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DIVERSIFYING SOURCES OF FINANCING FOR DEVELOPMENT

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EXECUTIVE SUMMARY

This background paper for the joint Ministerial Debt Sustainability Forum organized by the Commonwealth Secretariat and the OIF, to be held on 23 April, recommends actions necessary to facilitate diversification of international financing sources for development, while maintaining debt sustainability. Its main overall conclusion is that governments should be highly prudent in diversifying financing. The key lies in designing borrowing ceilings to maintain debt sustainability, but more importantly in designing systems which can transparently and objectively assess, negotiate and monitor finance and its objectives, regardless of political, commercial or other pressures. Governments also need to have excellent anti-fraud and project value-for-money checking systems to avoid fictitious or criminal financing, or financing which makes little contribution to development. In addition, they need to prioritise projects carefully and examine their expected returns closely, discounting the optimism of project designers and financiers, to ensure that they mobilise finance for only highest priority projects whose contributions to development can justify the financing costs. This implies that many governments will need considerable initial capacity-building support to analyse external financing options (as well as the relative merits of non-debt financing, domestic debt and private sector debt).

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In terms of major groups of flows, the paper recommends the following actions to facilitate ***diversification of North-South concessional flows***:

1. *Ministers could call for higher aid flows, going beyond maintaining Gleneagles pledges, to request a further US$35 billion of concessional funds to combat current shocks, as well as much more funding to combat climate change; and for setting firm budget timetables to deliver on these higher pledges.*
2. *Ministers could advocate earlier dates for agreeing new replenishments of IDA and AfDF, as well as new negotiations on FSO replenishment.*
3. *Ministers could undertake to lead discussions on global aid allocation efforts, and division of labour in each country, to ensure balance in allocation among countries.*
4. *Ministers could advocate reformulation of MDB allocation criteria to take more account of vulnerability to shocks and fragile states as well as performance, and measures to offset the MDRI-induced reduction of concessional flows to some HIPCs.*
5. *Ministers could undertake to diversify sources of OECD financing wherever necessary at national or sectoral level, in order to reduce risks of volatility and focus on donors which are likely to increase flows even in the face of the financial crisis.*
6. *Ministers could advocate even more gradual periods for graduation, and the continued provision of anti-shock finance to graduated countries on concessional terms, in the light of the vulnerability of their income levels to crises.*
7. *Ministers could commit to participating actively in the advocacy and monitoring of progress on aid effectiveness through implementation of the Accra Agenda for Action,*
8. *Ministers could ask donors to make more rapid progress than envisaged in the AAA, on reducing conditionality, moving from TA to capacity-building, and increasing funding for infrastructure, agriculture/food and regional projects.*
9. *Ministers could welcome the flexibility shown by multilateral organizations (especially the World Bank and AFDB) in providing rapid anti-shock financing and in increasing funding for infrastructure and agriculture and regional projects.*
10. *Ministers could urge that global vertical funds accelerate their efforts to align with developing country national policies and procedures, and that CSOs improve coordination with and reporting to governments on their activities.*

In regard to facilitating ***diversification to and among South-South flows***:

1. Ministers could urge Southern aid providers to deliver their pre-crisis commitments of financing, in spite of the pressures some are facing on their own economies.

2. They could urge Southern providers to publish more information on quantity, quality and policies/procedures relate to their flows.

3. They could welcome UN analysis of South-South aid and urge it to conduct more analysis of future prospects, as well as best practices and relative quality of such aid

4. They could urge Southern donors to provide more sector and budget support, channel more aid via recipient budgets and procedures, and untie more aid.

5. They could welcome the strong focus of South-South aid on infrastructure and productive sectors, and regional projects, as well as the concern shown by Southern lenders for respecting recipient debt sustainability policies, their lack of conditionality, relative predictability, and rapid and low-cost execution of projects.

6. They could commit to mobilizing Southern aid on the basis of objective assessment of its relative qualities in supporting national development strategies, and to sharing information in order to widen application of best practice by Southern donors.

7. They could commit to encouraging processes through which Northern and Southern donors can learn from one another, potentially facilitated by the Commonwealth.

Finally, in regard to ***diversifying to less concessional financing:***

1. Ministers could welcome the decision by the G20 Summit to ask the IMF and World Bank to review the flexibility of the LIC-DSF by the time of the Annual Meetings.

2. They could urge the IMF to review urgently the concessionality policies in its programmes, to set a better basis for deciding thresholds and exemptions, more clearly linked to the DSF results, and designed to maximize growth-oriented finance.

3. They could also urge IDA and the AfDF to review their non-concessional borrowing policies and application of the LIC-DSF results in line with the IMF review.

4. Ministers could urge OECD countries to restore cover for export credit borrowing more flexibly, in order to overcome current difficulties in mobilising trade finance.

5. Ministers could urge IFIs to apply graduation policies more flexibly, providing some concessional financing for LMICs to combat exogenous shocks, fund social safety nets, and combat climate change.

6. Ministers could urge MDBs to provide "less concessional" funds to LICs for high-return infrastructure and other projects, which do not undermine debt sustainability.

7. Ministers could urge donors to provide intensive capacity-building support on laws, institutional structures and analytical/negotiating skills for less concessional flows.

8. Ministers could commit to undertaking detailed analysis of the advantages and risks of bond issuance, credit ratings and PPPs/PFIs, and request donors to sponsor capacity-building assistance independent of financing "vendors". This could be part of designing a medium-term debt strategy, and ensuring that projects funded have realistic returns which justify financing costs.

DIVERSIFYING SOURCES OF FINANCING FOR DEVELOPMENT

I. BACKGROUND AND OBJECTIVES

1. As Chair of the Commonwealth Ministerial Debt Sustainability Forum (CMDSF), the Government of Guyana has commissioned several studies to provide analytical support on key issues to be discussed at the Ministerial Debt Sustainability Forum to be jointly organized by the Commonwealth Secretariat and the Organisation Internationale de la Francophonie, on April 23. These are funded by the Department of International Development of the United Kingdom, and include this study of how to diversify sources of financing for development available to low-income and other indebted countries.

2. Between 2000 and 2008, financing prospects for HIPCs and other indebted LICs changed dramatically. Many HIPCs had most external debt cancelled, increasing their capacity to borrow externally. Aid flows from OECD donors grew considerably. Flows from new concessional sources, notably Southern donors (but also global funds and CSOs) rose sharply. Many LICs expanded access to less concessional or non-concessional funds, and innovative types of financing such as Private Finance Initiatives (PFIs). When this paper was agreed by the Commonwealth Ministerial Debt Sustainability Forum (in October 2008), its aim was to identify how to accelerate diversification.

3. However, since the onset of the financial crisis in 2008, developing countries have become increasingly worried about their access to most of these types of financing for development. As this paper will therefore show, prospects for OECD aid quantity are somewhat weaker, as are those for funds from Southern donors, global funds and CSOs. In particular, prospects for less concessional funds from commercial sources have deteriorated sharply, and are only partly being offset by official non-concessional funds. While this paper is not a study of the effects of the financial crisis, it has to examine the effects of the crisis on limiting prospects for (and the desirability of) diversification. It also focuses more than originally intended on non-concessional flows, which have been most affected by the crisis.

4. The paper therefore has two objectives:

- to provide an impartial assessment of the advantages and disadvantages of various types of financing for development, to assist participating countries in making decisions about diversification strategies. It places particular emphasis on types of flows which have not been analysed extensively by the CMDSF in the past, namely South-South aid, export credits and commercial bank financing.
- Based on this assessment, to suggest actions countries can take for themselves, and advocate that the international community should take, to facilitate this diversification while ensuring the highest-quality finance and maximum development results.

5. The remainder of the paper is divided into three sections. Section 2 examines the prospects for diversifying concessional "North-South" finance; Section 3 the prospects for diversifying South-South financing; and Section 4 the prospects for diversifying less concessional financing, from multilateral, bilateral and commercial sources. Each section ends with recommendations for actions to facilitate diversification.

II. DIVERSIFYING CONCESSIONAL "NORTH-SOUTH" FINANCE

6. The international community has been promising since the G8 Summit at Gleneagles in 2005, a large increase in aid during 2005-10 (by US$50 billion a year, of which US$25 billion to Africa). It also acknowledged, at the 2008 G8 Summit and EU Ministerial Meetings, that aid will need to continue to increase sharply until at least 2015 in order to reach the Millennium Development Goals.

7. Until the end of 2008, while many countries were not living up to their 2005 promises (the OECD calculated that they were increasing aid at less than half the rate needed, and the dramatic scale of increase needed until 2010 is shown by the dotted line in Annex Figure 1)[1] prospects for substantial aid increases looked reasonably good. Some donors (France, Ireland, Spain, UK, US) were dramatically increasing aid flows, and other such as Germany, most EU nations, Canada, Australia and New Zealand were making considerable efforts to increase aid. Prospects were further enhanced by the incoming Obama administration's declared intention to double US aid flows by the end of its first term (2012), which would alone have added USD 25 billion. Notable exceptions to increases were Italy and Japan.

8. However, since the onset of the financial crisis in 2007-08, some donors (notably France and Ireland) have postponed to 2015 the date by which they intend to reach 0.7% of GNI in aid, and reduced their aid growth accordingly. Italy has dramatically cut its aid budget for 2008, and the Obama administration has reduced its aid budget request to Congress to a 9.5% increase for this fiscal year. The USD value of aid from some other countries (notably the UK which is meeting its promises in % of GNI) has also been reduced by the rise in the exchange rate of the USD. Nevertheless, the effects of the crisis on aid quantity should not be exaggerated. Most other donors (notably Canada and Germany among the G7) have reiterated their earlier commitments to increase aid, and Japan has announced a further pledge of USD 500 million beyond its existing commitment to double aid to Africa to USD 1.8 billion million a year by 2012. If US aid alone grows by 10% a year over the next 4 years it will add USD 12.5 billion to annual aid flows by 2012. Overall prospects therefore indicate a somewhat less rapid increase, but not nearly as dramatic a cut as some sources have been suggesting.[2]

9. Nevertheless, these flows now look likely to fall well short of developing country needs in the light of the financial crisis. The IMF has suggested that (even if they absorb a large share of the crisis impact by reducing reserves and budget deficits) low-income countries need a further US$25 billion to combat the financial crisis,[3] added to the US$10 billion which was estimated to be needed globally to combat the food crisis.[4] The World Bank has suggested that they need anything up to US$71 billion, and the AfDB that African countries need at least US$50 billion.[5] While the G20 London Summit has mobilized a welcome US$50 billion of potential lending to low-income countries, it is not clear how much of this will go to developing country budgets rather than reserves.

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[1] See also OECD (2008).
[2] Based on information obtained from OECD and ONE.
[3] See IMF (2009)
[4] See World Bank (2008)
[5] See World Bank (2009) and AfDB (2009).

10. Another key issue related to global aid amounts is that most donors are not currently planning to provide substantial additional aid to fund mitigation and adaptation measures against climate change – the combined needs of which for developing countries are USD 120-180 billion a year.[6] Many are likely to divert aid or reclassify existing projects as anti-climate change. As a result, even if headline aid increases, financing available for non-climate change priorities may not rise by much. One major potential way round this would be for the international community to dramatically expand the use of innovative financing mechanisms (IFF, air ticket taxes, financial transaction taxes, etc) in order to ensure that by 2015 they all reach at least the 0.7% (and preferably a 1%) target.

11. Another effect of the multiple food, fuel and financial crises hitting developing countries, and of the wider aid increases, has been to increase replenishments for various multilateral organizations (AsDB, IFAD), adding to large earlier replenishments for AfDF and IDA. A notable exception to this position is in Latin America, where the IADB, the Caribbean Development Bank and other subregional institutions are not requesting new concessional funds, in spite of the large number of IDA-only and blend countries, and the large number of poor citizens in middle-income countries. However, even when multilateral organizations have received substantial replenishments of concessional funds (and used larger amounts of their earnings on their non-concessional lending to transfer to their concessional windows), the need for a dramatic increase in disbursements to combat the crises has led to a major frontloading of disbursements, resulting in the prospect of exhausting concessional funds well before their next replenishments are due to be negotiated. To over come this requires advancing the start dates of negotiations for replenishments, and planned dates for their agreements, or alternatively major provision of supplementary funds under current replenishments.[7]

12. Another important issue, which has been examined by Ministers before and will also be taken up in the paper on Protecting Against Exogenous Shocks, is the distortionary effect of bilateral donor "herding" to countries often referred to as "donor darlings". This has been magnified by the tendency of many donors in recent years, partly due to concerns about "fragmentation" of aid in donor darling countries (too many donors and projects), to cut back the numbers of countries to which they provide aid (which ironically is impacting mainly on countries which had relatively few donors !).[8] Research by the OECD indicates that many donors have already planned increases of more than 50% in aid to "donor darlings" and other key programme countries over the next 3 years, but barely any increase or even cuts in aid to some fragile states and other IDA-only/LMIC countries (notably in Latin America).[9] These trends partly reflect lack of leadership by aid recipient countries of the global and national processes of donor "division of labour". They are also causing additional problems for low-income countries by increasing aid volatility due to dependence on a small number of donors, and to potential cuts by some donors in the context of the financial crisis.

13. This imbalance is exacerbated by the allocation of multilateral aid to countries largely on a "performance" basis (instead of taking more account of vulnerability to shocks, or the often desperate funding needs of post-conflict and fragile states), as well as the offsetting of

[6] The lower range is from Oxfam (2008) for adaptation and European Commission (2007) for mitigation; the higher range is from UNDP (2007) for adaptation, and NGO/climate change analysts estimates for mitigation.
[7] Based on discussions with African Development Bank and World Bank officials.
[8] For more on this, see the DFI/ODI Guide to Donors, 2009.
[9] See OECD 2009a

MDRI debt relief by cuts in new disbursements to less well-performing countries (and in the case of Latin America cuts in IADB disbursements to all MDRI countries).[10]

14. Countries graduating from least developed or IDA-only status are also concerned about losing access to aid. However, experience shows that careful management of donors (especially those which do not allocate aid based largely on development or income status, and wish to continue to invest in "success stories") can maintain aid flows at reasonably similar levels and provide a reasonable transition period (eg 5 to 10 years) to less concessional finance. On the other hand, the current crises show the need for even more gradual periods for graduation, and for continued provision of anti-shock finance to graduated countries on concessional terms.

15. For most developing countries, (especially OECD) aid has some key disadvantages, notably extensive use of policy and procedural conditions which can compromise national policymaking independence and undermine financial management and procurement systems, heavy reliance on TA rather than building capacity, and on fragmented small projects, unpredictability, tying to exports of the donor country's goods, and lack of flexibility to offset exogenous natural or economic shocks. It addition too little is available for infrastructure or agriculture and food, or for regional projects.[11] While recent agreements to increase aid effectiveness (the Paris Declaration, the Accra Agenda for Action) are beginning to change some of these characteristics, results so far are woefully short of expectations and not enough to persuade many recipient countries that aid is "preferable" in terms of its quality and effectiveness, compared to other less cumbersome sources.[12] Notable changes have however been introduced in recent years by some of the multilateral development banks, with faster anti-shock financing, and larger allocations to agriculture, infrastructure and regional projects.

16. Recent increases in aid flows via ***"global vertical funds"*** such as the Global Fund, GAVI and PEPFAR (which are estimated at over US$8 billion in 2008 and likely to rise further given large recent US pledges to the Global Fund), while welcome for funding key health priorities, have often been most cumbersome in terms of their procedures and least aligned with national priorities, though there is recent evidence that some are changing procedures to become more aligned with government planning and budgeting processes.[13] Flows via private CSOs and foundations have also increased dramatically, reaching close to US$15 billion in 2007, though they look likely to fall somewhat in 2008 as a result of lower donations reflecting the financial crisis.[14] In addition, a high proportion of these are spent on research etc in developed countries. For the funds which do reach LICs, two main issues arise: that, particularly for some post-conflict and fragile states, too much public service delivery is seen as going through international CSOs rather than government; and that aid channelled through CSOs needs to be coordinated with and reported to government to the maximum extent possible.

17. Recommendations on Diversifying North-South Concessional Flows

Many LIC policymakers have considerable scope to increase North-South aid flows, but need to resolve the following issues:

[10] For more on these issues, see Anderson 2008 and Guillaumont 2008.
[11] For details, see UN Secretary General (2008)
[12] For latest results of the efforts to increase aid effectiveness, see the Paris Declaration survey at www.oecd.org.
[13] For more details of their policies and procedures, see the DFI/ODI Guide to Donors (2009).
[14] Based on discussions with major US and UK Foundations and CSOs.

1. *Ministers could call for higher aid flows, going beyond maintaining Gleneagles pledges, to request a further US$35 billion of concessional funds to combat current shocks, as well as much more funding to combat climate change; and for setting firm budget timetables to deliver on these higher pledges.*
2. *Ministers could advocate earlier dates for agreeing new replenishments of IDA and AfDF, as well as new negotiations on FSO replenishment.*
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6. *Ministers could advocate even more gradual periods for graduation, and the continued provision of anti-shock finance to graduated countries on concessional terms, in the light of the vulnerability of their income levels to crises.*
7. *Ministers could commit to participating actively in the advocacy and monitoring of progress on aid effectiveness through implementation of the Accra Agenda for Action,*
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9. *Ministers could welcome the flexibility shown by multilateral organizations (especially the World Bank and AFDB) in providing rapid anti-shock financing and in increasing funding for infrastructure and agriculture and regional projects.*
10. *Ministers could urge that global vertical funds accelerate their efforts to align with developing country national policies and procedures, and that CSOs improve coordination with and reporting to governments on their activities.*

III. DIVERSIFYING SOUTH-SOUTH AID[15]

18. The ***scale*** of South-South aid has risen sharply from 3% of total aid in the early 1990s to over 10% (well over US$12 billion) by 2006. The largest Southern contributors, in terms of flows, are China, India, Saudi Arabia and Venezuela (providing each at least US$1 billion per year), followed by the Republic of Korea, Turkey and Taiwan (providing more than US$500 million per annum). About 18% of Southern aid goes via multilateral institutions, including important South-South institutions such as BADEA, the Islamic Development Bank and the OPEC Fund, as well as subregional institutions funded largely by developing country shareholders. See Annex Table 1 for details.

19. As of mid-2008, UN projections indicated that if large pledges by Southern contributors were fulfilled, their aid flows could have grown to well over US$15 billion by 2010. In particular, China was planning a notable expansion of assistance to Africa and more widely; India was intending to increase aid considerably; Brazil was planning major new programmes for Africa and Latin America; the Republic of Korea was planning to double

[15] This section is based on a detailed analysis of South-South co-operation, Johnson et al 2008. Most of the analytical conclusions presented here (apart from the amounts and the discussion of concessionality) also apply to rapidly growing South-South non-aid flows, which are not discussed here in terms of quantity because no authoritative estimate exists. There is also a rapidly growing pool of South-South CSO and non-government charity flows, for which no authoritative estimates exist.

flows by 2010 and treble again by 2015; and South Africa was planning to become a major contributor (as high as 0.5% of its GNI). On the multilateral side, the IsDB was considerably expanding its programmes, and the Banco del Sur was expected to have a major impact on South-South flows in Latin America.

20. However, many of these pledges have been thrown into question by the financial crisis. Some of the countries planning the largest increases (Korea, South Africa) have been hardest hit by the crisis; and Venezuela's aid might fall sharply because most of it was loans to subsidise high oil prices, which have ended now that prices are USD 40 per barrel. China and Arab countries have reiterated their intention to fulfil earlier pledges, but Arab countries in particular have had the value of their sovereign wealth funds reduced sharply by the falls in prices of global share and property assets.

21. There is already strong evidence that investment flows into mining and natural resources from China and India, are being sharply cut in African countries, due partly to falling natural resource needs but also tightness of financing in the source countries as their governments maximize efforts to spend financing at home to simulate growth in their own economies. It will be urgent to clarify the prospects for South-South aid, which the UN Development Cooperation Forum is intending to do during 2009. However, in the meantime, it is clear that South-South aid may not be as large an alternative source of financing as was expected in mid-2008.

22. In terms of the "quality" of South-South aid, much poor information and speculation has circulated as it has grown (partly because the aid is not always transparently discussed). However, impartial analysis (including information from 30 beneficiary low-income countries)[16] reveals that:

- Around 90% comes in project aid and technical assistance, with only about 10% in programme (balance of payments or budget) support, though some Southern donors are planning to increase programme-based support.
- Most assistance goes to countries with which the donor has close political, trade and investment ties. There is also a strong regional focus, reflecting better understanding of country needs, similarities of language and culture, opportunities to improve trade, and lower administration costs. This also enables Southern donors to focus strongly on regional projects, which are often under-funded by Northern donors.
- Some Southern donors have been criticised for not taking sufficient account of human rights. As with some Northern donors, political and strategic considerations, as well as opportunities for trade and investment, often provide a stronger motive for aid than human rights. Yet most Southern aid does not go to countries with poor human rights.
- Around two-thirds of Southern aid is provided as loans (a higher proportion than OECD aid). However, in most cases, these loans carry little risk of making debt unsustainable because the terms are usually not less concessional than Northern assistance. Many Southern donors have been taking steps to ensure their loan terms are within IMF-agreed country concessionality limits, though some are offering less concessional funds, especially where encouraged by recipients.
- Southern assistance has few, if any, policy conditionalities and this makes it more attractive to recipient countries than Northern aid, which usually comes with policy strings attached.

[16] For details on individual donors, see the DFI/ODI Guide to Donors (2009).

- In terms of channelling assistance on-budget, Southern providers are on par with Northern donors, whereby some have good record of providing aid on-budget and others do not.
- Southern development cooperation has been seen to meet programme country priorities for infrastructure development and productive sector investments, whereas many Northern donors have in recent years focussed more on achieving the MDGs through social sector support.
- Southern aid is relatively predictable because it is disbursed on schedule in the intended financial year. This benefits government fiscal planning and leads to more timely project completion.
- Southern aid is less encumbered by procedural and administrative delays, although not necessarily more aligned with national financial management systems than Northern aid.
- Most Southern aid is tied to procurement of goods and services from suppliers in the contributor country, although this is more compatible with low costs and high standards than OECD tying.
- Some Southern aid pays less attention to environmental standards and social impact, particularly as they relate to infrastructure projects.
- Harmonisation among Southern donors (and especially with Northern donors) is rare, except among Arab institutions, which often cofinance projects; and in some regional initiatives. Few Southern donors participate in national donor coordination meetings.
- Across most of these issue areas, there is a wide degree of variation in the behaviour of many Southern donors in different recipient countries, depending to a larger degree than for most OECD donors on the ability of the recipient government to assess and negotiate possible best practices by donors. For example, in Ethiopia and Ghana, governments have successfully managed to negotiate that China will use largely local labour in executing its projects. This makes the sharing of information among recipient countries about the behaviour policies and procedures of non-OECD donors essential for maximum results.

23. In terms of quality, South-South aid therefore has some considerable advantages, and other disadvantages, compared to North-South aid. There is no systematic evidence that South-South aid is always better than North-South aid, or vice versa, or even that aid from close political or strategic allies is of higher quality. In this context, developing countries should assess whether they want to accelerate diversification to Southern donors (and which Southern donors they want to cultivate actively) on a highly objective basis (for example using the system for evaluating donors established by the HIPC CBP partners, and the DFI/ODI Guide to Donors), rather than based on political preferences.

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24. **Recommendations on Diversifying South-South Financing**

In this context, priority actions for facilitating diversification to South–South aid are:

1. *Ministers could urge Southern aid providers to deliver their pre-crisis commitments of financing, in spite of the pressures some are facing on their own economies.*
2. *They could urge Southern providers to publish more information on quantity, quality and policies/procedures relate to their flows.*
3. *They could welcome UN analysis of South-South aid and urge it to conduct more analysis of future prospects, as well as best practices and relative quality of such aid*

4. *They could urge Southern donors to provide more sector and budget support, channel more aid via recipient budgets and procedures, and untie more aid.*
5. *They could welcome the strong focus of South-South aid on infrastructure and productive sectors, and regional projects, as well as the concern shown by Southern lenders for respecting recipient debt sustainability policies, their lack of conditionality, relative predictability, and rapid and low-cost execution of projects.*
6. *They could commit to mobilizing Southern aid on the basis of objective assessment of its relative qualities in supporting national development strategies, and to sharing information in order to widen application of best practice by Southern donors.*
7. *They could commit to encouraging processes through which Northern and Southern donors can learn from one another, potentially facilitated by the Commonwealth.*

IV. DIVERSIFYING LESS CONCESSIONAL FINANCING[17]

4.1. Overall Basis for Decisions on Less Concessional Financing

25. If low-income countries are thinking of diversifying to using less concessional financing, a key issue is the overall policy basis for doing this. Here many are severely constrained. Most low-income countries with IMF programmes have agreed with the IMF to prohibitions on non-concessional borrowing, except for short-term trade finance and private sector purposes. They also have minimum grant element thresholds, which vary between 35% and 50% (see Annex Table 2).

26. On the other hand, a few countries have received exemptions from these thresholds for individual projects with potential high returns for development, such as the Bujagali Dam in Uganda; or for borrowing by parastatals which will be repaid from project revenues (such as aircraft purchases by Ethiopian Airlines). In addition, some countries in other regions (Asia and Latin America), even with a history of debt restructuring (such as Bolivia for annual amounts of USD 50-100 million) have had longstanding exemption ceilings to these thresholds, to allow them to access less concessional funds from subregional lending institutions which cannot lend more concessionally.

27. Added to this, emerging from the HIPC and MDRI debt relief process, a global architecture has been put in place to assess country risks of unsustainable debt levels using the Low-Income Country Debt Sustainability Framework (LIC-DSF), to convince lenders worldwide to be “responsible” in not lending non-concessionally to countries with concessionality thresholds in place.

28. However, as Annex Table 2 shows, it is striking that the relative thresholds contained in IMF programmes appear to have little relationship to the relative risk of unsustainable debt levels assessed by the LIC-DSF. There is also no clear basis for the establishment or maintenance of exemptions to concessionality thresholds: based on country experiences, they seem to depend more on the availability of profit-making projects or parastatals which need to borrow, the degree of government insistence on strategic projects which need less concessional funding, and a project-by-project assessment of whether the amount to be borrowed might put debt sustainability at risk.

[17] For more details on these issues, see the forthcoming HIPC CBP technical paper, “A Pathway Back to the Markets ? Options for Less Concessional Financing for LICs”.

29. Finally, there are measures to penalize non-concessional borrowing through potential cuts in access to IDA and AfDF funds, as well as hardening of IDA borrowing terms, and eventual suspension of IMF programme negotiations. Angola and Ghana suffered from cuts in allocations as a result of non-concessional borrowings (in Angola's case multiple loans from bilateral and commercial sources, and in Ghana's case the launching of an international bond). However, it is striking that Angola did not have an IMF programme or threshold in place at the time of its cut, and Ghana had conducted analysis which demonstrated that the issuance of its bond would not remotely place its debt sustainability in doubt. The decisions to apply the "non-concessional borrowing policies" were made on the basis of assuming that neither country should, as an IDA borrower, borrow non-concessionally unless they had IMF agreement to such borrowing – so that similar sanctions were not applied to Uganda when it borrowed non-concessionally for the Bujagali dam, because that had been agreed with the BWIs.

30. There is evidently a somewhat shaky basis for the establishment of thresholds, the agreement to exemptions, and the application of sanctions through non-concessional borrowing policies. In addition, at a time when prospects for both concessional public sector financing, and non-concessional private sector financing, are less bright, and the pressures to finance progress towards the MDGs are equally strong, most countries are suggesting that official lenders (multilateral and bilateral) should have more scope to lend less concessionally to low-income countries, especially those which have clearly sustainable debt and low risks of renewed unsustainability.

31. As a result, there has recently been a frank and productive discussion between African governments and the BWIs about the need to modify these systems for limiting debt. The IMF is currently reviewing its concessionality policies, with a view to making the thresholds, the exemptions and the DSF analyses fit better together. This would also be expected to feed eventually into a review of the application of non-concessional borrowing policies by the World Bank and the African Development Bank. Major reviews are essential for most low-income countries to access less concessional finance, and the G20 Summit has recently urged the BWIs to come up with changes to make the DSF more flexible by the time of the Annual Meetings (G20, 2009).

4.1.1 Less- and Non-Concessional Bilateral Flows

32. Many OECD and non-OECD governments provide less concessional loans, or guarantee loans provided by commercial banks or suppliers. These have the advantages of being valuable for facilitating trade and funding infrastructure projects, are slightly subsidised compared to commercial loans, and generally have fixed interest rates, reducing country vulnerability to international interest rate movements.

33. However, the main disadvantage is their tying - often even to goods provided by a particular supplier. They also often appear as part of packages of mixed credits where grants or concessional loans are mixed together with less concessional funds, complicating debt management. In addition, they often contain hidden costs such as fees, overvaluation of goods, and some countries' export credit agencies have a poor record for corruption, poor quality project execution or "pushing" projects which are not national development priorities.

34. Their availability depends on the LIC or an interested exporter contacting the export credit agency to ask it to put the country "on cover" – ie to be eligible for loans or guarantees.

The response to this request is generally an assessment of the creditworthiness of the borrowing country, and may vary for different borrowers within the same LIC, or between short- and medium-term loans, but the basis for these assessments and the methods for accessing such lending are not transparent to potential borrowers. In addition, in the context of the LIC-DSF, most OECD export credit agencies have adapted their cover policies to match BWI policies, and therefore will not provide cover to countries which have minimum concessionality thresholds under IMF programmes, unless the IMF has agreed an exemption.

4.2. Less- and Non-Concessional Multilateral Flows

35. In contrast, most less-concessional multilateral flows are dependent on income levels and other factors and involve a formal process of "graduation" which can take 5-10 years before project-related disbursements on old commitments finish. Many countries whose funding is principally non-concessional also continue to benefit from concessional or grant funding for some needs, such as TA or project preparation, even after graduation – an example of concessional funding being the IADB Intermediate Financing Facility.

36. These procedures of mixed/blended funding give rise to two additional suggestions:

1) In the context of the current food and financial crises, and the need to finance countries to protect against climate change, it might well be argued that LMICs should have access to at least "less concessional" (ie with a grant element around 35%) funds for the purposes of financing against exogenous shocks, funding social safety nets, and combating climate change, without which the scale of the financing needed might well provoke severe debt crises in the countries concerned.[18]
2) In the context of shortages of concessional multilateral and bilateral funds, as well as of non-concessional commercial financing, there is a strong case for using multilateral development bank funds more creatively, by providing "less concessional" (eg with a grant element of 35%, produced by blending concessional and non-concessional windows) funds to low-income countries for infrastructure projects and other projects whose wider economic returns are clear, and where this will not compromise national debt sustainability. The UK Government has already been advocating this position on the World Bank Board.

37. There is another important advantage of graduation: that it might involve reduction of conditionality, especially if the lender switches away from "Country Policy and Institutional Assessments", PRSPs and programme lending to projects. This should not be exaggerated, as multilateral institutions' policy and procedural conditionalities are still likely to be more onerous than those of bilateral and especially commercial lenders – though they have the advantage compared to bilateral funds of being untied and free from political, strategic and trade/investment pressures.

4.3. Non-Concessional Commercial Finance

38. There are three principal types of non-concessional commercially-sourced funds:

1) Loans (short- or medium-term, from banks or suppliers).

39. Many of these are guaranteed by export credit agencies and share the characteristics of non-concessional bilateral financing discussed in Section 4.1. The most likely sources of

[18] The IMF could also increase the concessionality of its PRGF lending, which has only around a 25% grant element at current interest rates.

financing for LICs are: 1) pre-financing of exports or imports, where repayment of the loan is guaranteed by a proportion of the goods themselves if necessary; and 2) "asset-based financing" of individual large assets such as airplanes or ships (which may take the form of leasing or letters of credit rather than loans), where the asset can itself be seized and resold if necessary to repay the loan. For most LICs (especially those emerging from debt problems or which have relatively small markets), amounts of financing available can be small, and availability and terms can be highly volatile as lenders "herd" into or out of specific products, depending in part on trends in commodity and asset prices, as well as global financial market conditions. This has become evident during the financial crisis, as prefinancing and wider trade finance lines have been cut dramatically in line with the sharp fall in global commodity prices, and because bank headquarters are reducing lending ceilings permitted to their subsidiaries, leading in extremis to problems with maintaining export and import trade.[19]

40. The costs of these loans can also be relatively high (interest rates as much as 4-5% above export credits, as well as considerable up-front fees and out-of-pocket expenses). The costs have a tendency to increase in times of crisis as interest rates rise sharply for more "exotic" borrowers: in the current crisis, the spread between interest rates for OECD and developing country borrowers has risen by around 4%. The maturity of any medium- or long-term loans also tends to shrink sharply.

41. A further problem has been that many private sector investment projects (or PPPs – see below) which have appeared to be financed by equity investment have in fact been financed 50% or more by loan financing contracted by the private investors. As prospects for this financing shrinks in times of crisis, these "blue chip" investors may seek replacement financing in local capital markets, crowding out both other local investors and government borrowing, or forcing government to accommodate such borrowing by expanding the money supply. If on the other hand, the investors are not "blue chip", their projects may in the worst crisis require public sector cofinancing or guarantees, adding to public sector debt liabilities, or go bankrupt which (if the project is highly strategic) can result in the transfer of private debt liabilities to the public sector.

42. A final problem encountered by some countries has been the offering of large amounts of commercial financing by "fictitious" or unscrupulous lenders.[20] The most extreme examples of unscrupulous practices have been loan contracts in which a large up-front fee is paid before any disbursement, and then the lender fails to make any disbursement, resulting in an outflow of financing from the country ! Other common poor practices are passing commercial loan proceeds through the bank accounts of individual government officials; overvaluing goods supplied substantially and splitting the difference between the lender, the supplier of the goods and sometimes the developing country official signing the loan; undervaluing exports (or overvaluing imports) which are pre-financed and sharing the differences between actual and contractual prices between the various parties; and supplying poor quality goods or assets which do not fulfil their intended purposes at all (or for more than a brief initial period).

2) Bonds

43. In 2008, Gabon and Ghana joined a growing list of LICs and LMICs in accessing international capital markets by issuing a sovereign bond (see Annex Table 3). This reflected

[19] See IMF (2009).

[20] Evidently some of these issues can apply to virtually all the types of financing discussed in this paper, but they are most common in the case of private offers of loan financing so are treated here.

their own improved macroeconomic conditions and reduced debt burden, as well as the high levels of international financial liquidity, which was resulting in strong demand from investors for relatively high-risk instruments.

44. In addition, there are several advantages of international bond issuance for countries. They can increase domestic savings, improve the risk profile of the government portfolio (by lengthening debt maturities), help local corporations and parastatals to access international capital markets (by establishing a benchmark for them to issue bonds), and increase transparency and market monitoring (by disclosing economic information).

45. As a result, many more low-income countries (including Cape Verde, Kenya, Mozambique, Tanzania, Uganda and Zambia) were to varying degrees exploring the desirability or prospects for issuing international bonds before the arrival of the international financial crisis, with several actively planning to issue bonds in 2008/09. Their primary motivation was (as had been that of Ghana) to find additional financing for projects which donors could not or would not finance, notably infrastructure which was regarded as essential for accelerating economic growth.

46. However, there are also major risks of international bond issuance. They may worsen the currency mismatch of government liabilities (denominated in foreign exchange) and revenues (denominated largely in local currency); increase the risk of currency depreciation (thereby resulting in higher debt service costs); raise refinancing risks as they require a large one-off repayment (unless payments are staggered over several years, which generally requires payment of higher interest rates); and be subject to sudden volatility in refinancing costs due to inaccurate economic information, sudden political developments, unfavorable interpretation of economic pronouncements, or unfavorable global market conditions (lack of liquidity or financial crisis).

47. They are therefore certainly not a panacea for development financing, as countries such as Jamaica and the Seychelles have found (where they resulted respectively in very high service costs, and default). It is important to match the issuance currency and maturity as far as possible with currencies of government revenues, and materialization of expected project returns. Coordination with asset and liability management policies, monetary policies to sterilize proceeds where necessary to avoid inflation, and consistency with with debt management frameworks and fiscal policy, are also essential. Some low-income countries had decided against bonds even before the financial crisis, based on analysis of the impact of the interest cost on reducing spending on the MDGs and other government priorities, even though issuing the bond would have left their debt sustainable according to the LIC-DSF. It is also vital to be prepared to spend the proceeds rapidly in order to produce the economic benefits, rather than leaving them sitting in reserves where they will currently earn 6-8% less per year than their interest rate costs. Bonds also have high additional costs of employing financial and legal advisors, and lead managers, as well as of roadshow tours to convince investors to buy bonds. In the case of Ghana, upfront costs reached 0.9% of the total amount of the bond.

48. As a result, for countries with well-developed domestic or regional markets (such as the UEMOA regional market in Abidjan) it is a much better option to issue on these markets, as interest rates may be below international markets, they can avoid the major expenses of credit ratings and bond issuance, and there is no exchange rate risk. Moreover, in the current financial crisis circumstances, it is pretty much impossible for LICs to issue bonds as they

would be unlikely to be purchased. Kenya has therefore recently delayed its international bond and issued a bond on local markets instead.

49. A normal prerequisite for bond issuance is the establishment of a credit rating. The pros and cons of credit ratings are discussed in Box 1.

BOX 1
SOVEREIGN CREDIT RATINGS

Sovereign credit ratings have become more popular during the last decade for low-income countries. They are a prerequisite for issuing bonds on certain international markets (US, Eurobond), and are also often seen as establishing an information base for improving private sector access to international finance.

They are conducted by credit rating agencies which, following a request from a government, assess its future ability and willingness to service commercial financial obligations in full. There are three main credit rating agencies (Fitch, Moody's and Standard and Poors), all of which use the same types of assessment factors. These are: political risks, income and economic structure, economic growth and prospects, fiscal flexibility, general government and external debt burdens, offshore and contingent liabilities, robustness of financial sector, monetary policy flexibility, and external liquidity and reserve adequacy.

Based on these assessments, an agency allocates a rating to the country. The ratings fall into two groups, an "Investment Grade" Rating, which suggests that bonds will be well subscribed and not have very high interest rates, and a "Speculative" or "sub-Investment" Rating, which foreshadows higher interest rates and shorter maturities, and possibly less investor willingness to purchase bonds. The cost and feasibility of bond issuance is highly correlated to the rating, but timing is also vital – in the current financial crisis, ratings are having less influence on market access or spreads, as they are overwhelmed by general reluctance of investors to purchase bonds with less than A grade ratings.

In normal times, a common piece of advice given by independent investment bankers (NOT firms which are trying to earn fees from assisting a country to issue a bond) is that a country should not try for a credit rating unless it is likely to be investment grade. This is because a) a sub-investment grade rating considerably increases costs; and b) ratings are very sticky upwards (ie a country can get stuck in a sub-investment grade for a long time even if its performance improves) whereas they are slippery downwards (ie ratings can be rapidly downgraded, which has in the past provoked a capital crisis in several countries). Credit ratings have also been criticized for not promoting any significant increase in capital flows to the private sector, and for not identifying problems in some countries before they have defaulted. If a country has any doubt as to whether it is likely to achieve an investment grade rating, it is best advised to apply for a "shadow rating" which can be kept private and leaves the option of non-publication if it is disappointing. Alternatively, a country can decline a rating once completed, but if it is made public that a country has done this, it can negatively impact on its long-term prospects for accessing international capital markets. Finally, ratings are expensive, though USAID and UNDP have in recent years offered financing to low-income countries to get rated.

3) Public-Private Partnerships and Private Finance Initiatives.

50. PPPs and PFIs have since the 1990s become a popular way to finance infrastructure projects (and even in some more developed economies health and education investments such as building of schools and hospitals) without incurring direct budgetary debts and debt service costs. They consist of contracts between the government (or other public sector agencies) and private sector companies, under which the private sector financier, instead of

charging the government for debts incurred, is repaid using other sources of revenue (road tolls, airport landing fees etc).

51. This note will not deal in detail with these types of financing, as they have already been analysed in past papers prepared by the Commonwealth Secretariat. However, several aspects are important in deciding whether they are a priority source of finance:

- IMF/OECD/World Bank studies indicate that private partners in such mechanisms typically demand rates of return of more than 20% a year.[21] This makes them much more expensive than other financing if lost revenues are treated as a cost.
- Studies of PPPs in OECD and developing countries indicate that they can carry with them high risks of poor-quality project execution (due to the private operator trying to maximize profits), resulting in sub-standard infrastructure being handed back to the public sector, and of corruption (with bribery of government officials to overstate the potential costs of the projects, understate the revenues which will be foregone to repay the private financier, or fail to inspect the quality of the project execution)
- The same studies indicate that there are major risks that such mechanisms will turn from implicit fiscal "contingent liabilities" into actual fiscal liabilities. This can occur in two ways depending on the design of the contract: either the cost of the project is substantially underestimated, or the projected revenues from the project do not fully materialise. In this case the private financier/operator can either demand further compensation from the government or (if the contract is so structured that the risk of over-expenditure or under-payment falls on the private provider) go bankrupt or abandon the contract. In either case, as many OECD countries have found, the cost of compensation or of attaining the project objectives falls on the government agency.
- To avoid these potential pitfalls, governments need extremely well-developed legal and regulatory frameworks for such operations, systems for project design and monitoring, procurement and accounting/auditing. Even once such systems are in place, it is vital to start with small pilot projects to test mechanisms without generating massive liabilities for government.
- Finally, it is important to realize that prospects for mobilizing these types of funds have been virtually eliminated by the financial crisis, even for OECD countries.

52. **Recommendations on Diversifying Less Concessional Financing**

Priority actions for facilitating diversification to less concessional financing are:

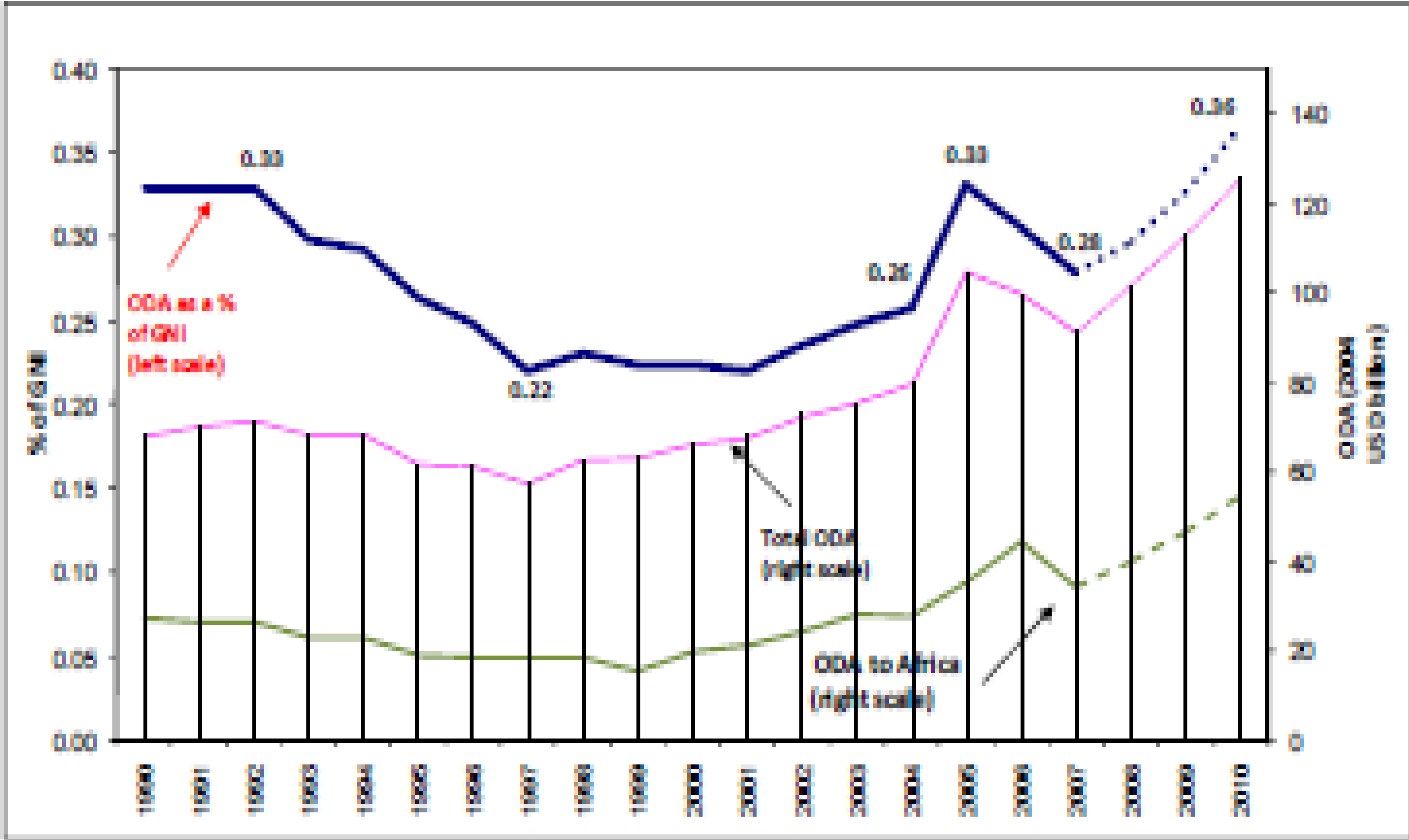
1. *Ministers could welcome the decision by the G20 Summit to ask the IMF and World Bank to review the flexibility of the LIC-DSF by the time of the Annual Meetings.*
2. *They could urge the IMF to review urgently the concessionality policies in its programmes, to set a better basis for deciding thresholds and exemptions, more clearly linked to the DSF results, and designed to maximize growth-oriented finance.*
3. *They could also urge IDA and the AfDF to review their non-concessional borrowing policies and application of the LIC-DSF results in line with the IMF review.*
4. *Ministers could urge OECD countries to restore cover for export credit borrowing more flexibly, in order to overcome current difficulties in mobilising trade finance.*
5. *Ministers could urge IFIs to apply graduation policies more flexibly, providing some concessional financing for LMICs to combat exogenous shocks, fund social safety nets, and combat climate change.*
6. *Ministers could urge MDBs to provide "less concessional" funds to LICs for high-return infrastructure and other projects, which do not undermine debt sustainability.*

[21] See IMF (2007), NAO (2007), World Bank (2007).

7. *Ministers could urge donors to provide intensive capacity-building support on laws, institutional structures and analytical/negotiating skills for less concessional flows.*
8. *Ministers could commit to undertaking detailed analysis of the advantages and risks of bond issuance, credit ratings and PPPs/PFIs, and request donors to sponsor capacity-building assistance independent of financing "vendors". This could be part of designing a medium-term debt strategy, and ensuring that projects funded have realistic returns which justify financing costs.*

ANNEX FIGURES AND TABLES

FIGURE 1: RECENT AND PROJECTED ODA TRENDS



Source: OECD, 10 November 2008.

ANNEX TABLE 1: SOUTH-SOUTH AID FLOWS

	US$ million		as % of GNI		% of aid to multilaterals	Future Quantity Intent
	lower bound	upper bound	lower bound	upper bound		
Bilaterals						
Africa						
South Africa (0)	194		0.07%		77%	- Policy proposal to increase aid to 0.2%-0.5% in the foreseeable future.
Asia						
China (1)	1,500	2,000	0.06%	0.08%	na	- Doubling aid to Africa to US$ 1bn by 2009 - Debt relief for 31 HIPCs (US$ 1.3-1.4 bn).
India (2)	504	1,000	0.06%	0.11%	7%	- Increase envisaged, but not detailed.
Korea, Republic of (incl. aid to N. Korea) (3) *	579	885	0.07%	0.10%	17%	- US$ 1 billion by 2010 (excl. aid to N. Korea) - 0.25% of GNI by 2015 (=US$ 2.8 billion).
Malaysia (4)	16		0.01%		30%	- 25% increase in technical co-operation over 2006-2010 (appr. US$ 2.5 mn extra)
Thailand (3)	74		0.04%		12%	- Increase envisaged, but not detailed
Middle East & North Africa						
Israel (3)	90		0.06%		17%	- No information available
Kuwait (3) **	158		0.19%		3%	- No information available
Saudi Arabia (3)	2,095		0.70%		2%	- No information available
Turkey (3)	714		0.18%		10%	- Aims for 0.2% of GNI, no time-path announced
United Arab Emirates (3)	249		0.24%		0%	- No information available
Latin America & Carribean						
Argentina (5)	5	10	0.0025%	0.0050%	na	- Increase envisaged, but not detailed
Brazil (6)	356		0.04%		na	- No information available
Chile (7)	3.0	3.3	0.0026%	0.0029%	na	- US$ 3,8 million by 2008
Venezuela (8)	1,166	> 2,500	0.71%	1.52%	na	- Amount of oil aid dependent on future oil price
Multilateral Development Institutions (non-OECD) * **						
Arab Agencies (AFESD, OPEC Fund, IsDB & BADEA) (3)	833		-	-	-	- BADEA's 2005-2009 five year plan budgeted at US$ 675 mn. Planned total commitment of US$ 200 mn by 2009. - IsDB aims for a total (concessional + non-concessional) of US$ 4 bn in disbursements over the next 5 years. It has also mobilised US$ 2 bn for a newly established poverty fund. - No information available on OPEC Fund.
Other						
Taiwan, Province of China	513		0.14%		4%	- No information available
Arab Support to Palestinian Adm. Areas (9)	456		-	-	-	
TOTAL	9,504	12,145	0.18%	0.22%	18.2%	(avg for % of GNI)

† Data on Egypt, Singapore and Tunisia not available. na = not available.

* Baseline OECD/DAC estimate does not include South Korean aid to North Korea, which was estimated to be between US$ 125 mn (Korean Ministry of Finance & Economy, 2006) and US$ 430 mn (Jerve, 2006) in 2005.

** Only includes aid from the Kuwait Fund for Arab Economic Development (KFAED), not other bilateral Kuwaiti aid.

*** DAC only reports aggregated aid statistics for the 3 Arab multilateral institutions covered in this paper. Publicly available disaggregated figures are often not up to date and are mostly commitment based (see Annex 1 on data issues). Data for AFESD is taken from the official website: http://www.arabfund.org/ENINDEX.HTM. As multilateral contributions of UAE, Kuwait and Saudi Arabia were very small in 2006, we include net disbursements from the Arab multilateral institutions (AFESD, OPEC Fund, BADEA and ISDB) in calculating total concessional financing amounts without a big risk of double-counting. Data excludes aid to West Bank and Gaza.

(0) Source: South African Treasury (2008). Figures correspond to 2007/08 budget commitments (all grants).

(1) Source: Based on Lancaster (2007) and Brautigam (2007). Figures correspond to gross disbursements.

(2) Source: Lower estimate from Indian Federal Government budgetary (gross) commitments (Indian Ministry of Finance, 2006). Upper estimate from 2007 budget speech by Indian Finance Minister (Indian Ministry of Finance, 2007).

(3) Source: OECD/DAC (2007a) - Table 33e (all net disbursements).

(4) Source: Multilateral aid was calculated on the basis of Government of Malaysia (2005), whilst for bilateral aid EPU (2007) was used. Figures are for 2005 and as Malaysia does not give out loans, hence net=gross disbursements.

(5) Source: Personal communication with official from Fondo Argentino de Cooperación Horizontal (FO-AR) (19.01.2008). As Argentina does not give out loans, gross disbursements = net disbursements. Excludes multilateral assistance.

(6) Source: Brazilian Ministry of External Affairs (2007) and personal communication. Excludes humanitarian assistance and peacekeeping operations.

(7) Source: lower bound based on estimate in AGCI (2007), upper bound based on OECD/DAC (2007b). Excludes multilateral assistance.

(8) Source: Government of Venezuela (2007) - Figures correspond to gross disbursements between Jan -Nov '07 (lower limit).
PetroCaribe (2006) estimates for an upper oil aid limit were calculated to be at US$ 2.5 bn (upper limit).

(9) Source: IMF (2007a) - these figures are not double-counting as the DAC database does not report any figure for ODA from Arab countries/agencies to the Palestinian territories.

ANNEX TABLE 2: IMF DEBT SUSTAINABILITY ANALYSES AND CONCESSIONALITY THRESHOLDS

List of LIC DSAs for PRGF-Eligible Countries
Last update: March 2, 2009

Country	*Per latest DSA publication*			Latest DSA discussed by the Executive Board but not yet published 2/	Minimum grant element for external financing (in percent)
	Latest publication date	Risk of debt distress 1/	Joint with the World Bank		
Afghanistan	15-Jul-08	High	Yes	...	60
Albania 3/	4-Aug-08	...	No	...	*
Angola	25-Oct-07	Moderate	Yes	...	*
Armenia 3/	29-Jan-09	Low	Yes	...	35
Azerbaijan 3/ 4/	...	...	...	...	*
Bangladesh	15-Oct-08	Low	Yes	...	*
Benin	22-Dec-08	Moderate	Yes	...	35
Bhutan	16-Oct-07	Moderate	Yes	...	*
Bolivia 3/	29-Jan-09	Low	Yes	...	*
Burkina Faso	30-Jul-08	High	Yes	...	35
Burundi	23-Jan-08	In debt distress	Yes	28-Jan-09	50
Cambodia	10-Feb-09	Moderate	Yes	...	*
Cameroon	12-Aug-08	Low	Yes	...	*
Cape Verde	16-Jan-09	Low	Yes	...	35
Central African Republic	4-Feb-09	High	Yes	...	35
Chad	23-Feb-09	Moderate	Yes	...	*
Comoros	4-Feb-09	In debt distress	Yes	...	50
Congo, Democratic Republic of	24-Sep-07	In debt distress	Yes	...	*
Congo, Republic of	2-Mar-09	High	Yes	...	50
Côte d'Ivoire	10-Sep-07	In debt distress	Yes	...	35
Djibouti	21-May-07	High	Yes	17-Sep-08	n.a.
Dominica 3/	22-Sep-08	...	No	...	*
Eritrea	...	...	Yes	21-Apr-08	*
Ethiopia	31-Jul-08	Moderate	Yes	...	*
Gambia, The	3-Oct-08	High	No	18-Feb-09	45
Georgia 3/	6-Oct-08	Low	No	...	35
Ghana	20-Oct-08	Moderate	Yes	...	*
Grenada 3/	4-Nov-08	High	No	...	35
Guinea	25-Jan-08	In debt distress	Yes	...	35
Guinea-Bissau	28-Nov-07	In debt distress	Yes	...	50
Guyana	...	...	...	27-Feb-09	*
Haiti	1-Apr-08	High	Yes	11-Feb-09	35
Honduras	23-Jul-08	...	No	...	35
India 3/ 4/	...	...	...	...	*
Kenya	17-Oct-08	Low	Yes	...	*
Kiribati	...	...	...	...	*
Kyrgyz Republic	24-Dec-08	Moderate	Yes	...	35
Lao P.D.R.	22-Oct-08	High	Yes	...	*
Lesotho	21-Apr-08	Moderate	Yes	...	*
Liberia 5/	24-Mar-08	In debt distress	Yes	...	100
Madagascar	16-Jul-08	Low	Yes	...	35
Malawi	4-Jan-08	Moderate	No	...	35
Maldives 4/	...	...	...	...	*
Mali	14-Aug-08	Low	Yes	...	35
Mauritania	16-Jul-08	Moderate	Yes	...	35
Moldova	25-Apr-08	Low	Yes	...	35
Mongolia	1-Jul-08	Low	Yes	...	*
Mozambique	10-Feb-09	Low	Yes	...	35
Myanmar	...	...	...	21-Jan-09	*
Nepal	11-Jun-08	Moderate	Yes	...	*
Nicaragua	16-May-06	Moderate	Yes	10-Sep-08	35
Niger	18-Feb-09	Moderate	Yes	...	35
Nigeria	14-Feb-08	Low	Yes	...	*
Pakistan 3/ 4/	...	...	...	...	35
Papua New Guinea 3/	12-Mar-08	Moderate	No	...	*
Rwanda	18-Feb-09	Moderate	Yes	...	50
Samoa	1-Jun-07	Low	Yes	...	*
São Tomé and Príncipe	19-Sep-08	High	Yes	2-Mar-09	n.a.
Senegal	2-Jul-08	Low	Yes	...	35
Sierra Leone	25-Jul-08	Moderate	Yes	...	35
Solomon Islands	14-Nov-08	Moderate	Yes	...	*
Somalia	...	...	...	...	*
Sri Lanka	5-Dec-07	Moderate	No	17-Oct-08	*
St. Lucia 3/	6-Oct-08	Moderate	No	...	*
St. Vincent and the Grenadines 3/ 4.	...	...	...	...	*
Sudan	11-Oct-07	In debt distress	Yes	26-Nov-08	*
Tajikistan	27-Apr-07	High	Yes	...	*
Tanzania	6-Apr-07	Low	Yes	...	35
Timor Leste	...	...	...	...	*
Togo	11-Dec-08	In debt distress	Yes	...	35
Tonga	31-Jul-08	High	Yes	...	*
Uganda	4-Jan-08	Low	Yes	7-Jan-09	35
Uzbekistan 3/ 4/	...	...	...	...	*
Vanuatu	...	...	...	...	*
Vietnam	17-Dec-07	Low	Yes	...	*
Yemen, Republic of	28-Sep-07	High	Yes	23-Feb-09	*
Zambia	30-Jan-08	Low	Yes	...	35
Zimbabwe 3/	...	...	...	23-Feb-07	*

*/ While there is no binding minimum concessionality requirement in the absence of a Fund-supported program under the PRGF, PSI, or ESF concessional flows remain the most appropriate source of external finance for LICs, highlighting the need for continued efforts by the international community to improve the availability and predictability of concessional financing (PIN No. 06/136).
na/ Minimum grant element has not been published.
1/ All LIC DSAs are expected to include an explicit rating of the risk of debt distress. However, some DSAs contain a discussion of the risk of debt distress, but no explicit rating. This has been the case for countries for which IDA does not require a rating for operational purposes (IDA-blend countries).
2/ May reflect usual lags in the publication.
3/ PRGF-eligible non-IDA only countries.
4/ A market-access countries (MACs) DSA has been completed and published within the past 24 months.
5/ The program does not envisage any external borrowing.

ANNEX TABLE 3

Selected Debut International Bond Issues Since 2000

Country	Date	Currency	Size (US$ mn)	Size as % GDP	Coupon (%)	Price	Maturity (years)	Composite rating at time of issue	Rating March 2009 (Standard & Poor's)
Bahrain	Jan 2003	USD	500	5.15	4.00	99.3	5	NR	A stable
Bulgaria	March 2002	USD	510	3.27	8.25	93.7	13	BBB	BBB negative
Bulgaria	March 2002	EUR	738	4.73	7.50	96.6	11	BBB	BBB negative
Dominican Rep	Sept 2001	USD	500	2.03	9.50	100.0	5	B-	B stable
Ecuador	Dec 2005	USD	650	1.75	9.375	91.7	10	B-	SD
Egypt	June 2001	USD	500	0.55	7.625	99.6	5	BB+	BB+ stable
Egypt	June 2001	USD	1,000	1.11	8.750	99.9	10	BB+	BB+ stable
Egypt*	June 2007	EGP	1,000	0.14	8.750	99.5	5	-	BBB- stable
Fiji	Sept 2006	USD	150	5.00	7.00	99.5	5	B+	B negative
Gabon	Dec 2007	USD	1,000	9.8	8.20	100.0	10	BB-	BB- stable
Georgia	April 2008	USD	500	4.86	7.50	100.0	5	B+	B stable
Ghana	Sept 2007	USD	750	4.99	8.50	100.0	10	B+	B+ stable
Indonesia	March 2004	USD	1,000	0.39	6.75	99.3	10	BB-	BB- stable
Pakistan	Feb 2004	USD	500	0.52	6.75	100	5	B+	CCC+ developing
Peru	Feb 2002	USD	500	0.88	9.125	97.7	10	BB-	BBB- stable
Peru	Feb 2002	USD	930	1.64	9.125	97.7	10	BB-	BBB- stable
Seychelles	Sept 2006	USD	200	28.64	9.125	99.5	5	B	SD
Sri Lanka	Oct 2007	USD	500	1.85	8.25	100.0	5	BB-	B stable
Vietnam	Oct 2005	USD	750	1.42	6.88	98.2	10	BB-	BB negative

* Egypt's first international bond issue in domestic currency
SD - selective default, whereby debtor has selectively defaulted on a specific issue or class of obligations but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner.

Developing means a rating may be raised or lowered

Source: IMF and Standard & Poor's

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