



MIXED CREDITS – PROMOTING GROWTH BRIEF GUIDELINES





Photo: Alcatel Danmark A/S

ECONOMIC GROWTH THROUGH MODERN TELECOMMUNICATIONS

Mobile communication is popular in all of Africa, and millions of Africans have gained access to this flexible way of communicating in recent years. Countries such as Mozambique still face huge challenges – only 1 per cent of the country’s population is currently connected to the telecommunications network. The Danish company Alcatel Danmark has been awarded a contract to supply Mozambique with fast fibre optic cables, which will contribute to improving private sector development in the coming years.

RURAL TELECOMMUNICATION PROJECT, MILLION EUR

Buyer: Telecomunicações de Mozambique
 Supplier: Alcatel Danmark A/S
 Status: In operation since March 2008

Contract amount:	12.7
Up-front grant:	2.5
Loan amount:	10.2
Interest:	2.3
EKF premium:	1.5
Financial cost:	0.1
Total Danida subsidy:	6.4

(Being a least developed country, Mozambique has received an up-front grant.)

MIXED CREDITS

– PROMOTING GROWTH

The overall objective of Danish development aid is to reduce poverty, improve standards of living and contribute to economic growth in developing countries. This is also the objective of the Danish Mixed Credit Programme that was established by the Danish Government in 1993 – a programme that offers interest free or low interest loans. The loans finance equipment and related services for development projects in developing countries.

The immediate objective of mixed credits is to help mobilise funds for projects that are financially “non-viable” and, therefore, would not be carried out without financial subsidies. By offering a mixed credit facility, Denmark is able to support development projects that cannot be financed on normal market conditions or solely by grant aid.

The subsidy of a Danish Mixed Credit consists of up to three elements:

- Payment of interest – fully or partly
- Payment of the export credit premium and other financial costs
- Up-front grant to reduce the principal of the loan (only for projects in least developed countries)

Most types of projects can be taken into consideration. However, experience shows that eligible projects are often found in the following sectors: water supply and sanitation, renewable energy, infrastructure, environment, health, and education. Maturity is normally 10 years.

Two types of Mixed Credits

There are two types of mixed credits – *tied* and *untied*.

Almost all Danish Mixed Credits are *tied*: this means that the supplier must be Danish. However, it is not required that the goods and services are produced in Denmark. The tied mixed credit facility is offered to Denmark’s Programme Countries and creditworthy countries with a GNI per capita below USD 2,876 (2007/2008). Tied credits are always the starting point for any project under this programme.

The other type of Mixed Credits is *untied*: this means that the supplier does not have to be Danish, but may be from any OECD member country. Untied credits are only available in Denmark’s Programme Countries and South Africa. Financially viable projects

may be financed with untied mixed credits, although it is not the intention to provide untied financing for projects that can be financed on normal commercial terms.

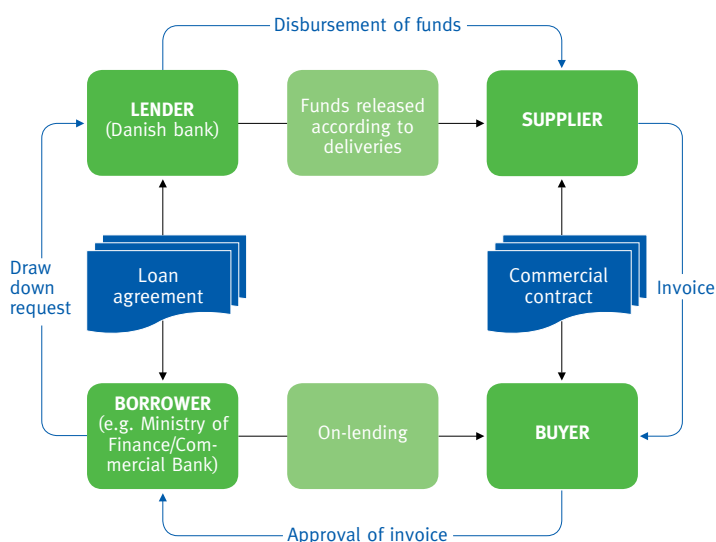
The two types of mixed credit facilities are based on the same main principles and are subject to the same terms and conditions.

Important when applying

When considering - or applying for - a Mixed Credit it is important to recognise that a series of requirements have to be fulfilled to obtain Danida’s approval of a project under the Mixed Credit Programme.

Some of the most important steps are outlined in the timeline. The first step is a screening of the project proposal. It is a preliminary indication of eligibility and a positive indication to continue project preparations. In order to screen a project, Danida will need a full project description including information about project background, poverty reduction objectives, total project investment incl. detailed budget, type of equipment to be delivered, contract amount to be financed, financial set-up including borrower and guarantor (confirmed by a letter of intent), organisational set-up, timetable and milestones in the project.

MAIN ACTORS AND THEIR LINKAGES IN A DANISH MIXED CREDIT





Photos: Rambøll A/S & Cowi A/S

CLEAN DRINKING WATER IMPROVES GENERAL HEALTH CONDITIONS

Two thirds of the population in Kandy, Sri Lanka's second largest city, do not have access to sufficient and clean drinking water. Further, due to leakages in the water distribution system in Southern Kandy, 30–40 per cent of the water is wasted. Therefore, the Danish contractor MT Højgaard A/S is engaged to establish a suitable water distribution system, which will contribute to improving general health conditions and promoting economic growth.

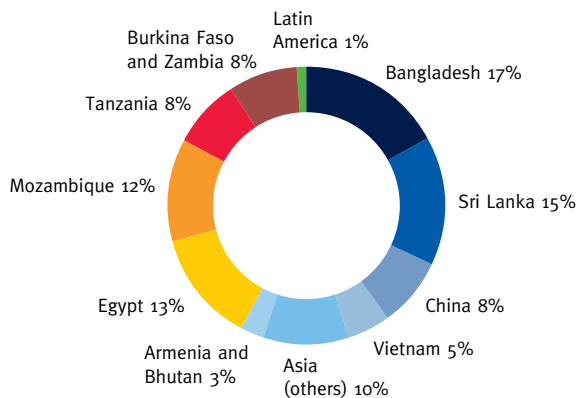
TOWNS SOUTH OF KANDY WATER SUPPLY PROJECT, MILLION EUR

Buyer: National Water Supply & Drainage Board
 Supplier: MT Højgaard A/S
 Status: Taking over in the middle of 2009

Contract amount:	40.5
Loan amount:	40.5
Interest:	11.2
EKF premium:	4.1
Financial cost:	0.5
Total Danida subsidy:	15.8

ATTRACTIVE LENDING TERMS

MIXED CREDIT GRANTS TO COUNTRIES IN ASIA, AFRICA AND LATIN AMERICA (2003 TO 2007)



Focus on the debt situation

The financing of projects should not contribute to a worsening of the countries' balance of payments status. Therefore, recipient countries should be creditworthy, i.e. categorised in premium groups 1 to 6 out of 7 possible by the Danish Export Credit Fund (EKF). For Denmark's Programme Countries, premium group 7 will normally also be acceptable if the country in question has a sustainable debt situation.

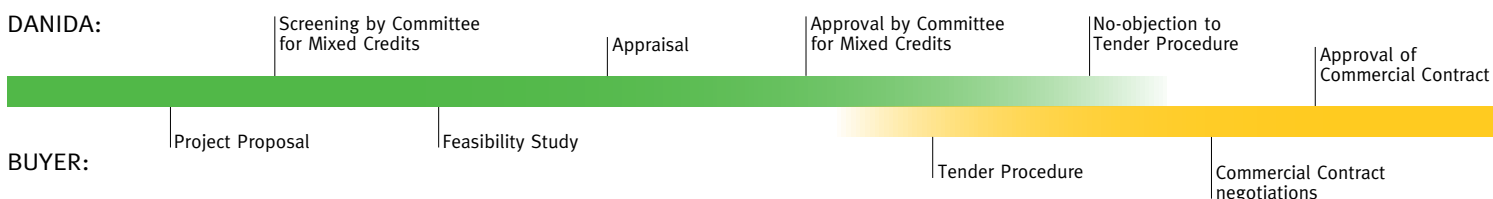
Low ratings can be accepted

The Ministry of Finance or a solid bank in the recipient country is required to act as borrower/guarantor. If a project is below SDR 2 million (special drawing rights = approx. EUR 2.1 million), banks in the recipient country with a lower credit rating are also eligible. In that case, banks rated as low as "acceptable" (premium category D) by EKF can be taken into consideration as borrower/guarantor.

Local costs – locally paid

The Mixed Credit facility offers a significant subsidy to financial costs. The buyer/borrower who obtains the loan must still repay the loan in equal, semi-annual instalments, normally starting 6 months after the commissioning of the project. All loans are issued in USD or EUR. The borrower will pay only a commitment fee of a maximum of 0.25 per cent p.a. on the undisbursed loan amount and a management fee of a maximum of 0.375 per cent (flat). However, local financial costs – including local costs for a bank guarantee – are to be paid by the buyer. In order to make sure that the local buyer gets the best possible lending terms, Danida must accept all on-lending agreements. Furthermore, the buyer has to contribute to the total investment, and there have to be sufficient funds in the project in order to ensure operation for a minimum of 1-3 years.

TIMELINE



Competitive procurement

Danida wishes to obtain the best possible results when providing aid to developing countries. Consequently, the selected bid must be acceptable to Danida. It must be documented that competitive procurement has taken place, not only in relation to price but also with regard to technology and quality.

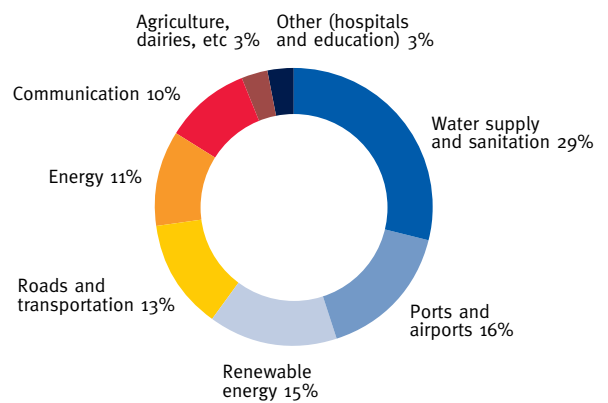
Mixed credit support requires that the commercial contract is based on international competitive bidding, e.g. FIDIC. If there are a sufficient number of Danish suppliers, the bidding will be limited to Danish suppliers. It is a requirement that an acceptable commercial bank/financial institution with a representation in Denmark has agreed to act as lender for the project in question.

Danida will typically provide technical assistance for the tender procedure.

For small projects, negotiated contracts (sole source procurement) may be accepted on a case-by-case basis. However, acceptance by Danida must be obtained in advance and price verification may be required.

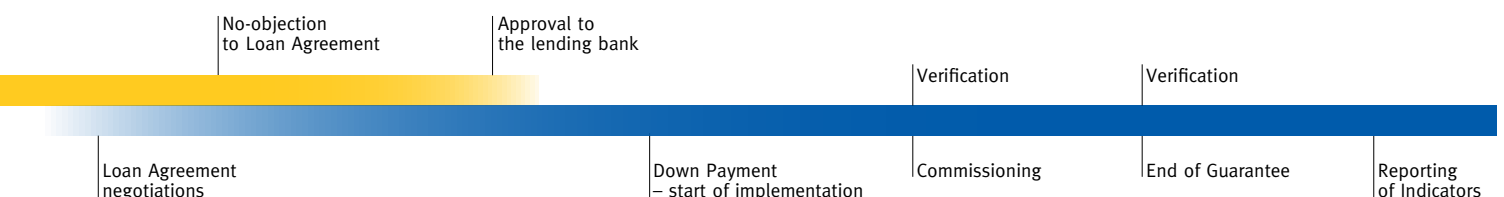
The minimum contract amount to be financed is EUR 1 million.

MIXED CREDIT GRANTS WITHIN DIFFERENT SECTORS (2003 TO 2007)



Denmark's Programme Countries (June 2008):

Bangladesh, Benin, Bhutan, Bolivia, Burkina Faso, Egypt, Ghana, Kenya, Mali, Mozambique, Nepal, Nicaragua, Tanzania, Uganda, Vietnam and Zambia



FURTHER INFORMATION

Appraisal, guidance

“Danish Mixed Credit Standard Forms for Appraisals”, 2007

Commercial contracts, requirements

“General Conditions for the Approval of Commercial Contracts financed under Danish Mixed Credits”, August 2007

Feasibility studies, guidance

“Danish Mixed Credit Standard Forms for Feasibility Studies”, 2007

Loan agreements, requirements

“General Conditions for Loan Agreements and for the Provision and Administration of Interest Subsidy under the Mixed Credit Programme for Developing Countries”, August 2007

Procurement, rules

“General Rules and Guidelines for Procurement under Danish Tied Mixed Credits to Developing Countries”, August 2007

“General Rules and Guidelines for Procurement under Danish Untied Mixed Credits to Danida’s Programme Countries and South Africa”, August 2007

Rating of banks and classification of countries

For information on the rating of banks and classification of countries please refer to Eksport Kredit Fonden (Danish Export Credit Fund) www.ekf.dk.

Strategic Framework

“Strategic Framework for Danida’s Mixed Credit Programme”, 2008

Administration: Danida, The Secretariat for Mixed Credits

Approval: Danida’s Committee for Mixed Credits

The name is a mix

The name “mixed credits” derives from the fact that the programme mixes traditional grant aid and commercial loans.

350 million grant

The annual budget frame for Danish Mixed Credits is presently DKK 350 million (approx. EUR 47 million). This generates commercial contracts in the magnitude of DKK 800-950 million (approx. EUR 107-127 million).

Financing feasibility studies

Suppliers, buyers and others may apply for financing of 75 per cent of the cost for preparation of a feasibility study. The terms of reference including the team members must be approved by Danida.

Milestones on the way to final approval

When considering a Danish Mixed Credit, it is important that all parties involved understand that a number of requirements must be fulfilled before final approval can be granted. It is a process that comprises a series of different and predefined milestones such as demands for documentation and various “check points”. Some of these are:

- Screening of the project by Danida’s Committee for Mixed Credits
- A feasibility study is carried out
- The project has been given priority by the authorities in the recipient country
- The OECD has no objections to the project
- Appraisal indicating that the project is eligible under the Danish Mixed Credit Programme
- Approval by Danida’s Committee for Mixed Credits
- Documentation that competitive procurement has taken place
- Conditions for commercial contracts are fulfilled
- Conditions for loan agreements are fulfilled

The objective is to process the project from screening to final approval within 12-18 months.

Denmark fights corruption

Danida has a zero-tolerance policy regarding corruption, which is the governing principle of Danida’s Action Plan to combat corruption, cf. www.um.dk/en/menu/DevelopmentPolicy/AntiCorruption

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www.mixed-credits.dk

