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"

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A G E N D A

EUROPEAN INTERNATIONAL CONTRACTORS

SUSTAINABLE DEVELOPMENT GOALS

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

II. Development Guarantees

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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.

II. Development Guarantees

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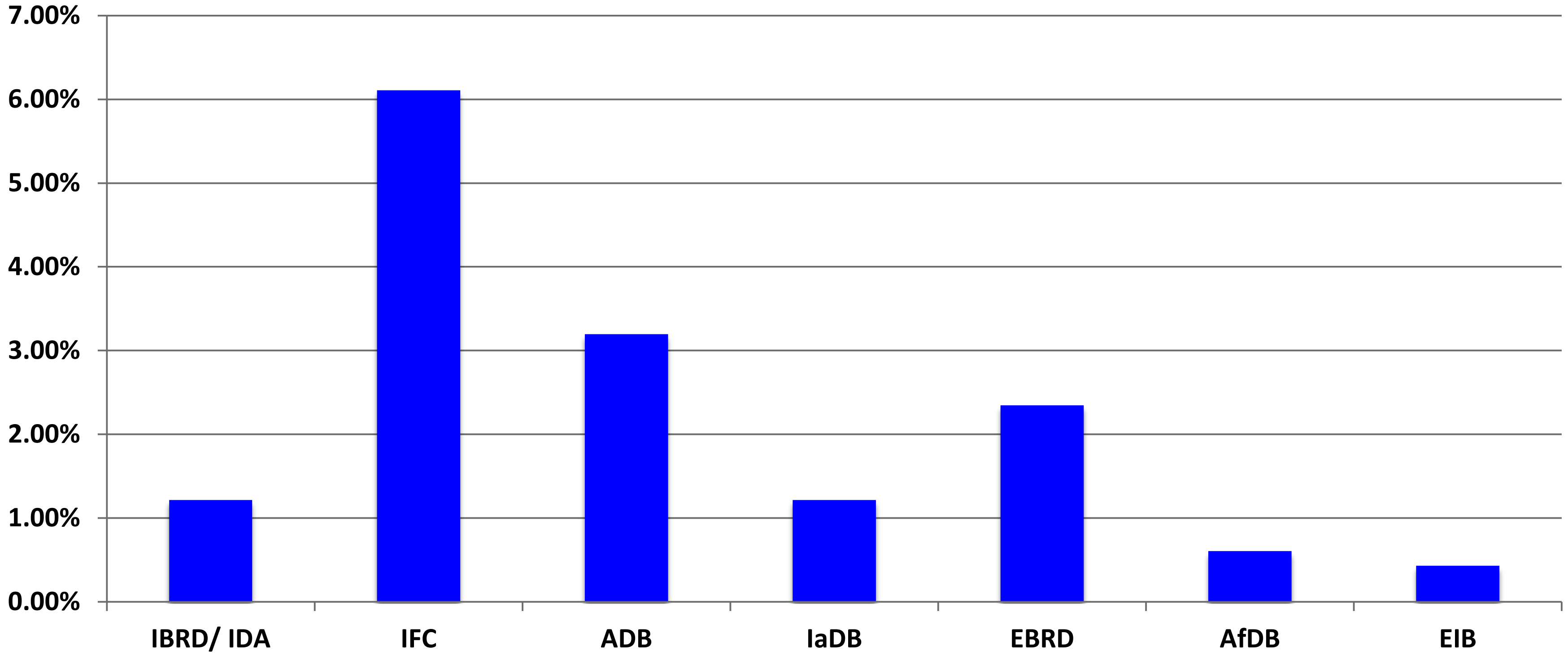
Guarantees are the best instrument to catalyse MLT financing for infrastructure, but they are currently hardly used by MDBs.

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

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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)

III. Concessional finance & commercial viability

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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 <u>public sector projects</u>, 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

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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

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

(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

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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

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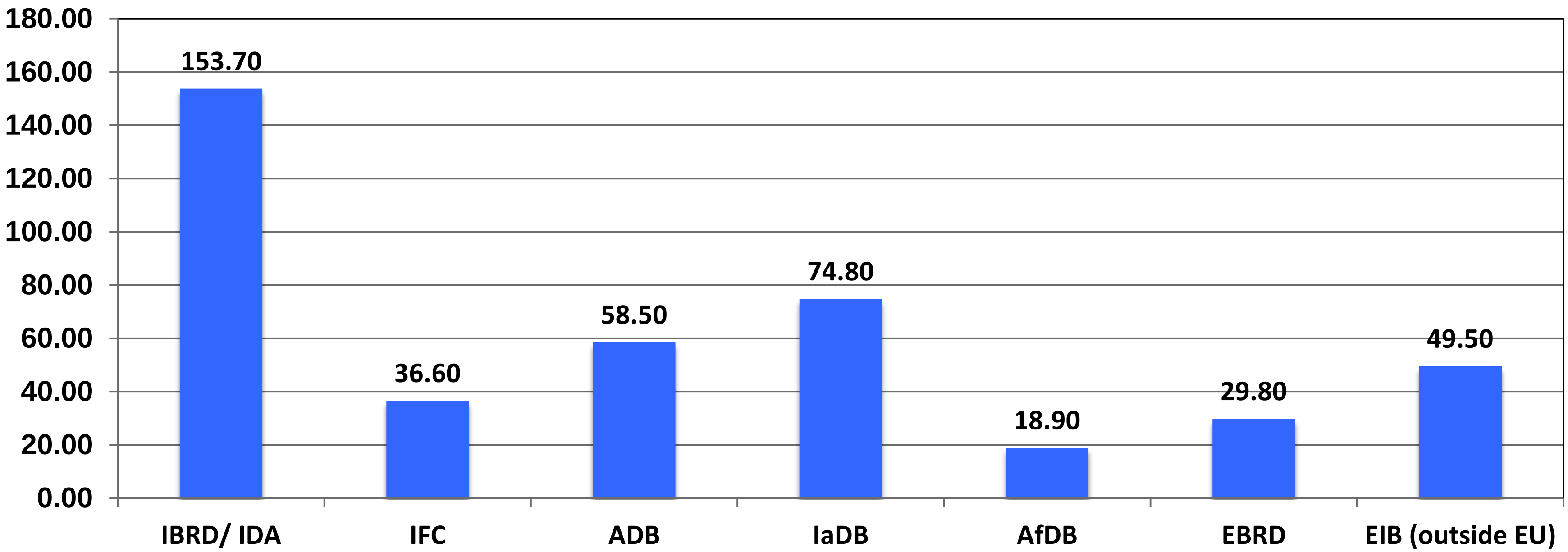
Berne Union MLT Export Credit & Investment Insurance exposure (2014)

MLT Total: **US$ 936,3 billion**

- MLT export credit: US$ 701,7 billion
- MLT investment insurance: US$ 234,6 billion

Approx. 80% of BU MLT business is with developing countries

Outstanding Loan Portfolio leading MDBs: Total US$ 421,8 billion (2014)

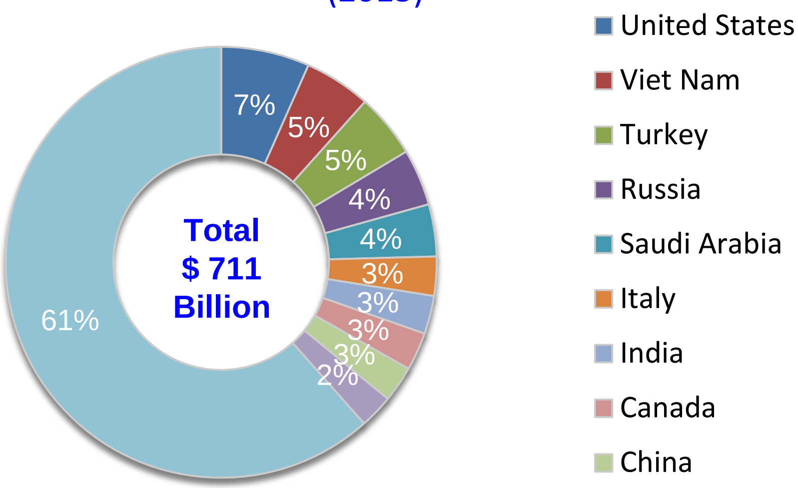


BU MLT exposure is more than 200% of MDB exposure

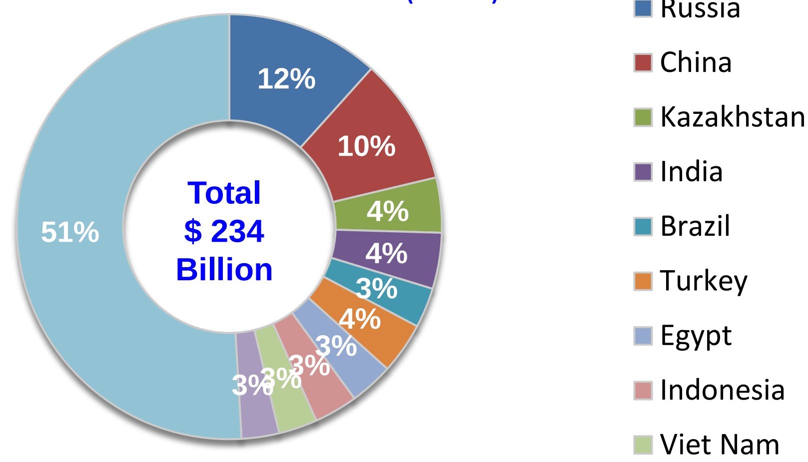
Source: Berne Union & Annual reports of MDBs

V. Cooperation with official ECAs & private insurers

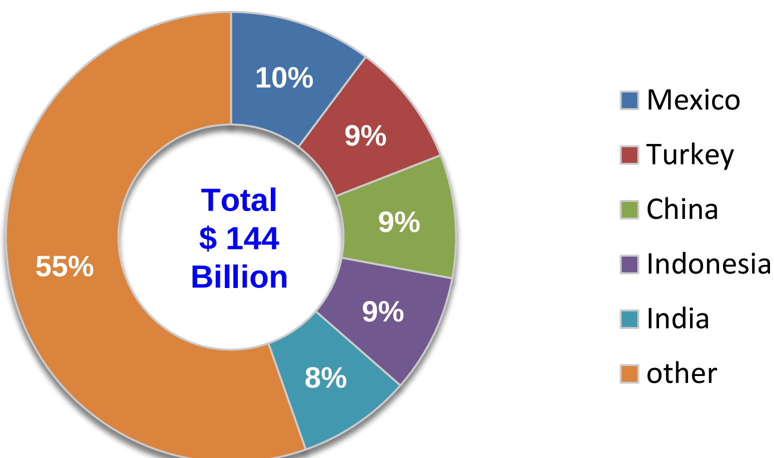
Berne Union top 10 MLT export credit exposure countries (2013)



Berne Union top 10 MLT investment exposure countries (2013)



IBRD Top 5 exposure countries (2012)



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

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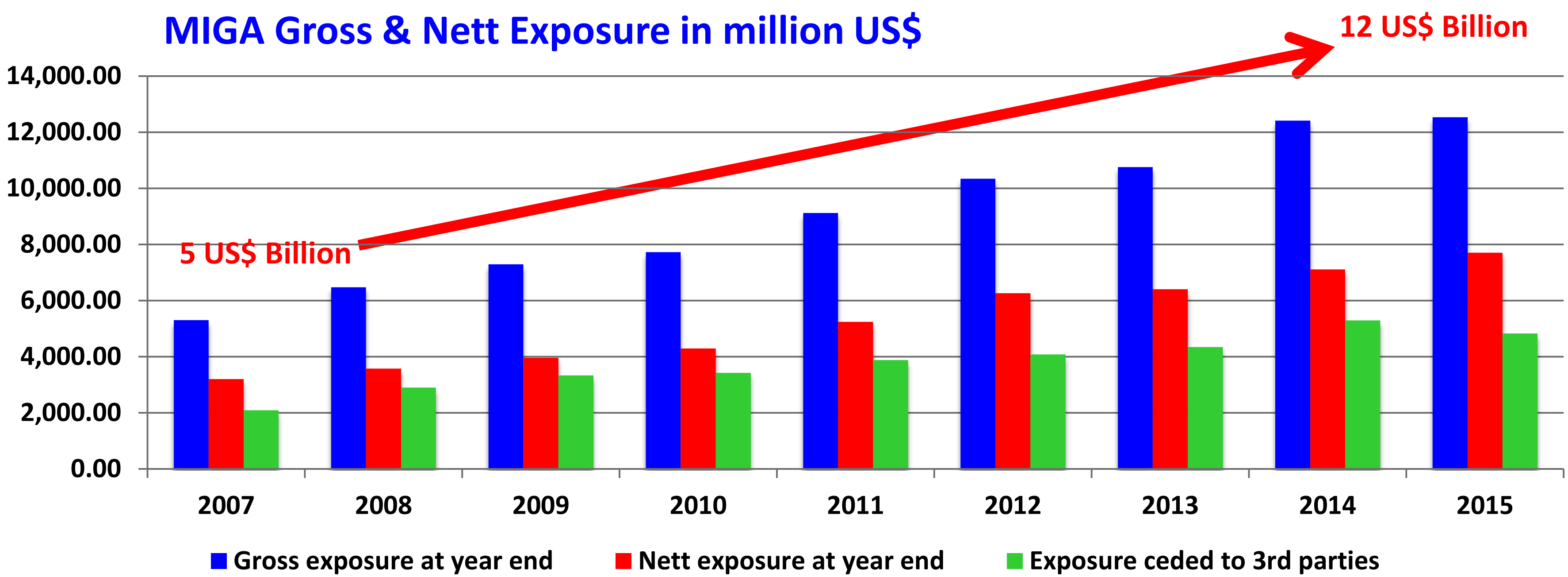
- MDBs & BDBs could – like commercial banks – insure loan exposure with ECAs/ PRIs or reinsure their guarantee exposure. This would save capital within the MDBs and BDBs, which would allow them to substantially increase their development finance business.
- ECA/ PRI insurance or reinsurance can be catalyzed 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-developmental 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 Exposure in % of total	2007	2008	2009	2010	2011	2012	2013	2014	2015
Gross exposure	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%
Nett exposure	60,54%	55,26%	54,35%	55,63%	57,43%	60,53%	59,58%	57,32%	61,48%
Exposure ceded to 3rd parties	39,46%	44,74%	45,65%	44,37%	42,57%	39,47%	40,42%	42,68%	38,52%

V. Cooperation with official ECAs & private insurers

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

Leading MDB outstanding exposure in billion US$ (2014)

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

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

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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

World Bank Global Financial Development Report 2015 / 2016: Long-Term Finance.

"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".

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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

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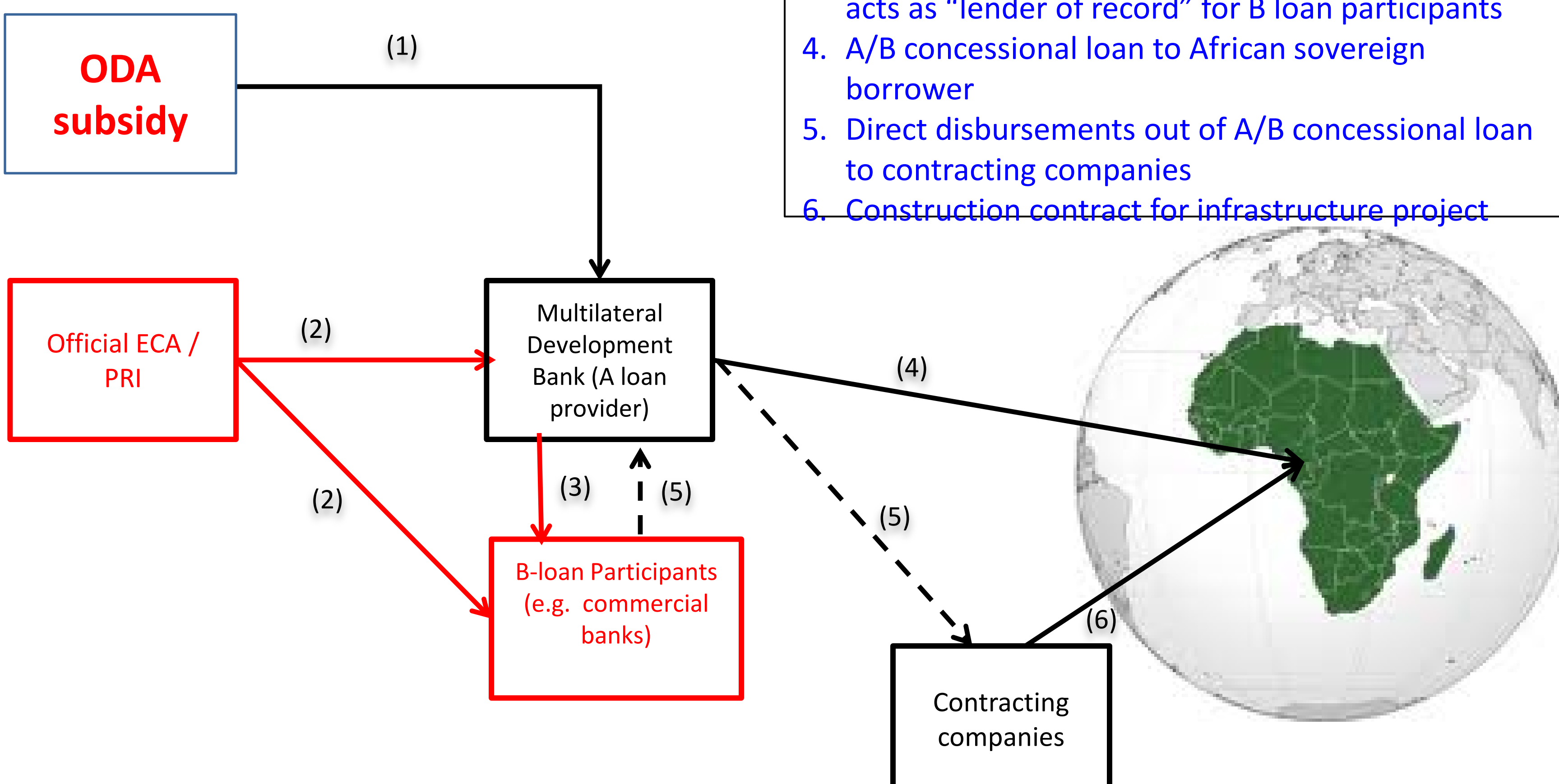
A/B Concessional Loan structure with involvement of MDBs, ECAs & commercial banks

"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

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Example from EU-Africa Infrastructure Trust Fund (ITF).

Zambia GER Rehabilitation Project: Total Costs Euro 288 million

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

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

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IDA concessional loans for sovereign borrowers

No.	Country	IDA loans outstanding		OECD ECA risk category
		in million US$		January 2016
1	Bangladesh	1,924		5
2	India	1,687		3
3	Ethiopia	1,395		7
4	Pakistan	1,351		7
5	Kenya	1,305		6
6	Nigeria	975		5
7	Tanzania	883		6
8	Vietnam	784		5
9	Myanmar	700		7
10	Ghana	680		6

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

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Comparison current concessional finance & EIC's blending proposal for concessional loans

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

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-developmental 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-developmental 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 recognise (re)insurance of MDB loan / guarantee exposure as a valid form of mobilisation of non-developmental 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

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Annex I. The global infrastructure financing gap

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- 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.

Region	Estimated Annual Infrastructure Financing Gap
Asia & Pacific	US$ 180 billion
Latin America	US$ 24 billion
Africa	US$ 31 billion

Annex II. The Main Benefits of Guarantees

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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

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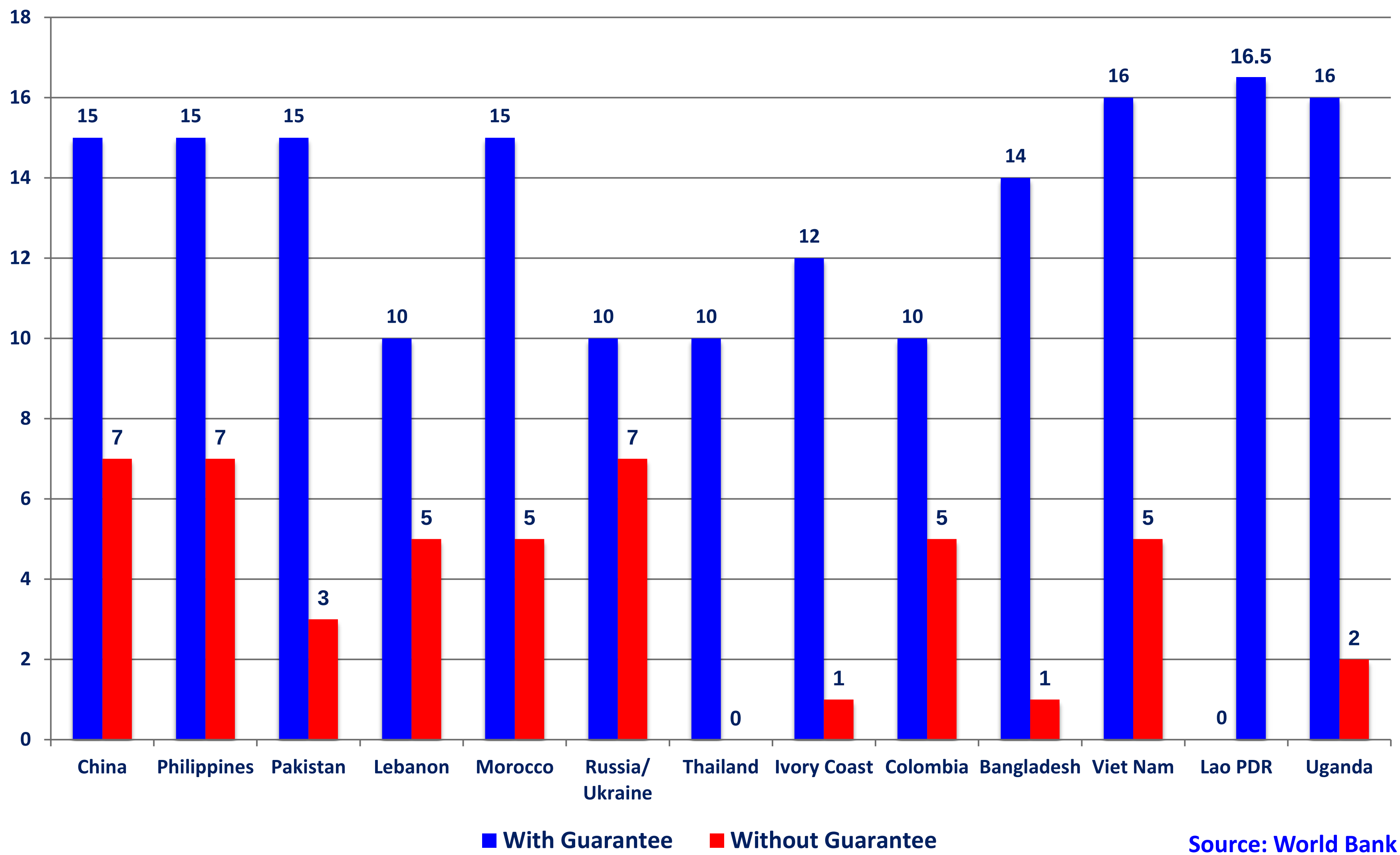
Guarantees helps to extend Tenors of Loans (Tenor in Years)



Source: World Bank

Annex II. The Main Benefits of Guarantees

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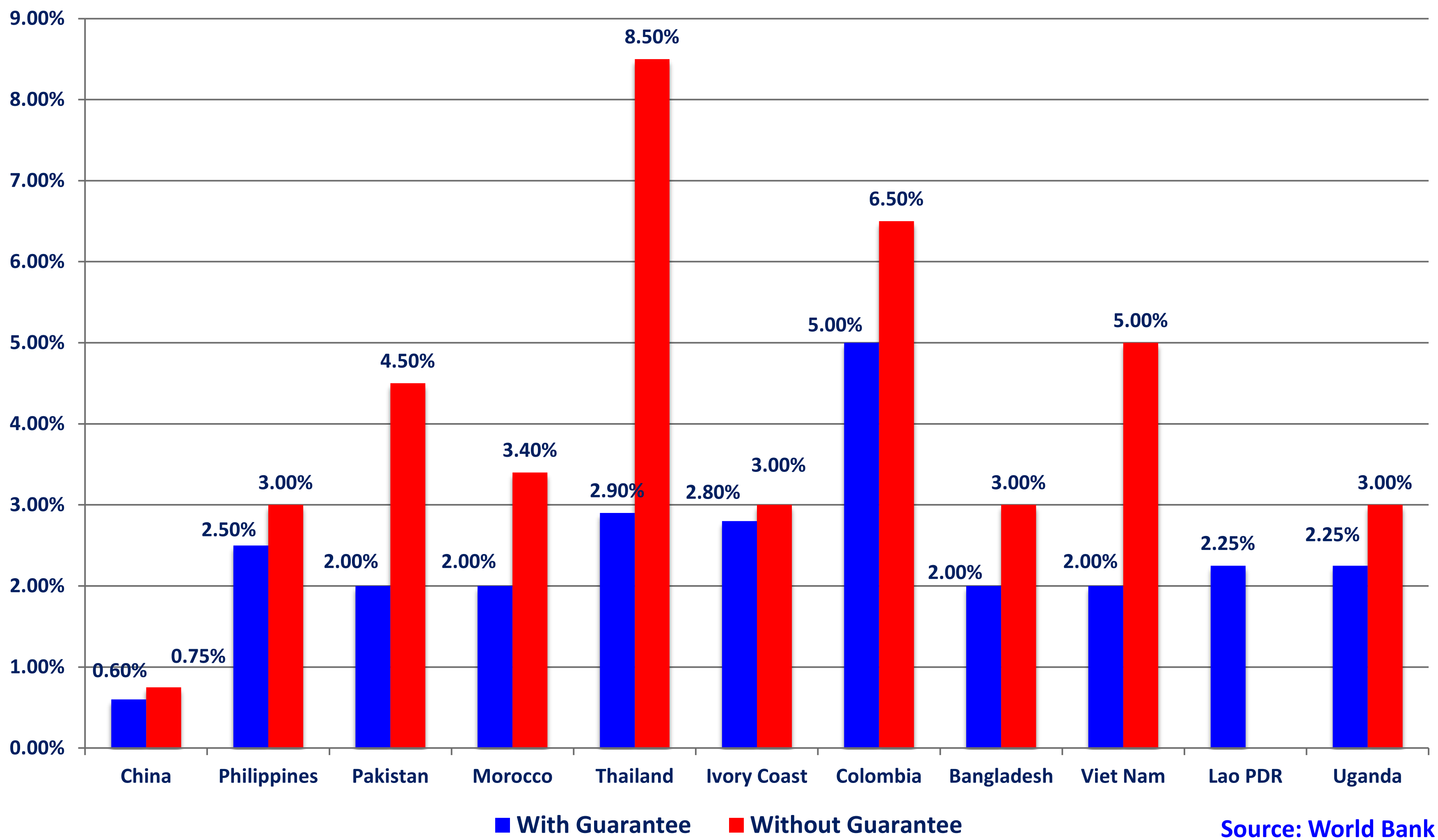
Guarantees helps to Reduce Loan Spreads (Margin Over Libor)



Source: World Bank

Annex II. The Main Benefits of Guarantees

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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

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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).

Annex II. The Main Benefits of Guarantees

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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

Annex II. The Main Benefits of Guarantees

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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 (& 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

Report of **World Economic Forum**’ Building on the Monterrey Consensus: The Untapped Potential of Development Finance Institutions to Catalyze Private Investment” (2006).

“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”

Annex III. Catalyzing commercial finance

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World Bank Financing for development post 2015 (October 2013).

"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" .

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World Bank Global Financial Development Report 2015 / 2016: Long-Term Finance.

"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"

The Addis Ababa Action Agenda Financing for Development (July 2015)

"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".

FINANCING FOR DEVELOPMENT

OECD-DAC

OECD
BETTER POLICIES FOR BETTER LIVES

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

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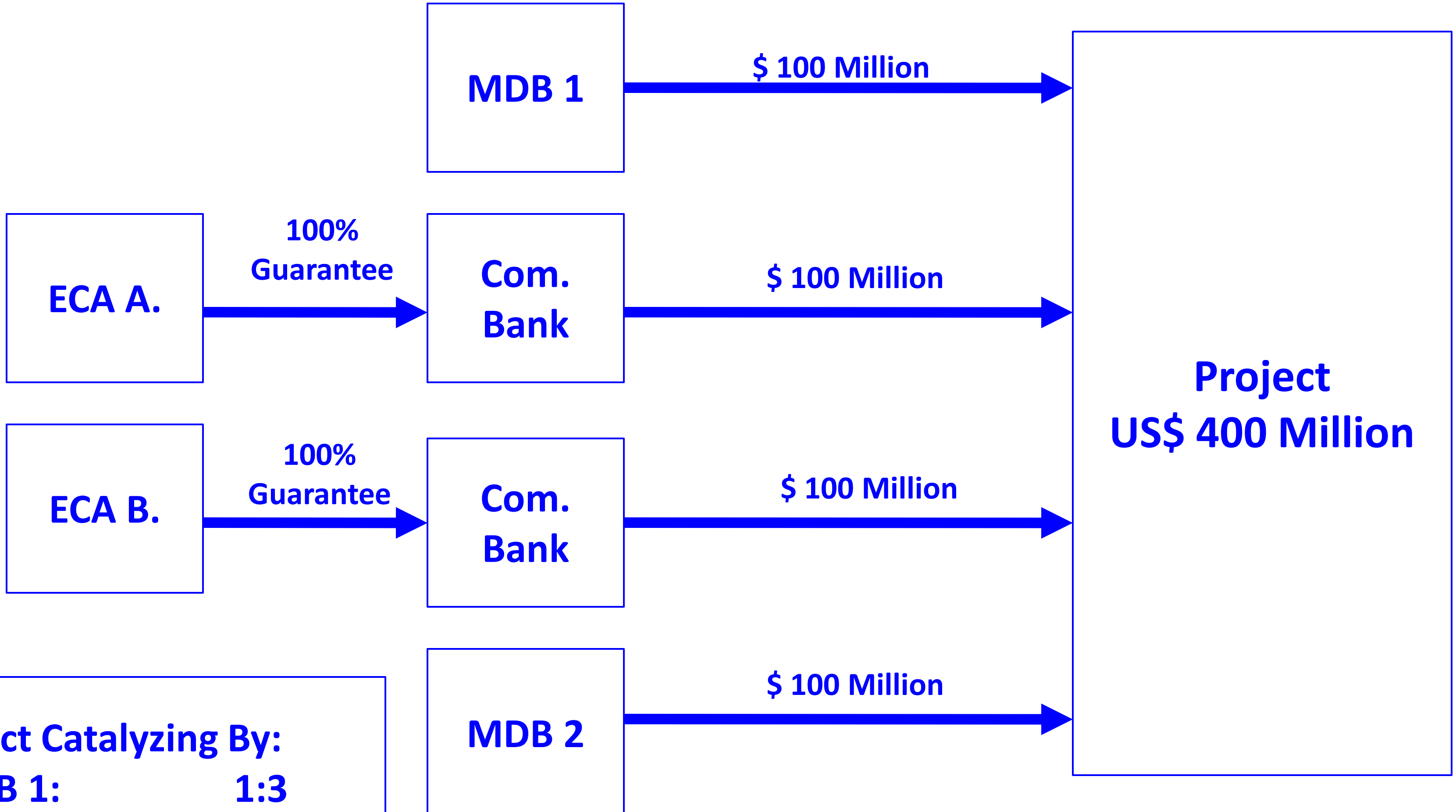
Parallel Debt Co-Financing (Indirect Catalyzing).



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"

Annex III. Catalyzing commercial finance

Direct & Indirect Catalyzing Nam Theun 2 Project, Lao PDR

	Amounts	Indirect cat.	Direct Cat.
Equity	**in Million US$**	**Effect (co-Financing)**	**Effect**
EDFI	122	11.9	No
ITD	52	27.9	No
EGCO	87	16.7	No
GOL	87	16.7	No
Contingent Equity	100		No
Total Equity	**450**		
Debt (Co-) Financing			
Thai commercial Banks	500	2.9	No
International Commercial banks	200	7.3	Yes
With Cover from Coface, Giek & EKN			
ADB PRG	42	34.5	Yes
IDA PRG	42	34.5	Yes
MIGA	42	34.5	Yes
Thai EXIM Bank	30	48.3	No
Nordic Investment Bank	34	42.6	No
ADB OCR loan	50	29.0	No
AFD	30	48.3	No
Proparco	30	48.3	No
Total Debt	1,000		
Total Project Financing	**1,450**		

Annex III. Catalyzing commercial finance

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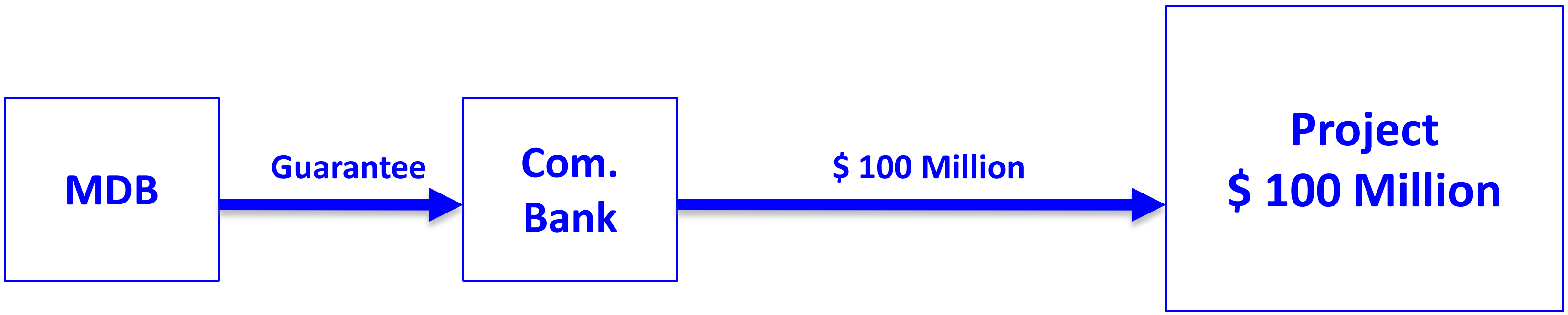
Risk Sharing with Guarantee Beneficiary & Direct Catalyzing



Partial Credit Guarantee:
Percentage of Cover: 90%
Uncovered Portion: 10%
Direct Catalyzing by MDB:
- US$ 10 Million

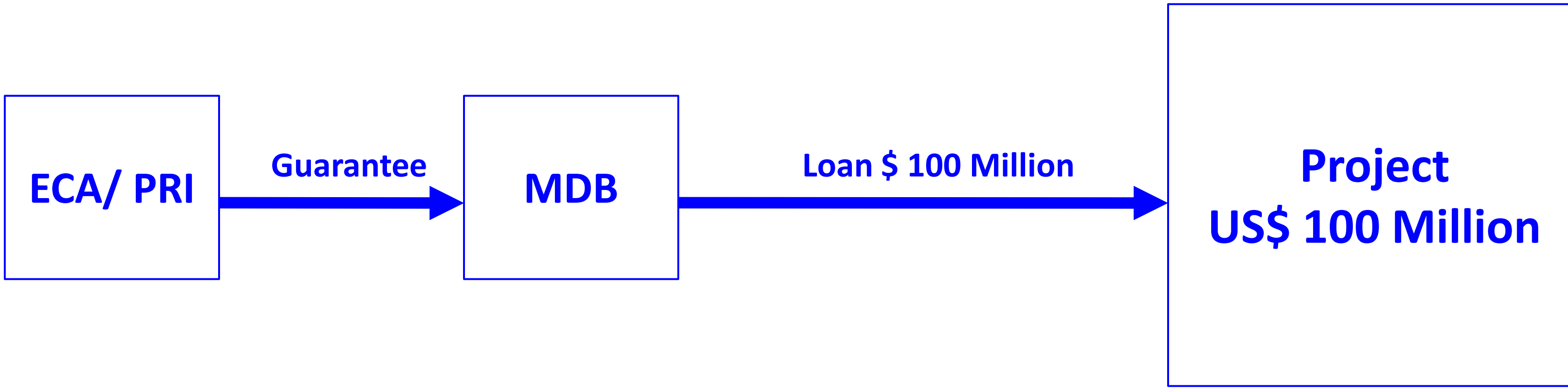
MDB Exposure on Project Borrower:
US$ 90 Million

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



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**

Annex III. Catalyzing commercial finance

EUROPEAN INTERNATIONAL CONTRACTORS

Re-insurance of MDB Guarantee Exposure & Direct Catalyzing

MDB → Guarantee → Com. Bank → Loan $ 100 Million → Project US$ 100 Million

MDB → Re-Insurance → Re-insurer

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:

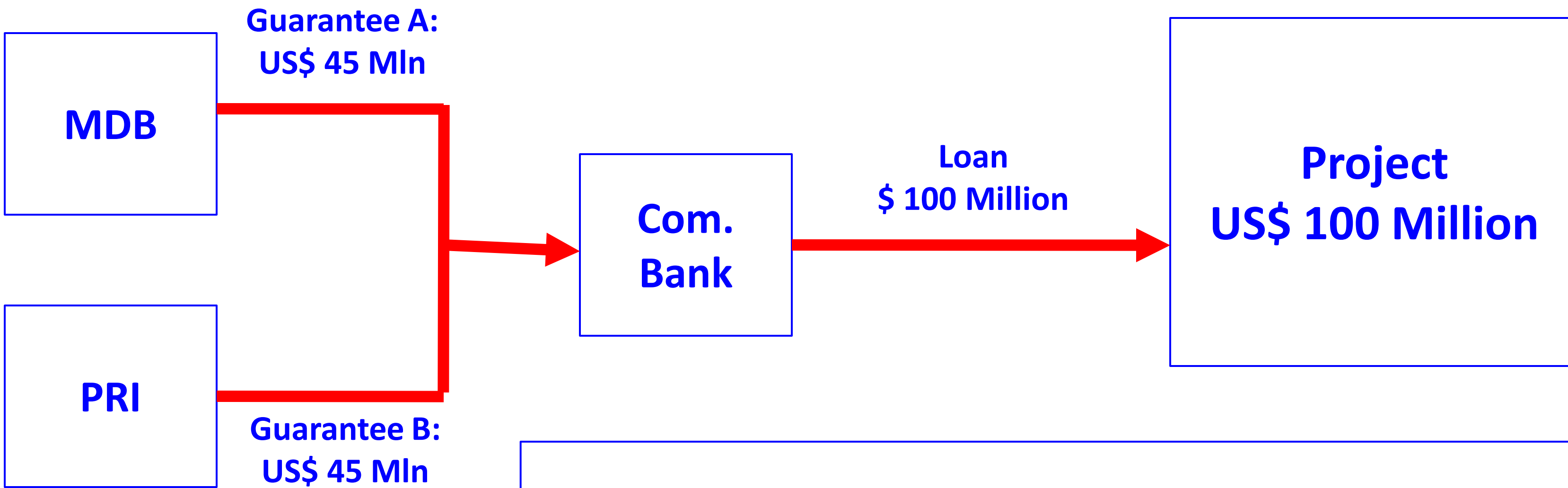
- US$ 10 Million from Beneficiary of Guarantee
- US$ 72 Million from Re-Insurer (80% from US$ 90 Million)

MDB own Exposure after Risk Transfer:

- Exposure on Project: US$ 18 Million
- Exposure on Re-insurer: US$ 72 Million

Annex III. Catalyzing commercial finance

A/B Co-insurance (ADB Guarantor Of Record / MIGA CUP)



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 IV.

EUROPEAN INTERNATIONAL CONTRACTORS

Some examples of EU ODA subsidies for public sector infrastructure projects in Africa

No.	Project	EU interest rate subsidy	MDB / BDB involved	Borrowing Country	OECD ECA Risk Category
					January 2016
1	Access to Douala	5.700.000	AFD	Cameroon	6
2	Beira Corridor	29.000.000	EIB	Mozambique	7
3	Benin-Togo Power Rehabilitation	12.250.000	EIB	Benin	6
4	Caprivi Interconnector	15.000.000	EIB	Zambia	5
5	CLSG Interconnection Project	12.500.000	EIB	Sierra Leone	7
6	Eastern Africa Transport Corridor	16.600.000	EIB	Uganda	6
7	Felou	9.335.000	EIB	Mali/ Mauritania/ Senegal	7 / 7 / 6
8	Interconnection Bolgatanga-Ouagadougou	9.500.000	AFD / EIB	Burkina Faso	7
9	Itezhi-Tezhi Hydropower	17.600.000	EIB	Zambia	5
10	Kampala Water- LV Watsan	14.000.000	KfW	Uganda	6
11	Mauritania Submarine Cable	1.626.791	EIB	Mauritania	7
12	Lake Victoria Watsan Mwanza	10.700.000	EIB	Uganda / Tanzania	6 / 6
13	Rehabilitation of the Great East Road	38.700.000	AFD / EIB	Zambia	5
14	Tanzania Backbone Interconnector	24.323.000	EIB	Tanzania	6
15	Transmission line Kafue-Livingstone	5.200.000	EIB	Zambia	5
	Total	222.034.791			

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

EUROPEAN INTERNATIONAL CONTRACTORS

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.