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UNITED STATES OF AMERICA

# MCC Advisory Council 2019 Fall Meeting

# Policy-Based Financing Instruments



- 1) Conventional investment projects finance ‘inputs’ or the cost of procuring specific goods and services (i.e. power plant, road, vaccination campaign, etc.).
- 2) Policy-based financing (PBF) supports regulatory/policy reforms and the enabling environment for their successful implementation (i.e. operationalizing a new PPP law).
- 3) All major multilateral development banks and some bilateral agencies provide both project finance and PBF to developing country governments through grant or concessional financing.

# Policy-Based Financing Characteristics



## Background:

- First formally introduced in 1978

## Terminology:

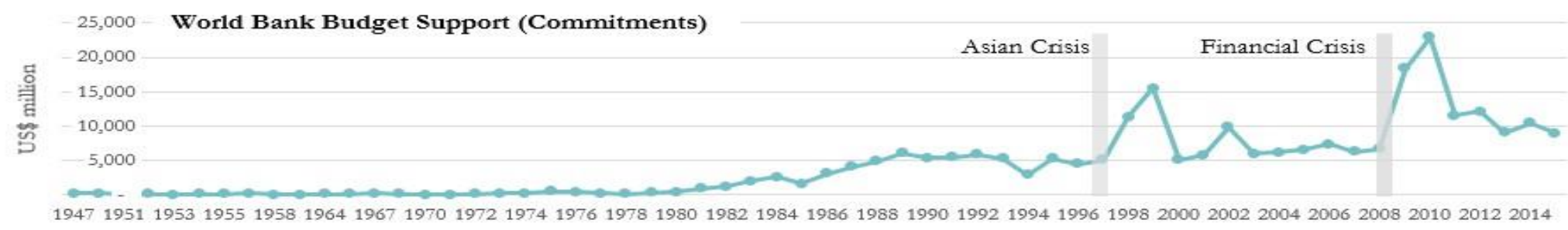
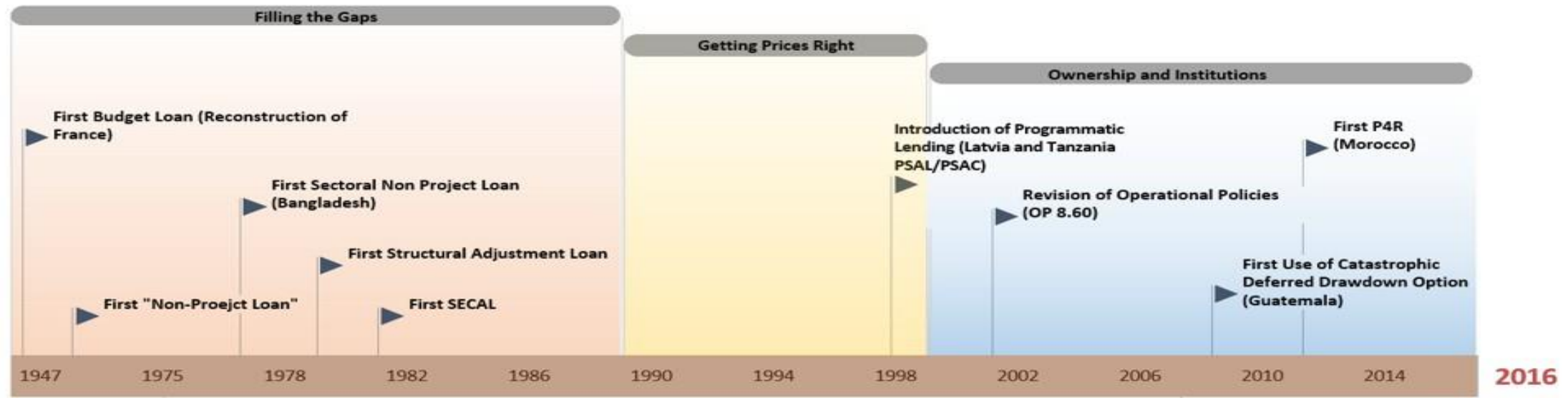
- Development policy loans (DPLs)
- Policy-based lending (PBL) by multilaterals
- Many types: single tranche, programmatic, policy-based guarantees, deferred draw-down operations, sector policy loans
- Program for Results (P4R) with results-based financing characteristics (World Bank)

## Policy-based financing is often:

- Multi-donor financing (i.e. via parallel or joint financing)
- Coordinated with project financing to strengthen impact (i.e. power sector)
- Includes policy dialogue (convening authority), technical assistance, and concessional funding to implement reforms



# Diverse DPL History and Design



Source: Independent Evaluation Group, World Bank, 2016.

# IDB Health Care System Example



Multilateral development bank: Inter-American Development Bank (IDB)

Client: Government of Jamaica

Sector: Health

Government alignment: National Strategic and Action Plan for the Prevention and Control of Non-Communicable Disease (NCD)

Challenge: Reduce the burden of NCDs and injuries by 25% by 2025

Solution: IDB's hybrid loan program consists of \$50MM programmatic policy-based loan (PBP) and \$50MM investment loan. The hybrid loan consists of two contractually independent but technically linked loans. While the PBP funds regulatory and policy reforms in the health sector, the investment loan funds improvements in Jamaica's primary care system by targeting its hospital and health service networks.

Source: "Jamaica to Strengthen Its National Health Care System with IDB Support: IADB." *IADB News Releases*, 2019 Inter-American Development Bank, 15 Nov. 2018, <https://www.iadb.org/en/news/jamaica-strengthen-its-national-health-care-system-idb-support>.

# Keys to Success



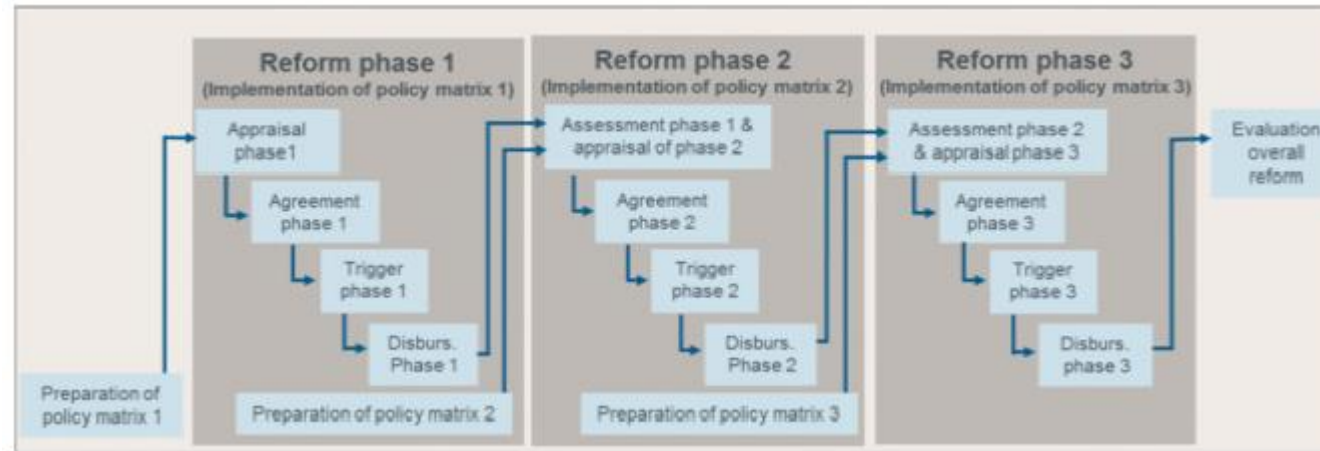
A policy-based grant requires:

- Government ownership (i.e. credible commitment to national strategies, plans, or policy initiatives)
- Close fiscal coordination between policy reforms and project planning
- Financial commitment (i.e. sustainable public funding)

Roles:

- Lead: Country partner (national and local government, convening authority across agencies)
- Support: Donor (technical assistance, policy dialogue, financing, convening authority across donors, etc.)

# KfW Example



## PBL Matrix:

- Prior actions: Key reform measures/conditions to release first disbursement
- Triggers: Future reform measures to release subsequent disbursements
- Implementation schedule

Source: “Materials on Development Financing: KfW.” *KfW Development Bank*, 17 May 2018, <https://www.kfw-entwicklungsbank.de>.

# Risks



- Political election cycles and stakeholder engagement/commitment
- Donor coordination
- Reform outcomes specificity
- Monitoring/evaluation specificity
- Meeting MCC's economic rate of return hurdle



# MCC Hybrid Approach



Questions:

Can MCC adopt principles and best practices of Policy-Based Financing as one of its investment tools (i.e. in the form of a policy-based grant or enabling environment incentive grant)?

What modifications may be needed to fit MCC's investment criteria?

# Case Study: Tunisia Port and Logistics



- Government's maritime and port authority, OMMP, is seeking to expand Tunisia's principal port, Radès, by adding two new wharfs
- Radès Port is responsible for 70% of container traffic and 80% of rolling unit traffic in Tunisia



Challenge: Currently managed by a state-owned enterprise (SOE), STAM, which has a 30-year concession for the port and is processing one to five containers per hour. The port sector in Tunisia is highly politicized and STAM's workforce is affiliated with the influential national labor union.

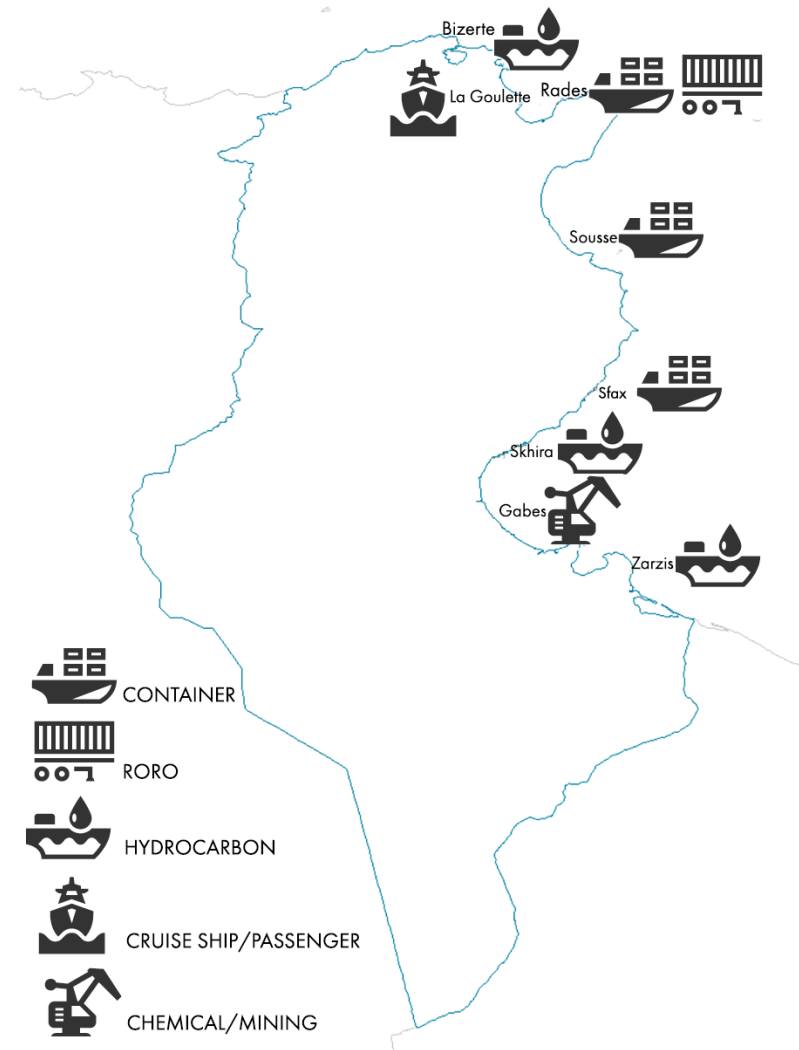
# Tunisian Ports by Specialty



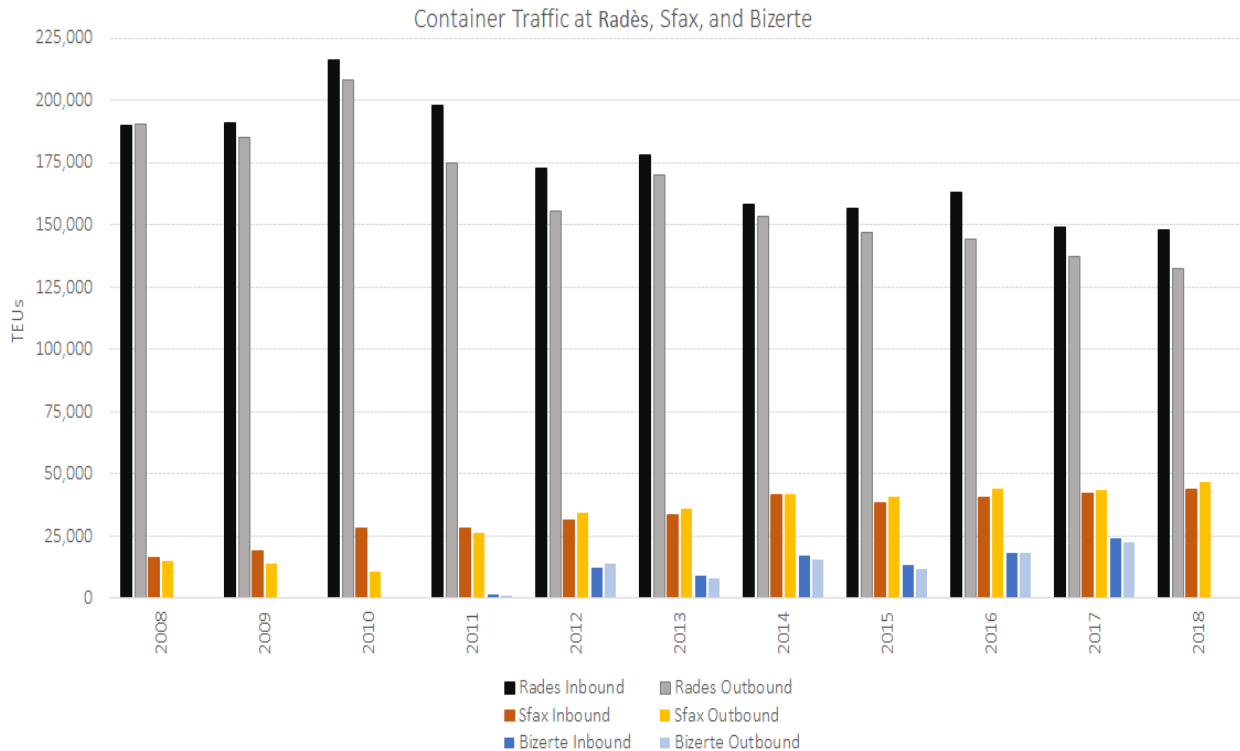
**Table 7.1. Tunisian ports by specialisation**

Port	Specialisation	Number of regular connections	Number of berths platforms
Bizerte	Containers, hydrocarbons, and miscellaneous goods	6	8
La Goulette	Cruise and passenger traffic	7	4
Radès	Containers, ro-ro, and bulk traffic (mainly hydrocarbons and cereals)	11	8
Sousse	Container and miscellaneous goods	3	5
Sfax	Containers and bulk traffic (mainly cereals and mining products)	6	10
Skhira	Hydrocarbons and chemical products	N/A	3
Gabès	Chemical and mining products	N/A	4
Zarzis	Hydrocarbons and bulk products (mainly salt)	N/A	3

Source: (OMMP, 2019<sup>[9]</sup>)



# Containerized Traffic in Tunisia



Twenty-foot equivalents (TEUs) declining at Radès Port; growing at Sfax Port

Shippers at Radès Port have increasingly moved from containerized to RoRo operations

Large time savings for shippers, but costs them up to 3x more

# Options for Proposed Radès Port Investments



## Proposed Radès Port Investments

- GoT self-financing extension of Quays 8 and 9 (blue line)
- GoT has requested MCC financing of container yard pavement structure, stormwater drainage, electrical network and lighting
- Buildout of platform for Radès Logistics Zone for concession to 3rd party operator
- Transport infrastructure improvements in and around port zone to improve traffic flow
- Restructuring of STAM and integration of a ‘strategic partner’ for management of Radès

# MCC Policy-Based Grant



Potential solution: Hybrid grant program like IDB's investment in Jamaica.

MCC to provide some direct financing for a logistics zone in the port and technical assistance to improve management, to include bringing in a strategic partner to work together with STAM.

MCC plans to make some of the reform requirements Conditions Precedent in the compact, which can be linked to infrastructure investments and funds for technical assistance.

MCC to provide funding for policy reforms and improved efficiency in the port as an incentive for the government to implement many promised reforms that hinder the sector.

## Possible Reform and Operational Improvement Requirements

### Reform:

- Integration of new strategic partner
- Enforcement of concession agreement
- Increased privatization of port services, such as towage

### Operational Improvements:

- Expansion of port
- Re-organization to improve efficiency

# Discussion Questions



1. What are the operational, financial and reputational opportunities and risks of a policy based-grant approach? How does the Council advise that the risks be mitigated?
2. How can MCC ensure sustainability of reforms if it chooses a policy-based grant approach?
3. What are the Council's recommendations for how to incentivize reforms to improve port management, particularly at STAM, given the highly political environment in Tunisia?
4. What types of Conditions Precedent would the Council consider on the infrastructure investments given the need for reform?
5. What strategies or alternative approaches should MCC consider when trying to attract a private sector operator into Radès Port management in the event STAM insists on 51% ownership of a potential joint venture?
6. What are politically feasible options for handling a reduction in workforce at STAM aside from incentivizing those above a certain age to accept a early retirement?
7. What independent governance/mechanisms can or should be put in place to safeguard business practices and processes from interference or corrupt practices?
8. What aspects of gender and social inclusion should MCC consider in its policy-based grant approach?