Department for International Development

UKaid from the British people

Concessional finance consultation

Context

Economic growth is key to poverty reduction. Much higher growth rates are required in many countries to accelerate progress towards eradicating poverty. The private sector is an engine for growth. Successful businesses drive growth, create jobs and pay the taxes that finance services and investment.

Growth paths differ for countries, but it is clear that developing cost effective critical infrastructure and capital goods in low-income developing countries (LIDCs) is essential for economic development. International expertise and Foreign Direct Investment (FDI) can play a transformative role in enabling this infrastructure and supporting local markets, and reducing dependence of foreign aid. Various constraints exist to scaling up investments. Governments have a role in encouraging responsible investment, and ensuring a positive impact for poor people. Solutions could be wide ranging. In some instances reducing the macroeconomic and regulatory barriers to trade and investment unlocks the potential for increased trade in all sectors. In other instances specific interventions in some markets are needed to unlock the ability of local governments and firms to choose to work with the right experts and funders.

We believe some important development projects in LIDCs are not proceeding at all or are not of high quality. This could be because they face obstacles in choosing export deals with whoever offers the best international expertise and provides best value for money. One of these obstacles is that many countries currently offer financial assistance that is tied to the supply of their domestic firms and may exclude any local content. We need to understand the possible effects of this and other constraints better and promote possible solutions to ensure LIDCs have access to the best international expertise and local skills to ensure sustainable growth.

The UK government is committed to supporting economic development for shared prosperity and poverty reduction. To deliver on this priority, DFID is scaling up financial and staff resources and exploring innovative ways to support LIDCs graduate from aid. We are using this consultation to consider whether a possible concessional export credit facility could improve the choice of and overall development outcomes in

LIDCs. Any such facility would be untied and structured within the terms of the UK International Development Act.

Consultation Details and Contacts

Duration: 20 July 2015 to 12 October 2015 (12 weeks)

Enquiries: Private Sector Development: J-Carlen@dfid.gov.uk

How to respond: Please email responses to J-Carlen@dfid.gov.uk or send paper responses to:
Jenny Carlen
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Introduction

In support of the World Bank and International Monetary Fund's efforts to help countries achieve their Millennium Development Goals (MDGs) without creating future debt problems, members of the OECD in 2008 agreed to a set of principles and guidelines to promote sustainable lending practices in the provision of export credit loans to low-income countries. These changes, in effect, require OECD export credit agencies[1] to blend a minimum 35% aid grant, in conjunction with an export credit loan for low-income countries[2].

Concessional export financial assistance for large developmental projects in low-income developing countries (LIDCs) helps create domestic financing space for the private sector, can be less costly than local issuance, and can contribute to greater policy discipline and transparency through increased market scrutiny. As such, a large number of low-income developing countries seek

[1] where stipulated by the World Bank/ IMF
[2] A grant is required if the project is deemed commercially non-viable e.g. rural hospitals, bridges, water treatment plants see Annex C for full list of sectors.

concessional export finance to build essential development infrastructure and to bring in international expertise to build and operate this infrastructure. Successful projects collectively demonstrate to other international and national firms that investing in these markets is financially viable. Catalysing this expertise and finance can stimulate further economic development and poverty reduction.

Several OECD countries (including some from the EU) and large non-OECD countries however use tied official development assistance (ODA) to meet the concessional ECA requirement, enhancing their own exports while leading to costly and inefficient developmental outcomes for LIDCs governments. Some tied loans may contain low governance, environmental and social due diligence safeguards that can potentially undermine the long terms benefits to the LIDC.

We would therefore welcome your views on whether there is value in developing an untied concessional export credit facility (CECF). The CECF would provide an untied grant to developmental projects in LIDCs that require concessional finance, allowing the LIDC government to award critical infrastructure contracts to the best quality bid. Hence, LIDC governments would be less reliant on tied-aid funded contracts, with all exporters (including those from the UK) able to compete on a more level playing field based on the value they bring to the project.

A CECF would target projects in countries and sectors that are not considered commercially viable by the OECD, and have the greatest development impact. All projects awarded a concessional export credit grant will be required to meet the highest environmental and social standards and actively measure its development impact

The Government therefore welcomes views on introducing an untied CECF.

Consultation Arrangements

Before any decision is taken on the implementation of the CECF we are carrying out a public consultation lasting 12 weeks, during which time we welcome any views, questions and comments you might have about this proposal. A response template, which includes seven questions is included in Annex A.

Once the consultation period has ended, we will collate the responses received and will publish a note informing users of the final decision.

We will accept and register written responses received through other media, such as by email or letter. Please do not telephone DFID with your response, as only written submissions will be accepted.

You may send consultation responses to J-Carlen@dfid.gov.uk or send paper responses to:
Jenny Carlen
Private Sector Department
Department for International Development
22 Whitehall
London

Annex A.

Consultation Response Template

1. Is a Concessional Export Credit Facility likely to have a favourable development impact?

a. What design factors / criteria would the facility need to have to ensure development impact?

Please answer this question, identifying the nature/source of any evidence, in the box below:

Answer to Q1:

2. (if developed) What size, structure and delivery mechanism should be used for the CECF?

a. What countries and sectors should the CECF focus on?

Answer to Q2:

3. **Are there any design safeguards for the CECF we should be aware of? How can the CECF be best designed to maximise its developmental and value for money impact?**

Answer to Q3:

4. Can you site any examples of projects that might benefit from accessing such a facility?

Answer to Q4:

5. Do you have any concerns about the concept of an untied concessional export credit facility?

Answer to Q5:

6. Are there better ways of improving LIDCs access to concessional finance for critical infrastructure than developing the CECF?

a. Can you point to any similar concessional export finance facility (domestic or international, current or past) from which we could learn best practice?

Answer to Q6:

7. In addition, we welcome views on alternative approaches not identified here. We are open to other suggestions of how government can achieve the range of goals set out in this document.

Answer to Q7:

Your Details

Please fill in boxes to the right hand side

Name	
Organisation	
Telephone number	
Email address	
Postal address	

Are you are responding as an individual or representing the views of an organisation?

Answer

What sector do you work in? Please put an ‘X’ in the relevant box

Development Organisation	
Consultancy	
Academic / research	
Voluntary	
Trade Financers (Banks, Financial Institutions)	
Investors/ Potential Investor in LIDCs	
Exporters (UK and International)	
Trade Bodies	
Journalists / Media	
Local or regional government / public organisation	
National government department / organisation	
NGO	
Other – [please specify]	

Any other comments:

Confidentiality

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 and the Environmental Information Regulations 2004).

If you would like the information that you provide to be treated as confidential, please mark this clearly in your response. However, please be aware that under the FOIA, there is a Statutory Code of Practice with which public authorities must comply and which deals, among other things, with obligations of confidence. In view of this, it would be helpful if you could explain why you regard the information you provided as confidential.

If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. In the case of electronic responses, general confidentiality disclaimers that often appear at the bottom of emails will be disregarded unless an explicit request for confidentiality is made in the body of the response.

Annex B. Glossary of key terms

Concessional

A loan, the terms of which are more favourable to the borrower than those currently attached to commercial market terms is described as concessional (or a soft loan) and the degree of concessionality is expressed as its grant element. For more detail on how these are calculated, please see the OECD DAC Aid Statistics website.

Development Assistance Committee (DAC)

The Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD) is a forum for consultation among 28 donor countries, together with the European Commission, on how to increase the level and effectiveness of aid flows to all aid recipient countries.

The DAC sets the definitions and criteria for aid statistics internationally. The countries receiving aid are set out in the DAC List of Recipients of Official Development Assistance (ODA).

Official and Private Flows

The flow of resources to aid recipient countries is a term used in DAC reporting and corresponds broadly to the following transactions with recipient countries and multilateral institutions (for the benefit of recipient countries).

- Grants and long term capital transactions effected by governments or the official sector of DAC countries;
- Private flows which are long term (over one year) capital transactions by UK residents (as defined for balance of payment purposes) with aid recipient countries, or through multilateral agencies for the benefit of such countries. They include all forms of investment, including bank lending and export credits where the original maturity exceeds one year. Private flows are reported to

DAC separately for direct investment, export credits and bank lending.
- Grants by private voluntary agencies (often referred to as "private grants").

Official Development Assistance (ODA)

Official development assistance is defined as those flows to developing countries and multilateral institutions provided by official agencies or by their executive agencies, each transaction of which meets the following tests:

- it is administered with the promotion of the economic development and welfare of developing countries as its main objective; and
- it is concessional in character and conveys a grant element of at least 25 per cent.

Official development assistance is shown both gross and net of loan repayments. From 2005 only aid to countries on the DAC List of Recipients of Official Development Assistance is eligible to be recorded as ODA.

Annex C – OECD list of projects generally considered commercially non-viable

Power
* Transmission lines to low-density, rural areas
* Geothermal power plants
* Small wind turbine farms
* District heating systems
* Small hydropower plants connected with irrigation

Telecommunications
* Telephone switching equipment serving low-density, rural areas
* Switching equipment serving low-density, rural areas
* Radio-communications equipment serving low density, rural areas

Transportation
* Road and bridge construction
* Airport terminal and runway construction
* Passenger railroad operations (locomotives, cars, signalling)
* Urban rail and metro systems

Manufacturing
* Highly-localized, small scale cooperatives
* Highly-localized, small scale food processing
* Highly-localized, small scale construction supply

Social Services
* Sewage and sanitation
* Water treatment facilities
* Fire fighting vehicles
* Equipment used for public safety
* Housing supply
* School supply
* Hospital and clinic supply