Catalyzing non-developmental sources of capital for UN sustainability goals

Contribution of European International Contractors to International UNECE PPP Forum

“Implementing the United Nations 2030 Agenda through effective, people-first Public-Private Partnerships”

Geneva, 30 March - 1 April 2016

Paul Mudde, EIC representative
I. The importance of “development guarantees”
II. “Commercial viability test” for untied aid
III. Importance of public sector infrastructure
IV. Cooperation development finance & official ECAs / PRIs
V. Blending for public sector infrastructure projects
VI. Contact details

Various annexes with background information
1. There is a huge financing gap in financing the needs of developing countries in areas such as infrastructure, UN SDGs and climate change.

2. It is of utmost importance to catalyze non-development sources of finance. (a) official ECAs & PRIs, (b) commercial banks, (c) capital market investors. This should be a priority area for both governments in developing countries and the international development finance community.

3. Guarantees are the best instrument to catalyze other sources of finance. Without adequate guarantees MLT finance for development will likely not substantially increase.

4. The current ODA definition does not adequately recognise guarantees as a viable instrument for development finance. It is a disincentive to mobilize non-developmental sources of capital.

5. “Development guarantees” should be explicitly recognized as a viable ODA instrument. This is of crucial interest for all stakeholders in sustainable development of developing countries.
Guarantees are the best instrument to catalyse MLT financing for infrastructure, but they are currently hardly used by MDBs.

Outstanding Exposure re. Guarantee Business in % share of Total Exposure of leading MDBs in 2013 (figures include ST TFP Business, PRG & PCG)

For IFC, EBRD, AfDB, IaDB & ADB: Figures include ST Trade Finance Guarantees.
II. Development Guarantees

An recent “exception to the rule”: 
IDA Guarantee for Ghana Sovereign bond (October 2015)

Key features
• Borrower: Ghana Government (sovereign)
• Bond amount: US$ 1 billion
• A rolling IDA Policy Based Guarantee: US$ 400 million
• Tenor: 15 years, the longest bond tenor ever in Africa (except South Africa)
• Ratings: Fitch BB-, Moody’s B1, a two-notch upgrade

The IDA guarantee mobilized US$ 600 million of additional capital from institutional investors & assisted in obtaining more favorable financing terms.
III. Concessional finance & commercial viability

**Tied aid & “commercial viability test”**

**Purpose:**
1) To avoid distortion of competition caused by tied aid.
2) To ensure fair competition between exporters from different OECD countries.
3) To use scarce tied aid funds effectively and efficiently.

**Two key tests:**
1. Is the project financially viable (does it generate sufficient cash flow to repay market based loans)?
   
   Or

2. Is it likely that market based finance will be sufficiently available to finance the project (i.e. are sufficient ECAs able to provide cover?)

**Relevant regulations:** Chapter III of the OECD Arrangement on Officially Supported Export Credits (OECD Consensus)
Introduce “Commercial viability test” for untied aid

**Purpose:**
1. To improve aid efficiency and aid effectiveness.
2. To avoid crowding out commercial finance.
3. To refine the complementary role of (semi-) concessional development finance (not-market based finance).

(Semi-)Concessional finance should in principle only be utilised for projects that:
1. do not generate sufficient direct project income to repay market based loans, but which are of great importance for the development of countries (financially non-viable projects), or
2. are unable to attract sufficient market based finance, because most ECAs are off cover.

These are typical public sector projects, in which the public sector acts as a borrower:
1. Infrastructure (e.g. roads, railways, water & sanitation, ports)
2. Education
3. Health
### III. Concessional finance & commercial viability

Untied Aid - i.e. concessional ODA loans and subsidized (non-concessional) MDB OCR loans - should be complementary to the market and avoid crowding out market based finance (incl. ECA supported finance)

Examples of Aid recipient countries with adequate access to market based finance

<table>
<thead>
<tr>
<th>Country</th>
<th>OECD ECA Rating (a)</th>
<th>Net ODA in Mln. US$ (b)</th>
<th>Net Private Flows in Million US$ (b)</th>
<th>IBRD Loans Outstanding in Mln. US$ (c)</th>
<th>IDA Loans Outstanding in Mln. US$ (c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>3</td>
<td>144</td>
<td>-2.669</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Botswana</td>
<td>3</td>
<td>74</td>
<td>41</td>
<td>119</td>
<td>3</td>
</tr>
<tr>
<td>Brazil</td>
<td>3</td>
<td>1.288</td>
<td>29.690</td>
<td>13.966</td>
<td>0</td>
</tr>
<tr>
<td>Chili</td>
<td>2</td>
<td>126</td>
<td>3.924</td>
<td>105</td>
<td>0</td>
</tr>
<tr>
<td>China</td>
<td>2</td>
<td>-194</td>
<td>23.232</td>
<td>12.785</td>
<td>5.651</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>3</td>
<td>33</td>
<td>123</td>
<td>598</td>
<td>0</td>
</tr>
<tr>
<td>India</td>
<td>3</td>
<td>1.688</td>
<td>15.766</td>
<td>11.975</td>
<td>26.987</td>
</tr>
<tr>
<td>Mauritius</td>
<td>3</td>
<td>178</td>
<td>1.842</td>
<td>338</td>
<td>5</td>
</tr>
<tr>
<td>Mexico</td>
<td>3</td>
<td>418</td>
<td>18.075</td>
<td>14.910</td>
<td>0</td>
</tr>
<tr>
<td>Morocco</td>
<td>3</td>
<td>1.480</td>
<td>2.420</td>
<td>4.128</td>
<td>8</td>
</tr>
<tr>
<td>Namibia</td>
<td>3</td>
<td>265</td>
<td>205</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Panama</td>
<td>3</td>
<td>51</td>
<td>674</td>
<td>778</td>
<td>0</td>
</tr>
<tr>
<td>Peru</td>
<td>3</td>
<td>624</td>
<td>2.238</td>
<td>1.894</td>
<td>0</td>
</tr>
<tr>
<td>South Africa</td>
<td>3</td>
<td>1.067</td>
<td>3.198</td>
<td>1.511</td>
<td>0</td>
</tr>
<tr>
<td>Thailand</td>
<td>3</td>
<td>-135</td>
<td>5.789</td>
<td>1.099</td>
<td>0</td>
</tr>
<tr>
<td>Tunisia</td>
<td>3</td>
<td>1.017</td>
<td>713</td>
<td>2.054</td>
<td>11</td>
</tr>
<tr>
<td>Uruguay</td>
<td>3</td>
<td>19</td>
<td>321</td>
<td>997</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8.143</strong></td>
<td><strong>105.582</strong></td>
<td><strong>67.257</strong></td>
<td><strong>32.665</strong></td>
<td><strong>0</strong></td>
</tr>
</tbody>
</table>

(a) OECD ECA Rating: February 2015  
(b) Net ODA / net private flows: OECD DAC 2012  
(c) IBRD/IDA loans outstanding: Annual report FY 2014
IV. Importance of public sector infrastructure

1. Current MDB and BDB strategies to catalyze private capital have a far too narrow focus on PPP projects & project finance (e.g. energy, telecom, toll roads).

2. Many important infrastructure projects do not generate sufficient direct project income and cannot be financed on a project finance/PPP basis. This concerns typical public sector infrastructure such as transport, roads, bridges, railways, train stations, harbors, regional airports, electricity distribution, water & sanitation, education and health.

3. Too limited attention is given to typical public sector projects, whereas there are great catalyzing opportunities for these public sector infrastructure projects.

The development finance community and aid recipient countries should also develop a clear strategy on how to mobilize non-developmental sources of capital for public sector infrastructure projects.

Therefore this topic should be integrated in Country Assistance Strategy papers.
V. Cooperation with official ECAs & private insurers

Berne Union MLT Export Credit & Investment Insurance exposure (2014)

MLT Total: US$ 936.3 billion
- MLT export credit: US$ 701.7 billion
- MLT investment insurance: US$ 234.6 billion

Outstanding Loan Portfolio leading MDBs: Total US$ 421.8 billion (2014)

BU MLT exposure is more than 200% of MDB exposure

Approx. 80% of BU MLT business is with developing countries
V. Cooperation with official ECAs & private insurers

Berne Union top 10 MLT export credit exposure countries (2013)

- United States: 61%
- Viet Nam: 5%
- Turkey: 5%
- Russia: 4%
- Saudi Arabia: 4%
- Italy: 3%
- India: 3%
- Canada: 3%
- China: 3%
- other: 2%

Total $711 Billion

Berne Union top 10 MLT investment exposure countries (2013)

- Russia: 12%
- China: 10%
- Kazakhstan: 4%
- India: 4%
- Brazil: 3%
- Turkey: 3%
- Egypt: 3%
- Indonesia: 3%
- Viet Nam: 3%

Total $234 Billion

IBRD Top 5 exposure countries (2012)

- Mexico: 55%
- Turkey: 9%
- China: 9%
- Indonesia: 9%
- India: 9%
- other: 8%

Total $144 Billion

The overlap indicates there are interesting opportunities for cooperation between MDBs and ECAs / PRIs, in both middle income and low income developing countries.
V. Cooperation with official ECAs & private insurers

- MDBs & BDBs could – like commercial banks – insure loan exposure with ECAs/PRIs or reinsurance their guarantee exposure. This would save capital within the MDBs and BDBs, which would allow them to substantially increase their development finance business.
- ECA/PRI insurance or reinsurance can be catalyzed for both private and public sector/sovereign projects.
- MDBs with a preferred creditor status such as EIB, EBRD, AfDB, ADB, IBRD/IDA, IFC and IaDB would not only be able to (1) catalyze additional capital (e.g. ECA/PRI insurance capacity) but also (2) better financing/insurance terms and conditions (e.g. lower insurance premium, longer tenors).
- MDBs should therefore consider a selective sharing of the preferred creditor status with ECAs/PRIs for both private and public sector projects/borrowers.
- In case of combining (semi-)concessional finance with market based ECA insurance “blended” pricing could be considered.
- OECD DAC should recognise (re)insurance of MDB loan/guarantee exposure as a valid form of mobilisation of non-development sources of capital.
V. Cooperation with official ECAs & private insurers

- Specialised Multilateral Insurers make extensive use of reinsurance to mobilize additional sources of capital from the public and private (re)insurance market
- MIGA catalyzes approximately 40% of its gross exposure from ECAs and PRI

![MIGA Gross & Nett Exposure in million US$](image)

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross exposure at year end</th>
<th>Nett exposure at year end</th>
<th>Exposure ceded to 3rd parties</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>100,00%</td>
<td>60,54%</td>
<td>39,46%</td>
</tr>
<tr>
<td>2008</td>
<td>100,00%</td>
<td>55,26%</td>
<td>44,74%</td>
</tr>
<tr>
<td>2009</td>
<td>100,00%</td>
<td>54,35%</td>
<td>45,65%</td>
</tr>
<tr>
<td>2010</td>
<td>100,00%</td>
<td>55,63%</td>
<td>44,37%</td>
</tr>
<tr>
<td>2011</td>
<td>100,00%</td>
<td>57,43%</td>
<td>42,57%</td>
</tr>
<tr>
<td>2012</td>
<td>100,00%</td>
<td>60,53%</td>
<td>39,47%</td>
</tr>
<tr>
<td>2013</td>
<td>100,00%</td>
<td>59,58%</td>
<td>40,42%</td>
</tr>
<tr>
<td>2014</td>
<td>100,00%</td>
<td>57,32%</td>
<td>42,68%</td>
</tr>
<tr>
<td>2015</td>
<td>100,00%</td>
<td>61,48%</td>
<td>38,52%</td>
</tr>
</tbody>
</table>
V. Cooperation with official ECAs & private insurers

How much capital could leading MDBs mobilize if they would follow MIGA’s risk transfer practices?

<table>
<thead>
<tr>
<th>MDB</th>
<th>Gross Loans outstanding</th>
<th>Risk Transfer 40%</th>
<th>Nett exposure</th>
<th>Available for new business</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBRD</td>
<td>153,7</td>
<td>61,48</td>
<td>92,22</td>
<td>61,48</td>
</tr>
<tr>
<td>IFC</td>
<td>36,6</td>
<td>14,64</td>
<td>21,96</td>
<td>14,64</td>
</tr>
<tr>
<td>ADB</td>
<td>58,5</td>
<td>23,4</td>
<td>35,1</td>
<td>23,4</td>
</tr>
<tr>
<td>AfDB</td>
<td>18,9</td>
<td>7,56</td>
<td>11,34</td>
<td>7,56</td>
</tr>
<tr>
<td>IaDB</td>
<td>74,8</td>
<td>29,92</td>
<td>44,88</td>
<td>29,92</td>
</tr>
<tr>
<td>EBRD</td>
<td>29,8</td>
<td>11,92</td>
<td>17,88</td>
<td>11,92</td>
</tr>
<tr>
<td>EIB</td>
<td>49,5</td>
<td>19,8</td>
<td>29,7</td>
<td>19,8</td>
</tr>
<tr>
<td></td>
<td>421,8</td>
<td>168,72</td>
<td>253,08</td>
<td>168,72</td>
</tr>
</tbody>
</table>

Enhanced cooperation with ECAs / PRIs could substantially assist in bridging the financing gap for infrastructure, UN SDGs and climate change !!!
V. Cooperation with official ECAs & private insurers

Main benefits of sharing the preferred creditor status (PCS) for public sector infrastructure projects:
Sharing the PCS leads to an improvement of the risk profile of the project, which could lead to:
1. Additional risk capital from commercial banks, ECAs and PRIs for infrastructure in developing countries
2. In some cases cover for countries on which ECAs and PRI are normally off cover (e.g. OECD ECA country risk category 7 countries)
3. More favorable pricing of ECA covered loan (lower premium & interest rate)
4. Longer tenors for ECA covered loans

“In some cases, such as syndications, MDBs can provide partners with creditor status similar to that of official creditors in the event the borrower runs into payment difficulties”.

Selective sharing of the PCS is already very common through:
1. MDB A/B loans and MDB guarantees (e.g. PRG and PCG)
2. MDB guarantees for sovereign payment obligations in PPP projects
3. MDB guarantees for sovereign loans / bonds (e.g. NHSFO from MIGA, ICIEC and ATI)
V. Blending for public sector infrastructure

A/B Concessional Loan structure with involvement of MDBs, ECAs & commercial banks

“Mixed Credits”: ODA + ECA support + MDB /commercial bank co-lending

1. ODA subsidies to MDB
2. ECA insurance for MDB and participating banks
3. B-loan syndication to participating banks + distribution of ODA interest rate subsidy to participating banks. MDB has “Arranger role” and acts as “lender of record” for B loan participants
4. A/B concessional loan to African sovereign borrower
5. Direct disbursements out of A/B concessional loan to contracting companies
6. Construction contract for infrastructure project
V. Blending for public sector infrastructure

Example from EU-Africa Infrastructure Trust Fund (ITF).
Zambia GER Rehabilitation Project: Total Costs Euro 288 million

<table>
<thead>
<tr>
<th>Financing in million Euro</th>
<th>Current concessional finance (1.0.)</th>
<th>EIC proposal for Concessional finance 2.0.</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU ODA grant</td>
<td>45.5</td>
<td>45.5</td>
</tr>
<tr>
<td>AfDB Loan</td>
<td>77</td>
<td>27</td>
</tr>
<tr>
<td>EIB Loan</td>
<td>73</td>
<td>23</td>
</tr>
<tr>
<td>AfD Loan</td>
<td>53.13</td>
<td>53.13</td>
</tr>
<tr>
<td>EU ODA interest rate subsidies</td>
<td>38.7</td>
<td>38.7</td>
</tr>
<tr>
<td>EU TA Grant</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Commercial banks + ECAs</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>288.33 million</td>
<td>288.33 million</td>
</tr>
</tbody>
</table>

Zambia is rated in OECD ECA risk category 5.
Concessional finance 2.0 catalyses Euro 100 million of non-development finance through an active role of the MDBs in syndication & risk transfer.
The MDBs (EIB and AfDB) could use Euro 100 million for other important developmental projects in Africa!
V. Cooperation with official ECAs & private insurers

### IDA concessional loans for sovereign borrowers

<table>
<thead>
<tr>
<th>No.</th>
<th>Country</th>
<th>IDA loans outstanding</th>
<th>OECD ECA risk category</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bangladesh</td>
<td>1,924</td>
<td>5</td>
</tr>
<tr>
<td>2</td>
<td>India</td>
<td>1,687</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>Ethiopia</td>
<td>1,395</td>
<td>7</td>
</tr>
<tr>
<td>4</td>
<td>Pakistan</td>
<td>1,351</td>
<td>7</td>
</tr>
<tr>
<td>5</td>
<td>Kenya</td>
<td>1,305</td>
<td>6</td>
</tr>
<tr>
<td>6</td>
<td>Nigeria</td>
<td>975</td>
<td>5</td>
</tr>
<tr>
<td>7</td>
<td>Tanzania</td>
<td>883</td>
<td>6</td>
</tr>
<tr>
<td>8</td>
<td>Vietnam</td>
<td>784</td>
<td>5</td>
</tr>
<tr>
<td>9</td>
<td>Myanmar</td>
<td>700</td>
<td>7</td>
</tr>
<tr>
<td>10</td>
<td>Ghana</td>
<td>680</td>
<td>6</td>
</tr>
</tbody>
</table>

The OECD ECA ratings indicate that ECA insurance capacity could have been catalyzed for many of these top ten IDA countries.
### V. Cooperation with official ECAs & private insurers

<table>
<thead>
<tr>
<th>Topic</th>
<th>Current Concessional finance (1.0.)</th>
<th>EIC proposal for blended concessional finance (2.0.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leading role of development bank</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Role of commercial Banks</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Role of ECAs</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Directly mobilizing capital?</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>ODA interest rate subsidy</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Applicant for ODA subsidy</td>
<td>MDB</td>
<td>MDB</td>
</tr>
<tr>
<td>Borrower</td>
<td>Only sovereign borrowers</td>
<td>Only sovereign borrowers</td>
</tr>
<tr>
<td>Compliant with IMF/WB DSF?</td>
<td>Yes, minimum concessionality level 35%</td>
<td>Yes, minimum concessionality level 35%</td>
</tr>
<tr>
<td>Untied aid?</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Strict sustainability procurement criteria?</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Strict sustainability criteria for infrastructure projects?</td>
<td>Yes, standard MDB requirements for social and environmental risks</td>
<td>Yes, standard MDB requirements for social and environmental risks</td>
</tr>
</tbody>
</table>
VII. Summary of key recommendations

1. Use “development guarantees” and ensure adequate ODA recognition in OECD DAC.
2. Capacity building on guarantees and mobilization of non-development sources of capital is crucial.
3. Introduce “commercial viability test” for untied aid.
4. Ensure that capital is also mobilized for public sector infrastructure. The current focus on PPP/Project finance is far too narrow.
5. MDB CAS-papers should describe how scarce development capital can be used to mobilise non-development sources of capital.
6. MDBs & BDBs should mobilize capital from ECAs and PRIs, commercial banks and institutional investors and share the PCS on a selective basis.
7. OECD DAC should recognize (re)insurance of MDB loan/guarantee exposure as a valid form of mobilisation of non-development sources of capital.
8. More ODA should be allocated to interest rate subsidies for public sector infrastructure projects, in particular for IMF/WB DSF countries.
9. Introduce strict sustainability criteria for eligibility of tendering companies.
10. In case of combining (semi-)concessional finance with market based ECA supported finance “blended” pricing could be considered.
## VII. Contact details EIC & SFI

<table>
<thead>
<tr>
<th><strong>European International Contractors</strong></th>
<th><strong>Sustainable Finance &amp; Insurance</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Frank Kehlenbach</strong></td>
<td><strong>Paul Mudde</strong></td>
</tr>
<tr>
<td>Director, European International</td>
<td>Business consultant, Sustainable</td>
</tr>
<tr>
<td>Contractors</td>
<td>Finance &amp; Insurance</td>
</tr>
<tr>
<td>Tel.: +49 30 21 286 268</td>
<td>Tel.: +31 (0)70 21 64 527</td>
</tr>
<tr>
<td>Mobile: +49 171 277 93 15</td>
<td>Mobile: +31 (0)6 12973335</td>
</tr>
<tr>
<td>E-mail:</td>
<td>E-mail: <a href="mailto:paul.mudde@live.nl">paul.mudde@live.nl</a></td>
</tr>
<tr>
<td><a href="mailto:frank.kehlenbach@bauindustrie.de">frank.kehlenbach@bauindustrie.de</a></td>
<td></td>
</tr>
</tbody>
</table>
Annex I. The global infrastructure financing gap

- By 2030, the OECD estimates that US$ 70 trillion in additional infrastructure capacity will be needed globally.
- The G20 Infrastructure and Investment Taskforce estimates US$ 45 trillion of this investment may be realized, leaving a gap of approximately US$ 25 trillion.
- WEF estimates a global annual infrastructure financing gap of approx US$ 1 trillion.

<table>
<thead>
<tr>
<th>Region</th>
<th>Estimated Annual Infrastructure Financing Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia &amp; Pacific</td>
<td>US$ 180 billion</td>
</tr>
<tr>
<td>Latin America</td>
<td>US$ 24 billion</td>
</tr>
<tr>
<td>Africa</td>
<td>US$ 31 billion</td>
</tr>
</tbody>
</table>
Main Benefits for the borrowing developing countries:

1. Guarantees will assist in catalyzing substantial amounts of other – non developmental – sources of Finance (commercial finance)
2. Guarantees will give developing countries access to other sources of finance at better terms & conditions than those available on the market (Bank market, Bond market, Official and Private (re-)Insurance markets).
   - A. Longer credit periods (Up to 10 – 15 years)
   - B. More favourable interest rates and lending conditions.
3. Guarantees will assist in diversification of the funding base of developing countries.
4. Guarantees will assist developing countries in the transition from dependence on (Concessional / subsidized) development finance to market based finance.
5. Guarantees are key instruments to bridge the current financing gap in areas such as infrastructure, UN SDGs and climate change.
Annex II. The Main Benefits of Guarantees

Guarantees helps to extend Tenors of Loans (Tenor in Years)

Source: World Bank
Annex II. The Main Benefits of Guarantees

Guarantees helps to Reduce Loan Spreads (Margin Over Libor)

Source: World Bank
Annex II. The Main Benefits of Guarantees

Main Benefits for Development Finance Community:

1. Guarantees will assist in catalyzing substantial amounts of other – non developmental – sources of Finance (incl. private capital).

2. Guarantees will give Developing countries access to other sources of finance at better terms & conditions than those available on the market (Bank market, Bond market, Official and Private (re-)Insurance markets).
   A. Longer credit periods (Up to 10 – 15 years)
   B. More favourable interest rates and lending conditions.

3. Guarantees will assist in diversification of the funding base of Developing Countries.

4. Guarantees will assist Developing Countries in the transition from dependence on (Concessional / subsidized) development finance to market based finance.

5. Guarantees are key instruments to bridge the financing gap on infrastructure finance.
Annex II. The Main Benefits of Guarantees

Main Benefits for Development Finance community:

7. Guarantees can lower substantially the operational costs of MDBs & BDBs.
8. Assist in the development of the financial sector in Developing Countries.
9. Guarantees will allow Development Finance Community to build / enhance strategic alliances with commercial banks, bond investors, official ECAs and private (re-)insurers (both international and local).
10. Guarantees make tailor-made risk sharing between commercial financiers and Development financiers possible.
11. Guarantees can assist in substantially increasing aid efficiency and aid effectiveness.
12. Guarantees will assist in mobilizing capital from the international insurance and re-insurance markets (Currently not or hardly used by MDBs & BDBs, except by certain specialized Multilateral Insurers).
Main Benefits for Commercial Financiers (e.g. Banks):

1. Adequate risk mitigation / enhancement against political and commercial risks.
2. Sharing in MDB’s Preferred Creditor Status
3. MDB’s Insurance counterparty risk is good (most MDBs S&P AAA).
4. Many MDB Counterparty Risk is explicitly recognised as “zero solvency” Risk under Basel II & III Solvency regulations.
5. MDB Comprehensive cover (PCG) attracts for covered credit risk a zero solvency under Basel II III Solvency Framework.
6. MDB Political Risk Guarantee (PRG) attracts for covered political risks a lower solvency requirement Under Basel II and III Solvency Framework.
7. MDB guarantees can support the syndication Process
Main Benefits for Commercial Financiers (e.g. Banks):

8. MDB Comprehensive Guarantee (PCG) can solve borrower, sector and country risk limit constraints of Debt Financiers
9. MDB Political Risk Guarantee (PRG) can solve country limit constraints of Debt Financiers
10. MDBs have excellent contacts with Governments ("Political Clout"), which is important to prevent / minimise losses
11. Comfort in MDB’s due diligence in particular to ensure that project is financially, technically and economically sound
12. Comfort in MDB’s due diligence concerning social and environmental risks (and reputational risks of financiers)
   - Many banks committed to “Equator Principles” rely on MDB’s due diligence
   - Many ECAs committed to OECD social & environmental standards rely on MDB’s due diligence
Annex III. Catalyzing commercial finance


“There remains a critical role for MDBs to make direct loans and grants, and provide policy advice. But given the potential availability of private capital in most developing countries as well as the sheer scale of investment needed to fulfill the MDG targets and infrastructure requirements in them, the overwhelming majority of the more than 200 expert participants in this project took the view that the weight of DFI activities should shift over time from direct lending to facilitating the mobilization of resources from the world’s large private savings pools – international and domestic – for development oriented investments through:

1. wider use of risk mitigation instruments to alleviate part of the risk faced by investors; and
2. stronger direct support for capacity building to strengthen the enabling environment for investment”
“Faced with limited direct lending capacity going forward, and the fiscal constraints of many of their major shareholders, it is increasingly important for MDBs to fully utilize their catalytic role and leveraging potential to mobilize additional financing from diverse sources”.

“Mobilizing private long-term finance requires a different approach than direct financing. MDB interventions need to support, and not replace or undermine, the formation of sustainable markets”

“An important use of international public finance, including ODA, is to catalyze additional resource mobilization from other sources, public and private”
It can also be used to unlock additional finance through blended or pooled financing and risk mitigation, notably for infrastructure and other investments that support private sector development”.

OECD-DAC
Current methodologies of many DFIs to measure mobilization effect are not realistic.
Work towards a common & more realistic methodology, avoid double counting, distinction between mobilizing development finance and non-developmental sources of finance (public and private), recognition of mobilisation effect only in “true arranger role” (i.e. not for parallel financing).
Annex III. Catalyzing commercial finance

Catalyzing of non-developmental sources of finance

Indirect

Parallel Co-Financing & Parallel Co-insurance

Direct

1. Risk Sharing with Guarantee Beneficiary
2. Insurance of MDB Loan Exposure
3. Re-Insurance of MDB Guarantee Exposure
4. A/B Co-Insurance & A/B Co-Financing
Annex III. Catalyzing commercial finance

Parallel Debt Co-Financing (Indirect Catalyzing).

Indirect Catalyzing By:
- MDB 1: 1:3
- MDB 2: 1:3
- ECA A: 1:3
- ECA B: 1:3

OECD DAC: Who is catalyzing Who & the Issue of “Double Counting”
## Direct & Indirect Catalyzing Nam Theun 2 Project, Lao PDR

<table>
<thead>
<tr>
<th>Equity</th>
<th>Amounts in Million US$</th>
<th>Indirect cat. Effect (co-Financing)</th>
<th>Direct Cat. Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>EDFI</td>
<td>122</td>
<td>11.9</td>
<td>No</td>
</tr>
<tr>
<td>ITD</td>
<td>52</td>
<td>27.9</td>
<td>No</td>
</tr>
<tr>
<td>EGCO</td>
<td>87</td>
<td>16.7</td>
<td>No</td>
</tr>
<tr>
<td>GOL</td>
<td>87</td>
<td>16.7</td>
<td>No</td>
</tr>
<tr>
<td>Contingent Equity</td>
<td>100</td>
<td></td>
<td>No</td>
</tr>
<tr>
<td><strong>Total Equity</strong></td>
<td><strong>450</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Debt (Co-) Financing

<table>
<thead>
<tr>
<th>Financing</th>
<th>Amounts in Million US$</th>
<th>Effect (co-Financing)</th>
<th>Direct Cat. Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thai commercial Banks</td>
<td>500</td>
<td>2.9</td>
<td>No</td>
</tr>
<tr>
<td>International Commercial banks</td>
<td>200</td>
<td>7.3</td>
<td>Yes</td>
</tr>
<tr>
<td>With Cover from Coface, Giek &amp; EKN</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADB PRG</td>
<td>42</td>
<td>34.5</td>
<td>Yes</td>
</tr>
<tr>
<td>IDA PRG</td>
<td>42</td>
<td>34.5</td>
<td>Yes</td>
</tr>
<tr>
<td>MIGA</td>
<td>42</td>
<td>34.5</td>
<td>Yes</td>
</tr>
<tr>
<td>Thai EXIM Bank</td>
<td>30</td>
<td>48.3</td>
<td>No</td>
</tr>
<tr>
<td>Nordic Investment Bank</td>
<td>34</td>
<td>42.6</td>
<td>No</td>
</tr>
<tr>
<td>ADB OCR loan</td>
<td>50</td>
<td>29.0</td>
<td>No</td>
</tr>
<tr>
<td>AFD</td>
<td>30</td>
<td>48.3</td>
<td>No</td>
</tr>
<tr>
<td>Proparco</td>
<td>30</td>
<td>48.3</td>
<td>No</td>
</tr>
<tr>
<td><strong>Total Debt</strong></td>
<td><strong>1,000</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Total Project Financing**: 1,450
Annex III. Catalyzing commercial finance

Risk Sharing with Guarantee Beneficiary & Direct Catalyzing

Partial Credit Guarantee:
Percentage of Cover: 90%
Uncovered Portion: 10%
Direct Catalyzing by MDB:
• US$ 10 Million
MDB Exposure on Project Borrower: US$ 90 Million

Partial Risk Guarantee:
Percentage of Cover: 90%
Uncovered Portion: 10%
Direct Catalyzing by MDB:
• US$ 10 Million
• All Commercial Risks
MDB Exposure on Project Borrower: US$ 90 Million (Political Risk Only)
Annex III. Catalyzing commercial finance

Insurance of MDB Loan Exposure & Direct Catalyzing

ECA/ PRI → Guarantee → MDB → Loan $100 Million → Project US$ 100 Million

Comprehensive Guarantee:
Percentage of Cover: 90%
Uncovered Portion: 10%
Direct Catalyzing by MDB:
• US$ 90 Million
MDB Exposure after Risk Transfer
• On Project Borrower: US$ 10 Million
• On Guarantor: US$ 90 million
Re-insurance of MDB Guarantee Exposure & Direct Catalyzing

MDB Guarantee + Comprehensive Re-insurance:
Percentage of Cover MDB Guarantee: 90%
Uncovered Portion MDB Guarantee: 10%
Re-insurance: 80% of MDB Exposure

Direct Catalyzing by MDB:
• US$ 10 Million from Beneficiary of Guarantee
• US$ 72 Million from Re-Insurer (80% from US$ 90 Million)

MDB own Exposure after Risk Transfer:
• Exposure on Project: US$ 18 Million
• Exposure on Re-insurer: US$ 72 Million
A/B Co-insurance (ADB Guarantor Of Record / MIGA CUP)

MDB

Guarantee A: US$ 45 Mln

Com. Bank

Loan $100 Million

Project US$ 100 Million

PRI

Guarantee B: US$ 45 Mln

MDB A/B Co-Insurance
MDB Guarantor of Record for PRI Co-Insurer
Percentage of Cover MDB A/B Guarantee: 90%
Uninsured Portion MDB A/B Guarantee: 10%
MDB A Co-Insurance: 50% = US$ 45 Million
MDB B Co-Insurance (PRI): 50% = US$ 45 Million

Direct Catalyzing by MDB:
• US$ 10 Million from Beneficiary of Guarantee
• US$ 45 Million from PRI Co-Insurer

MDB Exposure after Risk Transfer:
• Exposure on Project Borrower: US$ 45 Million
• Exposure on PRI: 0

Annex III. Catalyzing commercial finance
### Some examples of EU ODA subsidies for public sector infrastructure projects in Africa

<table>
<thead>
<tr>
<th>No.</th>
<th>Project</th>
<th>EU interest rate subsidy</th>
<th>MDB / BDB involved</th>
<th>Borrowing Country</th>
<th>OECD ECA Risk Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Access to Douala</td>
<td>5.700.000</td>
<td>AFD</td>
<td>Cameroon</td>
<td>6</td>
</tr>
<tr>
<td>2</td>
<td>Beira Corridor</td>
<td>29.000.000</td>
<td>EIB</td>
<td>Mozambique</td>
<td>7</td>
</tr>
<tr>
<td>3</td>
<td>Benin-Togo Power Rehabilitation</td>
<td>12.250.000</td>
<td>EIB</td>
<td>Benin</td>
<td>6</td>
</tr>
<tr>
<td>4</td>
<td>Caprivi Interconnector</td>
<td>15.000.000</td>
<td>EIB</td>
<td>Zambia</td>
<td>5</td>
</tr>
<tr>
<td>5</td>
<td>CLSG Interconnection Project</td>
<td>12.500.000</td>
<td>EIB</td>
<td>Sierra Leone</td>
<td>7</td>
</tr>
<tr>
<td>6</td>
<td>Eastern Africa Transport Corridor</td>
<td>16.600.000</td>
<td>EIB</td>
<td>Uganda</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td>Felou</td>
<td>9.335.000</td>
<td>EIB</td>
<td>Mali / Mauritania / Senegal</td>
<td>7 / 7 / 6</td>
</tr>
<tr>
<td>8</td>
<td>Interconnection Bolgatanga-Ouagadougou</td>
<td>9.500.000</td>
<td>AFD / EIB</td>
<td>Burkina Faso</td>
<td>7</td>
</tr>
<tr>
<td>9</td>
<td>Itzhi-Tezhi Hydropower</td>
<td>17.600.000</td>
<td>EIB</td>
<td>Zambia</td>
<td>5</td>
</tr>
<tr>
<td>10</td>
<td>Kampala Water - LV Watsan</td>
<td>14.000.000</td>
<td>KfW</td>
<td>Uganda</td>
<td>6</td>
</tr>
<tr>
<td>11</td>
<td>Mauritania Submarine Cable</td>
<td>1.626.791</td>
<td>EIB</td>
<td>Mauritania</td>
<td>7</td>
</tr>
<tr>
<td>12</td>
<td>Lake Victoria Watsan Mwanza</td>
<td>10.700.000</td>
<td>EIB</td>
<td>Uganda / Tanzania</td>
<td>6 / 6</td>
</tr>
<tr>
<td>13</td>
<td>Rehabilitation of the Great East Road</td>
<td>38.700.000</td>
<td>AFD / EIB</td>
<td>Zambia</td>
<td>5</td>
</tr>
<tr>
<td>14</td>
<td>Tanzania Backbone Interconnector</td>
<td>24.323.000</td>
<td>EIB</td>
<td>Tanzania</td>
<td>6</td>
</tr>
<tr>
<td>15</td>
<td>Transmission line Kafue-Livingstone</td>
<td>5.200.000</td>
<td>EIB</td>
<td>Zambia</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>222.034.791</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: EU-Africa ITF Annual Report 2012 and OECD country risk classification.

The OECD ECA ratings indicate that ECA insurance capacity could have been catalyzed for many of these projects.
Annex V. OECD ECA country risk classification

System has been developed by OECD ECAs to determine a harmonized minimum risk-based premium for MLT officially supported export credits.

Key factors taken into account for premium calculations.
1. OECD ECA Country Rating & Relevant Risk Factors:
   • Payment experience of OECD ECAs
   • Financial / economic situation of a country
   • Exchange of views among OECD ECA country risk experts
2. Quality of Cover has impact on level of premium.
   • Percentage of cover: 100%, 95%, 90%.
   • Cover for interest during claims waiting period.
   • Direct lending, guarantee or insurance.
3. Tenor of the credit

Rating System is approved by Bank of International Settlements (BIS)

The system rates countries in 8 country risk categories from 0 to 7, of which category 7 is the highest risk category. Most ECAs are off cover for category 7 countries. Furthermore the system has 7 buyer risk categories.