

CASE STUDY

Blending Financing from Multiple Sources to Reduce the Overall Cost of Financing in China

OVERVIEW

The Chinese government needed to mobilize additional funding at highly concessional rates to expand its tuberculosis control project. A regular IBRD fixed-spread loan was blended with grant funds from DFID to reduce the overall cost of the financing package. This co-financing scheme allowed China to on-lend the loan to provinces at an attractive interest rate, enabling the project's implementation in poor communities.



Background

Despite remarkable improvements in the last few decades, many rural communities in China still lack access to satisfactory basic healthcare, including the diagnosis and treatment of tuberculosis (TB), which kills 150,000 people in the country each year. The Chinese government has taken a series of measures to control TB. By the end of 2000, nearly 1.2 million infectious TB patients were diagnosed and cured. But China needed to expand its efforts to reach more of the country's poor population.

The China Tuberculosis Control Project was launched, to this end, in 2002 to scale up the World Health Organization-recommended "DOTS" (Directly Observed Treatment, Short-course)

strategy, which involves not just finding and curing infectious TB patients, but ensuring that they receive free care, and take their full six-month treatment.

IBRD Financing Objectives

The overall cost of the project was estimated at US\$242 million, over half of which China was financing. But to implement the project successfully, China needed to fill a financing gap of about US\$100 million at highly concessional interest rates and very long tenors. The UK Department for International Development (DFID) was willing to provide US\$36 million in grant funds and work with the World Bank to support China's efforts.

Combining DFID's grant with a regular IBRD fixed-

spread loan would provide a means to soften the financial cost of the overall package. The Chinese government, however, preferred to implement the project with a single flow of funds through one institution. The challenge for the World Bank was to come up with a financial solution that was cost-efficient and administratively simple.

The Structure

The US\$36 million DFID grant was used to prepay the IBRD loan in phases as the project disbursed to reduce the interest burden of the overall financing package. The DFID funds were deposited into a dedicated IBRD-administered trust fund account based on disbursement projections, and used to prepay 36% of each disbursement immediately. This effectively gave China US\$100 million at a blended concessionary cost of about 2%. IBRD also reduced its standard trust fund administrative fee to facilitate the implementation of the project.

financial terms that met the project's requirements. Administratively, China's Ministry of Finance had to deal with only one stream of funds (the IBRD loan) over the life of the loan. This financial solution thus provided the basis for a larger scale, and potentially more effective, project than if a more traditional co-financing scheme had been utilized.

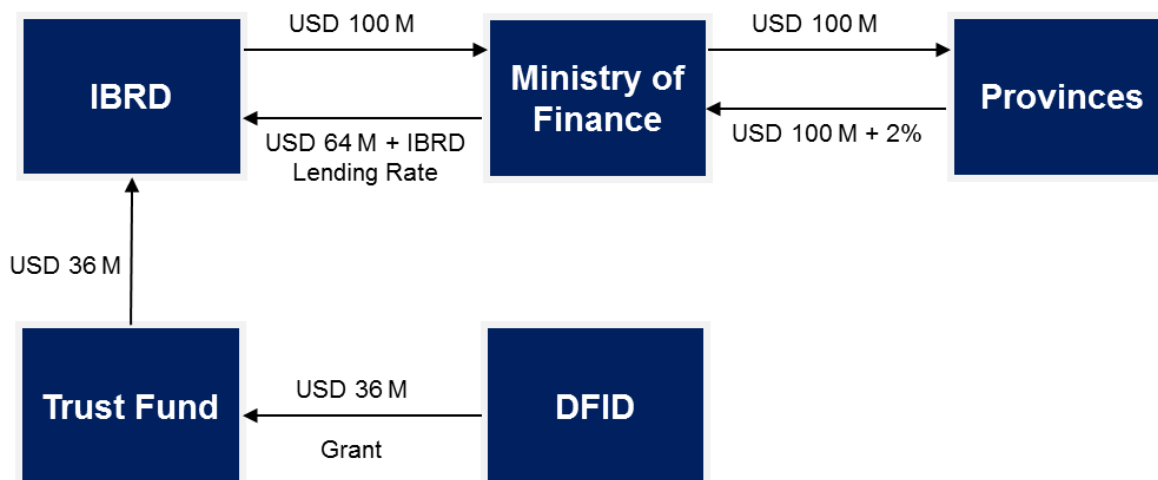
The China Tuberculosis Control Project eventually became the largest TB control project in the world, covering 668 million people in 16 provinces. The eight-year project reduced TB-associated deaths by nearly 800,000, and prevented 2 million people from falling ill. The effective and successful collaboration among the international partners was cited by Chinese government officials as one of the key factors of the project's success.

The project's innovative financing approach won the World Bank President's Awards for Excellence in May 2004.

Outcome

By blending the grant with the loan, the financing package mobilized the necessary volume of funds at

Blending: A Custom Financial Solution



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