paradoxical in more than a way : how comes that aid, which is intended to assist countries facing difficulties, is easier when conjuncture improves ? how comes that the aid system as a whole, fragmented as it is, delivers constantly such a performance ?

The response to these two paradoxes may lie in three process : donor harmonization and coordination, improvement of aid investments, development of insurance mechanisms. The two latter will be presented hereafter.

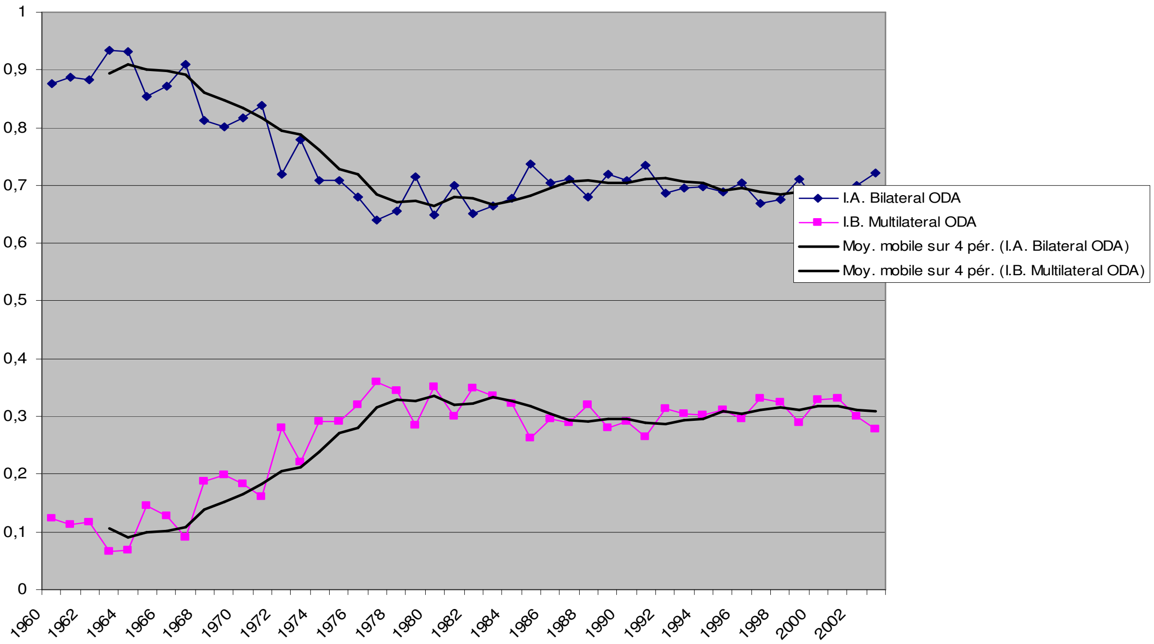
In general, ODA activities are associated with a long delivery cycle, which tend to make them procyclical.

2.2. The debate on loans and grants is one of the important debates among ODA agencies. For a better understanding of some of the financial mechanisms presented in the next section, the reader should be aware that:

- Loans can be accounted for as ODA provided that they present a minimum grant element ; when disbursed, they increase ODA, when reimburses, they decrease ODA ; over the life time of a loan, total ODA should sum up to zero ; a World bank IBRD loan, being offered according to market conditions is not ODA, although it is already an important advantage for the borrower not to be charged with his specific market risk premium ;
- developing countries needs have made it necessary to offer assistance under loans, which provide for some leverage effect ; they still do (Sachs 2005 estimates the financing gap for the least developed countries to more than 135 Bn$ by 2015) ;
- some kind of specialization has developed, where bilaterals offer grants and multilaterals offer loans ; there are exceptions (France, Germany and Japan have development banks and UNDP or other UN agencies, and since IDA 13 the World Bank offer grants) ;
- default is submitted to sovereign debt rescheduling or cancelation mechanisms (see A.2) ; the debt and crisis of the 1980s has left a bad memory of loans, although their global management has improved (better coordination and statistics, more effective crisis management for the poorest countries, adoption of a debt viability framework – see IMF IDA 2008)
- because of the commitment to reimburse, loans allow for a better appropriation and some authors consider them to allow for a more effective aid delivery.

[1] WP/08/101 IMF Working Paper African Department Welfare Gains of Aid Indexation in Small Open Economies Prepared by Anubha Dhasmana Authorized for distribution by Andrew Berg April 2008

2.3. Another debate is whether ODA should be centralized within one single multilateral organization versus going ahead as a very fragmented activity (more than 80 significant aid agencies). First, one should keep in mind that the share of multilateral aid is stable since 1974, roughly around one third (DAC statistics, authors calculations).



Second, national aid agencies provide donor countries with some specific experience that enable them both to better participate in the board meetings of multilateral institutions and to develop experimental operations, create public opinion support for financing ODA, and may offer an additional political incentive where conditionality is needed (Sachs 1994). Aid is still an instrument of international friendship.

2.4. A debate has developed along the analyses about aid effectiveness : which countries should receive how much aid? After analyses that tended to show that aid effectiveness depends on institutions and policies in the recipient countries, donors have been referring to some allocation criteria that include governance or policy aspects. One pioneering mechanism is the allocation criterium of the World bank concessional window, the International development agency.

(source : IDA web site) The allocation of IDA's resources is determined primarily by each recipient's rating in the annually computed country performance index (CPIA). In addition, the IDA15 Agreement recommends that because the acceleration of economic and social development in Sub-Saharan Africa remains foremost among IDA's priorities, these countries should receive priority in the allocation process, provided their policy performance warrants it. In the case of countries that are eligible for both IDA and IBRD funds ("Blend countries"), IDA allocations must also take into account those countries' creditworthiness for and access to other sources of funds.

CPIA Criteria

A. Economic Management

1. Macroeconomic Management
2. Fiscal Policy
3. Debt Policy

B. Structural Policies

4. Trade
5. Financial Sector
6. Business Regulatory Environment

C. Policies for Social Inclusion/Equity

7. Gender Equality
8. Equity of Public Resource Use
9. Building Human Resources
10. Social Protection and Labor
11. Policies and Institutions for Environmental Sustainability

D. Public Sector Management and Institutions

12. Property Rights and Rule-based Governance
13. Quality of Budgetary and Financial Management
14. Efficiency of Revenue Mobilization
15. Quality of Public Administration
16. Transparency, Accountability, and Corruption in the Public Sector

3. Two functions of ODA and selected instruments

ODA is in fact associated with the millennium development goals, which provide the planet with a sort of social safety scheme. For the purpose of this paper, we shall distinguish two different tasks performed by ODA : investment finance and insurance. The latter has been implemented under the European Development Fund STABEX mechanism and the HIPC initiative. The former is documented by all the ODA activities. Among the ODA activities, attempts to build a better financial mechanism are provided for by so-called vertical funds, by UNITAID and by IFFIm.

A. insurance mechanisms

Insurance mechanisms have been designed in the framework of multilateral assistance (the IMF Compensatory Financing Facility, and the European Union STABEX). Although it does not exactly meet the definition of an insurance mechanism, since it was designed after the accident (suspension of debt service and situation of debt unsustainability) occurred and not before, but it aims at hailing the situation, we shall discuss the HIPC initiative in this section. In addition, the provision of guarantees is shortly presented.

A major issue regarding this kind of mechanisms is that in most cases, the impact of shocks in developing countries is likely to become larger than the amount of assistance available. In addition, analyses show that the trend of commodities prices is declining, therefore the financing requirements to compensate for export losses will follow an increasing trend. Therefore, ODA institutions have been very careful regarding such instruments.

Some other schemes may play a contracyclical role although they are not intended to. DFID or AFD assistance to migrants in order to get better transfer charges for sending their remittances home are e contribution to the provision of insurance finance to their relatives.

A.1. STABEX

Description

A European mechanism introduced in the Lomé convention in 1975, to compensate countries of Africa, the Caribbean and the Pacific – ACP (non ACP countries will be offered at the end of the eighties a similar scheme, COMPEX, which was poorly financed and cannot provide a model) from agricultural export losses (restricted to a list of some 50 products, losses imputable to both lower volumes or prices).

Financial equation

Member states decide a global financial envelope for the EDF. The envelope is to be committed under a five years period. Sub ceilings are defined for specific windows such as STABEX (and also SYSMIN, EIB risk capital)

Allocation

According to the export performance of the year of all ACP countries.

History and evaluation

The rate of compensation has steadily deteriorated, from 100% under Lomé I to 43% under Lomé IV (Matringe, 2002). A new mechanism ("FLEX") has been introduced under the Cotonou agreement.

The attempt to improve the STABEX under the Lomé IV convention has led to increasing disbursement delays. Member states included a structural adjustment component in Lomé IV and this polluted the STABEX in extending to the mechanism a sectoral conditionality, as a symmetric approach to offering structural adjustment assistance with macro conditionality. As a consequence, STABEX could no longer exert a contra cyclical role.

STABEX is considered having disincented ACP countries to diversify their exports. Still, this criticism is in itself controversial (see analyses of diversification of trade in Africa – for instance DIAL 2002 shows that it is not trade specialisation that explains why certain countries succeeded, but above all their competitiveness, that is their ability to increase their market shares on both traditional and new export products).

A.2. The IMF Exogenous Shocks Facility (ESF)

Description

The IMF Compensatory Financing Facility could also be mentioned; established in 1963 (and modified several times since), it aims at helping member countries cope with temporary export shortfalls caused by exogenous shocks. Since it does not provide ODA under the DAC definition, it will not be further discussed in this paper. The ESF has been created in 2006 to provide policy support and financial assistance to low-income countries facing exogenous shocks and has recently been modified.

Financial equation

Concessional lending under the PRGF is made possible by a two tier mechanism :

- A PRGF-ESF Trust borrows resources from central banks, governments, and official institutions generally at market-related interest rates, and lends them on a pass-through basis to PRGF-eligible countries.
- The difference between the market-related interest rate paid to PRGF-ESF Trust lenders and the rate of interest paid by the borrowing members is financed by contributions from bilateral donors and the IMF's own resources.

Allocation

It is offered to countries eligible for the Poverty Reduction and Growth Facility (PRGF) (IMF's instrument for financial assistance to low-income countries) but that do not have a PRGF program in place. Financing terms have an equivalent level of concessionality to a PRGF arrangement (credits onlent at a rate of 0.5 %).

The modified ESF has two components :

- A rapid-access component under which a country can access fairly quickly, up to 25% of its quota for each exogenous shock, with resources normally being provided in a single disbursement. This component can be used on a stand-alone basis or as a first step towards higher access.
- A high-access component, along the lines of the current ESF, with access up to 75% of quota for each arrangement in normal circumstances. Resources are provided in phased disbursements based on reviews, and programs are one-to-two years in length. This component can be used following a rapid-access component or on a stand-alone basis.

The country's economic program will be focused on adjustment to the underlying shock, with less emphasis on the broad structural adjustment that often characterizes other IMF-supported programs, including those supported by the PRGF. Access will be determined on a case-by-case basis.

History and evaluation

The PRGF has been established in 1999 as an IMF support to the Highly Indebted Poor Countries (HIPC) initiative. The ESF has been created in 2006, as a necessary complement to the approach by the IMF of least developed countries. The association to the PRGF shows that the financing and insurance approaches should be linked.

<u>A.3. HIPC</u>

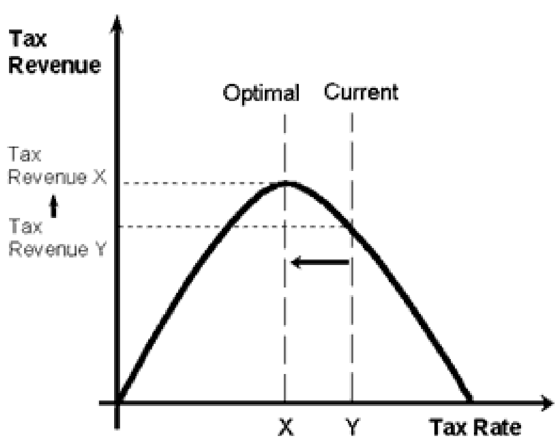
Description

Over indebtedness of the poorest countries has cut them from the access to many funding sources.

Over indebtedness has fist received answers under the form of debt reschedulings. After the adjustment 1980s, the problem seemed doomed to last and the G7 and Paris Club progressively decided to move towards debt cancellation mechanisms. A first scheme was proposed in Lyons, but it proved difficult to qualify for. A second, more accessible, was designed under high civil society mobilisation, at the G8 of Köln in 1999. According to the HIPC approach, up to 90% of debt may be cancelled.

Financial equation

One could extend the Laffer curve from the field of taxation to the field of indebtedness : after an optimal level, the value of the total stock of debt lent to one country diminishes. Stemming from this model, the economic analysis of outstanding credit is no longer the value accounted for, Y, but another one, Y', on the ascending side of the curve. This comes to acknowledge a partial cancelation of the debt stock, which can only be done on a multilateral basis.



After many debt crises and reschedulings, loans to least developed countries were fully provisioned ; banks and states needed a framework for cancelling these non values

Allocation

The amount is defined as the necessary contribution to come back to a sustainable level of indebtedness measured according to debt stock and debt service ratios.

Countries qualify for the mechanism when they ask for it, after having concluded an agreement with the IMF, and met the pre condition of publishing a draft poverty reduction strategy – PRSP (decision point). Then they immediately get some relief, which is confirmed after a transition period with good implementation of the Fund conditionality and publishing a full PRSP (decision point). They have then full irreversible benefit of the debt alleviation.

History and evaluation

The promise of additionality was hard to monitor and indeed seems far from being met.

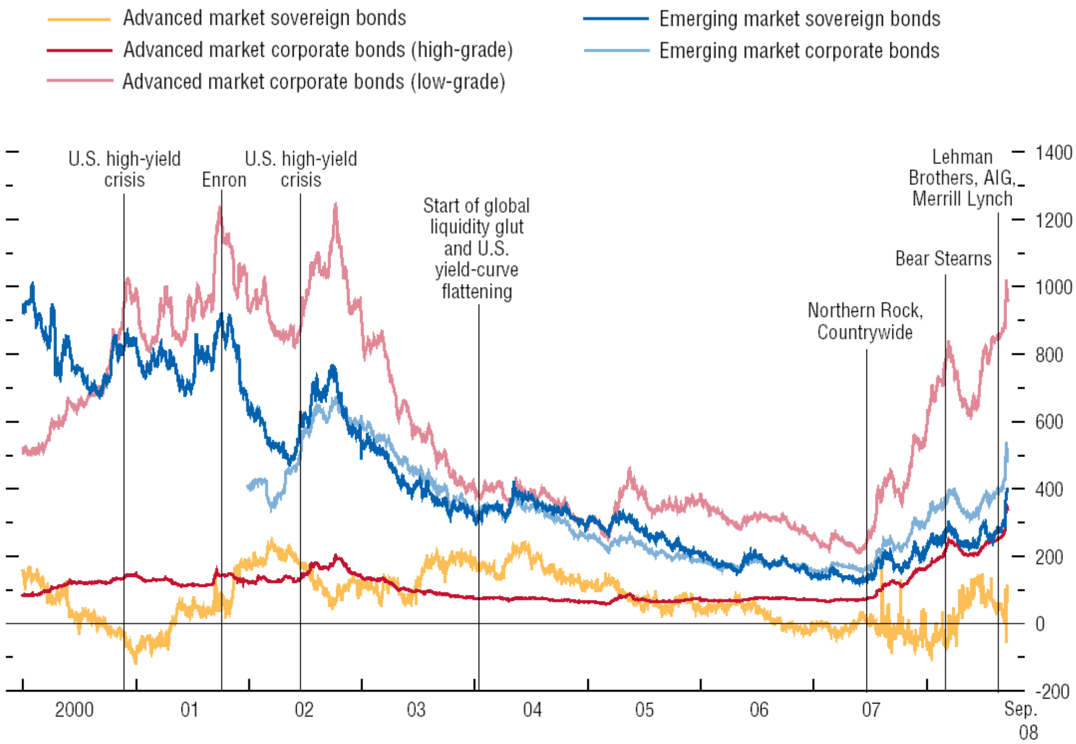
A.4. Guarantees

Guarantees make it possible to decrease the risk taken by the banks in the loans which they grant by sharing it. Foreign guarantees increase the borrowing capacity of local banks and lower the interest rates. They do not require as much funding as loans and may have a good development impact.

The DAC has accepted to count guarantees as ODA only when the guarantee is called, which means that finance is in this case considered as developmental after it has failed, which seems rather paradoxical. The EC Commission competition directorate has developed a more satisfactory approach to assessing the grant element of guarantees, which would enable the DAC to include this high leverage instrument in ODA. But for the time being the DAC is rather conservative, with the effect that aid donors are reluctant to develop these instruments. Our assumption is that such mechanisms should be included among concessional financial engineering, in consideration of their effective concessionality, especially in reference with risk premia.

Although these premia have considerably diminished the last few years, the financial crisis has stopped this process (see chart – source World bank Global development finance 2008).

Advanced and Emerging Markets: Sovereign and Corporate Bond Spreads, 2000–08[1]
(In basis points)



Sources: Bloomberg Financial Markets; Datastream; JP Morgan; Moody's KMV; Thomson Reuters; and IMF staff calculations.
[1]The corporate bond spreads are derived as the difference between the asset swap spread and the commensurate London interbank offered rate. The sovereign bond spread series for advanced markets is a composite of the five-year U.S. Treasury rate over the effective federal funds rate and the five-year German Bund over the EONIA rate (i.e., the effective European Central Bank policy rate).

Where countries have a development bank (France, Germany, Japan), they also offer guarantees. The World Bank MIGA also does, but there does not seem to be such mechanisms in the regional development banks.

B. investment finance

Aid investments have two important characteristics to keep in mind : commitments are the result of a two to four years long process, disbursements (which are the only admitted under the ODA accountancy) may take up to seven years. Aid decisions take time, there is much inertia in general. In addition, commitments are pretty poor predictors of disbursements.

Three windows of aid have tried to offer a protection against volatility: they happen to have developed for sectoral purposes; this seems necessary in the field of health (the purpose of UNITAID and IFFIm), where stopping to take charge of a patient may mean deciding his death.

B.1. vertical funds

Until the 1980s, most ODA schemes have developed on a holistic country needs approach and have offered general development assistance. A possible contribution to escape the previsibility-volatility gap could be found in a sectoral approach. Such a sectoral approach has been developed in so-called "Vertical funds" or Global programs.

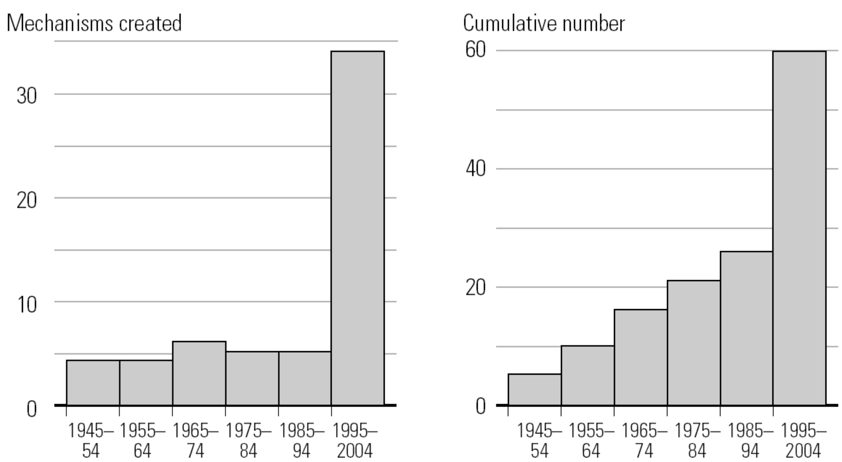
Description

Vertical funds aim at specific issues, in contrast with the traditional "horizontal" approach of country-based assistance. Among the most significant (born in the 1990s) are the GEF the Global Fund to Fight AIDS, Tuberculosis and Malaria and the GAVI. Such a sectoral earmarking of ODA can also be seen in bilateral assistance programs, such as the U.S. government's PEPFAR.

They are the most numerous category of instruments created in the 1990s, which was quite prolific.

(source Inge Kaul etc.)

Financing mechanisms created and cumulative number included in table 1



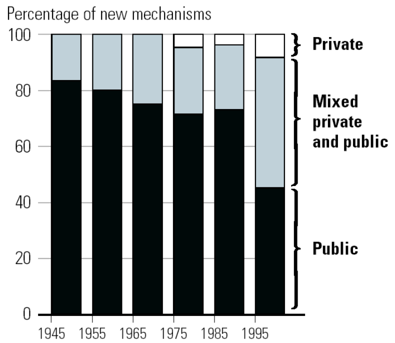
Source: Background analysis and inventory for this volume (see www.thenewpublicfinance.org).

Financial equation

Periodical replenishment negotiations with donor countries. More and more schemes include private partnership.

(Source Inge Kaul etc.)

FIGURE 4
Funding sources of new financing mechanisms included in table 1



Allocation

Some funds are allocated following an allocation formula inspired by the IDA, with additional factors related to the problems addressed (see the GEF Resource allocation framework – RAF).

History and evaluation

The effectiveness and sustainability of global programs will ultimately rest on the presence of complementary sector-level and country-level policies.

B.2. IFFIm

(source http://www.iff-immunisation.org/)

Description

After Monterrey, where donor countries strongly committed to increase their ODA, the British Treasury floated the idea to convert the long-term government pledges into immediately available cash resources.

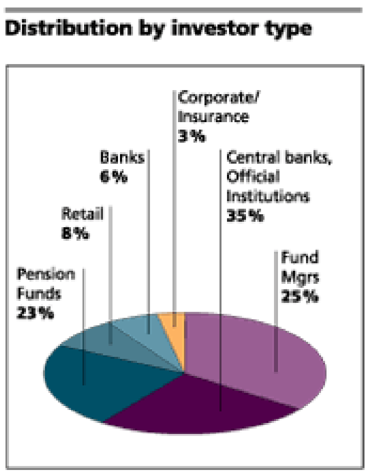
Financial equation

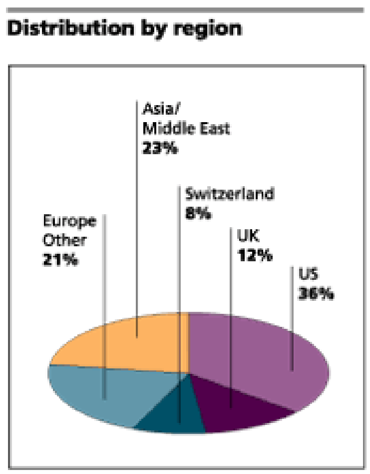
IFFIm raises finance by issuing bonds in the capital markets, the long-term government pledges being used to repay the IFFIm bonds. The World Bank is financial adviser and treasury manager to IFFIm. IFFIm issues AAA/Aaa/AAA-rated bonds in the international capital markets.

IFFIm's initial offering in November 2006 raised US$1 billion among institutional investors globally and a second offering in March 2008 raised the equivalent of US$ 223 million from private individuals in Japan.

IFFIm's First Bond Issuance

IFFIm's inaugural bonds were issued on 14 November 2006. The bonds were priced comparably to other sovereign/supranational issuers and were bought by a broad range of investors – both geographically and by investor type – including several central banks, pension funds, fund managers, and insurance companies.





IFFIm's Second Bond Issuance

Japanese investors welcomed the launch on 4 March 2008 of IFFIm's debut offering in the Japanese retail market, a ZAR 1.7 billion (USD equivalent 223 million) two year uridashi issue. The "Vaccine Bonds" were arranged by Daiwa Securities SMBC Co. Ltd., the wholesale securities firm under Daiwa Securities Group, and distributed by Daiwa Securities to Japanese investors. IFFIm's debut in Japan is the largest South African rand denominated bond seen to date in the uridashi market.

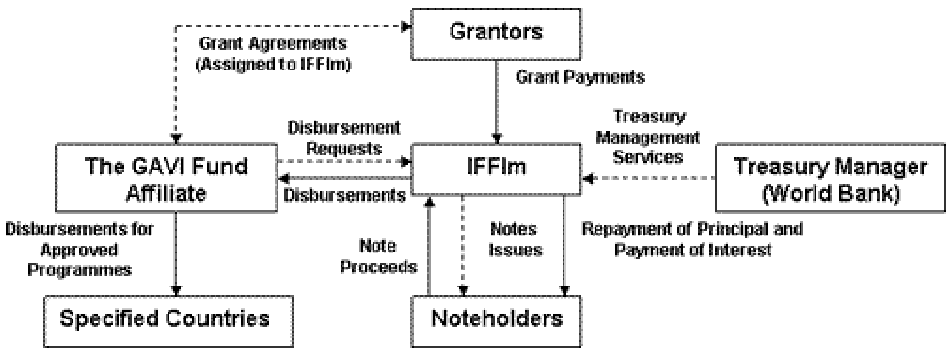
To date, the sponsoring countries have committed to pay the following amounts:

- **United Kingdom** has committed a total of £1,380,000,000 over 20 years;
- **France** has committed €372,800,000 over 15 years and an additional €867,160,000 over 19 years;
- **Italy** has committed a total of €473,450,000 over 20 years;
- **Spain** has committed a total of €189,500,000 over 20 years;
- **Sweden** has committed a total of SEK 276,150,000 over 15 years;
- **Norway** has committed a total of US$27,000,000 over 5 years;
- **South Africa** has committed a total of US$20,000,000 over 20 years;
- **Other** donors are expected to follow suit. Brazil for example, has announced that it will pay $20 million over 20 years.

Allocation

The allocation of funds is the responsibility of the GAVI Alliance, a public-private partnership of major stakeholders in immunisation. It includes developing country and donor governments, the World Health Organization, UNICEF, the World Bank, the vaccine industry in both industrialised and developing countries, research and technical agencies, civil society organisations and the Bill & Melinda Gates Foundation.

Seventy-two countries of the world's poorest countries are eligible to apply to GAVI for funding for their immunisation programmes and for strengthening their health systems to increase and sustain immunisation.



History and evaluation

The International Finance Facility for Immunisation was launched in 2006 as a result of an initiative of the United Kingdom Government. IFFIm is also supported by France, Italy, Spain, Sweden, Norway and South Africa who have together pledged to contribute US$ 5.3 billion to IFFIm over 20 years. This strong financial base enables IFFIm to have a triple-A rating from the three major rating agencies.

B.3. UNITAID

The "business" model of UNITAID is original in two ways : first, it provides aid financed by innovative resources and is committed to develop this innovative inspiration, second, it seeks not only to provide finance, but also to increase value for money via "sustained strategic market intervention to drive price reduction and increases in supply".

Description

(source: http://www.unitaid.eu/)

UNITAID aims to improve access to treatments against HIV/AIDS, malaria and tuberculosis for populations of developing countries, by getting lower prices of quality medicines and diagnostics which are still too expensive for these countries, and speed up their availability and delivery in the field. It is an international drug purchase facility financed with sustainable, predictable resources. This mechanism seeks to fill a critical gap in the global health financing landscape: the need for sustained strategic market intervention to drive price reduction and increases in supply.

Financial equation

UNITAID funds are mostly based on innovative funding, which are secure, additional, sustainable and predictable. Tax on air tickets was considered as the most suitable instrument.

UNITAID is financed primarily from the proceeds of a solidarity tax on airline tickets which ensures a steady flow of contributions. The revenue generated from the tax is also a truly additional, new source of funds for global public health. The levy is applied to all airlines departing from countries imposing it. Therefore there is no distorted competition between airline companies. It is a simple mechanism. A levy on airline tickets is paid by passengers when purchasing their tickets. It is often added to existing airport taxes. Airlines are responsible for declaring and collecting the levy. Passengers in transit are exempt, so airports in participating countries are not put at a disadvantage.

For passengers, the level of the tax is very low compared to the total cost of a ticket. For the airlines, a levy of a few dollars has very little impact on the air transport industry and airlines' profitability compared to other factors (such as kerosene price for example). The air-ticket solidarity levy respects countries' tax sovereignty. Different bases and rates can be set according to countries' different levels of development and price elasticity of demand on the basis of distance and the passenger's travel class. The tax is implemented in the following countries: France, Chile, Côte d'Ivoire, Congo, Republic of Korea, Madagascar, Mauritius, Niger. Norway affects part of its tax on CO2 (kerosene) to UNITAID as well. Benin, Brazil, Burkina Faso, Cameroon, Cyprus, Gabon, Guinea, Liberia, Mali, Morocco, Namibia, Central African Republic, Senegal, Sao Tome & Principe, Togo are currently in the process of implementing such a tax.

Until UNITAID, aid schemes acted only on the provision of finance, notwithstanding the conditions of procurement, in a context where the TRIPs agreements tend to make prices higher for drugs. Additional finance may then find it more difficult to simply sustain the effort, whereas needs are increasing.

This allows UNITAID to commit on long term projects in order to have an impact on manufacturers. Long term commitment and the purchasing of high volume of drugs and diagnostics allows UNITAID to get lower prices as manufacturers are encouraged to increase their production which results in economies of scale.

Allocation

UNITAID funds are spent exclusively for the purchase of drugs and diagnostics.

According to UNITAID constitution, funds are distributed according to country categories (based on World Bank definitions). "At least 85% of UNITAID funds dedicated to purchase commodities should be spent on low income countries (LICs). No more than 10% of UNITAID funds dedicated to purchase commodities should be spent on lower middle income countries (LMICs). No more than 5% of UNITAID funds dedicated to purchase commodities should be spent on upper middle income countries (UMICs) with priority given to those with a high disease prevalence, subject to these countries providing co-financing for their projects as to 20% in year 1 rising to 40% in year 5 (the same arrangements as per the Global Fund)".

"In the case of both LMICS and UMICs, UNITAID contributions should be used to scale up existing programmes targeted principally at vulnerable groups (in accordance with the UNAIDS definition)."

History and evaluation

In 2004, a group of 44 countries agreed on the need for additional stable resources for development and committed to develop innovative mechanisms and has started working on implementing innovative development financing mechanisms. France and Brazil, along with other countries and international organizations, opened a discussion on the need to facilitate access to drugs for the world's poorest people as part of the fight against the major pandemic diseases as a first case for such a scheme. In 2006, France, Brazil, Chile, Norway and the United Kingdom decided to create UNITAID.

UNITAID intends to work to further develop its market dynamic toolkit, which consists primarily of:

- - central purchasing, pool procurement
- - information sharing: external forecast sharing, internal information sharing
- - price negotiation: volume price negotiation, cost plus method pricing, partnership pricing
- - stimulation of competition: supporting pre-qualification, encouraging/attracting new manufacturers, supporting local registration, encouraging technology sharing

Significant results have already been achieved :

Substantial reductions in the prices of paediatric drugs, in partnership with the Clinton Foundation. In the case of the fixed-dose paediatric formulation of the ARV combination most used for adults, the annual price of the treatment has been reduced to less from 196$ to $60, or 16 cents a day, for a thermostable split-tablet. On average, pharmaceutical companies have agreed to reduce their prices by over 40% compared with the best prices observed on the market, including those of the manufacturers of generics.

Significant price reductions (by 25% to 50%, according to the income level of the countries) on second line antiretroviral, as a result of higher volumes of drugs ordered by the Clinton foundation with UNITAID funds.

As a consequence, when prices are reduced, UNITAID and its partners can provide more drugs and treatments for the same budget. As an example, price reduction obtained for paediatric antiretroviral in November 2006 allows to save three time more HIV-positive children for the same amount of money.

UNITAID use of funds also aims to have new drugs on the market that are better adapted to patients needs (one pill treatment instead of several takes a day).

B.4. AFD contracyclical loans CCL

Description

It is an attempt to both allow former HIPC countries to regain eligibility for loans (as leveraged finance) and to offer an answer to the issue of volatility of resources and volatility in least developed countries.

A loan typically includes a disbursement period, a grade period, where only interest is due, and a reimbursement period, where interest and principal are due. The disbursement period and the grace period may be concomitant. The principle of the CCL is to reduce the grace period of a typical concessional loan (the reference AFD loan has 30 years maturity, including 10 years grace, and charges 1% interest), from 10 to 5 years, and to keep the remaining grace periods as an asset that the country can draw upon, when a bad shock occurs. Such instrument should allow the development agencies to resume lending to the poorest countries, while explicitly acknowledging the risks that have led in the past to the debt cancellations initiatives.

Financial equation

AFD is a development bank which grants concessional finance as a result of borrowed market funds associated with grants by the French Treasury. AFD can also offer full grants on resources of the Ministry of Foreign affairs.

Allocation

For HIPC having improved their debt viability index, on a case by case basis.

History and evaluation

Introduced in 2007, on the basis of an idea proposed to the Prime minister in a report of the economic advisory council (Cohen et alt 2006). Until now, two countries have received such a loan, Senegal and Burkina; others are in preparation (Mali, Mozambique..).

Participations

Equity participation are carried out by ODA institutions branches dedicated to the private sector, the first historically being the IFC and the British CDC, examples followed by Germany (DEG), France (Proparco) and many other similar institutions in the Inter American Development Bank or European donors (federated under the association EDFI, see http://www.edfi.be/).

Within this framework, Proparco becomes shareholder of companies established in the partner countries, in order to enable them to develop and implement projects whose economic and social impact is considered to be beneficial. This instrument makes it possible to compensate for the scarcity financing by equity in many countries of the South.

It is not providing ODA under the litteral DAC definition, therefore it will not be further discussed in this paper. However one should keep in mind that such mechanisms do not charge country specific risk premia, which is somehow concessionary.

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