

Hydropower For Sustainable Development

Financing Instruments for Large Infrastructure Projects

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World Bank Support in Africa Renewable Energy

Hydropower – 1787 MW

Geothermal – 315 MW

Wind – 100 MW

CSP – 100 MW

Solar PV and Mini Hydro – 24 MW



Some Relevant World Bank Jargons

- **IDA Countries** (Per Capita Income < \$1000)
- **IBRD Countries** (\$1000 < Per Capita Income < \$10000)
- **Blend Countries** (IDA Country with Creditworthiness)
- **IDA Country Allocation** (Country Policy and Institutional Assessment – CPIA)

- Country Creditworthiness
- Risk Rating



What are government's main concerns related to infrastructure development?

- How can I minimize the counting of Bank resources against my designated allocation?
- How can I finance this project without taking on more debt?
- How can I match the maturity of my debt liability to the life of underlying asset?
- How can I mitigate the risks so that the market is willing to provide loans and equity investment in my country?



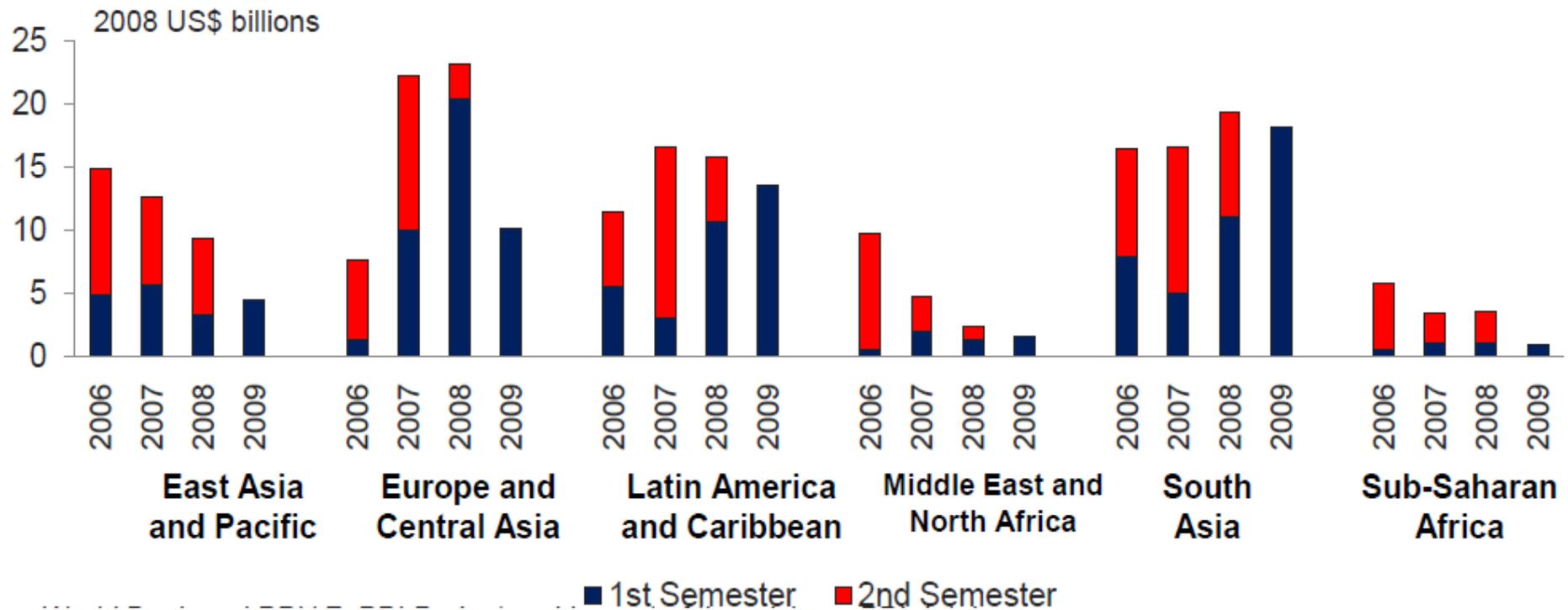
Financial Instruments Available

- **Guarantees**
 - **Partial Risk Guarantees (PRG)**
 - **Partial Credit Guarantees (PCG)**
 - **Policy Based Guarantees (PBG)**

- **IBRD Enclave**
 - **Classic IBRD Enclave**
 - **Flexible IBRD Enclave**



Investment commitments to private infrastructure projects reaching closure in developing countries by region, 2005–2009



Guarantees....



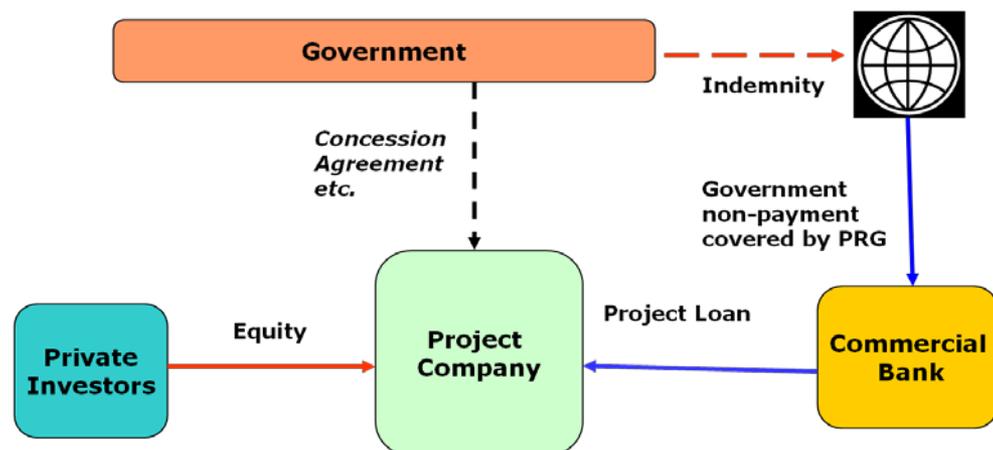
Guarantees.... A mechanism to leverage scarce resources

- **Leverage can happen in many ways:**
 - **Attracting private sector money in situations where there would be no or limited private sector interest**
 - **Increasing maturities and reducing cost of financing for governments and projects**
 - **By way of partial coverage, Bank exposures could be smaller than the face value of debt mobilized (PCG/PBG)**
 - **Maximizing efficient use of limited CAS allocation (only 25% of guarantee exposures are counted against CAS allocation)**



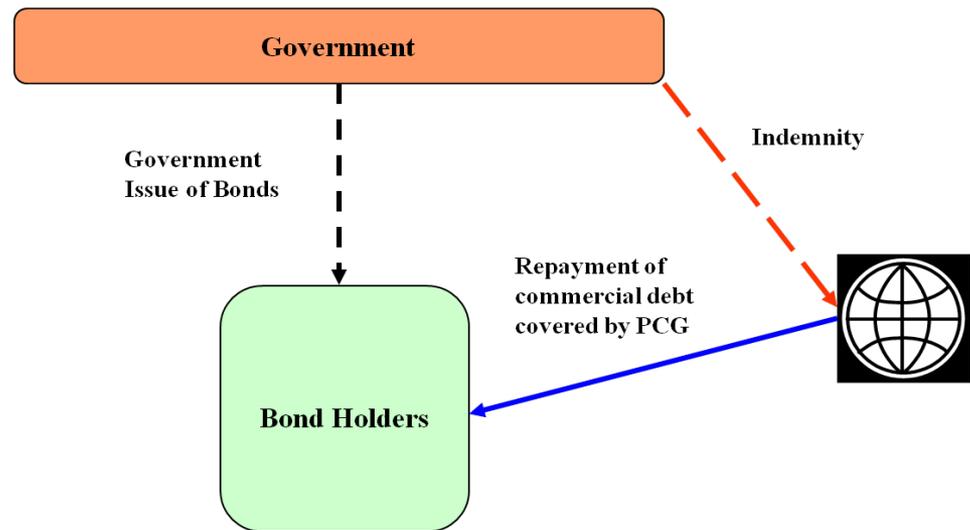
Partial Risk Guarantees

- WB guarantees lenders against the risk of Government non-performance of its contractual obligations to a specific project, e.g. non-payment by Government/SOE, regulatory risk, expropriation.
- Reduces project risk for lenders, but does not increase project risk for Government.
- Improves bankability of project, thereby increasing number of bidders, reducing cost of project, reducing cost of capital and extending debt tenor.
- Supports Government in the design and implementation of public support for PPP projects through demonstration effect.
- Counter-guaranteed Bank PRG facilitates the participation of others (including MIGA/IFC); Improves perception of PPP program through Bank explicit support.
- Efficient use of IBRD/IDA country allocations (significant leverage) as only 25% of guarantee exposure is counted against the Bank's country envelope as opposed to 100% in case of a loan/credit



Partial Credit Guarantees

- Bank guarantees part of debt-service obligation to lenders.
- Reduces borrower credit risk for lenders. Can be offered for sovereign or sub-sovereign/SOE borrower, so long as there is a sovereign counter-guarantee.
- Can guarantee a commercial bank loan or bond issue.
- Improves the credit of debt (i.e. becoming the hybrid credit of the Bank and the borrower), thereby reducing interest rates and/or extending debt tenor.
- Establishes a track record in the international financial markets for the borrower; helps develop domestic capital markets.
- Improves financial market perception of borrower given Bank confidence.
- Efficient use of IBRD/IDA country allocations (significant leverage) as only 25% of guarantee exposure is counted against the Bank's country envelope as opposed to 100% in case of a loan/credit.



Some recent Guarantee innovations

- Nigeria energy supply chain (FY09 approval): A **series of PRGs** will backstop SOE payment obligations under gas supply contracts for international oil companies while supporting structural reform in the sector
- Botswana Morupule B Power Project (FY10 approval): **PCG improved the terms of commercial** bank loan to Botswana Power Corporation (BPC) by extending the maturity to 20-years;
- **PBG** for a sub-national government in support of local currency debt is being explored (Nigeria Lagos PBG)



IBRD Enclave Structures



IBRD Classic Enclave Structures- Project Characteristics

- IBRD Enclave Loans and Enclave Guarantees are available for “Enclave Projects” in IDA-only countries:
 - IBRD Enclave loans can support public and private projects
 - IBRD Enclave Partial Risk Guarantees (PRG) support private projects.
- Enclave Projects generate revenues in foreign currency
- Enclave Projects rely primarily on acceptable credit enhancements
 - Creation of an offshore escrow account to secure future debt service payments to IBRD
 - guarantee from other creditworthy entity
 - imposition of a risk premium over and above the standard IBRD terms
 - other arrangements designed to supplement the country's creditworthiness and mitigate the risk to IBRD
- Host country government guarantee or counter-guarantee is required.
- 15 operations during 1968-2009: 14 Enclave loans (the last operation in 2000), and one Enclave PRG. Total of \$793 million Enclave loans and guarantees, mobilizing \$11 billion project financing.



IBRD Classic Enclave Structures- Limitations

- Applicable mainly for export-oriented projects
- Structuring these projects takes more time than the other World Bank projects
- IBRD provides financing on a non-concessional basis (must fit within IDA's non-concessional borrowing policy)
- Requires credit enhancements



Credit Enhancements

Offshore Escrow Account

Chad-Cameroon Oil Development and Pipeline Project
Chad

To support the development and export of oil from Chad's Doba oil fields (the development of oil fields, the drilling of wells and construction of a pipeline to Cameroon) the World Bank approved an IBRD enclave loan for US\$39.5 million to Chad in 2000.

The loan was a variable-rate, single currency loan denominated in US dollars payable in 13 years, with a five years of grace.

Under the loan structure, it was agreed that the IBRD loan would be repaid directly from Chad's escrow account where all royalty revenues were to be deposited by the off takers.



Credit Enhancements- Risk Premium

Chad-Cameroon Oil Development and Pipeline Project Cameroon

To support the construction of the pipeline from Chad's Doba oil fields to Cameroon's Atlantic Coast at Kribi, and the installation of an offshore offloading vessel and related facilities, the World Bank approved an IBRD enclave loan for US\$53.4 million to Cameroon in 2000.

The loan was a fixed-spread loan, denominated in US dollars, and would be payable in 15 years including five years of grace.

Under the loan structure, it was agreed that Cameroon would repay a 10% non-refundable risk premium to support the debt service for the project .



Credit Enhancements- Third Party Guarantee

Lesotho Highlands Water Project

To support the construction of dams to divert water from Lesotho to the Gauteng province of South Africa the World Bank approved two IBRD enclave loans totaling US\$155.0 million to Lesotho.

In accordance with the Loan Agreement and the treaty between Lesotho and South Africa, if project-related payment difficulties were to arise, IBRD would rely on South Africa to satisfy the payment obligations.



Credit Enhancements On Enclave Guarantees

Mozambique: Southern Africa Regional Gas Project

To support the natural gas development and its export to South Africa by the private sector, the World Bank approved two Partial Risk Guarantees (PRG) totaling US\$ 30 million covering commercial lenders against the Mozambique political risks.

- ❖ Different from Enclave loans whereby Government (and thus IBRD) takes all project risks, PRGs backstop only Government contractual obligations given to private projects.
- ❖ Under the enclave PRG guarantee, an annual 200 bp guarantee fee was charged , plus other fees.
- ❖ Credit enhancements included project lenders backed by sponsors' corporate guarantee taking the first loss of 5% principal plus 6-month interest in lieu of typical debt service reserve account, plus a IBRD claim on the project's security



Pricing of Enclaves

- For Enclave PRG transactions, the following fees are currently assessed from private investors:
 - ❖ **Guarantee fee:** 200 bp per annum would be collected up-front on a present value basis to establish a guarantee reserve.
 - ❖ **Front end fee:** 25 bp (on the max. exposure under the guarantee)
 - ❖ **Initiation Fee:** 15 bp on the guarantee amount or USD 100,000 (whichever is higher)
 - ❖ **Processing fee:** up to 50 bp of the guaranteed amount to cover out-of-pocket expenses.

- For Enclave loans, the IBRD pricing equivalence of loans and guarantees applies.



IBRD Enclave Loans in Total Project Financing

The role of the IBRD is relatively small but as a catalyst leads to a large financial participation by the private sector.

IBRD financing provided for the Chad-Cameroon Oil Development and Pipeline Project amounted to about 3% of total project financing

IBRD financing provided for the Lesotho Highlands Water Project amounted to about 4.5% of total project financing

IBRD financing provided for the Mozambique project amounted to about 3.0% of total project financing



Additional flexibility for Enclave Loans and Guarantees

Enclave criteria have recently been extended to qualifying projects that have a strong cash generation, clear economic and financial benefits to the country and an acceptable level of foreign exchange-related credit enhancement to be achieved by the dedication of a pre-existing alternative, defined source of foreign exchange, “ring-fenced” into a dedicated debt service payment escrow account.



Alternative credit enhancement criteria

- The Credit Risk Department (CFRCR) considers the appropriateness of credit enhancements for Enclave projects.
- Alternative credit enhancement would be achieved by employing “non-project” foreign exchange revenues.
- Projects would be those in relatively high-rated IDA countries
 - i. that have clear economic benefits (e.g. import substitution) but do not themselves generate foreign exchange; and
 - ii. projects that have clear economic benefits with strong financial flows in local currency through an offtake to a stronger creditworthy party.



IDA countries Qualifying for flexible enclaves

High-rated IDA countries qualifying for flexible enclaves should usually be:

- (a) at low risk of debt distress; and,
- (b) above average CPIA.

Note that for classic enclave operations, all IDA countries qualify.

