



IN BRIEF...

# Financing of infrastructure and investments – credits

Credit financing can be used for key investments in Swedish partner countries. By not giving the entire amount in the form of a grant, the recipient country's responsibility for the project is made explicit and the organisation and management of projects is made more effective.

The aim of Sida's credit activities is to improve the living standards of poor people. Credits provide an instrument that can be used to support vital infrastructure investments, for example better roads, new power lines, or clean drinking water and wastewater facilities for more households.

Sida is working with several different forms of financing for investments: grant aid, guarantees and credits. Where credits are concerned, there are several models: soft loans, concessionary credits, conditional loans and credit lines. The type of financing that is best for a project is determined for example by how poor the recipient country is, whether the project can generate revenues, and what effects the project can be assumed to have on development in the country. The grant component of the credits can vary from 35 to 80 per cent.

## Several advantages

There are several advantages in not giving the entire amount in the form of a grant. Among other things it

obliges the recipient country to make a thorough assessment of the project and its costs since credits increase the country's debt. Since the country invests its own resources and takes a risk in the financing, the country's responsibility for the project is made clearer. In addition, credits give a clearer commercial signal to the recipient, an incentive to run activities more efficiently in order to generate revenues and pay off the credit. Credits are also a form of cooperation that is well suited to a process of transition from the donor/recipient relationship to pure commercial relations.

## The development effect and the partner country's priorities are most important aspects

Credits to the least developed countries are always untied, while credits to other developing countries are tied to a certain extent to Swedish goods and services. However, one common denominator is that procurements must always be competitive and that there is a Swedish interest, for exam-

ple that the project is in a sector given priority in Swedish development cooperation or is interesting for possible Swedish exports.

However, the development effects in the partner country and the country's priorities form the point of departure of Sida's assessments of projects that should be given support.

The investments that are most suitable for credit financing are those that can generate revenues, but not sufficient revenues to cover the entire cost, for example investments in railways, in the extension of electricity supplies to rural areas, or in solid waste management.

Where tied concessionary credits are concerned, the member states of the OECD have reached agreement on minimising the risks of distorting competition between suppliers in different countries and to try to ensure that development cooperation funds are not used for projects that can be implemented with the aid of commercial financing. This agreement is known as the "Helsinki agreement".

Framework credits can be used when Sida wishes to support small projects or several projects in the same field. By giving a large credit to an institution, for example a development bank, which then in turn gives loans for one or more recipients, Sida can reach several users without increasing the workload of its own administration. In the agreement that

regulates framework credits, all the conditions can be specified in such a way that Sida determines the types of projects that can benefit from the credit. These are often projects with an environmental focus, but can also include projects that focus on trade and industry, for example trucks and medical equipment.

### **This is the procedure**

Applications are often received from agencies or organisations in developing countries. It is also common that projects are notified by Swedish companies, often in connection with international procurements. Detailed

documented is essential in order to permit Sida to study possible financing. Having a project financed with the aid of a credit is a process that often requires time, since all project proposals must be examined thoroughly from several perspectives. What effect will the project have on development in the country? What urgent problems can the project contribute to solving? Is the project in line with the objectives and focus of the partner country and Sida? What effect will it have on the environment? What is state of the country's economy? What proportion of the credit should be given as a grant?

### **The recipients**

Two groups of countries have precedence where credit-financed cooperation with Sida is concerned. One group is made up of those countries with which Sweden has extensive programmes of development cooperation. The other group is made up countries that have sufficient capacity to handle Sida's credits and are of interest to Swedish suppliers.

Credit-financed cooperation is administered at Sida by the Department for Infrastructure and Economic Cooperation, INEC.

*Halving poverty by 2015 is one of the greatest challenges of our time, requiring cooperation and sustainability. The partner countries are responsible for their own development. Sida provides resources and develops knowledge and expertise, making the world a richer place.*



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