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Corporate Council on Africa's first annual U.S.-Africa Infrastructure Conference

Financing Your Projects

Stephan von Klaudy

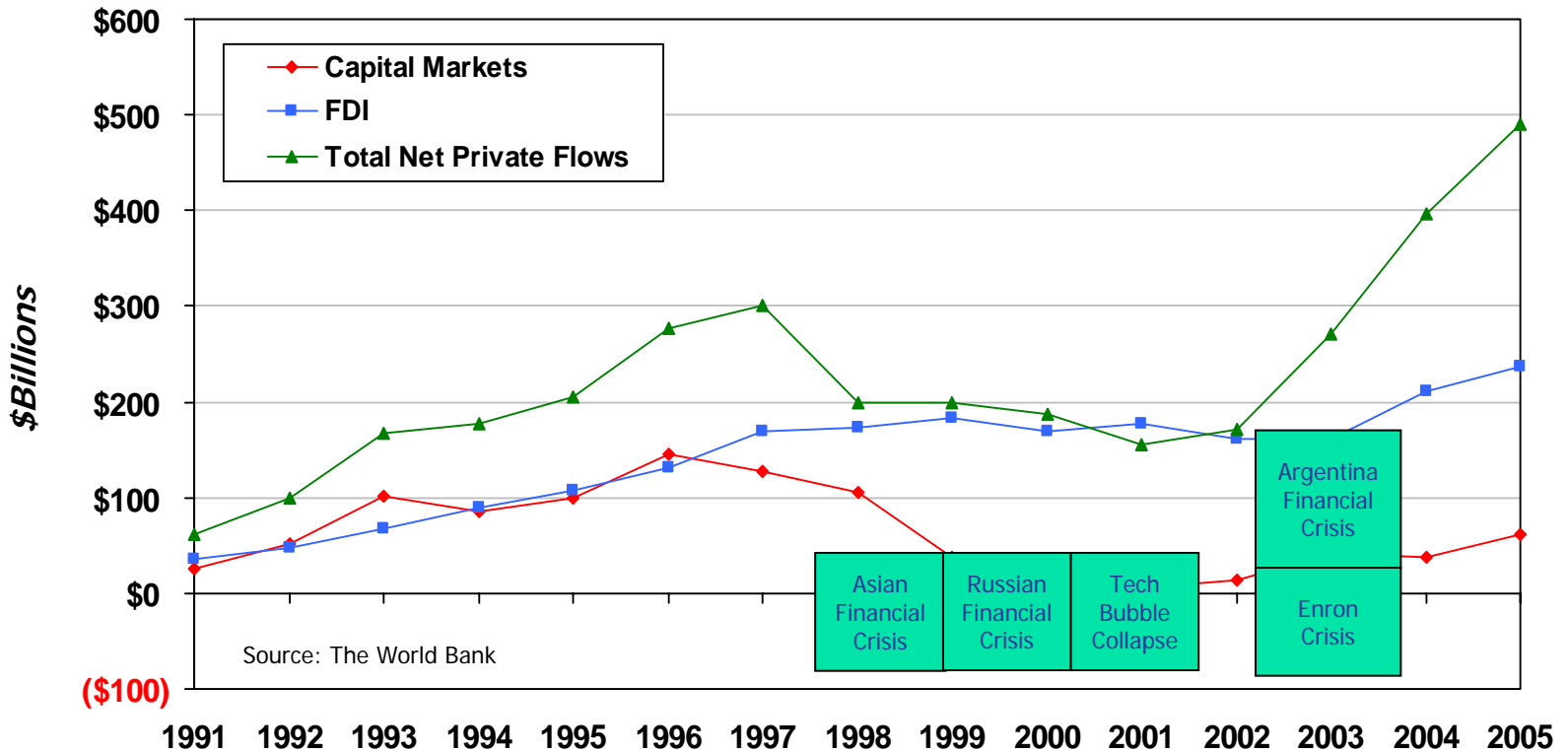
The World Bank

Infrastructure Economics and Finance Department

Washington DC, September 29th, 2006

The Global Setting for Private Capital Flows

Net long-term flows to developing countries, 1991-2005



Private Participation in Infrastructure

- what went wrong in the late 90s?



- **External factors**

- macro-shocks: East Asia and Argentinean crisis
- strong currency fluctuations
- retreat of international investors to core activities (post-Enron)

- **Problems with the Private Sector Participation Model**

- inexperience
- incomplete contracts and risk allocation
- insufficient local monitoring capacity (institutions)
- political factors affecting stable investment environment
 - cost-recovery tariffs versus affordability
 - regulatory framework

Public Private Partnerships (PPP): Basics

- PPPs are contractual arrangements between the public sector and a private sector party for the delivery of public infrastructure or other basic services. PPPs are **complex structures**, involving different parties, long and demanding negotiations and relatively high transaction costs.
- PPPs are a **procurement tool** where the focus is payment for delivery of services rendered (outputs - outcomes)

Project related risks (i.e., technical, performance, market and financial risk are transferred (to a great extent) **to the private entity**. Political, regulatory and foreign exchange risks should be allocated to the party best suited to deal with them (government, international financial institution, private insurers).

- Contract payments are usually structured in such a way that the public authority and / or users pay only for **services rendered satisfactorily and not for assets, which are inputs to service provision**. Revenues are generated via: (i) user fees, (ii) government payments (subsidies) and (iii) multilateral / donor funding and or (iv) a combination of all of the above.

Public Private Partnerships (PPP): Advantages



- Private sector **efficiency** and **management skills** are introduced to public service provision, producing higher service levels and / or reduced costs.
- PPPs **reduce government project implementation risks**, and reallocate them to a private provider better suited to manage them.
- **Access to private capital** is gained and public finances are improved.
- The private sector is often more dynamic in applying **new technologies** and exploiting **economies of scale**.
- Higher stock of infrastructure results in **higher growth** - higher growth results in **less poverty** and **more employment**.

Public Private Partnerships (PPP) Global Trends 1 : Looking Ahead

- 70% of infrastructure investments in developing countries **publicly financed**, 8% official development aid, 22% private funds (average 1990s)
- => **Public sector funding will remain central, but is not sufficient.**
- Need to improve mobilization of **private capital** to meet infrastructure requirements.
- Stronger role of **local and regional investors** (e.g. South Africa in SSA, Gulf investors in MNA, China and India in East Asia, etc.)
- Increased funding from **domestic and regional capital markets.**

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PPP Global Trends 2 : Looking Ahead

- Strong private involvement with investment in **wholesale** business model (customer base) (e.g. ports, airports, natural gas pipelines, freight railways, etc.).
- Larger public sector role in **mass-retail** with decentralized service provision (e.g. water and sanitation, urban transport, etc.) where private interest focused on **O&M and efficiency improvement**.
- **Telecom (mobile in particular)** will continue to be a dominant force (technology).
- Delivery of infrastructure services to **poor communities** (=>MDGs) through small scale service providers with realistic cost recovery mechanisms and targeted performance-based subsidies.

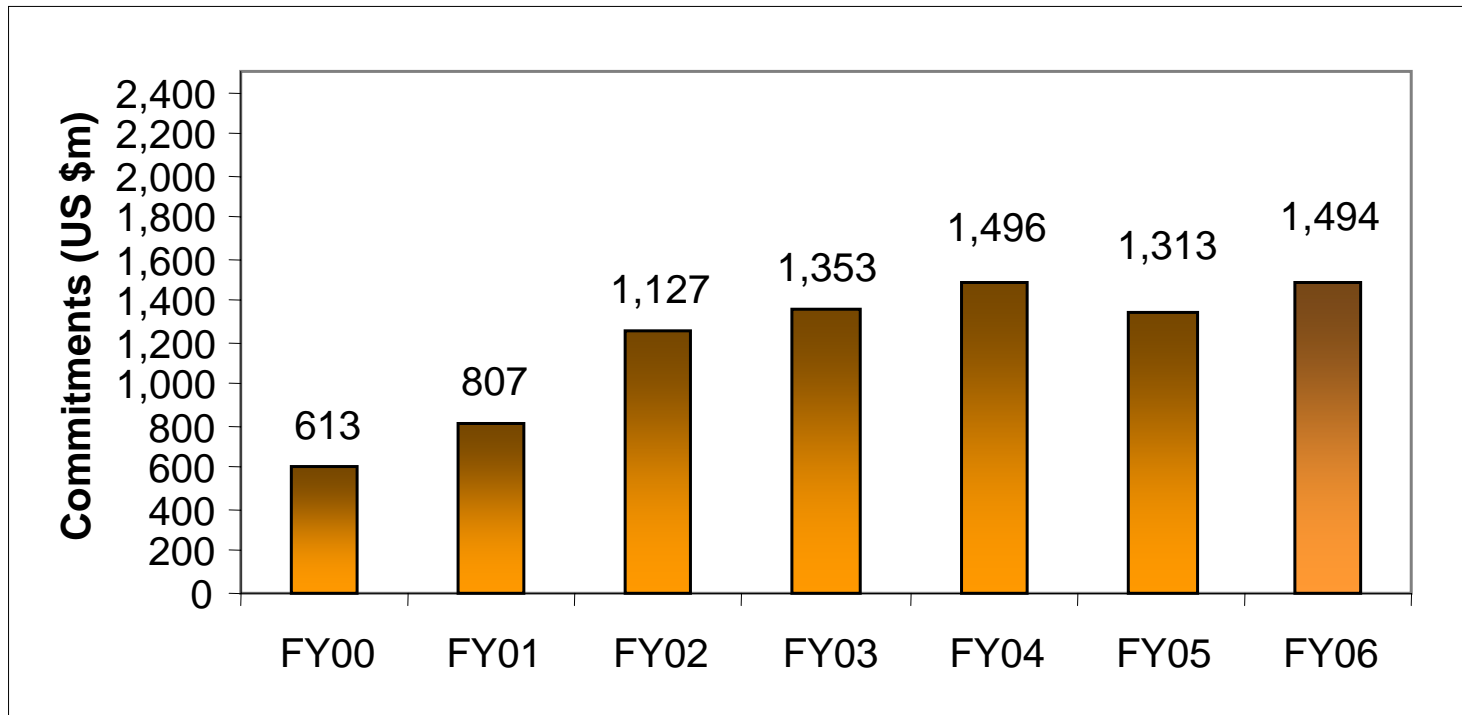


Financing Infrastructure in Sub-Saharan Africa (SSA)

Investment Gap in Infrastructure in Africa

- ▮ SSA actual past infrastructure expenditures \$10-12 billion p.a.
- ▮ SSA's infrastructure investment needs are estimated at \$17-24 billion p.a. for 10 years (9% of GDP at 5%-7% p.a. growth)
- ▮ => Investment financing gap of \$5-14 billion p.a.
- ▮ Not yet included in financing gap:
 - ▮ Annual O&M needs of \$17-18 billion p.a.
 - ▮ Ports, airports [and irrigation]
 - ▮ Regional infrastructure projects (NEPAD)
- ▮ => Total infrastructure financing gap well over \$40 billion p.a., possibly exceeding \$60(?) billion p.a.

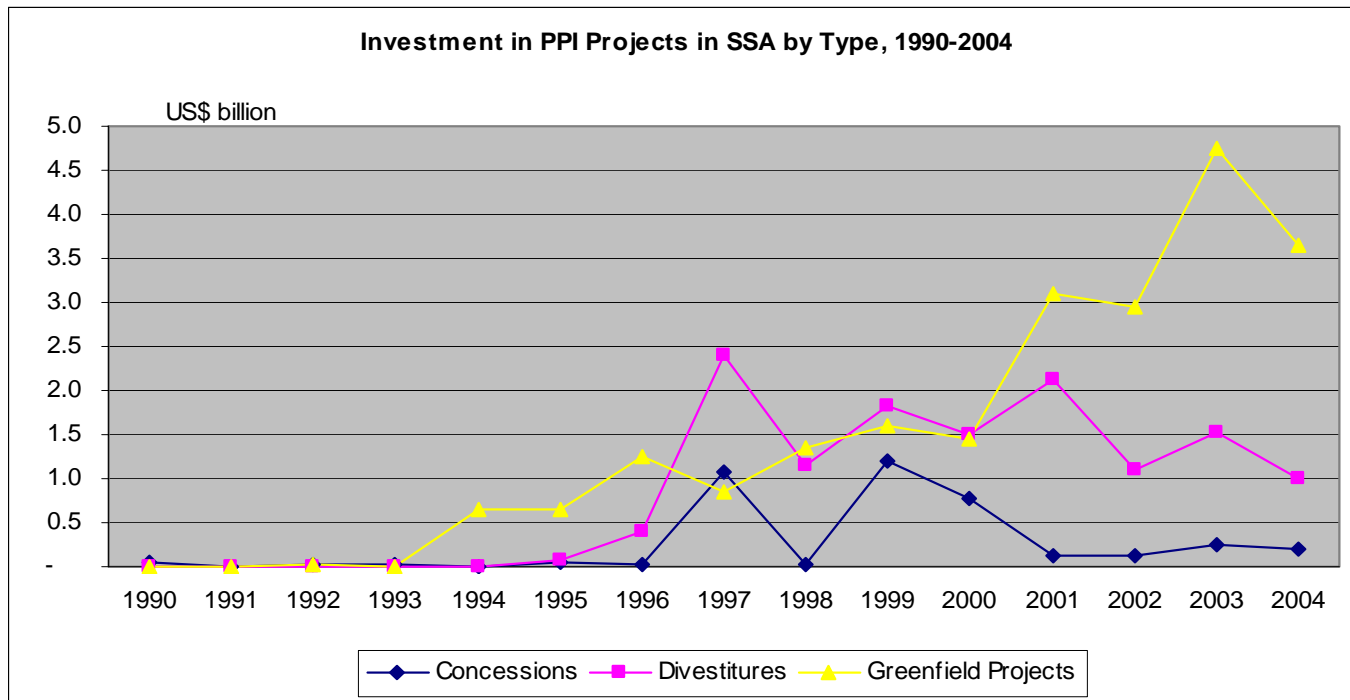
World Bank Support to Infrastructure in SSA Remains small Compared to Needs (IDA Resource Constraints)



Source: World Bank Annual Reports

Private Participation in Infrastructure in Sub-Saharan Africa 1990-2004

- By 2004, 47 of the 48 Sub-Saharan countries had infrastructure projects with private participation
- But commitments to private infrastructure averaged only \$2.6 billion p.a. 1990-2004, actual investments were probably lower





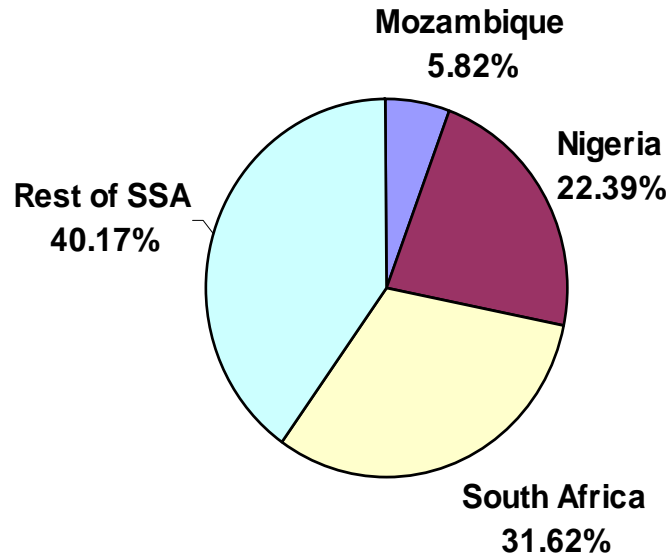
Financing in Sub-Saharan Africa

- Macroeconomic environment
- Low sovereign credit ratings
- Country/political risk perception
- Regulatory risk
- Sector/project fundamentals (phasing of investments, asset life, required debt tenors, client base)
- Inter-linked vs. single-investment projects
- Lack of long-term local currency funding
- Over-reliance on foreign currency funding => currency mismatch

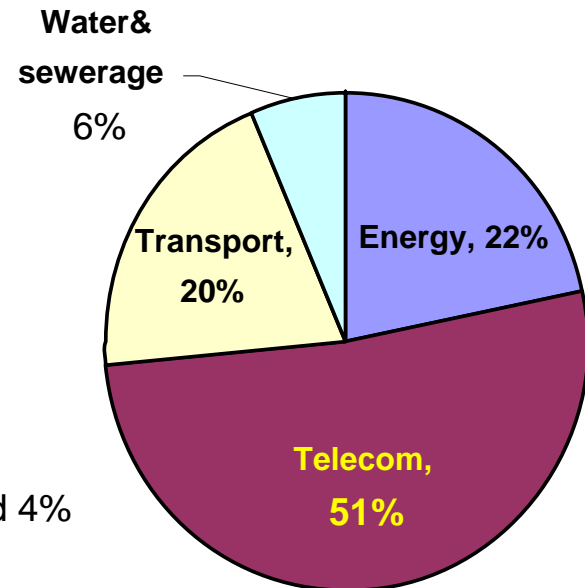
Private Participation in Infrastructure (PPI) in Sub-Saharan Africa 1990-2004

- Heavy focus on three countries and one sector

Investment Commitments by Country

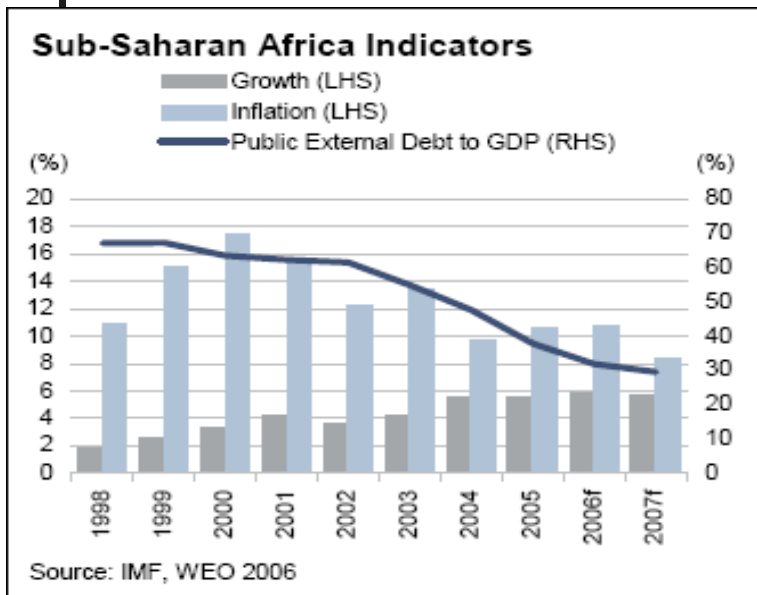


Investment Commitments by Sector



- SSA's share of PPI investments worldwide is around 4%

A better environment can promote private financing in infrastructure projects



Ratings in Sub-Saharan Africa

	Foreign Currency	For Cur Outlook	Local Currency	Country Ceiling
South Africa	BBB+	Stable	A	A-
Namibia	BBB-	Stable	BBB	A-
Nigeria	BB-	Stable	BB-	BB-
Lesotho	BB-	Negative	BB+	A-
Cape Verde	B+	Stable	BB-	B+
Ghana	B+	Positive	B+	B+
Mozambique	B	Stable	B+	B
Uganda	B	Stable	B	B
Benin	B	Stable	B	BBB-
Mali	B-	Stable	B-	BBB-
Cameroon	B-	Positive	CCC	BBB-
Malawi	CCC	Positive	CCC	CCC
The Gambia	CCC	Stable	CCC	CCC

Source: Fitch

- Economic growth: 5.5% in 2005 (5.6% in 2004)
- Inflation reduced to single digits
- Debt relief
- Increased commodity prices
- Improved institutions: more countries with CPIA scores at or above the “good performance” threshold of 3.5 (15 in 2004, up from 10 in 1996)
- Reform of infrastructure framework

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World Bank Group's Role

World Bank Group can help Catalyze Infrastructure Financing in Africa

■ Existing Products

- **World Bank Loans** (credits) at subsidized terms can improve bankability of projects
- **Structuring** the Financing of Infrastructure Projects (World Bank, IFC)
- Public-Private Partnership **Advisory Services** (World Bank, IFC)
- **World Bank Guarantees**
 - *Partial Risk Guarantee* (PRG)- Risk mitigation against debt default through breach of Government contractual obligations
 - *Partial Credit Guarantee* (PCG)- covers private lenders against all risks for a specific period or share of the debt for a public investment
- **IFC Products:** A Loans, B Loan syndications, equity participations, partial credit guarantees
- **MIGA** political risk insurance (equity + debt)

Development of new products would enhance World Bank's role and effectiveness in promoting PPPs

New Product Development

- Expanding infrastructure finance at the **sub-sovereign** level (IFC Municipal Fund => WBG Sub-national Development Program)
- Leveraging public funds to raise private **local currency financing** and develop local currency capital markets
- Realistic cost recovery mechanisms and targeted performance-based subsidies through **Output Based Aid (OBA)**:
 - ✓ Maximize access despite affordability issues
 - ✓ Provide help in transition periods to ease distribution concerns
- **Foreign Exchange Risk Mitigation** - Upon devaluation, a liquidity facility would infuse cash into a project to cover debt service. Repayment through gradual tariff escalation
- **Clean Energy Financing Vehicle**- A new facility would provide soft loans to energy projects to finance the incremental cost of new technology

Closer Integration of World Bank Group Products

World Bank Group Risk Mitigation Instruments 1



	IFC	MIGA	IBRD/IDA
Products	<ul style="list-style-type: none"> ■ Partial Credit Guarantees ■ Hedges for clients (interest rate, currency and commodity swaps) 	Non-commercial risk insurance	<ul style="list-style-type: none"> ■ Partial Risk Guarantee – IBRD & IDA ■ Partial Credit Guarantee ■ Policy Based Guarantee
Loans	Yes	Yes	Yes
(Quasi) Equity	Yes	Yes	No
Risk Coverage	Full and timely payment of principal and/or interest up to a specified amount	<ul style="list-style-type: none"> ■ Currency convertibility and transferability ■ Expropriation ■ War and Civil Disturbance ■ Breach of Contract 	Gov. Contractual Obligations <i>including</i> : <ul style="list-style-type: none"> ■ Currency convertibility and transferability ■ Expropriation ■ Political Violence ■ Breach of Contract ■ Regulatory Regime ■ Subsidy payment

World Bank Group Risk Mitigation Instruments 2

	IFC	MIGA	IBRD/IDA
Guaranteed Percentage	Determined on a case by case basis	Debt: up to 95% Equity: up to 90%	Up to 100% of a tranche
Eligibility	Must be a member	Must be a member	Must be a member
Tenors	Market based but IFC's involvement can lengthen tenors	Up to 15 years (20 years in some cases)	Market based
Limits	Based on Client's Needs	<ul style="list-style-type: none"> ■ Project: up to \$110mm (net) ■ Country: up to \$420mm (net) 	Based on project and country needs and CAS allocation.
Pricing	Market and risk-based	MIGA prices to risk Fees are decided on a project basis, usually 30-100 bp pa per risk class (up to 150 bp occasionally)	<ul style="list-style-type: none"> ■ Initiation and processing 65 bp ■ Guarantee fee 55-75 bp pa (enclave: up to 300) ■ Standby fee 20-25 bp pa (enclave 75)



World Bank Group Risk Mitigation Instruments 3

	IFC	MIGA	IBRD/IDA
Priority Areas of Focus	<ul style="list-style-type: none"> ■ All IFC recipient member countries. ■ Providing long-term local currency financing and development of domestic capital markets. 	<ul style="list-style-type: none"> ■ Africa ■ IDA eligible countries ■ South-South investments ■ SMEs 	<ul style="list-style-type: none"> ■ Infrastructure ■ IDA eligible countries
Government Counter Guarantee	No	No	Yes
Public Sector Projects	No	No	Yes
Areas of Collaboration	Joint project preparation, environmental analysis, Board processing, etc.		

World Bank Group Collaboration on Recent Large Infrastructure Transactions

<p>Philippines (FY2002) Manila North Tollway Corporation</p>	<p>MIGA - US\$ 85 m guarantee (P&I), plus US\$ 22 M Equity IFC – US\$ 45 M “A” loan</p>
<p>Mozambique (Nov. 2003) S. African Regional Gas Project (SASOL)</p>	<p>MIGA – US\$ 72 m guarantee (P&I) IFC – Investment of US\$ 18.5 m (approx)</p>
<p>Romania (Dec. 2004) Power Dist. Privatization</p>	<p>IBRD – EUR 60 m PRG (P only) IFC – Investment of about EUR 170 m</p>
<p>West Africa (Nov. 2004) West African Gas Pipeline</p>	<p>IDA - US\$ 50 m PRG (P only) MIGA – US\$ 75 m guarantee (P&I) IBRD – US\$20 m & US\$10 m “enclave” PRGs (P only)</p>
<p>Lao PDR (March 2005) Nam Theun 2 Hydropower (1,070 MW)</p>	<p>IDA – US\$ 42 m PRG (P only) IDA - US\$ 20 m grant MIGA – US\$ 91 m guarantee (P&I)</p>
<p>Senegal (May 2005) Kounoune Power (67.5 MW)</p>	<p>IDA – US\$ 7.2 m PRG (P only) IDA - US\$ 15.7 m credit (P only) IFC – US\$ 22 m “A” loan</p>



Case studies

West Africa Gas Pipeline

Southern African Regional Gas Project

Innovative combination of instruments to support PPPs in regional projects

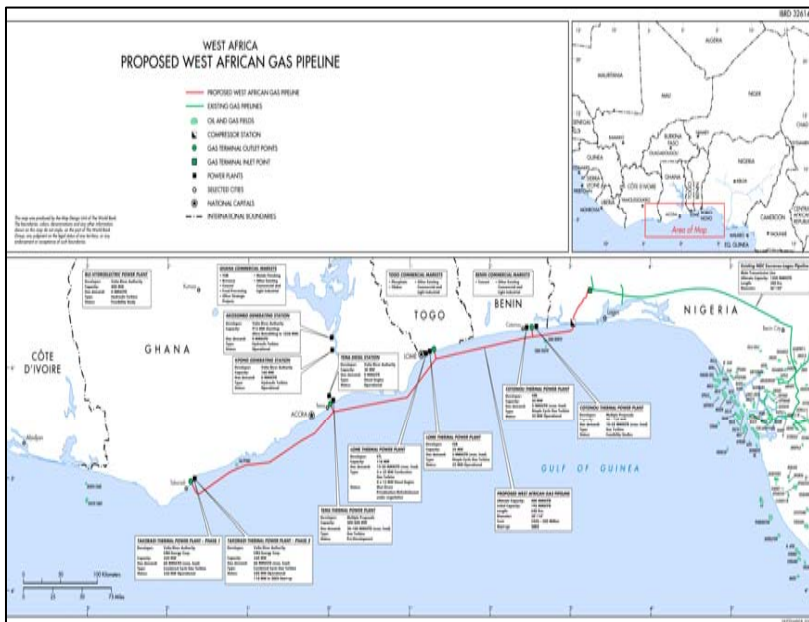


West Africa Gas Pipeline

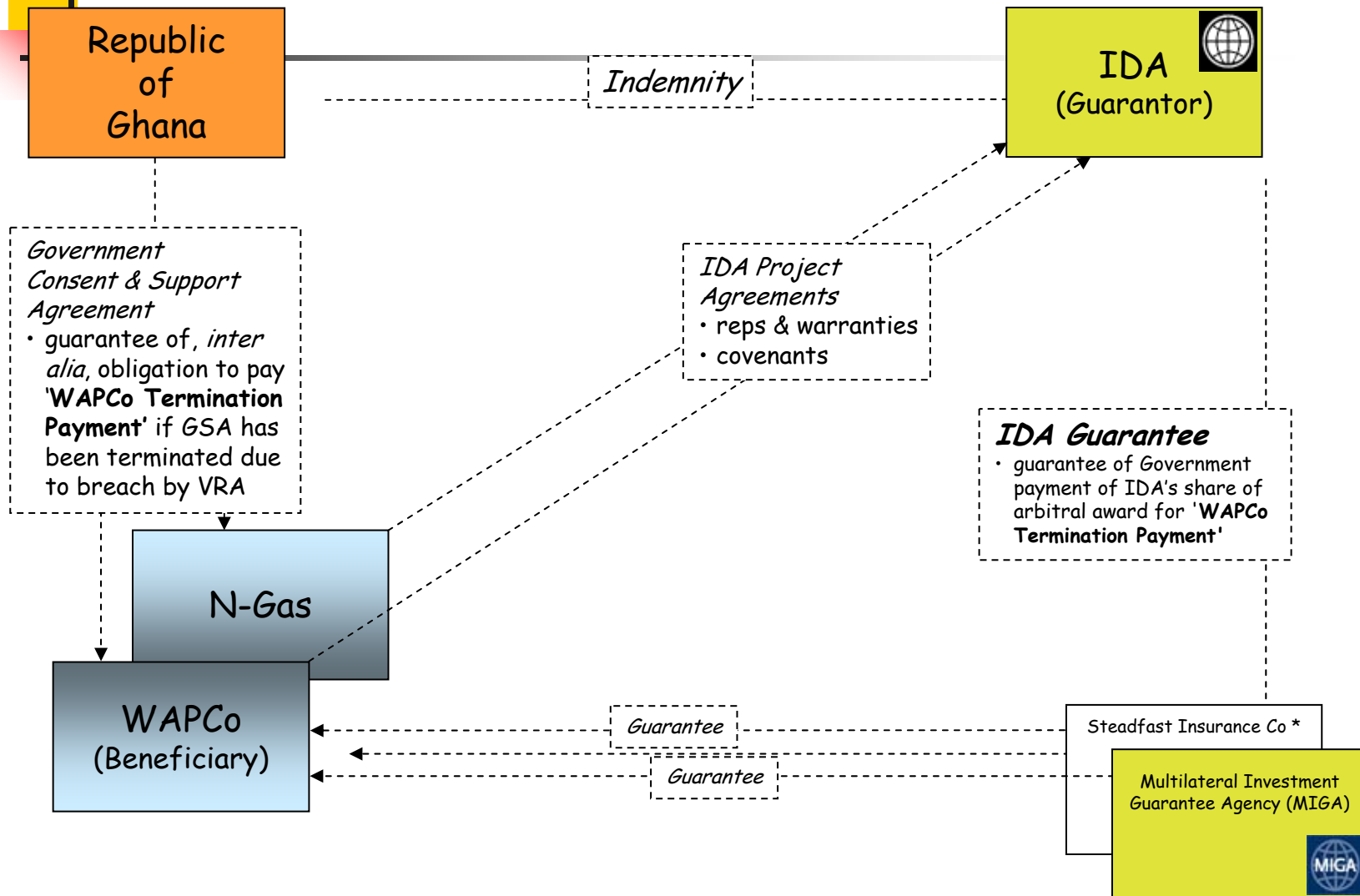
- \$590 million total cost;
- Partial risk Guarantee and MIGA Guarantee

Southern Africa Regional Gas pipeline

- \$500 million total cost
- Partial risk guarantees, IDA financing, and IFC equity and debt financing



WAGP political risk guarantees



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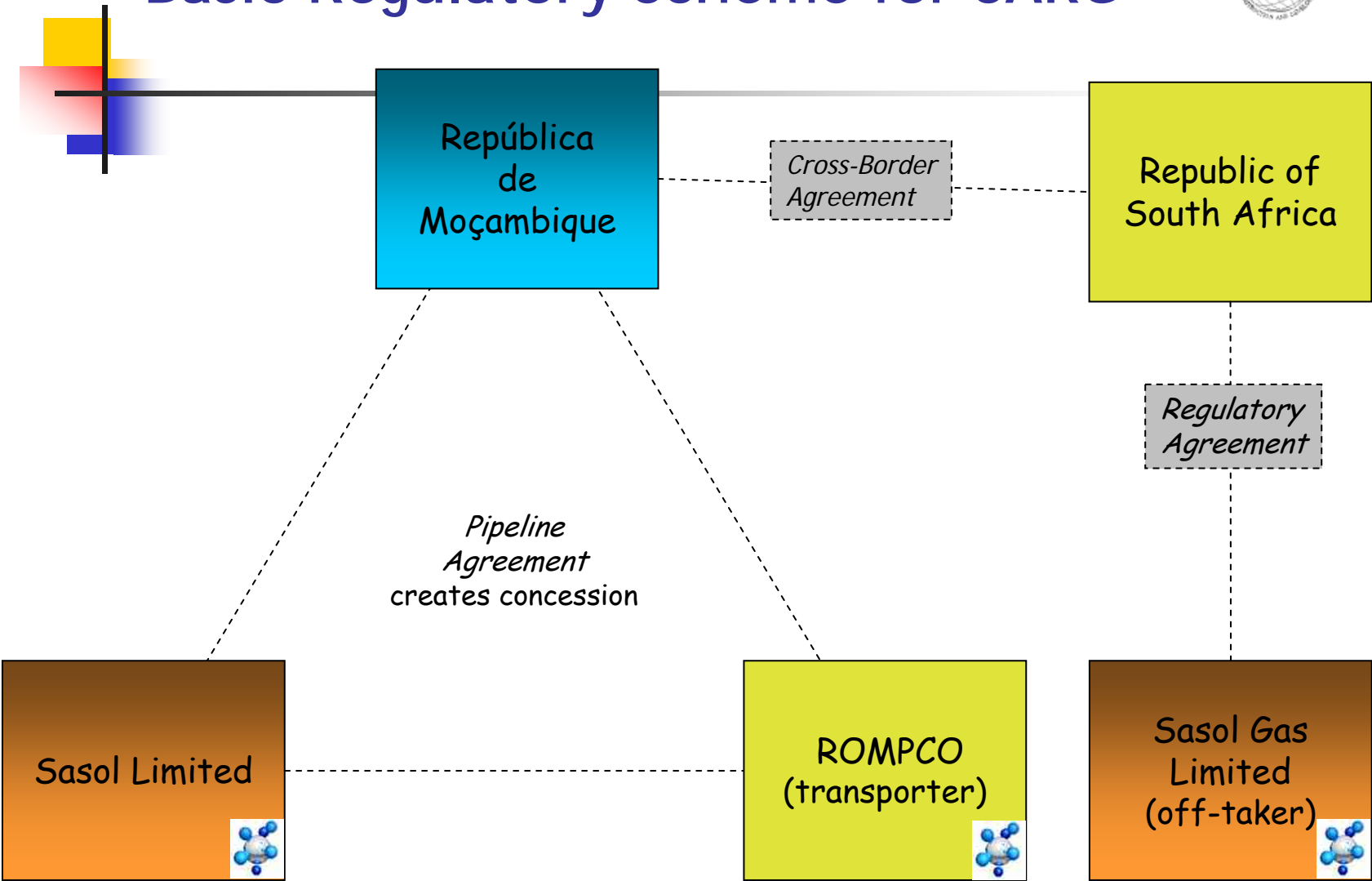
Perceived risks

- Government Consent and Support Agreement
- Early termination damages specified in Gas Sales Agreements



Southern African Regional Gas Project

Basic Regulatory Scheme for SARG

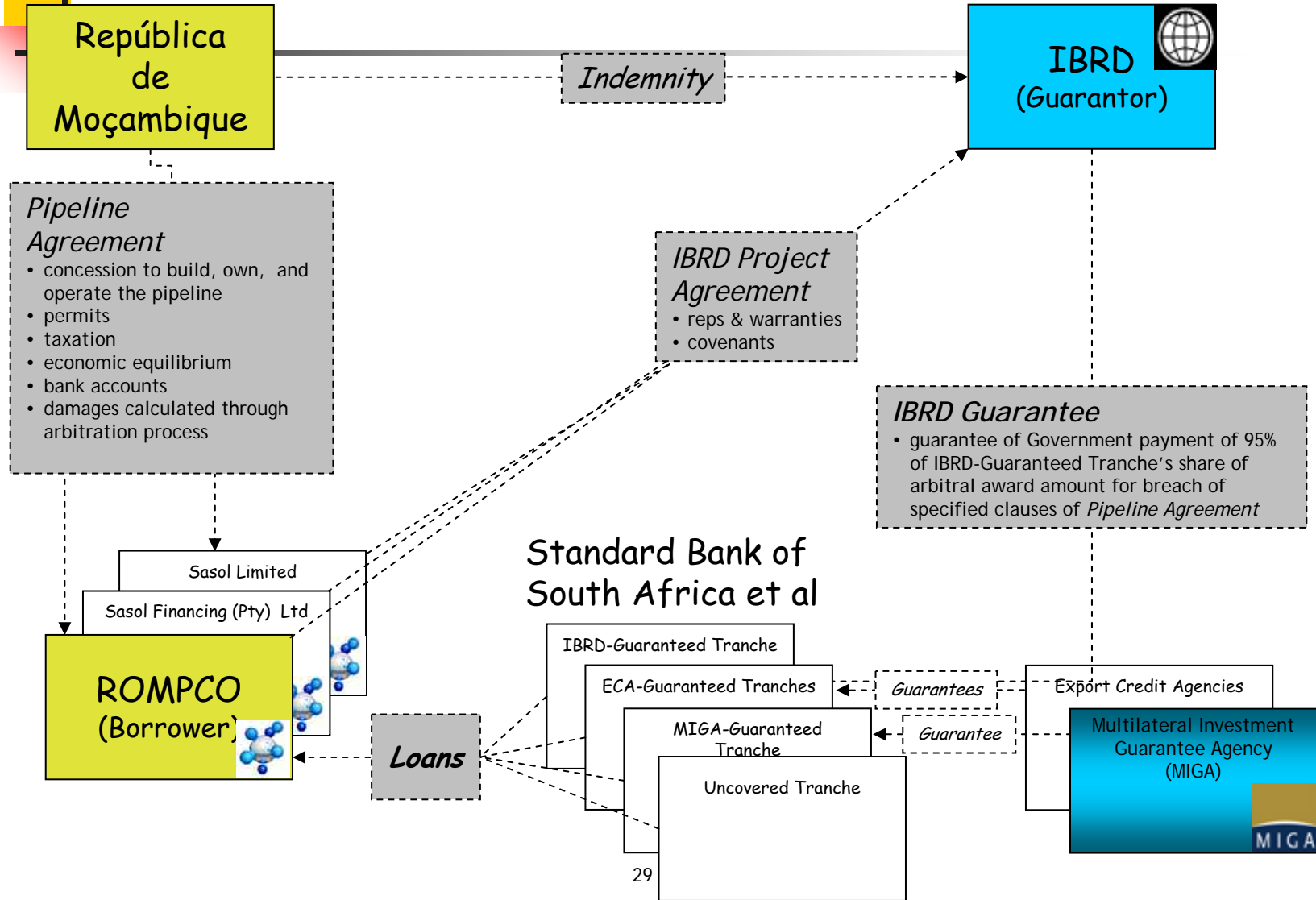


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Perceived risks

- Pipeline Agreement
 - Permits
 - Taxation
 - Economic equilibrium
 - Damages determined through arbitration

SARG Political Risk Guarantees





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ATTENTION