

Buy-Downs

In a buy-down arrangement, a donor commits to paying off (“buying down”) part or all of the principal and/or interest of a developing country’s loan, thereby increasing the concessionality, or grant element, of the loan. In other words, a buy-down is an instrument that serves to blend loans and grants. When the buy-down is contingent on the achievement of pre-defined results—when it is used as a form of Results-Based Financing (RBF)—it can be used to encourage low-income countries to target priority health sectors and interventions, including efforts to help achieve the UN Millennium Development Goals and initiatives with benefits beyond the country’s borders. It thus achieves two objectives at once: reducing country debt while providing incentives for countries to engage in desirable actions they might not otherwise undertake.

When structured as a form of RBF, buy-downs can shift the emphasis of governments--and donors--away from merely distributing resources and toward building more-robust health systems. They can promote greater accountability and efficiency among service providers and increase demand in target populations.

Pilot project: buy-downs to help eradicate polio

The World Bank piloted the use of buy-downs in polio-eradication programs in Pakistan and Nigeria in 2003. With contributions from the Bill & Melinda Gates Foundation, the United Nations Foundation, Rotary International, and the U.S. Centers for Disease Control and Prevention, it established a trust fund of US\$50 million, which was subsequently increased to US\$145.8 million and is expected to buy-down or leverage about US\$316 million in IDA credits. The fund was created to buy down credits, or loans, to Pakistan and Nigeria from the International Development Association (IDA, the Bank’s soft-loan arm for the poorest countries) according to their polio-immunization results.

Verified results in Pakistan have been significant, with most areas of the country, and the vast majority of the population nationwide, now polio-free. The first and second IDA credit buy-down cycles in Pakistan have been completed, and the third IDA credit is active. Progress in Nigeria has been slower, but reported cases have begun to decline there as well. The first IDA credit has received two supplements that are still active; the total has not been bought down. The World Bank is moving forward with an expansion of the pilot.

Contact: Darren Dorkin

Further Information: <http://www.worldbank.org/hnp>