

CLIMATE INVESTMENT FUNDS

PPCR/SC.8/3
June 13, 2011

Meeting of the PPCR Sub-Committee
Cape Town, South Africa
June 28 and 29, 2011

Agenda Item 4

THE USE OF CONCESSIONAL FINANCE IN THE PPCR

Proposed Decision by the PPCR Sub-Committee

The PPCR Sub-Committee reviewed document PPCR/SC.8/3, *The Use of Concessional Finance in the PPCR*, and

- (a) agrees that each pilot country may program an equal share of the available concessional finance amount. With a current pledge level of concessional resources of USD372million¹, and the projection that 9 pilots² (8 country pilots and 4 countries participating in the Caribbean regional pilot) have requested or will request concessional resources, the allocation ceiling per pilot would be USD41million per pilot program. Countries may chose to program for a higher amount of concessional finance but need to recognize that the availability of additional PPCR credits would depend on the availability of additional contributions to the PPCR.

or

agrees that PPCR pilot countries whose SPCR were endorsed prior to the Sub-Committee meeting in June 2011 (Bangladesh, Grenada, Niger and St. Vincent and the Grenadines) may continue to program up to the ceiling of the resources requested in the SPCR. For the remaining six country pilots and countries participating in the Caribbean regional pilot that have expressed an interest in requesting concessional resources, each pilot may program up to USD36million, which is an equal share of the remaining capital contributions pledged to the PPCR. Countries may chose to program for a higher amount of concessional finance but need to recognize that the availability of additional PPCR credits would depend on the availability of additional contributions to the PPCR.

- (b) requests MDB teams to assist PPCR pilot countries falling under high and moderate debt distress risk rankings to conduct a macro-economic analysis in order to evaluate the potential for impacting their debt sustainability if they were to draw on PPCR credits. Each public sector project and program requesting the use of PPCR credits presented for review and approval by the PPCR Sub-Committee should include an annex presenting the macro-economic analysis.

¹ March 2011

² Regional pilots are considered as one PPCR pilot.

I. INTRODUCTION

2. The objective of the PPCR is to pilot and demonstrate ways to integrate climate risk and resilience into core development planning, while complementing other ongoing activities. The pilot programs implemented under the PPCR should be country led, build on National Adaptation Programs of Action and other relevant country studies and strategies, and be strategically aligned with the Adaptation Fund and other donor funded activities to provide pilot finance in the short term so as to learn lessons that will be useful in designing scaled up adaptation financing.

3. The PPCR aims to contribute to achieving this objective ... by seeking to provide incentives for scaled-up action and transformational change in integrating consideration of climate resilience in national development planning consistent with poverty reduction and sustainable development goals.³

4. In support of the objective set out in the PPCR design document, the PPCR supports the following two types of activities:

- (a) The PPCR may provide funding for technical assistance to enable developing countries to build upon existing national work to integrate climate resilience into national or sectoral development plans, strategies and financing.
- (b) The PPCR may provide additional financial resources to help fund a program of public and private sector investments identified in national or sectoral development plans or strategies addressing climate resilience.

5. The PPCR provides for both grants and highly concessional financing (near-zero interest credits with a grant element of 75%) to finance the additional costs necessary to make a development activity resilient to the impacts of climate change. ***Countries may choose to only access PPCR grant resources.***

6. During its meeting in November 2010, the Sub-Committee requested the CIF Administrative Unit and the MDB Committee to examine expectations regarding the use of concessional financing other than grants under the PPCR and to inform the Sub-Committee meeting at its next meeting of its conclusions with respect to the allocation of those resources. Based on current information available from the countries, twelve out of the eighteen countries participating in the PPCR have indicated an interest in accessing credits together with grant resources to address national adaptation needs. This paper also explores how countries expect to utilize such concessional financing.

7. The Sub-Committee also raised questions about the Debt Sustainability Framework (DSF) to countries choosing to request credits through the PPCR. The DSF is an internationally recognized monitoring instrument that has been developed jointly by the IMF and the World Bank to help guide countries and donors in financing for low-income countries' development needs, while reducing the chances of an excessive build-up of debt in the future.

³ *The Pilot Program for Climate Resilience under the Strategic Climate Fund, 2008*

II. AGREED POLICY ON THE USE OF CREDITS IN THE PPCR

8. The *PPCR: Financing Modalities*, approved by the Sub-Committee in June 2010, describes general principles and specific financing modalities and products for public and private sector operations to be financed by the PPCR:

“General principles

A significant portion of funding under the PPCR is expected to be provided in the form of grants. A pilot country may also make use of the availability of additional concessional lending that may be blended with existing sources of concessional funding and national resources to increase the resilience of existing development priorities to the impacts of climate change.

A number of financing products (such as grants, concessional loans and guarantees) will be available under the PPCR. [...]

A key feature of the PPCR will be its ability to provide instruments to blend PPCR resources with other sources of financing to tailor terms to a target level of concessionality, which will vary depending on project-specific factors. Adding grants and other forms of concessional finance from PPCR to the financing package could help unlock demand for the financing of climate resilient projects and programs. Blending PPCR resources and multilateral development bank loans could augment the volume of financing available, and better tailor concessionality to needs, with the degree of concessionality calibrated to achieve transformative investments which would otherwise not proceed.

It will be important to ensure that concessional terms of PPCR financing do not displace or substitute investments that might have taken place anyway using commercial or regular MDB borrowing or guarantees. PPCR financing should be designed to minimize market distortions and potential disincentives to private investment.”

9. More specific provisions on the use of credits in public and private sector investments are included in Annex 1 to this paper.

III. EXPERIENCE WITH PROGRAMMING ACTIVITIES SUPPORTED THROUGH A PPCR CREDIT

10. MDBs may use an array of instruments, often in combination, to support pilot countries' adaptation needs. These include conventional instruments as well as innovative financial instruments developed specifically to address climate change.

11. Conventional instruments include:

- (a) *Grants for knowledge services*, which provide the analytical underpinnings that inform government strategy and identify potential investments, including those supported by MDB operations;

- (b) *Grant and lending operations*, including investment and development policy lending; and
- (c) *Financial risk-mitigation instruments*, including political risk insurance and guarantees, to help facilitate the flow of investment to sectors and countries considered risky by the private sector.

12. Innovative climate finance instruments and mechanisms for addressing climate vulnerability and change include:

- (a) *Grant facilities and concessional lending instruments targeting climate change adaptation* by reducing barriers to, and buying down the cost of, climate investment;
- (b) *Climate-specific risk management instruments* to transfer risk and provide emergency liquidity; and
- (c) *Results-based payment schemes* which pay for environmental services.

13. Investment and development policy operations spring from long-term country dialogue and careful analytical work. The increased availability of funding for climate-resilient investments drives demand for knowledge products. An improved investment climate, combined with the availability of risk mitigation and co-financing from MDBs, creates opportunities for private-sector investment. Private-sector investment also benefits from knowledge products and other grant-financed support⁴.

14. In working with the PPCR pilot countries to assess their vulnerabilities to the impacts of climate vulnerability and change, and the steps required to make their development plans climate resilient, the following areas of intervention have been identified as potential opportunities suitable for the use of concessional financing. In each of these areas, near zero interest credits may be utilized to make specific economic sectors more resilient and risk adverse while leading to a rate of return on the investment.

Agricultural Sector:

- (a) Development and dissemination of climate resilient crop varieties and cropping systems for water-logged and salinity-affected coastal areas
- (b) Innovation and dissemination of drought tolerant crop varieties in ever increasing drought prone areas against climate change effects
- (c) High value crops (HVC) improvement for adverse climate condition through biotechnology approach
- (d) Dissemination of research results on drought, flood and saline tolerant varieties of crops to facilitate adaptation
- (e) Improved knowledge and agricultural extension services

⁴ Leitmann, Josef and V. Bishop, 2011. Draft paper on "Concessional Climate Finance: MDB Experience and Opportunities".

Water management:

- (a) Modernization of existing irrigation schemes and demand management aimed at optimizing physical and economic efficiency in use of water resources and recycled water in water-stressed areas
- (b) Sustainable management and control of water resources through payment for environmental services (PES)

Microfinance and risk insurance

- (a) Promoting micro-finance in the vulnerable rural areas;
- (b) Involvement of private sector through promoting micro-enterprise
- (c) Weather based risk insurance and inventory guarantee for crops
- (d) Cover the risk of a bank lending to small scale farmers for water conserving irrigation technologies (first loss).

Monitoring and Data Collection Programs

- (a) Weather and yield patterns for strategic agricultural crops for which the benefits are both public and private but where only blending with concessional finance would provide a private company with the incentive to invest in the project;

Other

- (a) Additional costs that address climate uncertainties in public-private partnerships.

Examples from PPCR Pilot Countries with Endorsed SPCRs

Grenada:

USD3.8 million of the concessional financing will be used for funding the *Forest Rehabilitation Project*, which is a stand-alone activity that has not yet been appraised by the World Bank. The project is scheduled to begin the project preparation process sometime in October 2011.

Proposed activities would target:

- Development of nursery
- Production and propagation of seedlings
- Acreage restored or brought under forests
- Forest roads upgraded

USD7.2 million of the concessional financing will be blended with an IDA credit of USD10 million in the *Regional Disaster Vulnerability Reduction Project*, which will be presented to the Board on June 23, 2011. Proposed activities would target:

- Improvements in flood mitigation/drainage works
- Improvements in prevention of rock falls, landslides and erosion mitigation
- Climate proofing of critical bridges
- Increased drought resilience in water supply systems
- Climate proofed public buildings, schools, old age homes and warehouses for emergency operations
- Improved capacity for disaster response

Saint Vincent and the Grenadines:

USD3 million of the concessional financing will be blended with an IDA credit of USD10 million in the *Regional Disaster Vulnerability Reduction Project* along with Grenada, which will be presented to the Board on June 23, 2011. Proposed activities would target:

- Improvements in upper watershed drainage systems
- Improvements in coastal defenses
- Improvements in river defense systems
- Climate proofed public buildings and emergency communications
- Strengthened emergency management capacity and improved effectiveness of risk reduction investments
- Strengthened institutional capacity for disaster risk management

Mozambique:

In Mozambique, PPCR funds would be utilized to complement the African Development Fund (ADF) – a planned investment – to support irrigation activities in the Xai Xai area within the Gaza Province. While the ADF funds would be used to finance structural investments related to irrigation, the PPCR funds will be used to support adaptation activities such as promotion of drought and flood resistance crops, alternative livelihoods to stem the adverse effects of droughts and floods, watershed management and agro-forestry.

Zambia:

As a stand-alone activity supported by the AfDB, the PPCR funds in Zambia will support community based adaptation in the Kafue Basin by promoting sustainable land management practices, scaling-up conservation agriculture and developing infrastructure such as water harvesting to support climate resilient agriculture.

IV. DEMAND FOR CREDITS UNDER THE PPCR

15. Initially, it was difficult to predict whether pilot countries would chose to exercise the option to request credits for their PPCR activities. It now appears that many PPCR pilots will request such financing. As governments have prepared their strategic programs for addressing adaptation-related investment needs, they have recognized that PPCR credits may bolster their program portfolios, especially in engaging the private sector.

16. In November 2010, the PPCR Sub-Committee endorsed three SPCRs for Bangladesh, Niger and Tajikistan. Out of the fifteen remaining countries participating in PPCR pilots, ten have signaled that they wish to request PPCR credits for the implementation of their SPCRs.

17. Regarding the allocation of concessional financing available under the PPCR, the Sub-Committee confirmed that concessional financing may be requested by a pilot country or region consistent with the 2009 *Programming and Financing Modalities for the SCF Targeted Program, the Pilot Program for Climate Resilience (PPCR)* which provides:

“... in accessing concessional loans, an initial ceiling is agreed of 20% of the total available concessional finance amount per pilot program. This ceiling will be kept under review and will be re-evaluated after the submission of the first three to five Strategic Programs.”

18. Recognizing that the interest of countries in utilizing PPCR credits is much greater than originally anticipated and consistent with the request by the PPCR Sub-Committee to keep the concessional loan ceiling “under review and to be re-evaluated after the submission of the first

three to five Strategic Programs", two options are proposed as to how to allocate available credit resources to pilots that have expressed an interest in accessing PPCR credits:

Option 1

The Sub-Committee agrees that each interested pilot country may program an equal share of the available concessional finance amount. With a current pledge level of capital contributions of USD372million⁵, and the projection that 9 pilots⁶ (8 country pilots and 4 countries participating in the Caribbean regional pilot) have requested or will request to use concessional resources, the allocation ceiling per pilot would be USD41million per pilot program.

Option 2

The Sub-Committee maintains the level of concessional financing available to those pilots that have received endorsement for their SPCRs prior to the Sub-Committee meeting in June 2011 (Bangladesh, Grenada, Niger and St. Vincent and the Grenadines) and the remaining six country pilots and additional 2 countries participating in the Caribbean regional pilot that have expressed interest in accessing concessional resources are invited to program an equal share of the remaining available concessional finance amount for each pilot program. Considering that the current pledge level of concessional resources is USD372million⁷, the allocation ceiling for the remaining seven pilots would be USD36million per pilot program.

⁵ March 2011

⁶ Regional pilots are considered as one PPCR pilot.

⁷ March 2011

19. Table 1 below presents the distribution of concessional finance to PPCR pilots which have requested or expressed an interest in accessing such funds under both options:

Table 1: Establishing a revised ceiling under the PPCR for pledged Capital Contributions

#	Country/Region	Ceiling for near zero PPCR credits	
		<i>Option 1</i> Equal shares for all pilots interested in using credits	<i>Option 2</i> Maintaining decision on endorsed SPCRs prior to June 2011 and providing equal shares for remaining pilots interested in using credits
1	Bangladesh	41,000,000	60,000,000
2	Bolivia	41,000,000	36,000,000
3	Cambodia	41,000,000	36,000,000
4	Mozambique	41,000,000	36,000,000
5	Nepal	41,000,000	36,000,000
6	Niger	41,000,000	60,000,000
7	Tajikistan	0	0
8	Yemen	41,000,000	36,000,000
9	Zambia	41,000,000	36,000,000
10	Caribbean Regional Program	41,000,000	36,000,000
	Dominica		
	Grenada		12,000,000
	Haiti		
	Jamaica		
	Saint Lucia		
	Saint Vincent and the Grenadines		3,000,000
	Regional Track		
11	Pacific Regional Program	0	0
	Papua New Guinea		
	Samoa		
	Tonga		
	Regional Track		
	Total Demand	369,000,000	372,000,000
	Pledge – Capital Contribution (as of March 2011)	372,000,000	372,000,000
	Reserve	3,000,000	0

20. Countries may chose to program for a higher amount of concessional finance but need to recognize that the availability of additional PPCR credits would depend on the availability of additional contributions to the PPCR.

V. COUNTRY ELIGIBILITY FOR PPCR LOANS IN THE CONTEXT OF THE DEBT SUSTAINABILITY FRAMEWORK

Debt Sustainability Framework

21. The Debt Sustainability Framework (DSF) of the IMF and the World Bank is “to guide countries and donors in mobilizing the financing of low-income countries’ needs to achieve the Millennium Development Goals (MDG), while reducing the possibility of accumulating debt in the future. The DSF was introduced in April 2005 and is an important instrument for analyzing debt-related vulnerabilities and guiding the design of policies to help prevent debt distress⁸”.

22. The framework provides guidance to low-income countries regarding how a country’s current level of debt and prospective new borrowing affect its ability to service its debt in the future, taking into account each country’s circumstance. The framework also provides guidance to creditors and donors regarding the lending and grants allocation decisions to ensure that financial resources are consistent with low-income country’s development goals and long-term debt sustainability. Lastly, giving the forward-looking approach of the DSF, it can be used as a detection tool to highlight early potential risk of debt distress so that preventive actions and appropriate borrowing and lending strategies can be taken.

23. A central tool of the DSF is the debt sustainability analysis (DSA), which assesses the country’s risk of debt distress. This analysis is jointly conducted by the IMF and the World Bank, and it is generally prepared annually for each IDA-only country. The DSA consists of⁹:

- i) a forward-looking analysis of current and future debt burden indicators under the baseline scenario;
- ii) design of alternative scenarios and stress test;
- iii) scenarios on how debt burden indicators evolve over time and assessment of vulnerability to external shocks;
- iv) comparison of external debt burden indicators to appropriate indicative debt burden thresholds;
- v) evaluation of what and how other possible factors, such as the evolution of domestic debt, contingent liabilities or external shocks, affect the capacity of the country regarding servicing future debt service payments.

24. The results of this analysis are incorporated in the DSF and an appropriate borrowing strategy is determined and adequate policy responses are identified by the IMF and the World Bank in consultation with the Government.

25. The operationalization of the forward-looking aspects of the DSF, from the IDA’s standpoint, means that countries are classified according to their probability of debt distress and grant eligibility is determined. The classification represents the debt distress risk which is translated into a visual ratings mechanism called “traffic lights” that determine the share of grants and loans in IDA’s assistance to the specific country. A “red light” denotes high risk of

⁸ Debt Dynamics and Financing Terms: A Forward-Looking Approach to IDA Grant Eligibility, The International Development Association, 2006

⁹ How to do a Debt Sustainability Analysis for Low Income countries, World Bank Guide, 2006

debt distress and IDA assistance will be provided as 100 percent grants, “yellow light” denotes moderate risk and IDA assistance is provided 50 percent as grants and 50 percent as credits, and “green light” denotes low risk and IDA assistance is provided 100 percent as credits.

26. Recognizing the debt sustainability in low-income countries requires a collective collaboration involving creditors and borrowers, IDA and IMF have reached out to other creditors to raise awareness and encourage them to act according to an agreed framework with the DSF. Some progress in creditor coordination has been made, for example, Multilateral Development Banks have considered similar DSF-based mechanism to establish their financing terms. These collective efforts aim to lower the risk of debt distress in low-income countries by providing new financial assistances on appropriately concessional terms.

27. In the particular case of IDA, a non-concessional borrowing policy has been proposed in 2006 to support the efforts of preventing debt distress in IDA-only countries¹⁰. The IDA’s policy on non-concessional borrowing includes mechanism to discourage excessive non-concessional borrowing by recommending a minimum concessionality that is based on “grant element”. The “grant element” considers the debt vulnerability through the DSA¹¹ and the country’s capacity to manage public resources providing confidence that resources will be well used¹². The grant elements is defined as the difference between the loan’s face value and the sum of the present value of debt service made by the borrower, expressed as a percentage of the face value of the loan. For the public sector, the grant element of the concessional financing under the PPCR is 75% (see Annex 1 for full details on public sector loan terms).

28. Considering the non-concessional borrowing policy, countries with high capacity to manage public resources and low or moderate DSA risk may apply more flexible concessionality requirements to external or public borrowing. However, countries with low capacity to manage public resources and lower DSA risk are recommended to follow a concessionality threshold in terms of the grant element of at least 35 percent, and non-concessional borrowing should be exceptional.

Application in the PPCR Context

29. It is confirmed that PPCR funding is aligned with the DSF and the IDA’s non-concessional borrowing policy. In assessing the impacts of the PPCR on the debt dynamics of the individual countries, MDBs’ standard appraisal criteria will address credit risk through their assessments of borrower creditworthiness, financial viability, corporate governance, and safeguards preventing the build-up debt in the future. In most of the countries, PPCR accounts for a low share of the country’s net new borrowing and tends to have little to no impact on the debt sustainability dynamics.

30. In order to ensure debt sustainability efforts in low-income countries, effective collective actions from MDBs and countries should be sought while counties prepare their strategic programs. MDB teams are requested to assist PPCR pilot countries falling

¹⁰ IDA Countries and Non-concessional Debt: Dealing with the “Free Rider” Problem in IDA 14 Grant-Recipient and Post-MDRI countries, World Bank, 2006

¹¹ Based on the Debt Sustainability Analysis

¹² Debt limits in Fund-Supported Programs: Proposed New Guidelines, International Monetary Fund, 2009

under high and moderate debt distress risk rankings in conducting a macro-economic analysis in order to evaluate the potential for impacting their debt sustainability while drawing on PPCR funding. Annex 2 lists the GNI per capita, IDA lending eligibility and ranking of risk for debt distress for each PPCR pilot country.

31. Concessional loans in the PPCR are optional, but if requested, have to define a clear niche in the context of the proposed overall public or private sector investment. In addition, to mitigate any risk for IDA¹³ pilot countries to trade-off the attractiveness of the PPCR loan terms with risking further debt for a country, it is proposed that MDBs and pilot country governments will analyze the impact of a potential PPCR credit or associated loan for public sector investments on the country's risk for debt distress as requested through the DSF. It is expected that this macro-economic analysis will provide sound and accurate elements to pilot countries in their decision-making process on borrowing from the PPCR for public sector investments. Concessional loans for the private sector would not add to the indebtedness of the country, and governments may choose to allow access to concessional loans purely for private sector operations.

32. It is proposed that each public sector project and program involving the use of credits presented for review and approval by the PPCR Sub-Committee will provide in form of an annex the results of the macro-economic analysis.

¹³ The International Development Association (IDA) is the part of the World Bank that helps the world's poorest countries. Established in 1960, IDA aims to reduce poverty by providing interest-free credits and grants for programs that boost economic growth, reduce inequalities and improve people's living conditions. IDA is one of the largest sources of assistance for the world's 79 poorest countries, 39 of which are in Africa. It is the single largest source of donor funds for basic social services in the poorest countries.

Further provisions in the *PPCR Financing Modalities* regarding the use of grants and credits¹⁴

For the public sector, the section on *Concessional Loans* is provided as follows:

Country Circumstances and Eligibility for Concessional Borrowing

32. The country financial and macro-economic circumstances differ in the selected pilots. While only one PPCR country is currently eligible to borrow on standard MDB loan terms, others may access only subsidized credit through a variety of windows, some are eligible through the country strategy assistance cycle, under the financing terms and envelope agreed periodically with the MDBs, for a mix of credit and grant financing and some only for grant financing. In this context, the **countries' risk of debt distress should be assessed**. It is proposed that the risk ratings follow the same practice as in IDA and the relevant Regional Development Banks that is from country-specific forward-looking debt sustainability analyses. For IDA, this is based on the joint IMF-World Bank debt sustainability framework (DSF) for low-income countries. The IDA grant framework then translate these debt distress risk ratings into "traffic lights", which in turn determine the share of IDA grants and highly concessional IDA credits for each country: high risk or in debt distress ("red" light) is associated with 100 percent grants, medium risk ("yellow" light) with 50 percent grants and 50 percent credits, while low risk ("green" light) is associated with 100 percent credits and zero grants.

Loan Terms for Public Sector Projects

33. The following concessional loan terms for public sector projects are proposed. It is proposed that the PPCR Sub-Committee review these terms after experience is gained in developing PPCR programs and projects.

	Maturity	Grace Period	Principal Repayments Year 11-20	Principal Repayments Years 20-40	FY10-11 Service Charge a/	Grant Element b/
Credit	40	10	2%	4%	0.10%	75%

a) The service charge is charged on the disbursed and outstanding loan balance. Principal and service charge payments accrue semi-annually to the PPCR trust fund. Service charge is similar in concept to an interest rate

b) Grant element is calculated using the IDA methodology (assumptions: 6.33% discount rate for harder loans; 6.43% discount rate for softer loans; semi-annual repayments; 8-year disbursement period)

For the private sector, considerations on *Concessional Loans* provide:

“44. *Minimum concessionality*: MDBs will seek to provide the minimum concessionality needed to catalyze projects and programs within a sector. In order to honor this principle, PPCR funds will be structured on a case-by-case basis to address the specific barriers identified in each project/program. The amount and terms of PPCR funding offered to an individual client will be determined between the MDB and the client on the basis of efficient and effective use of PPCR and MDB resources. While an

¹⁴ *PPCR Financing Modalities* (June 2010)

attempt will be made to quantify the additional costs faced by early entrants and compare that with the subsidy element implicit in the financing terms being offered, country, industry and individual company dynamics will impact the amount of concessionality a company will accept in order to undertake a project. Finding the right amount of concessionality¹⁵ is largely a matter of client needs, market conditions and negotiation, and is dependent on information not flowing between the companies or being available in the market. MDB's will always seek the minimum concessionality necessary to enable projects to happen and will justify the amount of concessionality requested in each PPCR proposal.

45. *Avoiding distortion and crowding out:* PPCR funds will not be priced or structured to displace commercial financing or set unsustainable expectations in a market. PPCR funds will be used to “crowd in” the private sector by enabling projects and investments to happen that otherwise would not by catalyzing those investments with their concessionality.

46. *Leverage:* PPCR funds will seek to catalyze and maximize the amount of MDB and other bilateral financing as well as commercial financing available for its projects and programs. A key feature of the PPCR will be its ability to unlock both MDB and other private sector financing for climate adaptation investments and catalyze ongoing sustainable investments in these sectors beyond the initial PPCR investments.

Concessional Loans

51. PPCR will offer concessional finance to support private sector projects and programs that have the potential of being replicated in the future without further subsidies. The terms and structures of each financial investment would be determined on a case by case basis to address the specific barriers identified in each case. These barriers could include:

- a) High costs of early entrants (the additional costs associated with being among the first players to implement a project in a given sector, under new regulations or work through unprecedented systems); they could also include higher input costs because economies of scale have not been achieved for the technology;
- b) Concessional pricing and repayment structures can offset these costs and make early stage projects with cash flow uncertainty bankable;
- c) Perceived and real risk. Subordinated debt products can help mitigate risk for financiers that wouldn't otherwise support the project;
- d) Combined risk and cost barriers.”

¹⁵ Concessionality (or the subsidy element) of a PPCR investment is calculated as the difference between the hypothetical market interest payments and the actual PPCR interest payments over the life of the loan and discounted using the relevant zero-coupon swap curve in the relevant currency; divided by the amount of PPCR financing. For non debt products the interest payments in this calculation would be substituted by the relevant investment payments (e.g. guarantee fees).

PPCR Pilot Countries - GNI per capita, IDA lending eligibility and ranking of risk for debt distress

PPCR Country	GNI per capita [US\$]	Lending Eligibility	LDC	IBRD Terms		IDA Terms			DSA Traffic light
				Average repayment maturity (years)	Years to maturity (years)	Grace period	Years to maturity (years)	Grant [%]	
Bangladesh	590	IDA	LDC			10	40	0	Green
Bolivia	1630	Blend		18	30	10	20	0	
Cambodia	650	IDA	LDC			10	40	50	Yellow
Dominica	4900	Blend		18	30	10	35	0	
Grenada	5580	Blend		18	30	10	35	0	
Haiti	NA	IDA	LDC			10	40	100	Red
Jamaica	5010	IBRD		18	30				
Saint Lucia	5190	Blend		18	30	10	35	0	
St. Vincent & The Grenadines	5130	Blend		18	30	10	35	0	
Mozambique	440	IDA	LDC			10	40	0	Green
Nepal	440	IDA	LDC			10	40	45%	Yellow
Niger	340	IDA	LDC			10	40	0	Green
Papua New Guinea	1180	Blend		18	30	10	35	0	
Samoa	2840	IDA	LDC			10	40	0	Green
Tonga	3260	IDA				10	40	100	Red
Tajikistan	700	IDA				10	40	100	Red
Yemen	1060	IDA	LDC			10	40	100	Red
Zambia	970	IDA	LDC			10	40	0	Green

Source: The World Bank Operation Manual, Operation Policies, OP 3.10 Annex D, July 2010, FY11 incorporating Debt Sustainability Analysis-base risk ratings 2007-2011