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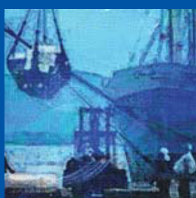
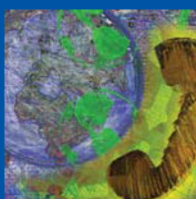
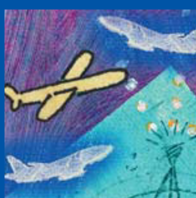
HELPING TO ELIMINATE POVERTY THROUGH PRIVATE INVOLVEMENT IN INFRASTRUCTURE







Review of Risk Mitigation Instruments for Infrastructure Financing and Recent Trends and Developments

Tomoko Matsukawa
Odo Habeck

THE WORLD BANK

PUBLIC-PRIVATE INFRASTRUCTURE ADVISORY FACILITY

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FOREWORD

While the importance of the infrastructure sectors in achieving economic growth and poverty reduction is well established, raising debt and equity capital for infrastructure development and service provision has been a challenge for developing countries. Risk mitigation instruments facilitate the mobilization of commercial debt and equity capital by transferring risks that private financiers would not be able or willing to take to those third-party official and private institutions that are capable of taking such risks. There has been increasing interest and discussion on risk mitigation instruments in the context of infrastructure financing among developing country governments, multilateral and bilateral donors, and the private sector. However, due to the complex and diverse nature of risk mitigation instruments, what these instruments can and cannot offer and how these instruments can best be used for infrastructure financing are not well understood.

This book reviews a diverse group of risk mitigation instruments that have been used to help developing countries mobilize foreign and local financing for infrastructure, presenting notable transaction cases and user-friendly reference to the products of key multilateral and bilateral institutions. The work examines different types, natures, and objectives of risk mitigation instruments and summarizes the characteristics of public and private providers of risk mitigation, with a view to serve as a concise yet comprehensive information package on risk mitigation instruments. We hope the work will provide useful insights for policy makers, private financiers, official agencies, and other stakeholders in meeting the challenges of mobilizing adequate financial resources for the provision of infrastructure in developing countries.

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BACKGROUND

The *Review of Risk Mitigation Instruments for Infrastructure Financing and Recent Trends and Developments* was sponsored by the Public-Private Infrastructure Advisory Facility (PPIAF) and the World Bank's Infrastructure, Economics and Finance Department (IEF) to review existing risk mitigation instruments, primarily focusing on those offered by multilateral and bilateral official agencies, and to consider recent trends and developments that make these instruments valuable in securing financing for infrastructure projects in developing countries. The book summarizes the characteristics of the major types of risk mitigation instruments and the institutional requirements for their use and compares their key differences as well as compatibility.

The sources of information for this work were the multilateral and bilateral agencies that provide risk mitigation instruments,[1] publicly available sources such as agencies' Web sites and publications, financial and insurance industry publications, and rating agency reports. To provide practical guidance, recent transactions are presented as short case studies to illustrate their application and how these instruments have assisted in securing project financing.

The work also references products and transactions of private insurers that have been actively offering risk mitigation instruments for infrastructure financing in recent years and presents how public and private sector instruments may complement each other in financing.

The findings and interpretations expressed in this paper are entirely those of the authors. For details about the risk mitigation instruments discussed in this paper, please contact the relevant institution directly. (Contact addresses can be found in appendix B.)

[1] There is a distinction between various types of multilateral and bilateral agencies. Please refer to chapter 3 for details..

INTRODUCTION

Raising debt and equity capital to finance projects in developing countries remains a challenge. There is an increasing interest in using *risk mitigation instruments* to facilitate the mobilization of private capital to finance public and private projects, particularly in those infrastructure sectors in which financing requirements substantially exceed budgetary or internal resources.

Risk mitigation instruments are financial instruments that transfer certain defined risks from project financiers (lenders and equity investors) to creditworthy third parties (guarantors and insurers) that have a better capacity to accept such risks. These instruments are especially useful for developing country governments and local infrastructure entities that are not sufficiently creditworthy or do not have a proven track record in the eyes of private financiers to be able to borrow debt or attract private investments without support.

The advantages of risk mitigation instruments for developing country infrastructure projects are multifaceted:

- Developing countries are able to mobilize domestic and international private capital (debt and equity) for infrastructure implementation, supplementing limited public resources.
- Private sector lenders and investors will finance commercially viable projects when risk mitigation instruments cover those risks that they perceive as excessive or beyond their control and are not willing to accept.
- Governments can share the risk of infrastructure development using limited fiscal resources more efficiently by attracting private investors rather than having to finance the projects themselves, assuming the entire development, construction, and operating risk.
- Governments can upgrade their credit as borrowers, or as the guarantor for public and private projects, by using risk mitigation instruments of more creditworthy institutions, which, in turn, can lower their financing costs for infrastructure development.
- Multilateral and bilateral institutions are able to leverage their financial resources through the use of risk mitigation instruments as opposed to lending or granting funds, thus expanding the impact of their support.
- Risk mitigation instruments facilitate the flow of local and international private capital, support the creation of commercial and sustainable financing mechanisms for infrastructure development, and promote the provision thereof.

The objective of the *Review of Risk Mitigation Instruments for Infrastructure Financing and Recent Trends and Developments* is to provide a concise yet comprehensive guide as well as reference information for practitioners of infrastructure financing, including private sector financiers and developing country officials. The work is also intended as a reference for institutions offering (or developing) risk mitigation instruments, allowing them to learn from each other's recent practices.[2]

The book is organized into five chapters with the following objectives:

- Chapter 1 Type of Risk Mitigation Instruments: increases awareness of the different types and nature of risk mitigation instruments currently available for private financiers
- Chapter 2 Recent Trends in Risk Mitigation: highlights areas in risk mitigation for developing country infrastructure financing receiving recent attention

[2] It is intended for the Web site version of the work to be updated regularly to reflect changes and developments in risk mitigation instruments at the institutions.

- Chapter 3 Characteristics of Providers and Compatibility: summarizes the characteristics of multilateral, bilateral, and private providers of risk mitigation instruments and the compatibility of those instruments
- Chapter 4 Innovative Application of Risk Mitigation Instruments: presents recent developments and innovative applications of risk mitigation instruments through case transactions
- Chapter 5 Challenges Ahead: summarizes areas that pose challenges to the use of risk mitigation instruments as catalysts of infrastructure development

The book refers to actual transactions throughout the text, and describes each transaction in detail in appendix A Profiles of Transaction Cases.

The focus of this book is on the multilateral development banks and agencies (that is, The World Bank Group and regional development banks and affiliates) and bilateral development agencies and export credit and investment agencies of major developed countries that have supported the compilation of this information.[3] Risk mitigation instruments offered by each of these institutions are summarized in appendix B Profiles of Multilateral and Bilateral Risk Mitigation Instruments.

[3] Appendix B presents risk mitigation instruments of bilateral agencies operated by countries contributing to the Public-Private Infrastructure Advisory Facility. Contribution of product information from other public entities would be welcomed for the purpose of updating the book in the future.

1. TYPES OF RISK MITIGATION INSTRUMENTS

Risk mitigation instruments have a wide variety of names, often applied to instruments offering similar risk coverage for private financiers. This may be because an instrument's use is unique or different, or because of limited standardization efforts among providers across the spectrum of risk mitigation instruments. This abundance of names can cause confusion, not only for the uninitiated but even for practitioners of infrastructure financing.

The *risk mitigation instruments* this book focuses on are guarantees and insurance products with a medium to long contract term and that are typically used in infrastructure projects to catalyze commercial debt and equity financing, from offshore or domestic sources.[1]

Broadly speaking, key parameters defining the characteristics of risk mitigation instruments can be summarized schematically as in figure 1.1.

The following are brief descriptions of commonly used terms in infrastructure financing and in risk mitigation instruments:

- *Beneficiary.* "Beneficiary" means the signer of a guarantee or insurance contract with the provider thereof, or a third party that directly benefits from the risk mitigation instrument's support. Depending on the instrument, the beneficiary can be a debt provider (that is, a lender or bond investor) concerned with the *credit risk* of the borrower, and wanting coverage against debt service default losses; or the beneficiary could be an equity investor desiring protection against investment risk and wanting coverage for investment losses (on investments made, and on equity returns in some cases).
- *Risk types covered.* While risk mitigation instruments highlighted in this review cover either credit risk or investment risk, some instruments differentiate between the "cause" of the debt service default or investment losses as either *political risk* or *commercial risk*, where guarantee or insurance payouts would depend on the cause of the losses; and whether the specific risk has indeed been guaranteed or insured under the specific contract. (Political risk is further categorized into subrisks or risk events and discussed later in the book.)
- *Extent of loss coverage.* Many instruments cover only a part of debt service default or investment losses. Partial coverage promotes risk sharing between the guarantor or insurer and the lender or equity

BOX 1.1

Guarantees vs. Insurance

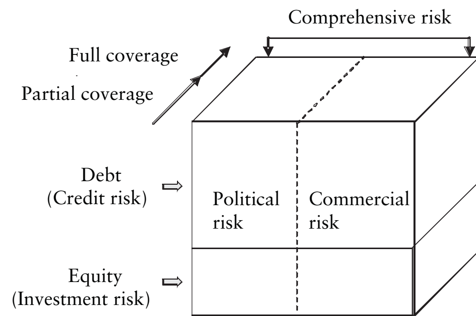
Guarantees typically refer to financial guarantees of debt that cover the timely payment of debt service. Procedures to call on these guarantees in the event of a debt service default are usually relatively straightforward. In contrast, *insurance* typically requires a specified period during which claims filed by the insured are to be evaluated, before payment by the insurer.

While having different characteristics, some insurance products may be termed as "guarantees" by their providers. This book does not differentiate between guarantees and insurance instruments unless there is a particular need to highlight the difference.

Source: Authors.

[1] Casualty insurance products (for example, business interruption insurance) and financial market hedging instruments (interest rate and currency derivatives, for instance) are not discussed in this book. While widely used in infrastructure financing, these instruments do not catalyze private financing per se.

Figure 1.1. Key Parameters of Risk Coverage



investor. In the case of risk mitigation instruments for debt, full coverage (that is, 100 percent of principal and interest payments) may be available.[2]

In infrastructure financing, private equity investors and lenders are driven by return on investment considerations, which must be adequate to compensate them for the risks they assume by making an investment. Their return requirements are determined by the specific project risks and the type and structure of the financing.

On one hand, in the case of lending to a government or a sovereign entity (which finance infrastructure projects), the lenders evaluate the likelihood of the borrower making timely debt service payments and, if they are willing to lend, then determine the maturity and pricing (credit spread) to be adequately compensated for the borrower credit risk to be taken. Bond investors typically rely on the analysis of established rating agencies, while bank lenders traditionally conduct such analyses in house.

On the other hand, additional risk analysis is necessary to evaluate a single-asset, greenfield private infrastructure project. Project sponsors and lenders investigate the details of a project's financial feasibility and commercial viability, including the risk allocation and mitigation measures. Project risks may include construction risks (engineering feasibility, cost overruns, costs of delay, for example), operating risks (demand or revenue risks, tariff mechanisms, operating cost overruns, equipment performance), macroeconomic risks, legal and regulatory risks for investments in the country generally and with respect to the specific infrastructure sector, the contractual framework of the project, the creditworthiness of contractual counterparties, the sovereign government support offered, as well as other credit enhancements available to the lenders.[3]

Lenders lend to a private infrastructure project company on a *limited recourse* basis contingent on the quality of the project's cash flows, which are supported by its security package,[4] or with recourse to a creditworthy equity sponsor company; or lend on a *corporate finance* basis backed by the borrower's multiple revenue sources and strong balance sheet.

For the sake of simplicity in this discussion, the risks faced by private infrastructure financiers are very broadly categorized as follows:

- The risk of losses faced by debt providers in lending to the government or its public entity (risks associated with sovereign or public debt)
- The risk of losses faced by debt providers in lending to a private entity either on a corporate finance basis or on a limited-recourse project finance basis (risks associated with various types of private corporate debt)
- The risk of losses faced by equity investors in investing in a private entity as above (risks associated with equity investments)

Table 1.1 divides risk mitigation instruments available to such lenders and equity sponsors into broad categories. These categories are discussed further in the remainder of this chapter.

Credit Guarantees

Credit Guarantees cover losses in the event of a debt service default regardless of the cause of default (that is, both political and commercial risks are covered with no differentiation of the source of risks that caused the default).

- *Partial Credit Guarantees (PCGs)* cover "part" of the debt service of a debt instrument regardless of the cause of default. Multilaterals and a few bilateral agencies offer PCG instruments. The objective of a

[2] The extent of coverage and timeliness of the guarantee or insurance payment has an impact on debt ratings. When the debt is to be rated, the major rating agencies focus on probability of default and timeliness of payments. Thus, risk mitigation instruments that require a claims process or arbitration may not enhance the rating of the transaction unless such process must be concluded within a defined period and some provision is made for the debt service payments to continue uninterrupted during this period.

[3] Debt service and major maintenance reserve funds, and so forth.

[4] A security package normally includes an assignment of all of the sponsors' rights under the project contracts.

Table 1. Broad Category of the Availability of Instruments

	Credit guarantee	Export credit guarantee or insurance	Political risk guarantee or insurance
Sovereign debt			
Political risk	X	X	X
Commercial risk		X	
Corporate debt			
Political risk	X	X	X
Commercial risk		X	
Equity investment			
Political risk			X
Commercial risk			

Source: Authors.

PCG is to improve both the borrower's market access and the terms of its commercial debt (that is, to extend the maturity and reduce interest rate costs) through the sharing of the borrower's credit risk between the lenders and the guarantor.

PCGs traditionally have been used by developing country governments or public entities (state-owned utilities, for instance) to borrow in the international bank market or to support a bond offering in the international capital markets. PCGs typically have provided coverage for late maturity payments. For example, a PCG may cover the final principal repayment (a bullet principal payment) on the final maturity date or the last few principal and interest payments.

As an example, the Asian Development Bank (ADB) provided a PCG for a Japanese yen bond issued by a government entity in the Philippines. ADB's PCG covers the principal repayment of the two-tranche bonds at maturity (18 and 20 years, respectively) as well as interest payments during the final 10 years of the bonds. (Please see transaction case 1 on "Philippines: Power Sector Assets and Liabilities Management Corporation" in appendix A.)

PCGs have recently been used by subnational governments and other subnational entities, such as municipal utilities, as well as by private companies, to borrow domestically from commercial banks or issue bonds in the domestic capital market in local currency. (Please see transaction case 3 on "Mexico: Tlalnepanta Municipal Water Conservation Project" and 4 on "South Africa: City of Johannesburg" in appendix A.)

PCGs are flexible and can be structured to meet the needs of specific debt instruments and market conditions, including determining the right balance of risk sharing of the borrower's credit. For example, risk sharing between the guarantor and the lender can be pro rata or at certain percentages (50-50 risk sharing where each would take 50 percent of losses, for instance) or up to a certain amount of debt service losses. The guaranteed coverage level may be set to achieve a target bond rating to facilitate bond issuance, or at a level required to encourage [enable] commercial bank lenders to participate.[5] PCGs may be provided for a specific debt or for a loan portfolio (for example, when individual loans are small).

- *Full Credit Guarantees or Wrap Guarantees* cover the entire amount of the debt service in the event of a default. They are often used by bond issuers to achieve a higher credit rating to meet the investment requirements of investors in the capital markets. In selected developing countries, private monoline insurers have been active in issuing wrap guarantees for bonds issued by infrastructure project companies (toll road companies, for instance). Monoline insurers, however, generally require the underlying borrower or security to have a standalone investment-grade rat-

[5] Possible structures also include first-loss/second-loss risk sharing, rolling guarantees (where the guarantee, if not called, would be rolled over to the next scheduled debt service payment), and forms of a put option or take-out, depending on the risk perception of target credit providers.

ing on an international rating scale to consider offering their guarantees.[6]

Export Credit Guarantees or Insurance

Export Credit Guarantees or Insurance cover losses for exporters or lenders financing projects tied to the export of goods and services.[7] Export credit guarantees or insurance cover some percentages of both political risk and commercial risk (together, termed *comprehensive risk* guarantee or insurance).

Commercial risks, in the context of purely export transactions at export credit agencies (ECAs), are defined as bankruptcy or insolvency of the borrower or buyer, failure of the buyer to effect payment, failure or refusal of the buyer to accept goods, termination of purchase contract, and so on.[8] Political risk is discussed below.

Coverage is limited to a specified percentage for each risk, but it could represent quasi-complete coverage. For example, an ECA may offer coverage of up to 97.5 percent of political risk and 95 percent of commercial risk. Credit guarantees and comprehensive risk guarantees of ECAs effectively provide cover to lenders for basically the same (commercial and political) risks, guaranteeing debt service in the event of a default by sovereign or corporate obligors for any reason.

Export credit guarantees or insurance are normally "tied" to the nationality of exporters or suppliers, and sometimes to the project sponsors or lenders. "Untied" comprehensive guarantees may be available at a few bilateral agencies, such as Japan Bank for International Cooperation (JBIC). JBIC generally provides untied comprehensive guarantees in conjunction with JBIC direct loans.

Some bilateral insurers, such as Nippon Export and Investment Insurance (NEXI) of Japan and the U.S. Overseas Private Investment Corporation (OPIC), can provide risk insurance for parastatal entities backed by a sovereign guarantee to issue international bonds or access commercial bank markets, which has the same effect as more standard credit guarantees. (Please see transaction case 2 on "Philippines: Philippine Power Trust I" in appendix A.)

Political Risk Guarantees or Insurance

Political Risk Guarantees or Insurance cover losses caused by specified political risk events. They are typically termed *Partial Risk Guarantees (PRGs)*, which may be termed as *Political Risk Guarantees (PRGs)*,[9] or *Political Risk Insurance (PRI)* depending on the provider.

- PRGs cover commercial lenders in private projects. They typically cover the full amount of debt.[10] Payment is made only if the debt default is caused by risks specified under the guarantee. Such risks are political in nature and are defined on a case-by-case basis. PRGs are offered by multilateral development banks and some bilateral agencies.
- *PRI,* or *investment insurance,* can insure equity investors or lenders. PRI can cover the default by a sovereign or corporate entity but only if the reason for a loss is due to political risks.[11] Coverage is generally limited to less than 100 percent of the investment or loan. Providers of investment insurance include export credit agencies, investment insurers, private political risk insurers, and multilateral insurers.

PRI includes relatively standardized risk coverage offered by the insurance industry for traditional political risks. This coverage includes

- *currency inconvertibility and transfer restriction:* losses arising from the inability to convert local currency into foreign exchange, or to transfer funds outside the host country;
- *expropriation:* losses as a result of actions taken by the host government that may reduce or eliminate ownership of, control over, or rights to the insured investment; and
- *war and civil disturbance:* losses from damage to, or the destruction or disappearance of, tangible assets

[6] That means the borrower would most likely need to be located in an investment grade (triple-B or better) country. Most monoline insurers are rated triple-A on an international scale by rating agencies, and have rigid credit policies to maintain such rating.

[7] Loans may be made by the lender to the exporter so that the exporter can allow deferred payments by the importer in a developing country ("supplier's credit"), or loans are made directly by the financial institution to the importer, normally through a bank in the developing country ("buyer's credit").

[8] ECAs may have project finance programs where the insurance can cover all commercial risks associated with the construction and operation of a facility.

[9] The World Bank introduced a Partial Risk Guarantee concept in 1994. Since then other multilaterals followed, but basically the same debt guarantee instrument is called a Political Risk Guarantee at the ADB or the Inter-American Development Bank (IDB).

[10] PRGs typically cover the full principal repayment, as well as accrued interest (when the guarantee is callable upon the acceleration of underlying debt) or full interest payments (when the guarantee is nonaccelerable).

[11] Some private insurers would widen their PRI policies to cover contractual default risk of highly rated local corporations, when such contractual obligations would not be covered under export credit insurance because there is no export.

caused by politically motivated acts of war or civil disturbance in the host country.

Relatively newer political risks covered include
- *breach of contract:* losses arising from the host government's breach or repudiation of a contract;[12] and
- *arbitration award default:* losses arising from a government's nonpayment when a binding decision or award by the arbitral or judicial forum cannot be enforced.

Demand for political risk mitigation has been shifting from traditional political risks to coverage of risks that arise from the actions or inactions of the government that adversely influence the operation of a private company engaging in infrastructure business. One may argue that some of these risks fall in between traditional commercial risks and traditional political risks.

PRGs offered by multilaterals were developed to cover a wider range of political risks (and for a longer tenor) than those covered by the insurance market. They typically cover *government contractual obligations,* that is, losses arising from a government's nonpayment of its payment obligations under its contractual undertaking or guarantees provided to a specific project. PRGs have typically been used in limited-recourse project finance transactions; however, recently they have also been used for concession projects.

The coverage offered through a PRG depends on the specific contractual agreements for an infrastructure project and on the obligations contractually agreed to by the host government for the project. The coverage may include traditional political risks as described above, as well as losses arising from risks relating to the following:
- government contractual payment obligations (for example, termination payments or agreed subsidy payments);
- government action or inaction having a material adverse impact on the project (examples include change of law, regulations, taxes, and incentives; negation or cancellation of license and approval; nonallowance for agreed tariff adjustment formula or regime);
- contractual performance of public counterparties (for example, state-owned entities under an off-take agreement, an input supply agreement, or the like);
- frustration of arbitration; and
- certain uninsurable force majeure events.

To meet market demand, some PRI providers have similarly started to stretch their expropriation risk coverage to include a range of government actions that would have the effect of creeping expropriation or by offering expanded political risk insurance, which includes a more explicit cover for breach of contract by the government. PRI providers may have different definitions of "the government." Some may be restricted to the sovereign government, while others may include public entities such as state-owned electric utilities and the like.

The availability of different types of coverage depends on the specific situation. Traditional political risks can be analyzed and evaluated by private insurers and commercially oriented public agencies based on historical performance of the country. However, breach of contract risk or a wider range of political risks cannot. Coverage availability for these risks at PRI providers is based largely on the specific contractual undertakings of the government toward the project (in a manner similar to PRG). If such contractual undertaking is not available, the PRI provider would require clear evidence that public contractual counterparties acting on behalf of the government so that a claim against the counterparties could be upgraded to that against the government, or their claim payout under the insurance policy would be conditional on the existence of an arbitration award in favor of the insured against the government.

[12] Many insurers require an arbitration award before accepting claim liability, and thus their coverage is similar to arbitration award default coverage.

2

RECENT TRENDS IN RISK MITIGATION

While risk mitigation instruments facilitate the mobilization of private debt and equity capital, the borrower or project must be sufficiently "bankable" to enable the providers of such instruments to properly assess the risks, identify recourse measures as needed, and offer defined risk coverage. Risk mitigation instruments are not a panacea; they do not make poorly structured projects, or borrowers with unpredictable future prospects, bankable.

Major risks cited by private infrastructure financiers in developing countries today often relate to governmental or quasi-governmental actions, outside of the private party's control:

- *Regulatory risk:* the risk of losses as a result of adverse regulatory actions by the host government and its agencies (for example, a regulatory agency)
- *Devaluation risk of local currency:* the risk of losses arising from unfavorable movement of foreign exchange rates (for example, devaluation of local currency for infrastructure projects that earn revenues in local currency while expenses, costs, and financing are largely denominated in foreign or hard currency)
- *Subsovereign risk:* the risk of losses as a result of breach or repudiation of contracts or nonperformance by the subnational host government or subnational contractual counterparties, or both; action or inaction by the local host government having a material adverse impact on the project; and similar situations

These risks do not readily fall under the established political risk categories and are difficult to define. However, some risk mitigation instruments have covered these risks, if not in full, in part, and indirectly. The following discussion presents examples showing how these instruments have mitigated those risks that the private sector was unwilling to take.

Regulatory Risk

Regulatory risk is often cited as a problem experienced by private infrastructure companies in implementing agreed-upon tariff increases due to regulatory action or inaction. This has been an issue particularly in countries suffering from macroeconomic shocks where the contractually agreed increases would have been very large.

Regulations for infrastructure projects are often included in concession or other key contracts between a government and a private company (so-called regulation by contract). In countries with a nascent regulatory framework and a regulatory agency without a track record, the government may opt to provide contractual certainty to regulations to attract private investment. When these regulations are defined contractually, the regulatory risk may be mitigated using a partial risk guarantee (PRG), which could cover the government's contractual obligations, or by a *breach of contract* policy under political risk insurance (PRI).

For example, when the government of Romania privatized its power distribution companies, it provided a guarantee to the investors against a change or repeal by the government or the regulatory agency of, or noncompliance by the regulatory agency with, the key provisions of the regulatory framework. The World Bank could then provide a PRG to backstop the government's obligation to compensate for loss of regulated revenues resulting from such defined regulatory risk. This PRG was in response to the investor's requirement for a predictable revenue stream to support the financial viability of the distribution companies in the face of considerable uncertainty because the regulatory regime was untested. (Please see transaction case 5, "Romania:

Privatization of Banat and Dobrogea Power Distribution Companies," in appendix A.)[1]

It is difficult for guarantors or insurers to assess and cover the risk of an untested regulatory regime, including the risk of unanticipated action by the new regulatory agency, without clear government undertakings, if not explicit recourse to the government, to provide coverage for regulatory risk. Some financiers may want to explore *arbitration award default* coverage (defined in chapter 1) offered by PRI providers to obtain a degree of comfort against such regulatory uncertainty.

Devaluation Risk

Devaluation risk has been a significant issue since the massive currency devaluations took place in late 1990s to early 2000s in a number of developing countries in East Asia and Latin America. Public and private utilities were unable to adequately pass through increased costs to users due to government action and inaction and suffered serious financial problems and, in some cases, loan defaults.

This issue arises in countries without well-established and liquid long-term debt markets and without market-based currency hedge products (cross-currency swaps, for instance). Where local financial markets and market-based hedging mechanisms exist, local lenders as well as foreign lenders (including multilateral and bilateral agencies) can extend loans in local currency loans, or intermediate cross-currency swaps, to minimize the devaluation risk for infrastructure projects.[2]

The multilaterals continue to try to find solutions to providing local currency funding. The Asian Development Bank, for example, entered into a long-term currency swap contract with the Philippines to offer local currency loans because the country currently lacks market-based liquid long-term currency hedges.

Devaluation risk has been contractually mitigated chiefly by allowing for tariff indexation of foreign currency cost components (for example, foreign currency debt and equity costs, dollar-denominated fuel costs) to foreign exchange rates. PRGs or certain breach of contract policies of PRI providers have also been used to cover a government's or public counterparty's contractual performance, indirectly covering the devaluation risk for the project.

The U.S. Overseas Private Investment Corporation (OPIC) at one time offered an innovative *standby credit facility* that could be drawn following a substantial devaluation of the local currency to enable the borrower to meet its debt service obligations. This facility was used for a project where the tariff adjustment was not linked to the utility's costs but to local inflation.[3] (Please see transaction case 7, "Brazil: AES Tietê," in appendix A.)

While this example concerns a private power utility, a similar liquidity arrangement for public utilities might be explored by governments in countries where timely cost pass-through to end users upon substantial currency devaluation may not be warranted politically. Such a liquidity facility could enhance the creditworthiness of the government, and could possibly be backstopped by a PRG.[4]

Subsovereign Risk

Subsovereign risk chiefly refers to the credit or payment risk of lower-level (state, provincial, municipal) government entities.[5] The trend is to decentralize government functions; therefore subsovereign governments are increasingly responsible for provision of infrastructure. Private financiers have been asked to evaluate the quality of these subsovereign borrowers, the concession grantor, the contractual counterparty, the guarantor of municipal utilities, and the local regulator.

Some products can mitigate certain subsovereign risks. In investment-grade developing countries, private monoline insurers provide wrap guarantees (defined in chapter 1) for municipal bonds of sufficiently creditworthy municipalities. Multilateral development banks have traditionally lent to subsovereign governments either through or with the guarantee of the relevant sovereign government. The European Bank for Reconstruction and Development (EBRD) and the

[1] Please also refer to Pankaj Gupta, Ranjit Lamech, Farida Mazhar, and Joseph Wright, "Mitigating Regulatory Risk for Distribution Privatization: The World Bank Partial Risk Guarantee," Discussion Paper 5, Energy and Mining Board Discussion Paper Series, Washington, DC, World Bank, 2002.

[2] For internal risk control purposes, most official lenders would offer local currency loans only when cross-currency swaps are available to hedge their currency exposure fully, or when they can raise funds in the same currency to match the loan exposure.

[3] To the extent that the economic concept of purchasing power parity is reasonably accurate over the medium to long run, a cash flow shortage caused by devaluation could be managed by an appropriately sized liquidity facility, and a loan advance could be repaid through a tariff increase reflective of inflation.

[4] Please see the following work, which discusses such a scheme: Tomoko Matsukawa, Robert Sheppard, and Joseph Wright, "Foreign Exchange Risk Mitigation for Power and Water Projects in Developing Countries," Discussion paper 9, Energy and Mining Board Discussion Paper Series, Washington, DC, World Bank, 2003.

[5] Quasi-sovereign entities such as parastatals (companies owned by the sovereign government) may be included in the subsovereign category at some insurers.

International Finance Corporation (IFC) have created municipal finance units[6] and provided loan and partial credit guarantee support (including local currency) to selected subsovereign governments and entities based on their own credit.

Other multilaterals, such as the Inter-American Development Bank and the Multilateral Investment Guarantee Agency (MIGA) provide PRGs and PRI for municipal concession projects. It should be noted that PRI providers, which specialize in covering a country's political risks, generally require "legal links"[7] to the sovereign government to cover subsovereign risk.

While the most creditworthy subsovereigns have access to the market on their own credit, there is growing recognition that more technical assistance for capacity building, as well as some form of credit enhancement, would be required for marginal and small subsovereign entities to become bankable.[8]

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[6] For example, the Municipal Fund is a joint initiative of the World Bank and the IFC. Transactions are booked at IFC and a full line of IFC risk mitigation instruments are available in conjunction with its Structured Finance Group.

[7] This may include legal interpretation that the country is responsible for all the actions of any political subdivision acting within the scope of authority, or an arbitral award may be elevated to the sovereign level, and so forth.

[8] Please see the following work: Robert Kehew, Tomoko Matsukawa, and John Petersen, "Local Currency for Sub-Sovereign Infrastructure in Developing Countries," Discussion paper 1, Infrastructure, Economics and Finance Department, Washington, DC, World Bank, 2005.

3

CHARACTERISTICS OF RISK MITIGATION PROVIDERS AND COMPATIBILITY OF PRODUCTS

Risk mitigation providers include multilateral development banks and agencies, bilateral or national agencies, and private financial entities. Each has its own structure and benefits.

Multilateral Agencies

Multilateral agencies that offer risk mitigation instruments are multilateral development banks and guarantee or insurance agencies affiliated with development banks.

Many of the multilateral development banks have similar guarantee programs (partial credit guarantees [PCGs] and partial risk guarantees [PRGs] for debt providers, as discussed in chapter 1). The use of these instruments is conditional on meeting development objectives; that is, underlying projects would need to meet the specific institution's development assistance strategies and priorities for the applicable country to be eligible for guarantees.

Multilateral agencies' operations are typically more focused on lending than on providing guarantees, with the exception of insurance agencies. When multilateral banks offer risk mitigation instruments, they aim at risk sharing with private lenders by offering partial guarantees.

Regional development banks operate both public sector and private sector divisions under the same institutional umbrella. (The World Bank Group[1] is the only exception.) The demarcation between the public and private divisions is decreasing because infrastructure project opportunities in developing countries requiring multilateral support are in increasingly difficult countries or sectors where certain government undertakings are required to make projects bankable and make multilaterals' guarantees operative. In addition, support for subsovereign governments and entities are often undertaken on a joint basis between public and private sector divisions.

For example, World Bank Group institutions often provide their respective instruments for the same private infrastructure projects that benefit from government undertakings or guarantees discussed in chapter 1. While the World Bank (IBRD and IDA) requires an indemnity from the host government and offers uniform guarantee fees across all member countries, its private sector-focused member institutions (IFC and MIGA) do not require such indemnities and charge market-based fees. The Asian Development Bank (ADB), however, performs a risk assessment of each project-specific situation to determine if a sovereign indemnity is required when it offers a PRG.[2]

(For the list of major multilateral institutions and their risk mitigation instruments, please see appendix B1.)

Bilateral Agencies

Bilateral or national agencies offering risk mitigation instruments can be generally categorized into bilateral development agencies and Export Credit Agencies (ECAs). The latter include export-import banks, export credit agencies, export credit guarantee agencies, investment insurance agencies, and the like. Some bilateral agencies have combined the functions of a development agency and an ECA into one institution.

Bilateral development agencies have development objectives similar to those of multilateral development banks. They, too, have been more focused on providing

[1] The World Bank Group comprises the World Bank (offering International Bank for Reconstruction and Development [IBRD] and International Development Agency [IDA] guarantees for public and private projects) and private sector-focused group member institutions, the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA).

[2] The amount of its support without a government counter-guarantee is limited by policy. Fee levels (net) would be different depending on a PRG with a counter-guarantee and without (more expensive and in line with market rates).

loans or grants rather than leveraging their balance sheets through the issuance of risk mitigation instruments (guarantees and insurance). One notable exception is the United States Agency for International Development (USAID), which operates an innovative and decentralized PCG program for private businesses in various developing countries under its Development Credit Authority (DCA).[3]

ECAs have diverse organizational structures: some are part of their respective governments (in the United Kingdom, for example); others are structured as government agencies; and in some countries, government programs are administered by private entities (for instance, in France and Germany).

ECAs offer fairly similar political risk and commercial risk insurance or guarantee programs for trade and investment transactions, along with export credit programs. Many ECAs have separate guarantee or insurance programs for project finance debt facilities. The difference between export credit insurance and project finance coverage at the ECAs is the analytical approach, not the instrument. Export credits will have standard security requirements with a government guarantee, while project finance cover is based on the creditworthiness of the project itself.

ECAs' institutional objectives are largely to serve their countries' national interests. Their programs are typically tied to the nationality of exporters or suppliers and sometimes of the project developers or lenders. A major part of the business of ECAs is related to noninfrastructure sectors with short-term guarantee and insurance contracts. ECAs offer comprehensive risk coverage to private financiers to promote their respective countries' exports, to encourage foreign investment by their nationals, or to promote lending and underwriting business by their countries' financial institutions.

(For the list of major bilateral institution and their risk mitigation instruments, please see appendix B2.)

Private Financial Entities

Private financial entities are active in lending to, or underwriting or buying bonds of, emerging market country governments, corporations, and projects. There are also a number of private sector providers of risk mitigation instruments, such as the *monoline insurers*[4] that offer wrap guarantees to structured debt transactions, including asset-backed securities and project finance debt; and *political risk insurers*[5] (and reinsurers) providing political risk insurance (PRI) in a manner similar to multilateral and bilateral insurers.

Just as the objectives of public and private insurers are different, so are their attributes, skills, and focus. While private insurers are highly sophisticated in risk assessment, public insurers have greater leverage with host governments. For example, the multilateral institutions have preferred creditor status or special government-to-government relationships. But private insurers' products may be more widely available because they are not limited by institutional development priorities or the financiers' nationality. At the same time, private insurers typically have more stringent and smaller country credit limits or risk coverage. Private insurers generally focus on the lower-risk segment of developing countries because of their own internal risk management or rating requirements.

Complementary Roles

In all areas of infrastructure financing, risk mitigation instruments offered by multilateral, bilateral, and private institutions can be complementary and, in fact, have been used together in many project finance transactions. There are a number of examples in which private infrastructure projects were financed on a limited-recourse project finance basis and guarantees, insurance, and loan support of various multilateral, bilateral, and private institutions were used for different debt tranches and by equity sponsors.

MIGA, ADB, and IDB all have guarantee programs to share risk with private insurers to encourage them to participate in risks underwritten under the name of the multilateral. That way, private insurers can benefit from the multilaterals' preferred creditor status or relationships with governments. MIGA's risk-sharing program is called *Cooperative Underwriting Program (CUP),* and the ADB and the IDB act as the guarantors of record (GOR) for loans. Reinsurance arrangements are common among all types of PRI providers, to share and manage risks.

Similarly, many multilateral banks, through their private sector departments or organizations, offer an "A/B" loan structure, where the multilateral lends a portion of the total amount required (the "A" loan) and

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[3] It commonly offers 50-50 pro rata credit guarantees for local or dollar loans, backed by the full faith and credit of the United States government.

[4] Major monoline insurers include MBIA, AMBAC, FSA, FIGIC, XLCA, and others. Please refer to the Web site of the Association of Financial Guaranty Insurers (http://www.afgi.org).

[5] Major political risk insurers include AIG, Chubb, Sovereign, Zurich, Lloyds (the latter is not a company but comprises several syndicates), and others.

syndicates the remainder of the loan to commercial lenders (the "B" loan). The multilateral acts as the lender of record for the full loan and the private sector lenders receive the benefit of being under the umbrella of the multilateral.[6]

The Phu My 2-2 BOT Power Project in Vietnam is a typical example of a limited-recourse project with multiple guarantors and insurers. The project was developed with equity from a private sponsor consortium. The debt financing was supported by multilateral development banks (a PRG issued by the World Bank; a PRG issued by the ADB as the GOR and a loan from the ADB); bilateral agencies (loans from the Japan Bank for International Cooperation (JBIC) and PROPARCO of France); and private political risk insurers that assumed risks under the ADB's GOR umbrella. (Please see transaction case 8, "Vietnam: Phu My 2-2 BOT Power Project," in appendix A.)

[6] B loan participants benefit from the multilateral's preferred creditor status and thereby the A/B loan structure implicitly mitigates currency transfer risk for lenders, though in a weaker form (vs. an explicit currency inconvertibility and transfer restriction guarantee). The structure is chiefly employed for projects in the lower-risk segment of developing countries.

4

INNOVATIVE APPLICATION OF RISK MITIGATION INSTRUMENTS

Providers of risk mitigation instruments have made substantial efforts to facilitate the accessibility and use of their instruments by introducing innovative applications and expanding the interpretation of their existing policies, as well as by introducing new instruments.

The following examples illustrate how risk mitigation instruments were used or combined in unique and nontraditional manners.

Multilateral Wrap Guarantees by Combining Partial Credit Guarantees

Institutional investors in developing countries are generally risk-averse and thus typically invest primarily in government bonds. In addition, for pension funds in a number of developing countries, the investment in highly rated debt is mandated through prudential regulation.

To meet the demand for high-quality securities in domestic bond markets, the Inter-American Development Bank (IDB) deployed its partial credit guarantee (PCG) with a private monoline insurer's guarantee to provide a full credit wrap for local currency bond issues by toll road companies in Chile. The IDB acts as the guarantor of record as well as guarantor for its own account for a predetermined amount with the remaining amount under the bonds guaranteed by a private monoline insurer. This combination of partial guarantees of multilateral and private institutions for the provision of fully wrapped infrastructure bond achieves the objective of risk sharing by the IDB with private "guarantors," while providing the project companies with the ability to access the local capital market. (Please see transaction case 9, "Chile: Rutas del Pacifico," in appendix A.)

PCG Combined with Contingent Loan Support

In some public-private partnership (PPP) projects, the concessionaire's role is to construct, operate, and finance the project on the premise that the government undertakes to pay for the work or provides operating subsidies so the project can obtain financing.

While a government's payment obligation to the concessionaire may be guaranteed through a partial risk guarantee (PRG) and political risk insurance (PRI) instruments, the IDB has innovatively used its PCG by effectively covering the payment obligations of the government of Peru under a toll road concession, with a caveat that, under an indemnity agreement between the IDB and Peru, if the government fails to make payments and the guarantee is triggered, any disbursement made by the IDB to the concessionaire under the guarantee will be converted into a loan by the IDB to Peru.

This structure may diminish the deterrent effect of a multilateral guarantee (that is, ensuring government action through an indemnity agreement) but it would be viewed as attractive by governments for PPP projects requiring substantial public financing. (Please see transaction case 10, "Peru: IIRSA Northern Amazon Hub," in appendix A.)

PCG for Pooled Financing

Pooling arrangements allow small and medium cities to aggregate their financing needs, diversify their credit risks, and spread the transaction costs of a bond issuance. In India, Tamil Nadu's Municipal Urban Development Fund issued pooled bonds for water and sanitation projects of participating urban local bodies (ULBs), with a PCG from USAID's Development Credit Authority covering 50 percent of principal and other credit enhancement measures, namely, (a) escrow accounts funded by the ULBs, and (b) a debt service reserve fund set up by the state government that would be replenished by diverting ULB transfer payments. (Please see transaction case 11, "India: Tamil Nadu Pooled Financing for Water and Sanitation," in appendix A.)

Complementary Guarantees by Combining a PRG and PRI

A PRG and PRI were used together as complementary guarantees, with a pro rata allocation of claims among coguarantors to meet the needs of a specific project. The World Bank (through IDA), the Multilateral Investment Guarantee Agency (MIGA), and a private insurer (backed by reinsurance from the Overseas Private Investment Corporation), offered PRG and PRI to cover the termination payments guaranteed by the government of Ghana for a pipeline project company in West Africa.

A termination payment due but not paid by the government would be deemed to be a project company loan to the government under the project contract. This allowed the World Bank to offer its PRG (which must benefit a "debt" provider) for a project funded entirely by equity from the project sponsors. The World Bank's participation (with the government's indemnity) brought comfort to the investors. (Please see transaction case 12, "West African Gas Pipeline Project," in appendix A.)

Corporate Finance with PRG and PRI

Equity sponsors may be willing to guarantee commercial risks, such as project development, construction, and operation risks, by providing their corporate guarantee to lenders, but they are generally unwilling to take host-country political risks, thus requiring third-party risk mitigation instruments.

In the Southern Africa Regional Gas project located in Mozambique, a South African sponsor, Sasol, provided a corporate guarantee to lenders (Sasol assumed all project-related commercial risks) with the exception of Mozambique political risk, over which Sasol would have no control. This risk was carved out of the guarantee provided by Sasol and covered by a PRG from the World Bank, PRI from MIGA (partly reinsured by bilateral insurers)[1] and PRI from the Export Credit Insurance Corporation of South Africa (ECIC).

These PRGs and the PRI were provided for local currency loans in South African rand. In addition, the project received financing via local currency loans from other multilateral and bilateral agencies. (Please see transaction case 13, "Mozambique/South Africa: Southern Africa Regional Gas Project," in appendix A.)

Privatization Guarantees

Multilateral and bilateral institutions have traditionally limited their support to projects making new investments (including rehabilitation or expansion). The World Bank and other multilaterals now offer PRG and PRI for privatization transactions, which may not involve new investment and therefore are not able to draw other forms of export credit or PRI support. (Please see transaction case 5, "Romania: Privatization of Banat and Dobrogea Power Distribution Companies," and transaction case 6, "Joint Kenya Uganda Railway Concession," in appendix A.)

Brownfield Project Support

Bilaterals such as Japan Bank for International Cooperation (JBIC) provide investment guarantee support for equity acquisitions by Japanese private investors from original private investors, as seen in the recent activity in the purchase and refinancing of private infrastructure projects in developing countries.

Country-Specific Guarantee Facilities

Multilaterals have experimented in setting up country-specific guarantee facilities to streamline processing of their guarantees to support small to medium projects. In addition, multilateral and bilateral agencies have assisted countries to set up guarantee facilities by providing contingent credit or seed capital to the government. Such official donor financial support may be structured on a first loss basis for the private financial institution managing the guarantee program and to leverage donor support (by using its own balance sheet on a second loss basis).

To support reconstruction efforts in Afghanistan, the IDA and the Asian Development Bank provided credits to the government of Afghanistan to set up and fund an investment guarantee facility to stimulate foreign investment. MIGA manages the facility. (Please see transaction case 14, "Afghanistan: Investment Guarantee Facility," in appendix A.)

In Ghana and other African countries, the World Bank (through IDA) and the International Finance Corporation are collaborating to develop a local-currency PCG program to encourage local banks to lend to small and medium enterprises (SMEs). (Please see transaction case 15, "Ghana: SME Partial Credit Guarantee Program," in appendix A.)

Global or Regional Guarantee Facilities

Various initiatives have been formulated by multilateral and bilateral donors as well as private institutions to set up global or regional guarantee facilities that support

[1] Italian Export Credit Agency (SACE) and Export Finance and Insurance Corporation (EFIC) of Australia.

the development of infrastructure projects in developing countries. A notable example is GuarantCo, established by a bilateral donor group, Private Infrastructure Development Group (PIDG).[2] GuarantCo offers partial guarantees for debt of private infrastructure projects and companies, parastatals, public utilities, and municipalities. To date, GuarantCo has closed one transaction: GuarantCo counter-guaranteed the Netherlands Development Finance Company (FMO), which provided a PCG for a cellular phone operator in Kenya. (Please see transaction case 16 on PIDG in appendix A.)

Africa has been a difficult region for private sector investment in infrastructure without some form of risk mitigation. Donors have set up regional guarantee facilities targeted at African countries to streamline the processing of guarantees, or as a first step for the establishment of a new regional insurance agency. One such initiative is a regional infrastructure guarantee facility developed by the World Bank (through IDA), MIGA, and Agence Française de Développement (AfD). It offers guarantees to promote small and medium infrastructure projects in West Africa. The products—the PRG by IDA and AfD, PRI by MIGA, and comprehensive guarantees covering political and commercial risks by AfD—will be offered separately but in a complementary manner. (Please see transaction case 17, "Banque Ouest Africaine de Développement Infrastructure Guarantee Facility," in appendix A.)

Another initiative is the Africa Trade Insurance (ATI) Facility, established as a pan-African export credit agency to promote inter- and intraregional trade, initially for East Africa. The World Bank (through IDA) helped to establish ATI by providing credit to each participating country to underwrite the capital for the facility. ATI covers political and commercial risk for trade and investment projects. It has been able to leverage its funds through the mobilization of private and public coinsurance and reinsurance. (Please see transaction case 18, "African Trade Insurance Agency," in appendix A.)

Guarantee Initiatives for Local Capital Markets

Some initiatives focus on the mobilization of local currency bonds. The Association of Southeast Asian Nations+3 launched the Asian Bond Market Initiative to eliminate currency mismatches and to develop local capital markets in participating countries. A guarantee facility for local currency debt is currently being developed under the Asian Bond Market Initiative.[3]

Private monoline insurers are establishing a global bond insurance company that plans to provide wrap guarantees for local bonds issued for infrastructure projects and municipalities as well as asset-backed and mortgage-backed securities. They will likely focus initially on investment-grade countries, given the requirements of the rating agencies.

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[2] PIDG members are the UK Department for International Development (DFID), the Austrian Development Agency (ADA), the Swiss State Secretariat for Economic Affairs (SECO), the Swedish International Development Cooperation Agency (SIDA), and the Netherlands Directorate-General for International Cooperation (DGIS).

[3] The Asian Bond Market Initiative is not focusing on infrastructure at this stage. While such a guarantee facility is not yet established, JBIC and Nippon Export and Investment Insurance (NEXI) provided guarantees and insurance, respectively, to support the issuance of local currency debt (mortgage-backed securities and corporate bonds).

5

CHALLENGES AHEAD

A wide range of risk mitigation instruments are offered by private, multilateral, and bilateral institutions. While innovation has been gradual, it is tangible. Change has largely been triggered by the needs of specific transactions and through the changing demand for risk mitigation instruments by private financiers.

The main challenges for the providers of risk mitigation instruments in supporting infrastructure financing in developing countries are in the following three areas:

- Further improvement of risk mitigation instruments and innovation in their uses to make them more effective in catalyzing diverse types of transactions and to increase available infrastructure financing
- Expansion and facilitation of the use of risk mitigation instruments, in particular at multilateral and bilateral official agencies, to promote collaboration with private financiers and insurers in lieu of direct lending
- Enhanced capacity building and technical assistance to developing country governments and entities to prepare infrastructure projects to attract private investment, and to prepare bankable public borrowers

As discussed in chapter 2, specific risks (regulatory risk, devaluation risk, and subsovereign risk) create a large demand by private financiers for financial instruments to mitigate those risks. The transaction structures (including regulatory regimes, security packages, recourse measures) to address these types of risks, either as one-off transactions or through standardized risk mitigation instruments, need to be further explored and developed.

The objective of this paper is to provide stakeholders in infrastructure projects, including developing country governments, private sector financiers, and official and private risk mitigation instrument providers, with the ability to explore pragmatic, feasible project structures and risk-sharing modalities and to better define those risks so that they can be adequately mitigated to attract financing. Based on the case examples presented, a specific transaction in a specific infrastructure sector or country is a logical place for stakeholders to start, either when they want to replicate current, or are trying to develop new, workable risk mitigation measures.

The World Economic Forum, an infrastructure advocacy group, has recommended, in its report on Financing for Development Initiative,[1] a major expansion of risk mitigation activity by the development banks. Private practitioners often cite mismatches in speed of execution, lack of standardization of instruments, nonfinancial conditions, and the like as impediments to the increased use of risk mitigation instruments of the official agencies.

It was confirmed during the compilation of this review that the providers of risk mitigation instruments are keenly interested in expanding the use of their products and to learn more about how other "competing" institutions are using and structuring risk mitigation instruments in support of infrastructure financing.

The intent of the paper is to provide information on the current range of ways in which risk mitigation instruments can catalyze local and foreign private financing by mitigating specific risks and concerns. It is also intended to show how official agencies' products have encouraged and promoted the use of private insurance, and emboldened further use of risk mitigation instruments at the official agencies. This, in turn, is expected to further stimulate private equity and debt investments and also private guarantee and insurance

[1] World Economic Forum, "Building on the Monterrey Consensus: The Untapped Potential of Development Finance Institutions to Catalyse Private Investment," Financing for Development Initiative, Geneva, 2006.

products.

It is the hope of the authors that, through broad circulation and posting on a Web site dedicated to infrastructure risk mitigation instruments, this paper will remain a living document and allow for the sharing of experiences among providers of risk mitigation instruments to further promote collaboration and facilitate the use of their instruments.

Preparing infrastructure projects for private financing is a costly exercise for developing countries, which may not have adequate financial and technical expertise. There is a huge need to assist developing country governments in the preparation of bankable infrastructure projects that can attract private financiers supported by risk mitigation instruments, where needed.

Multilateral and bilateral institutions can offer technical assistance to host governments. This support includes funding for the hiring of external consultants and advisors to prepare projects for bidding and negotiation, albeit on an ad hoc basis. As an example, the Public Private Infrastructure Advisory Facility (PPIAF), a multidonor facility, assists developing countries to improve the enabling environment for private sector participation in infrastructure services, including the provision of funding support for the preparation of specific private infrastructure projects. To further these efforts, some donors have set up facilities dedicated to project development.

The combination of increased awareness about how risk mitigation instruments are used, stepped-up initiatives to expand their use, and enhanced project preparation initiatives would facilitate and assist the implementation of infrastructure transactions in developing countries on an expanded scale.

APPENDIX A

PROFILES OF TRANSACTION CASES

1. Philippines: Power Sector Assets and Liabilities Management Corporation—Partial Credit Guarantee (PCG)
2. Philippines: Philippine Power Trust I (Napocor)—Political Risk Insurance (PRI)
3. Mexico: Tlalnepantla Municipal Water Conservation Project—PCG
4. South Africa: City of Johannesburg—PCG
5. Romania: Privatization of Banat and Dobrogea Power Distribution Companies—Partial Risk Guarantee (PRG)
6. Kenya/Uganda: Joint Kenya Uganda Railway Concession—PRG
7. Brazil: AES Tietê—PRI
8 Vietnam: Phu My 2.2 BOT Power Project—PRG
9. Chile: Rutas del Pacifico—PCG
10. Peru: IIRSA Northern Amazon Hub—PCG
11. India: Tamil Nadu Pooled Financing for Water /Sanitation—PCG
12. West African Gas Pipeline Project—PRG, PRI
13. Mozambique/South Africa: Southern Africa Regional Gas Project—PRG, PRI
14. Afghanistan: Investment Guarantee Facility—PRI
15. Ghana: SME Partial Credit Guarantee Program—PCG
16. Private Infrastructure Development Group
17. BOAD Infrastructure Guarantee Facility—PRG, PRI, Comprehensive Risk Insurance (CRI)
18. African Trade Insurance Agency—PRI, CRI

1. Philippines: Power Sector Assets and Liabilities Management Corporation[1]

Table A1: Summary, Philippines Power Sector Assets and Liabilities Management Corporation

Country	Philippines
Sector	Power
RMI type	PCG
RMI providers	ADB
RMI beneficiary	Debt (bond investors)
RMI coverage	Principal on final maturity dates; interest during final 10 years
Borrower	PSALM
Debt amount	JPY 61.75 billion (Tranche A: JPY 24.75 billion; Tranche B JPY 37 billion)
Maturity	Tranche A: 18 year due 2010 Tranche B: 20 year due 2022
Principal repayment	Bullet
Interest payment	Tranche A: 3.20% semi-annual Tranche B: 3.55% semi-annual
Rating	Baa1 (Moody's)
Financial closure	2002

Source: Authors' compilation.

A state-owned power sector asset and liability holding company of the Philippines, Power Sector Assets and Liabilities Management Corporation (PSALM; not rated), issued two-tranche Japanese yen bonds with (a) a full credit guarantee provided by the Republic of the Philippines; and (b) a partial credit guarantee (PCG) of the Asian Development Bank (ADB). The PSALM bonds have two tranches: JPY 24.75 billion due 2020; and JPY 37 billion due 2022. ADB's PCG covers repayment of the principal of each tranche of the bonds on its respective final maturity dates (nonaccelerable guarantee) and interest on the outstanding principal during the final 10 years of the bonds' terms. The proceeds of the bonds are used by PSALM for general corporate purposes to sustain reform and restructuring in the Philippines' power sector.

While any repayments from PSALM as primary obligor or the government of the Philippines as the full credit guarantor during the first 8 and 10 years for the bonds due 2020 and 2022, respectively, are subject to the sovereign risk of the government, the PCG from triple-A rated ADB helped increase the ratings of the bonds above the government's Ba1 foreign currency rating to Baa1.[2] Although ADB's guarantee is partial, it constitutes a significant portion on a present value basis. If other conditions are unchanged, the ratings of the two bonds would migrate over the bonds' term from the Baa1 to the Aaa level, with the higher rating correlating with that of the ADB vs. the rating of the government of the Philippines.

2. Philippines: Philippine Power Trust I (Napocor)[3]

Table A2: Summary, Philippine Power Trust I

Country	Philippines
Sector	Power
RMI type	PRI
RMI providers	OPIC
RMI beneficiary	Debt (bond investors)
RMI coverage	Principal and interest in full
Borrower	PP Trust I (underlying borrower is Napocor)
Debt amount	US$250 million
Maturity	15 year due 2018
Principal repayment	average life of 10 years (4.5-year interest-only period)
Interest payment	5.4%
Rating	AAA (S&P)
Financial closure	2003

Source: Authors' compilation.

In an effort to diversify lenders, the Philippines' state-owned National Power Corporation (Napocor)[4] issued US$250 million of certificates due 2018 through a grantor trust. The trust holds a guaranteed note issued by Napocor that benefits from (a) a full credit guarantee provided by the government of the Philippines as the primary source for payments due to certificate holders; and certificate holders, in turn, benefit from (b) an expropriation insurance policy (covering against the risk of nonpayment by the government as guarantor) provided by U.S. Overseas Private Investment Corporation (OPIC) that insures payment under the guaranteed note.[5]

[1] This is based on Moody's International Structured Finance New Issue Report dated May 7, 2003, on the transaction and other public information that the author collected.

[2] The rating reflects Moody's assessment on an expected loss basis and addresses the ultimate repayment of principal and interest of the bonds.

[3] This is largely based on S&P's pre-sale and rating report.

[4] Napocor is part of PSALM's consolidated financials.

[5] The trustee is the insured party. The OPIC policy does not guarantee payments on the certificates directly.

The transaction used an advance payment mechanism, eliminating the need for a reserve account to cover the payment due during OPIC's claims evaluation and processing period (which was estimated to be 87–180 days): Napocor remits payments due under the guaranteed note to the trustee one payment period in advance.[6] The trustee will then make payments due under the trust certificate to investors. If both Napocor and its guarantor (the government) were to default on their obligations, OPIC would then make the scheduled payments due on time, subject to OPIC's notification and claim filing requirements, before the next semi-annual payment date of the certificate.

The certificate was rated AAA based on the strength and comprehensiveness of the OPIC policy coverage (backed by the full faith and credit of the AAA-rated U.S. government).

Similarly, other bilateral and private political risk insurers have offered PRI coverage for sovereign and corporate borrowing in lieu of credit guarantees,[7] often with full or quasi-full coverage of debt service.

3. Mexico: Tlalnepantla Municipal Water Conservation Project

Table A3: Summary, Tlalnepantla Municipal Water Conservation Project

Country	Mexico
Sector	Water
RMI type	PCG (local currency)
RMI providers	IFC, Dexia Crédit Local
RMI beneficiary	Debt (bond investors)
RMI coverage	90% of principal and interest outstanding; up to US$8.2 million
Borrower	Trust (backed by revenues of Tlalnepantla Municipality /Municipal Water Company)
Debt amount	Mx$95.9 million (approximately US$9.1 million)
Maturity	10 years, extendable by 1 year
Principal repayment	equal semi-annual payments starting year 1
Interest payment	UDIS+5.5%; semi-annual
Rating	AAA (local) S&P, Moody's
Financial closure	2003

Source: Authors' compilation.

Tlalnepantla de Baz is a municipality of 800,000 people on the outskirts of Mexico City. The traditional finance structure used to fund state and municipal infrastructure projects in Mexico is one where banks, in the event of default, have recourse to the central government for all amounts due by deducting the corresponding debt payment from the state or municipality's allocation of federal transfers.

The primary challenges of the transaction were allowing the Municipality of Tlalnepantla de Baz and its Municipal Water Company (OPDM) access to long-term funds at reasonable rates, broadening their funding options and reducing currency risk in financing the first wastewater treatment and recycling plant in the Mexico City metropolitan area.

A private Mexican trust issued unsecured revenue bonds (Certificados Bursatiles, or CB) backed by the Municipality of Tlalnepantla de Baz and OPDM.[8] The International Finance Corporation (IFC) (through its Municipal Fund), working with Dexia Crédit Local as coguarantor, provided a partial credit guarantee (PCG) in Mexican pesos for the benefit of CB holders. The PCG enabled the municipality and its water company to access financing at relatively low costs and over a longer term because the bonds were rated AAA national scale by both Standard & Poor's and Moody's Mexico, a two-notch increase over the municipality's rating. The bond issue was fully subscribed by eight domestic financial institutional investors.

[6] The first debt service payment on the guaranteed note was made from the proceeds of the guaranteed note issuance.

[7] For example, Japan's Ministry of International Trade and Industry (currently, Nippon Export and Investment Insurance) provided its insurance for the trust borrowing of Malaysia in 1998.

[8] The trust used proceeds to make a loan to the municipality and OPDM; the municipality pledges property taxes and OPDM pledges its water fees to secure the loan.

4. South Africa: City of Johannesburg

Table A4: Summary, City of Johannesburg

Country	South Africa
Sector	Multi-infrastructure
RMI type	PCG (local currency)
RMI providers	IFC, DBSA
RMI beneficiary	Debt (bond investors)
RMI coverage	principal and interest up to 40% of principal outstanding
Borrower	City of Johannesburg
Debt amount	R1 billion (approximately US$153 million)
Maturity	12 years
Principal repayment	6 equal semi-annual payments over the last 3 years
Interest payment	11.9%; semi-annual
Rating	AA(zaf) Fitch (local)
Financial closure	2004

Source: Authors' compilation.

Johannesburg, South Africa's largest city, with a population of 3.2 million, is the country's main business center, contributing more than 16 percent of the national GDP.

The challenge was how best to finance the city's long-term capital expenditure plan focused on water, city streets, and distribution of electrical power. An inability to access affordable funding, in combination with a post-apartheid amalgamation of poor and relatively well-off jurisdictions, had resulted in service backlogs, deferred maintenance, and failure of infrastructure systems to keep pace with population growth. With huge investment needs, the city was keen to diversify its financing sources and, in particular, wanted to match funding tenors with the life of the assets being funded.

The bond issuance allowed the city to tap into the institutional investor market as an alternative source of funding. Use of a partial credit guarantee (PCG) provided by the IFC (AAA international, through its Municipal Fund) and the Development Bank of Southern Africa (DBSA) (AAA local) raised the bond's credit rating three notches to AA(zaf) by Fitch Ratings and allowed for an extension of the bond's final maturity to 12 years (compared with six years on its own).

The PCG was sized at 40 percent of the outstanding principal shared equally with DBSA on a several basis. The guarantee covers principal and interest falling due and payable to bondholders on any given payment date, subject to guarantee limits. The bonds were oversubscribed 2.3 times, resulting in the final spread of 164 basis points above the benchmark. It was the first structured municipal bond in South Africa and was the longest-maturity municipal bond ever issued in the country.[9]

5. Romania: Privatization of Banat and Dobrogea Power Distribution Companies

Table A5: Summary, Privatization of Romanian Power Distribution Companies

Country	Romania
Sector	Energy (power distribution)
Project costs (privatization)	€112 million (US$142.6 million equivalent)
RMI type	PRG
RMI providers	IBRD
RMI beneficiary	L/G bank[a]
RMI amount	Capped at €60 million (US$76.7 million equivalent)
Financial closure	2005

Source: Authors' compilation.

Note:

a. While the immediate signatory of the guarantee agreement with IBRD is a commercial bank, this PRG structure backs an Letter of Guarantee (equivalent to a Letter of Credit in Romania), which is for the benefit of privatized distribution companies and thereby their private investors.

The mixed postprivatization experience of investors in distribution utilities has heightened investors' sensitivity to perceived government-related risks, with regulatory risk being one of the critical risks. In response to these global lessons, the World Bank adapted its partial risk guarantee (PRG) product to specifically support privatizations and backstop regulatory risk.

The government of Romania initiated its privatization effort in the power sector with the launch of the bid for the majority asset (51 percent) sale of the first two of its eight regional electricity distribution companies, Banat and Dobrogea.[10] The distribution companies will operate under a 25-year distribution license and an 8-year supply license for retail supply. Distribution revenues are regulated by the National Energy Regulatory

[9] In April 2005, the city launched its first bond under a new Domestic Medium Term Note program, in the amount of R700 million with 8-year maturity. This offering extends the ability of the city to issue bonds without credit enhancement.

[10] State-owned Electrica will retain 49 percent.

Authority (ANRE) on the basis of a price cap–price basket methodology introduced in January 2005.[11]

Enel SpA of Italy purchased the distribution companies for about €35 million with a commitment to recapitalize them with additional capital injections of around €77 million. Enel's projected capital expenditure, including expenditure for network improvement, is about €171 million for the 2005–09 period.

Given the considerable uncertainty relating to the untested performance of the regulator and the investor requirement of a predictable revenue stream critical to the viability of distribution companies, the government of Romania requested the World Bank to provide a PRG to mitigate certain regulatory risks arising from the new regulatory framework being put in place from January 2005, around the same time as the closing of the privatization transaction.

The PRG was designed to backstop the government's obligation to compensate the distribution companies for loss of regulated revenues resulting from noncompliance by the regulator or change or repeal by the government of the agreed-upon regulatory framework relating to (a) the distribution tariff formula and (b) the full passthrough of the electricity costs. The Government Support Agreement (GSA) between the government and the distribution companies details the Guaranteed Events, the claim process, dispute resolution mechanisms, and the agreed-upon tariff framework.

The PRG was structured to backstop a letter of guarantee (L/G) issued by Citibank Romania[12] for the benefit of the two distribution companies. If a Guaranteed Event occurs and the Event of Default is not remedied, the distribution company(ies) would be entitled to draw on the L/G on a "first come, first served" basis. Following a drawing, the government, through the Ministry of Public Finance, would be obligated to reimburse the amounts drawn, plus accrued interest, within 12 months. If the government failed to make the necessary payments, then Citibank Romania would have recourse to the PRG.[13] The L/G and the PRG are for a maximum amount of €60 million for both distribution companies. The L/G is valid for five years.[14] IBRD concluded an Indemnity Agreement with Romania; a Project Agreement with the distribution companies and a Guarantee Agreement with Citibank Romania in support of the transaction. Financial closure of the Privatization Agreement between the government and Enel, as well as for the PRG, was achieved in April 2005.

The PRG facilitated the successful conclusion of the transaction and caused Enel to reduce its Weighted Average Cost of Capital (WACC) requirement. This reduction will yield substantial savings for the country throughout the operational life of the distribution companies with positive impact on consumer tariffs. This transaction was the first PRG to be provided by the World Bank in support of a privatization transaction, where the innovative L/G structure was designed to be a source of liquidity for the investor in the event of a regulatory breach or pending dispute resolution. Traditionally, the Bank's guarantees have been for debt instruments provided by private lenders.

6. Joint Kenya-Uganda Railway Concession

Table A6: Summary, Joint Kenya-Uganda Railway Concession

Countries	Kenya, Uganda
Sector	Transport (railways)
Project costs	US$400 million
RMI type	PRGs
RMI providers	IDA
RMI beneficiary	Rift Valley Railways Consortium (the concessionaire)
RMI amount	US$45 million for Kenya US$10 million for Uganda
Financial closure	2006

Source: Authors' compilation.

The governments of Kenya and Uganda jointly undertook the concessioning of their respective railway systems to improve the management, operational, and financial performances of the two networks. The advisers to the government of Kenya and the government of Uganda were the IFC and Canarail, respectively. The shareholders of Rift Valley Railways Consortium (RVRC) are Sheltam Rail Company of South Africa (60 percent), Trans-Century Limited (20 percent), Babcock

[11] The framework provides for a tariff mechanism based on recognized costs by justified and guaranteed return in the form of an agreed weighted average cost of capital, incentives for performance, and full passthrough of electricity costs.

[12] This is equivalent to a Letter of Credit in Romania; Citibank Romania was selected competitively.

[13] In the event of a disputed claim, pending the adjudication of the claim, the distribution companies would be entitled to draw provisional payments under the L/G secured by bank guarantees issued in favor of the Ministry of Public Finance.

[14] The term of the PRG was selected to cover the three years of the first regulatory period and the first two of the second regulatory period.

& Brown (10 percent), and ICDCI Investment Company Ltd (10 percent). The RVRC consists of a holding company that has set up a subsidiary company in each country to undertake the respective concessions.

All railway assets, consisting of the railway infrastructure, locomotives and rolling stock, railway and marine equipment, and maintenance facilities, were conceded by Kenya Railways Corporation (KRC) and Uganda Railways Corporation (URC) to the concession companies at the commencement of the concession. The concession companies will be responsible for the rehabilitation and maintenance of all assets to specified standards and for the achievement of minimum investment levels and traffic growth targets stipulated in the Concession Agreements. The concession companies will also be responsible for the payment of concession fees for the defined conceded assets: a minimum one-off entry fee of US$3 million to Kenya and US$2 million to Uganda, and an annual variable fee of 11 percent of each concession company's gross revenues, to the respective governments.

RVRC will run the railway as a seamless operation. A large amount of freight traffic is expected to be cross-border, and the success of each operation highly depends on the joint coordination of operations on the total network.

An IDA credit for US$44 million has been made available for staff retrenchment to bring the Kenya railway system to an adequate staffing level to ensure viability of the concession. The concession company is free to retain the staff that it requires for the operation of the concessions.

RVRC is expected to invest around US$28 million in equity in the two concession companies. The debt-to-equity ratio of the project will be about 70:30. The debt financing was provided by the IFC and KfW for a total amount of US$64 million.[15] The capital expenditures required for the project are expected to be approximately US$400 million over the term of the concession, and will be provided through equity, debt financing, and internal cash flows generated by project operations. The concession companies and the lenders will assume the commercial risks associated with the concessions, principally the operation, investment, and, most important, the traffic risk. The political and government-related risks are backstopped by the IDA partial risk guarantees (PRGs).

The joint concession is structured legally as two separate 25-year concessions, which will be supported for their entire terms by two separate IDA PRGs in support of the respective concession companies. The PRG could only be triggered as a result of a termination due to a breach of the Concession Agreements by either government. This would be with respect to their payment obligations for liquidated damages as well as KRC and URC's payment obligations relating to the Conceded Assets Accounts.

The terms and structure of the deferred project company loans from the respective concession companies to the respective governments are detailed in separate loan agreements concluded between the Kenyan concession company and the government of Kenya and the Ugandan concession company and the government of Uganda. In addition, the IDA has concluded Guarantee Agreements with the two concession companies that outline the terms of its PRG support and Indemnity Agreements with the governments. This PRG structure is particularly suited to the coverage of termination risks.

RVRC considered the availability of the two PRGs critical to its ability to catalyze long-term debt and equity investments. The PRGs played a crucial role throughout the concession process in maintaining investors' interest during the bidding process, enhancing the bid value, and bringing the concession to financial closure.

7. Brazil: AES Tietê[16]

Table A7: Summary, AES Tietê

Country	Brazil
Sector	Energy (power generation)
RMI type	PRI and FX Liquidity Facility
RMI providers	OPIC[a]
RMI beneficiary	AES Tietê
RMI coverage	Up to US$85 million for PRI; US$30 million for the liquidity facility
Borrower	AES Tietê Certificates Grantor Trust
Debt amount	US$300 million
Maturity	15 years; average life of 10.11 years
Interest payment	11.5% annual
Rating	Baa3 by Moody's; BBB- by Fitch IBCA
Financial closure	2001

Source: Authors' compilation.

Note:

a. OPIC has discontinued offering the liquidity facility.

[15] This figure includes a quasi-equity product in the form of an IFC C-loan of US$10 million.

[16] For further details, please refer to Tomoko Matsukawa, Robert Sheppard, and Joseph Wright, "Foreign Exchange Risk Mitigation for Power and Water Projects in Developing Countries," World Bank, Washington, DC, 2003.

Tietê is composed of 10 hydroelectric generation plants (2,651MW) located in the state of São Paulo, Brazil. A controlling interest in Tietê was purchased by AES in a privatization held in 1999.[17] Tietê derives 90 percent of its revenues from contracted power sales to distribution companies and 10 percent from the wholesale spot market. It sells most of its contracted capacity and energy to AES affiliate Eletropaulo, pursuant to a 15-year supply that indexes the price of power to the local inflation rate.

Through the AES Tietê Certificates Grantor Trust, the AES subsidiaries that control AES Tietê issued US$300 million of 11.5 percent certificates (the Certificates) due 2015 to refinance debt incurred at the time of the purchase of the company. The Certificates benefited from OPIC political risk insurance (PRI) (covering the risk of inconvertibility or nontransferability) up to US$85 million and a FX Liquidity Facility (to mitigate devaluation risk) in the amount of US$30 million. OPIC support enabled the Certificates to achieve investment-grade ratings from Moody's (Baa3) and Fitch (BBB-), piercing Brazil's then-current sovereign credit ratings (B1/BB-).

OPIC's liquidity facility was designed to meet a debt-service shortfall only if the shortfall was caused by a devaluation and was designed to separate out the operating risk that was not covered. A "floor value" was set for each year as the dollar value per MW of the contracted assured energy output to represent the project's cash available for debt service. Such value was set at a level that would provide an adequate debt service coverage ratio (DSCR).[18] If available cash as a net margin after tax per unit of output converted to dollars were to drop below the floor value and, as a result, the borrower was unable to make debt service payments, then OPIC would permit draws under the facility. The entire debt service shortfall would not necessarily be covered because operating performance less than expected would be taken into account.

OPIC's mitigation of the devaluation risk was based on the fact that Tietê sold assured energy (which was set at the level of about 50 percent of its installed capacity) under long-term take-or-pay contracts and that price of power was adjusted annually based on the inflation rate. To the extent that the economic concept of purchasing power parity was reasonably accurate if taken on an basis over the medium to long run, a cash flow shortage caused by a devaluation could be managed by an appropriately sized liquidity facility and cash could be captured or recovered through a tariff increase reflective of inflation.[19]

The liquidity facility was structured as a revolving credit facility, and repayment of advances from the facility is made only when the project has a positive cash flow after paying its senior debt service. The liquidity facility was thus subordinated to the project's senior debt service (except in liquidation, where the outstanding balance of the liquidity facility ranks pari passu with the project's senior debt).

Despite the fact that AES Tietê closed following Brazil's major devaluation in 1999, Brazil's currency has subsequently undergone a further steep drop in value. The transaction was downgraded by Moody's and Fitch to B2/BB- (versus Brazil's then-current foreign currency sovereign ratings of B2/B). These rating actions were a consequence of the downgrade of Eletropaulo, its major power purchaser.

Although Eletropaulo's local currency rating at the closing of the AES Tietê transaction was Baa2/BBB-, its credit deteriorated as a result of the reduced revenues and regulatory uncertainty created by Brazil's rationing program in 2001–2, together with its high level of short-term debt (a significant portion of which is in U.S. dollars). A further reason for the downgrade of AES Tietê is the failure of Brazilian authorities to implement a functioning spot market for the sale of electricity. Although AES Tietê anticipated receiving only a minor portion of its revenues from spot market sales, the existence of the spot market would have provided an alternative to reliance on sales to Eletropaulo.

[17] AES Tietê entered into a concession agreement with the government of Brazil and the regulatory agency to operate and maintain the Tietê facilities for a 30-year extendable term.

[18] That is, an average DSCR of 1.4 times over the life.

[19] If inflation for any six-month period exceeds an annualized rate of 30 percent, AES Tietê is required to deposit all funds available in a special inter-period inflation reserve account for the benefit of the Trustee and OPIC up to US$40 million. A debt service shortfall caused by a devaluation will be withdrawn from this account first.

8. Vietnam: Phu My 2.2 BOT Power Project[20]

Table A8: Summary, Phu My 2.2 BOT Power Project

Country	Vietnam
Sector	Energy (power generation)
Project costs	US$480 million (financing requirements including contingency)
RMI type	PRG
RMI providers	IDA, ADB, (private insurers)
RMI beneficiary	Lenders
RMI amount	US$100 million
Financial closure	2002

Source: Authors' compilation.

Electricity demand in Vietnam has increased rapidly since the mid-1990s. To sustain the projected economic growth of about 6–8 percent per year over the medium term, the country needed to increase its electricity supply at the rate of about 10–14 percent per year. The government of Vietnam in 1996 decided to promote private sector participation for increasing power generation capacity required to sustain economic growth and further reduce poverty.

The Phu My 2.2 power project was the first private infrastructure build-operate-transfer (BOT) project where the project sponsors were selected under an international competitive bidding in Vietnam. The World Bank (through IDA) helped the government finance the first phase of the Phu My 2 power project as a public project, and assisted the development of the second phase as a BOT project through financing the government's preparation of bidding documents and offering an IDA partial risk guarantee (PRG) as an option to all the bidders. The offering of the PRG enhanced the competition at the bidding and the government received attractive tariff proposals from international investor consortia.

The project is a 715MW gas-fired power project built, owned, and operated by Mekong Energy Company Ltd. (MECO), a project company established by the winning sponsor consortium of EDF International (EDFI, 56.25 percent), Sumitomo Corporation (28.125 percent), and Tokyo Electric Power Company International (TEPCI, 15.625 percent).

The project is implemented under a 20-year BOT Contract with the Ministry of Industry (MOI); sells power exclusively to state-owned Electricity of Vietnam (EVN) under a 20-year Power Purchase Agreement (PPA); is fueled by domestic gas (sourced from the Nam Con Son Basin gas fields jointly owned by private developers and Petro Vietnam [PV]) supplied by state-owned Vietnam Oil and Gas Corporation or PV under a 20-year Agreement for the Sale of Natural Gas (GSA). Under a Government Guarantee, the government guarantees the contractual performance of each Vietnamese contractual party to MECO, including payment obligations, under the BOT Contract, PPA, GSA, and associated Vietnamese project agreements,[21] as well as the availability, convertibility, and transferability of foreign exchange.

With total financing requirements of US$480 million, including the base project cost of US$400 million funded at the debt-equity ratio of 75:25 and standby financing of US$80 million, it was the first project in Vietnam with a limited-recourse financing package of such significant size. Of the US$480 million, the sponsors financed US$140 million in equity. Debt requirements of US$340 million were funded by a US$75 million commercial bank loan under the IDA PRG, US$25 million commercial bank loan under the ADB PRG (ADB serves as the guarantor of record for private political risk insurers);[22] US$50 million ADB direct loan; US$150 million JBIC loan; and US$40 million PROPARCO loan. The project, with actual project cost at US$407 million, achieved financial closure in December 2002 and started commercial operation in early 2005.

The IDA PRG guarantees commercial lenders against default in scheduled debt service payments of principal and interest resulting from the government's failure to meet its payment obligations (both periodic payments and termination amounts) under the BOT Contract or Government Guarantee. The guarantee is nonaccelerable: in the event the project is terminated as a result of a government default, the IDA would be called on to make payments only according to the original debt service schedule. The IDA guarantee excludes coverage of government obligations arising in connection with a MECO event of default.

A PRG helped Vietnam to mobilize private financing for infrastructure development to supplement limited public resources. It also supported the extension of the

[20] For further details, please see a Project Finance and Guarantees transaction note on the project at World Bank's guarantee Web site (www.worldbank.org/guarantees).

[21] A Water Supply Agreement with a provincial water supply company and a Land Lease Agreement with a provincial entity.

[22] ADB serving as the guarantor of record enabled private insurers to take risks they were otherwise not willing to take.

long-term debt substantially beyond prevailing market terms for the country (the IDA-guaranteed loan has a 16-year maturity), contributing to the achievement of competitive generation tariffs. The successful financial closure of Phu My 2.2 through the deployment of the PRG was an important milestone for attracting further private capital flows to the country.

9. Chile: Rutas del Pacifico[23]

Table A9: Summary, Rutas del Pacifico

Country	Chile
Sector	Transportation (toll roads)
RMI type	PCG
RMI providers	IDB as the guarantor of record for its account and for coguarantor FSA
RMI beneficiary	Debt (bond investors)
RMI coverage	principal and interest in full (full wrap financial guarantee); IDB cover US$75 million with FSA covering remainder
Borrower	Rutas del Pacifico S.A.
Bond issue amount	UF11.42 million[a]: 10.42 million public bonds and 1 million private placement (approximately US$288 million)
Maturity	23 years and 12 years
Interest yield	6.02% and 5.5%
Rating	National Scale: Humphreys (Moody's affiliate) AAA; Feller Rate (S&P affiliate) AAA
Financial closure	April 2002

Source: Authors' compilation.

Note:

a. UF = Unidades de Fomento (a Chilean peso-denominated unit with daily adjustment to inflation).

Rutas del Pacifico S.A. (the Company) is a single-purpose company owned 50 percent by ACS, Chile, and 50 percent by Sacyr, Chile, respectively owned by Grupo ACS and Grupo SACYR from Spain, which in 1998 won the concession contract for the Santiago-Valparaíso-Viña Del Mar (SVVDM) toll road project from Chile's Ministry of Public Works (MOP).

The SVVDM toll road project is located in the central area of Chile. The project consists of the engineering, construction, upgrade, operation, and maintenance of the existing 109 km Ruta 68 toll road, which connects Santiago with the Port of Valparaíso and the Viña del Mar region; the new 20 km Troncal Sur; and 10 km of Ruta 60, which connects Ruta 68 with Troncal Sur. The concession officially started in August 1998 and has a maximum term of 300 months.

The project combined the proven revenue generation capacity of Ruta 68 with the future benefits of new toll-paying customers on the Troncal Sur. Ramp-up risk was mitigated through well-established traffic levels and usage patterns, as well as average annual growth of 6.4 percent (over the last 16 years) since the MOP started collecting tolls at the two mainline toll plazas on Ruta 68 in 1964 and 1972. At the time of the bond issue, the entire Ruta 68 project was over 70 percent completed. The contractor covers all cost overruns except for those caused by the MOP.

The MOP provides annual toll increases on the road indexed to the consumer price index. A unique feature of the concession is that it was awarded based on the lowest present value of revenues. The Ingresos Total de la Concession (ITC) is a predetermined amount of revenues that can accrue to the Company. The term of the concession is either 300 months or the date by which the ITC is reached, whichever is shorter. This provision provides a fixed return for the sponsors and limits the Company's upside revenues.

The bonds were structured around the ITC, with a final maturity of 2024 and principal amortization starting in 2004. If revenues are better than expected, accelerated principal amortization begins. Interest is capitalized until 2003. Debt service coverage (DSC) must remain at 1.4 times debt service requirements. Dividend payments can be made to the sponsors if the DSC equals or exceeds 1.3 times. Reserves include a 12-month debt service reserve fund in the form of a standby letter of credit that will gradually be replaced by excess project cash flows. In addition, a Major Maintenance Reserve Account will be funded over multiple years to cover scheduled maintenance requirements. If DSC falls below 1.3 times, or the Loan Life Coverage Ratio falls below 1.4 times, excess cash flows are trapped in a Cash Collateral Reserve Account until one year's debt service is funded.

Local pension funds and insurance companies are highly conservative, concentrating on investing in high investment-grade, primarily local-scale AAA-rated paper. To promote local capital market development and aid the project company in raising local-currency,

[23] Information for this summary was taken from: Project Finance International-Americas Review; IADB Project CH-0167 Abstract Dec. 2000; Moody's Global Credit Research Rating Action March 2002; International Financing Review, "Chile-Desperately Seeking Comparables," April 2002.

long-term financing by issuing debt, the IDB created and implemented an innovative "multilateral wrap" model.[24] This is a coguarantee mechanism, with the IDB being the guarantor of record in privity of contract with the bondholders; the first cooperation of a multilateral institution with a private monoline insurer, in this case FSA, which coguaranteed the remaining amount and benefited from the IDB's preferred creditor status. The coguarantee under the guarantor-of-record structure is analogous to the IDB's A/B loan structure.

10. Peru: IIRSA Northern Amazon Hub[25]

Table A10: Summary, IIRSA Northern Amazon Hub

Country	Peru
Sector	Transportation (toll roads)
RMI type	PCG
RMI providers	IDB
RMI beneficiary	Government of Peru (effectively concessionaire's debt holders [bond investors])[a]
RMI coverage	First-loss, rolling, reinstatable guarantee: covers up to 100% of the sum of annual payments for construction payments outstanding
Guarantee amount	US$60 million
Maturity	20 years
Financial closure	IDB board approval in 2006

Source: Authors' compilation.

Note:

a. The guarantee contract will be signed between the IDB and the government of Peru; lenders to the concession would effectively benefit from such PCG. A trust is to be set up that includes the establishment to administer the flow of funds by the government.

Peru's infrastructure expenditures dropped by almost 50 percent during the period 1998 to 2002. A large proportion of the cutbacks took place in the transportation sector, where investment fell by over 51 percent to US$216 million in 2002. However, since then the Peruvian economy has experienced strong growth and greater macroeconomic stability. This has, in turn, led to a new focus on revitalizing its investments in the infrastructure sector.

The establishment of the institutional and regulatory framework through the 1996 Law to Promote Private Investment in Public Infrastructure Works and Services led to the 2003 concession award for the Lima-Pativilca stretch for the Red Vial 5 toll road and 2005 concession award for Red Vial 6. The government of Peru is currently executing a road rehabilitation and improvement project on 960 km of the road system (Northern Amazon Hub). The concessionaire is responsible for construction, operation and maintenance, and financing, and will recover its investments through the Annual Payments for Construction (APCs) in an amount up to US$29.5 million over 15 years, to be made by the government. The government also commits to pay annual works maintenance payments (AWMPs), net of toll revenues, up to 25 years to the concessionaire.[26] The bidder who bid the lowest sum for the APC and the AWMP was awarded the concession.

To encourage the participation of private concessionaires and ensure sound financing of the project, the government requested a partial credit guarantee (PCG) from the IDB to partially guarantee the timely payment of APC by the government. The IDB's PCG is to back the financial obligations of the government under the concession to cover the annual APC payments for construction agreed to in the concession contract, including recognition of partial works if the concession is terminated early. It is a first-loss, rolling, and reinstatable guarantee.[27] The IDB has received a counter-guarantee from the government of Peru. If the government fails to make the APCs and the guarantee is triggered, any disbursement the IDB makes will be converted into its loan to Peru. These loans will have the same terms as IDB's Ordinary Capital Loans with the exception of the grace period and tenor—up to the remaining term of the guarantee and determined according to the available amount of the guarantee.[28] The amount the government prepays to the IDB within a period not exceeding 30 days for each disbursement will be reinstated to the guarantee.

[24] In 2003, the IDB replicated this structure for the Costanera Norte S.A. urban toll road concession in Santiago. AMBAC acted as coguarantor on this transaction.

[25] IIRSA is Initiative for the Integration of South American Regional Infrastructure. Information for this summary was taken from the Inter-American Development Bank Loan Proposal Document PR-3018, December 22, 2005.

[26] Toll revenues are expected to partially cover operation, routine maintenance, and periodic maintenance. The difference between the AWMP and the toll revenues is assumed by the government. Surplus revenues exceeding AWMP will be shared between the government (80 percent) and the concessionaire (20 percent).

[27] A rolling and reinstatable guarantee refers to the guarantee rolling forward to each subsequent interest payment, and if a payment is not made by an issuer and the guarantee is used, then the next payment is not guaranteed until the issuer makes the guarantor whole, at which point the guarantee is reinstated.

The guarantee amount was determined through a financial analysis by the local affiliate of one of the major rating agencies. It indicated that a US$60 million guarantee (nonamortizing) would raise the debt rating of the project by two levels (and as a result, possibly achieve a foreign long-term rating higher than the sovereign), thus allowing access by the concessionaire to the local and foreign capital markets.

Through a combination of participants, such as USAID, which, under its agreement with PROINVERSION (Peru Agency for the Promotion of Private Investment), financed the financial, legal, environmental, and economic studies for the project; CAF (Andean Development Corporation), which provides a three-year US$60 million revolving line of credit during the construction phase; and the IDB, which is providing credit enhancement during the postconstruction phase via a PCG; an innovative approach has been found to address the needs and requirements of both the private and public sectors.

11. India: Tamil Nadu Pooled Financing for Water and Sanitation

Table A11: Summary, Tamil Nadu Pooled Financing for Water and Sanitation

Country	India
Sector	Water and sanitation
RMI type	PCG (local currency)
RMI providers	Government of Tamil Nadu, USAID
RMI beneficiary	Debt (bond investors)
RMI coverage	50% of principal and interest outstanding; up to US$3.2 million
Borrower	Water and Sanitation Pooled Finance – 13 small and medium municipalities
Debt amount	US$6.4 million (304.1 million Indian rupees)
Maturity	15 years
Principal repayment	equal annual principal payments and starting year 1
Interest payment	9.2% per year
Rating	AA (local) Fitch
Financial closure	2002

Source: Authors' compilation.

The U.S. Agency for International Development (USAID) used its Development Credit Authority (DCA) to support a pooled municipal bond issue that financed water and sanitation infrastructure improvements for smaller cities located in the Indian state of Tamil Nadu. USAID not only provided market access to these urban local bodies (ULBs), but helped develop the municipal capital market by introducing a new institutional option to Indian investors. USAID's partial guarantee, combined with other risk mitigation measures and the credit quality of the ULBs, resulted in a local AA Fitch rating, which was sufficient to attract Indian institutional investors.

A constraint to the expansion of the municipal bond market in India had been a lack of investor interest in long-term debt. Before this transaction, the term of municipal bonds had been confined to a maximum of seven years. Municipal bonds with longer tenors had been perceived as too risky for the market and thus unable to receive favorable pricing. Measures to increase the term of municipal bonds and measures to initiate their trading on the secondary market were needed to further develop the municipal bond market in India.

In addition to investor obstacles, there are high transaction costs for local governments interested in accessing capital directly from the market, making it affordable for only the largest municipal issuers. Pooling arrangements at state or regional levels allow small and medium cities to aggregate their financing needs and diversify credit risk, which serve to attract investors as well as spread the transaction costs among a number of borrowers. Additional risk mitigants included both ULBs and the Tamil Nadu state government prefunding escrow accounts dedicated to bond investors, and USAID providing a guarantee to replenish 50 percent of the amount drawn from the Debt Service Reserve Fund (DSRF), up to an amount equal to one-half of the bond principal.

Tamil Nadu's Municipal Urban Development Fund (TNUDF), a legally registered trust, issued the bonds. TNUDF is the successor organization to the World Bank-supported Municipal Urban Development Fund. The TNUDF trust is managed by a private entity, Tamil Nadu Urban Development Infrastructure Financial Ltd. (TNUIFSL), whose ownership is 51 percent private, including the largest private shareholder and manager of TNUIFSL, ICICI Bank. The state government owns 49 percent of the company.

The escrow accounts were funded by the ULBs from general revenues and before bond issuance, in an amount equal to one year's worth of their respective

[28] The term would be 15 years, 10 years, or 5 years, depending on the available amount of the guarantee.

loan obligation to TNUDF. These funds were held in secure, short-term fixed deposits in the name of the ULB and available to cover debt service payment shortfalls. The ULB's Current Account will be used to replenish draws on the escrow accounts.

The state government funded the DSRF at a level equal to 1.6 times annuity payments (or comparable market negotiated level). Like the ULB-funded escrows, the debt service reserve is held in short-term fixed deposit investments or other liquid instruments in the name of the fund. If drawn upon to make annuity payments to bondholders, the state government will replenish it through either a government order or by diverting ULB transfer payments. USAID guarantees 50 percent of DSRF repayments and is triggered when the DSRF is exhausted and has not been replenished by the state government within 90 days.

Critical to the success of this transaction (and another pooled municipal financing in the state of Karnataka, also supported by USAID), was a relatively stable regulatory framework and transparent ULB budgets. These factors were positively influenced by long-term and intensive USAID technical assistance.

12. West African Gas Pipeline Project[29]

Table A12: Summary, West African Gas Pipeline Project

Countries	Benin, Ghana, Nigeria, Togo
Sector	Energy (gas pipeline)
Project costs	US$590 million
RMI type	PRG, PRI
RMI providers	IDA, MIGA, Zurich/OPIC
RMI beneficiary	WAPCo (equity investments; shareholder debt)
RMI amount	US$250 million
Financial closure	2005

Source: Authors' compilation.

The West African Gas Pipeline Project (WAGP) includes (a) a new pipeline system (678 km) that will transport natural gas from Nigeria offshore to Ghana, Togo, and Benin; (b) spurs to provide gas to power-generating units in Ghana, Benin, and Togo; (c) conversion of existing power-generating units to gas; and (d) as-needed additional compression investments.

Natural gas is sourced from two existing oil-producing joint ventures in Nigeria, one of Nigerian National Petroleum Corporation (NNPC) and Chevron Nigeria Ltd. (CNL), and the other led by NNPC and Shell Petroleum Development Company of Nigeria (SPDC).[30] The Foundation Customers—Volta River Authority (VRA) of Ghana and Communauté Electrique du Bénin (CEB)—have committed to purchase the initial volumes of gas (on a take-or-pay basis in U.S. dollars) and underwrite the costs of the new pipeline.

West African Gas Pipeline Company Limited (WAPCo) was formed by ChevronTexaco West African Gas Pipeline Company Ltd. (38.2 percent), NNPC (26.0 percent), Shell Overseas Holdings Ltd. (18.8 percent), and Takoradi Power Company Ltd. (as shareholder for the government of Ghana, 17.0 percent) to build, own, and operate the pipeline. An international project agreement (IPA) among the four states and WAPCo provides for the development, financing, construction, ownership, and operation of the pipeline.

N-Gas Ltd, a newly formed entity owned by NNPC (62.35 percent), ChevronTexaco N-Gas Ltd. (20.00 percent), and Shell Overseas Holdings Ltd. (17.65 percent), purchases gas under 20-year gas purchase agreements; transports gas under gas transportation agreements (GTAs); and sells gas to the Foundation Customers (92 percent of the demand would be from VRA in the early years) under gas sales agreements (GSAs).

Ghana, in compliance with its undertaking under the IPA, irrevocably and unconditionally guarantees to N-Gas and WAPCo, under a Government Consent and Support Agreement (GCSA), the performance obligations of VRA under the Takoradi GSA (between VRA and N-Gas) and the VRA Direct Agreement (among VRA, WAPCo, and N-Gas).[31]

The US$590 million initial project cost will be financed through direct equity and shareholder loans to WAPCo from the sponsors. The subsequent compression-related capital expenditures (estimated to be about US$20 million over 20 years) are expected to be financed by cash flow from operations. WAPCo will recover its investments through gas transportation charges under its GTAs with N-Gas and other future shippers.

The partial risk guarantees (PRGs) will involve complementary guarantees from the IDA (PRG, US$50 million), MIGA (PRI, US$75 million), and Steadfast

[29] For further details, please see a Project Finance and Guarantees transaction note on the project at World Bank's guarantee Web site (www.worldbank.org/guarantees).

[30] The other joint venture partners are Elf Petroleum Nigeria Ltd. and Nigeria Agip Oil Company Ltd.

[31] Under the agreement, N-Gas, upon termination, directs VRA to pay WAPCo a Termination Payment amount directly to WAPCo instead of to N-Gas.

Insurance Company (a subsidiary of Zurich Financial Services Group, and substantially reinsured by OPIC; PRI, US$ 125 million). All will cover payments owed by the government of Ghana in the event of a termination of the Takoradi GSA with VRA, although there are differences in application of individual risk coverage. The basis will be pro rata allocation of claims among the guarantee and insurance providers; however, because of differences in structure and coverage, detailed mechanics under various scenarios have been agreed by the sponsors with the IDA, MIGA, and Zurich/OPIC. In the event of termination of the Takoradi GSA, there are different pro rata allocations of claims (and thus of payouts) that have been identified for different demand and tariff scenarios.

As to the IDA guarantee, which covers only debt (and not equity investments), in the event a termination payment is due and the government fails to make the termination payment to WAPCo, the IDA would be deemed to have made a loan to the government equivalent to the IDA's share of the termination payment. The IDA guarantees to WAPCo the repayment of this loan at its maturity one year from disbursement.

The project would not have gone forward without the political risk guarantees and insurance. The World Bank's involvement brought together the world's best practices in environmental and social safeguards implementation, economic and financial assessment, structuring for sustainability, and transparency.

13. Mozambique/South Africa: Southern Africa Regional Gas Project[32]

Table A13: Summary, Southern Africa Regional Gas Project

Countries	Mozambique, South Africa
Sector	Energy (gas development and pipeline)
Project costs	R3.692 billion (debt)
RMI type	PRG, PRI
RMI providers	IBRD (Enclave),[a] MIGA (SACE/EFIC), ECIC
RMI beneficiary	Lenders
RMI amount	R1.46 billion[b] (local currency)
Financial closure	2004

Source: Authors' compilation.

Note:

a. World Bank's IBRD Enclave PRG is for an export-oriented commercial project expected to generate foreign exchange outside an IDA-only country (in this case, Mozambique).

b. Debt amount benefiting from PRG and PRI.

The Southern Africa Regional Gas Project is a natural gas development and pipeline project that comprises (a) the development of the Pande and Temane gas fields in Mozambique and the construction of a central processing facility (upstream project), and (b) the construction of a new 865 km pipeline (531 km in Mozambique; 334 km in South Africa) to transport the gas to South Africa (pipeline project).

Under the petroleum production agreement (PPA), the government of Mozambique grants to Sasol Petroleum Temane Limitada (SPT), a subsidiary of Sasol Ltd. of South Africa, and Companhia Mocambicana de Hidrocarbonetos (CMH), a subsidiary of Empresa Nacional de Hidrocarbonetos de Moçambique (ENH), the exclusive rights for the development, production, and disposition of the gas in the Pande and Temane fields for a period of at least 30 years.

Under the pipeline agreement (PA), the government of Mozambique authorizes Republic of Mozambique Pipeline Investments Company (ROMPCO), a subsidiary of Sasol Ltd.,[33] to construct, own, and operate the gas pipeline and related infrastructure and equipment to transport natural gas for a period of at least 30 years.

Under the gas sales agreement, SPT/CMH will sell gas to Sasol Gas Ltd., a subsidiary of Sasol Ltd., for a period of at least 25 years, where 80 percent of the annual contract volume (ramping up to 120 million gigajoules per year over four years) is on a take-or-pay basis. A 25-year gas transportation agreement secures a revenue stream for ROMPCO through a ship-or-pay set at 80 percent of the contract volume.

The financing (for upstream and pipeline) is a hybrid of corporate debt and project financing. It comprises three debt tranches in the total amount of R3.692 billion with 12-year maturity. Given Sasol's extensive involvement in the project (as the primary sponsor of the upstream development and the seller of the gas, the transporter and the operator of the pipeline and the facility, and the buyer of the gas), Sasol Ltd. provides debt service support to the two project companies (SPT and ROMPCO). Under Sasol's debt service support agreement, lenders have full recourse to Sasol (thus a corporate loan with Sasol assuming all project-related risks), except that Mozambican political risk (over

[32] For further details, please see a Project Finance and Guarantees transaction note on the project at World Bank's guarantee Web site (www.worldbank.org/guarantees).

[33] The governments of South Africa and Mozambique have options to purchase shares in ROMPCO.

which Sasol has no control) is carved out of the Sasol debt service support.

The commercial debt issue of R1.46 billion was underwritten by the Standard Bank of Africa and benefited from partial risk guarantee (PRG) and political risk insurance (PRI) covering the Mozambican political risk, which enabled the following commercial debt financing:

- R210 million under IBRD Enclave PRG
- R820 million under MIGA PRI (of which R310 million was reinsured by SACE of Italy and EFIC of Australia)
- R430 million under Export Credit Insurance Corporation of South Africa (ECIC) PRI

The PRG covers debt service default from a breach by the government of Mozambique of specified obligations set in the PPA and PA: (a) change in law in Mozambique including the petroleum law and regulations that would have the effect of making the PPA and PA unenforceable or having material adverse effect; (b) failure by the government to expeditiously award licenses, permits, approvals, company registration, expatriate permits, and land use rights necessary to finance, develop, and transport gas; or to enforce license terms (length of period, renewal terms), exclusivity terms, stabilization clauses, free access to pipeline corridor, environmental accords, appointment of management committee members, regulatory authority approval, and to abide by land use and access rights; (c) expropriation; and (d) currency transferability.

The second debt tranche of R1.47 billion was lent from developing financial institutions (Development Bank of Southern Africa, African Development Bank, Deutsche Investitions- und Entwicklungsgesellschaft mbH, and the Netherlands Finance Development Company) where the Mozambican political risk was taken by these lenders. The third debt tranche of R762 million was provided by the European Investment Bank (EIB), where Sasol and EIB shared the Mozambican political risk.

14. Afghanistan: Investment Guarantee Facility

Table A14: Summary, Afghanistan Investment Guarantee Facility

Country	Afganistan
Sector	Cross-border private investments (including foreign loans of local investors; foreign currency-denominated local loans)
RMI type	PRI
RMI provider	MIGA (backed by the government facility financed with credits from IDA and ADB; and on its own account)
RMI beneficiary	Lenders and equity investors
Facility amount	US$10 million
Effective date	2004

Source: Authors' compilation.

To assist Afghanistan in its reconstruction efforts by stimulating foreign investments through the offering of political risk cover, the IDA and the ADB have provided credits (US$5 million equivalent each) to the government of Afghanistan to set up and fund an Afghanistan Investment Guarantee Facility (AIGF).

MIGA will administer and implement the AIGF in accordance with a Facility Agreement with the government and issue guarantee contracts on behalf of the AIGF. The facility's capital will be disbursed into a trust fund,[34] which will be invested to earn interest income partly to defray some operating costs.[35] Having the trust fund on a first-loss basis (US$2 million per project), MIGA and the ADB intend to make available guarantee capacity from their own capital, and will seek to further mobilize capacity from other public and private insurers.[36]

Given Afghanistan's conflict-affected environment, the AIGF intends to flexibly support transactions including foreign loans for importation and foreign currency-denominated loans made by local branches of foreign banks.[37] The availability period for the AIGF is

[34] Twenty-five percent of the IDA-ADB contribution would be disbursed upfront; the remainder is to be disbursed as guarantee prospects obtain host-country approval from the government.

[35] Germany will contribute US$0.6 million for technical assistance and to cover part of implementation costs.

[36] With US$10 million contribution from the government of Afghanistan (funded by the IDA and the ADB), capacity addition would be expected from MIGA (US$10 million), the ADB (US$10 million), and public and private insurers (US$30 million).

[37] Such transactions are otherwise not eligible for MIGA policies because MIGA does not support transactions that do not involve cross-border equity investments.

five years; the maximum duration of each guarantee contract is seven years, resulting in the expected total facility life of 12 years.

15. Ghana: SME Partial Credit Guarantee Program[38]

Table A15: Summary, SME Partial Credit Guarantee Program

Country	Ghana
Sector	Small and medium enterprises
RMI type	PCG (local currency)
RMI provider	IFC (backed by the government facility financed with credit from the IDA; and on its own account)
RMI beneficiary	commercial bank lenders
Facility amounts	about US$15–20 million[a]
Effective date	under preparation

Source: Authors' compilation.

Note:

a. The IDA approved US$4.1 million equivalent credit to the government of Ghana for the PCG program as part of the Micro, Small and Medium Enterprise Project in 2006.

To assist financial access of small and medium enterprises (SMEs) in Ghana, the IDA and the IFC devised a local-currency partial credit guarantee (PCG) program to encourage local banks to lend to a sector that the banks perceive as risky in terms of borrower credit. The IDA would provide its credit (US$4.1 million equivalent) to the government of Ghana to finance the program. The IFC would administer the PCG program in accordance with a framework agreement with the government and the IDA, and would issue or front PCGs as the agent of the government and for its own account. The PCG program will leverage both IDA credit and IFC resources and capabilities.

Guarantees would cover 50 percent of outstanding principal amount of a portfolio of new local-currency loans originated by a few commercial banks (participating banks) on a pari passu basis. It is proposed that the IDA credit would be used to finance the government's obligation under the PCG to cover 5 to 15 percent of net default losses on a first-loss basis, whereas the IFC would cover the remaining 45 to 35 percent of the losses on a second-loss basis after the government.[39] Terms and conditions of the guarantees, including eligible SME borrowers and eligible loan portfolio, would be defined under a guarantee facility agreement to be entered between the IFC and each participating bank.

The design of the program reflects lessons learned, including partnerships with private local banks based on existing portfolio histories; provision of technical assistance (matching grants funded by IDA) for participating banks and SMEs (before and after receipt of the loan); pari passu risk sharing with the banks to ensure that productive loans are booked; and the use of a streamlined portfolio guarantee approach, given the small size of individual loans.

16. Private Infrastructure Development Group[40]

Table A16: Summary, Private Infrastructure Development Group

Countries	First three columns of Part I of the Developing Countries and Territories DAC List of Aid Recipients (see www.oecd.org for details)
Sector	Private sector infrastructure projects
Current programs and investment vehicles funded by PIDG Trust	Emerging Africa Infrastructure Fund GuarantCo InfraCo Technical Assistance Fund
PIDG affiliates	DevCo Global Partnership for Output Based Aid (GPOBA)
Effective date	2002
For information	www.Pidg.org

Source: Authors' compilation.

The UK Department for International Development (DFID), the Swiss State Secretariat for Economic Affairs (SECO), the Swedish International Development Cooperation Agency (SIDA), and the Netherlands Directorate-General for International Cooperation (DGIS) collaborated in setting up the Private Infrastructure Development Group (PIDG). Current membership also includes the World Bank and the Austrian Development Agency (ADA). The aim of the group is to provide financial, practical, and strategic support to encourage infrastructure investments and projects in developing countries. The group's objective is to foster economic growth and reduce poverty by helping the pri-

[38] This section is based on the Project Appraisal Document of IDA (Report No: 31985-GH).

[39] The IFC, during its appraisal of each participating bank, would finalize the details of the risk-sharing arrangement with the government. Assuming the guarantee coverage ratio of 10 percent by the IDA credit and 40 percent by the IFC and a constant exchange rate, the proposed IDA credit support would be translated into the total PCG facility amount of some US$20 million.

[40] Sources: DFID and PIDG Web sites.

vate sector overcome risks and hurdles encountered in infrastructure investments in developing countries.

PIDG aims to address the overriding obstacles in attracting private sector capital to infrastructure, such as

- an inappropriate enabling environment,
- high up-front costs of project development,
- shortage of long-term debt,
- lack of local currency investment, and
- inadequate capacity in both the public and private sectors.

To achieve its objectives, PIDG has established the PIDG Trust, through which it develops its programs and manages its investment vehicles. Below is additional information on the two initiatives established by the PIDG Trust that offer risk mitigation instruments in the form of long-term loans and guarantees. The other initiatives are a donor-funded infrastructure development company (InfraCo) and the Technical Assistance Fund (TAF), which assists PIDG clients to build local capacity in both the public and private sectors.[41]

The Emerging Africa Infrastructure Fund[42] is a US$305 million public-private financing partnership focusing on infrastructure development in Sub-Saharan Africa. The fund's equity of US$100 million comes from the PIDG Trust, US$85 million of subordinated debt is contributed by Dutch, South African, and German development finance institutions, and the remaining US$120 million of senior debt has been provided by Barclays Bank and Standard Bank Group, each providing US$60 million.

The fund was established to provide long-term financing structures tailored to meet the needs of borrowers and project sponsors to develop viable infrastructure businesses in the private sector in Sub-Saharan Africa. Apart from providing U.S. dollar-denominated senior term debt and subordinated or mezzanine debt, the fund also offers risk-mitigating instruments in the form of guarantees on senior debt to facilitate the provision of local-currency funding. All financing is provided at market-based rates dependent on the risk assessment of the borrower. The fund does not require a host government counterguarantee.

The maximum tenor for funding is 15 years, and the maximum amount is limited to 10 percent of the fund's size, currently US$30 million. Borrowers must be private sector companies, in terms of both ownership and control.

GuarantCo[43] was established in September 2003, with US$5.5 million in capital, provided by DFID. Other PIDG members were expected to contribute shortly thereafter, but there have been a number of delays. GuarantCo is now operational but not expected to meet its equity investment target of US$73 million until 2007.

GuarantCo was specifically set up to provide partial credit guarantees on local-currency debt issues by private sector infrastructure project companies, as well as municipalities in lower-income developing countries, to act as a catalyst to mobilize domestic institutional funds and help develop the local capital markets. The company will offer investment-grade credit enhancements through financial guarantees for the benefit of local lenders and investors. The policies of GuarantCo explicitly exclude war, civil strife, and expropriation risks from cover, as well as risks related to lawful government actions. In addition, GuarantCo should, to the extent possible, avoid assuming risk for breach of contract by government or regulatory body.

According to its operating guidelines, the maximum tenor for guarantees to be issued by GuarantCo will be 15 years, and its fees (front-end fee, periodic guarantee fees, and possibly a standby fee) will be market based, and will be commensurate with the risk assessment of the individual transaction and prevailing market conditions. There is no stated maximum amount per individual transaction. The amount of cover to be provided per transaction will be subject to internal exposure guidelines with respect to individual company, as well as currency, sector, and geographic, exposures.

The initial geographical focus for GuarantCo's activities will be on low- and lower-middle-income countries in Sub-Saharan Africa and South and South East Asia,[44] although it is also able to invest in the poorest countries of Latin America.

Eligible forms of companies are

- start-up companies and greenfield developments,
- operating infrastructure companies,
- privatized companies,
- parastatals or public corporations, and
- municipal infrastructure.

[41] Please see www.pidg.org for more information on these initiatives.

[42] For additional information on borrower eligibility, project eligibility, country sector focus, and contact information please see www.emergingafricafund.com.

[43] Source: PIDG Web site; as well as information provided by John Hodges, PIDG Programme Manager, such as "GuarantCo's Guarantee Policy and Operational Guidelines"; for additional information please contact John Hodges at pm@pidg.org.

[44] Projects in countries from the OECD's DAC List of Aid Recipients in column I, II and subject to approval from column III, are eligible. Please see www.oecd.org for more information.

Eligible sectors are

- energy supply,
- water and waste services,
- transportation,
- telecommunications,
- gas transportation, distribution, and storage,
- urban infrastructure, and
- other activities that promote development of basic infrastructure and meet GuarantCo's objectives.

To date, GuarantCo has closed on one transaction, the refinancing and expansion financing of Celtel Kenya. Celtel Kenya is one of two cellular phone operators in Kenya. The company is raising up to 4.5 billion Kenyan shillings through a note issued in the local capital market. The FMO (Netherlands) is fronting the guarantee covering 75 percent of debt service for the benefit of local institutional investors in a US$59 million project. GuarantCo and DEG (Germany) provide counterguarantees to the FMO.[45]

InfraCo[46] was established in August 2004 with US$10 million in funds provided by DFID. InfraCo is a donor-funded infrastructure development company whose capital is provided by share subscriptions by the PIDG donor group. InfraCo operates in low-income developing countries, primarily located in Africa and parts of South and South East Asia. InfraCo operates as a private sector infrastructure development company, managed by professionals recruited from the private sector.[47] InfraCo will

- act as a principal, shouldering much of the upfront costs and risks of early stage development, thereby reducing the entry costs of private sector infrastructure developers
- secure in-principle commitments from providers of finance to support investments subject to entry by a competent private sector sponsor
- prior to financial close, offer structured investment opportunities to private sector consortia through a tender process
- be compensated for its time, efforts, and costs by incoming private sector sponsors, often in the form of a minority "carried" interest in the venture. Over time it may sell its interest to national institutional and public investors.

A key objective of InfraCo is to create conditions in which providers of finance for infrastructure in developing countries can increase their commitments. To achieve this goal, InfraCo continuously works with private sector and financial institutions and development finance institutions. To date, InfraCo is involved in six projects at various developmental stages.

17. BOAD (Banque Ouest Africaine de Développement) Infrastructure Guarantee Facility[48]

Table A17: Summary, BOAD Infrastructure Guarantee Facility

Countries	Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, Togo
Sector	private sector infrastructure projects
RMI providers and RMI type	IDA (PRG), MIGA (PRI), AFD (PRG, comprehensive guarantees)
RMI beneficiary	debt (IDA, MIGA, AFD); equity (MIGA)
Facility amount	about US$227 million equivalent[a]
Effective date	2005

Source: Authors' compilation.

Note:

a. Up to 48.7 million SDR (US$70 million equivalent) from the IDA, up to US$70 million from MIGA, and up to €70 million from AFD.

This is a regional guarantee facility to promote small and medium infrastructure projects in the West African Economic and Monetary Union (WAEMU) countries. It was developed by the World Bank (through IDA), MIGA, and AFD to offer their respective guarantees with a total guarantee authority of about US$227 million through streamlined procedures. The facility is managed by a regional development bank, Banque Ouest Africaine de Développement (BOAD). Under the guarantee facility agreement with BOAD and the three guarantors, the participating governments have committed to support the implementation.

The facility, through BOAD, offers three types of guarantee instruments that are separate but complementary—PRGs by IDA and AFD, PRI by MIGA, and comprehensive guarantees by AFD—to offer flexibility to investors and to better adapt to a variety of small and medium projects' requirements. Risk coverage

[45] Source: PIDG Annual Report 2004–5.

[46] Source: www.pidg.org; www.infraco.com.

[47] For more information on the activities to date of InfraCo, please contact John Hodges, PIDG Programme Manager, pm@pidg.org or Keith Palmer, Chairman of InfraCo, palmerk@dial.pipex.com.

[48] For further details, please see a Project Finance and Guarantees transaction note on the project at World Bank's guarantee Web site (www.worldbank.org/guarantees).

under individual projects will be decided on a case-by-case basis.[49]

Eligible infrastructure projects need to comply with applicable guidelines of each guarantor; social, environmental, and safeguard policies of MIGA; and total project costs may not exceed US$50 million. The cumulative amount of guarantees would not exceed US$30 million; and each guarantee is limited to US$15 million.

BOAD as an administrator markets the guarantee facility; identifies and screens candidate projects; recommends the deployment of each or any combination of guarantee instruments; and assists in the monitoring, supervision, and administration of the projects supported by the facility.

18. African Trade Insurance Agency

Table A18: Summary, African Trade Insurance Agency

Countries	Burundi, Democratic Republic of Congo, Djibouti,[a] Eritrea, Kenya, Liberia,[b] Madagascar, Malawi, Rwanda, Tanzania, Uganda, Zambia
Sector	Political and commercial risk insurance for trade and investment
RMI type	Regional ECA (PRI and CRI)
Financier	IDA, ATI member states, EU, and Japan
Beneficiary	Trade and Investment[c]
Facility amount	US$134 million equivalent
Effective date	2002
For information	www.Africa-ECA.com

Source: Authors' compilation.

Note:

a. Signatory to ATI Treaty (pending ratification and payment of underwriting capital).

b. Membership application has been approved by ATI's General Assembly (pending signature of ATI Treaty).

c. A wide variety of trade transactions and financing instruments can be covered under the facility.

The African Trade Insurance Agency (ATI) was established as a pan-African Export Credit Agency (ECA) to promote inter- and intraregional trade and investment involving ATI member countries.[50] Initially, ATI started with seven founding member countries. Today, ATI has nine fully fledged member countries and four nonstate members (Altradius, COMESA, PTA Bank, and ZepRe). The World Bank (at the request of COMESA) helped establish the facility through the provision of IDA credits to each participating country to provide underwriting capital for the facility (US$124 million) and to finance ATI's initial operating costs (US$10 million). ATI was created as a regional implementing agency[51] to manage the facility.

Rigid country-by-country allocation of IDA resources has not permitted the facility to use those resources efficiently. This being recognized, ATI's General Assembly adopted a resolution in December 2005 allowing ATI to put forward proposals for the restructuring of its underwriting capital by converting the individual country allocations into pooled common equity capital. Once this process has been completed, new ATI member states and nonstate members will be recruited on the basis of subscribing to, and paying in, agreed additional amounts of capital. This capital restructuring will allow ATI to increase its own insurance capacity through leveraging its capital (on a 1:3 basis, for example) as a result of the diversification of ATI's risk portfolio. It will also enable ATI to access treaty and facultative reinsurance, to provide additional underwriting capacity.

ATI's member state governments have a de jure obligation under the relevant membership agreements to make ATI whole for any losses that it would incur as result of any covered risk events (with the exception of losses resulting from events of war, civil disturbance, civil commotion, and embargo). A member state's default under this obligation would also constitute a default vis-à-vis the World Bank. Consequently, the ATI deterrence effect is very strong.

The facility covers political and commercial risks[52] for a wide variety of trade and investment transactions, including traditional investment insurance and nonpayment risk on commercial, parastatal, and sovereign obligors. ATI issues policies for its own account for small transactions (less than US$2 million), but will source coinsurance or reinsurance from private and public insurers to support larger transactions. ATI currently partners with Altradius, the world's second largest cred-

[49] Risk coverage may include changes in law, government payment obligations, currency convertibility or transferability, expropriation, war and civil disturbance, breach of contract, frustration of arbitration, and the like.

[50] While this is not for infrastructure per se, it is presented as a possible modality of donor support for guarantee facilities.

[51] It is open to participation by all African countries.

[52] During the December 2005 General Assembly meeting, ATI's General Assembly adopted a resolution allowing ATI to expand its product offerings to include cover against nonpayment risk on sovereign and private obligors, in addition to ATI's traditional political risk cover and cover against nonpayment risk on parastatal obligors.

it insurer, in supporting ATI member country exporters' whole turnover export business against buyer nonpayment risk.

To date, ATI has supported 15 insureds from six different countries (Belgium, China, Kenya, Mauritius, South Africa, and Uganda) and two African multilateral organizations (PTA Bank and Shelter Afrique) for transactions in six sectors (agribusiness, manufacturing, mining, real estate, services, and telecommunications) involving five ATI risk countries (Burundi, Democratic Republic of Congo, Kenya, Tanzania, and Zambia), and ATI member country exports to over 30 buyers worldwide. ATI has issued 22 policies and policy renewals, covering a total transaction value of US$133.4 million, while utilizing US$25.8 million of ATI's own underwriting capacity, thus mobilizing US$107.3 million in private and public coinsurance and reinsurance capacity. No claims or near claims have occurred.

APPENDIX B

PROFILES OF MULTILATERAL AND BILATERAL RISK MITIGATION INSTRUMENTS

B1. Major Multilateral Risk Mitigation Instruments

B1.1 World Bank: International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA)
B1.2 International Finance Corporation (IFC)
B1.3 Multilateral Investment Guarantee Agency (MIGA)
B1.4 African Development Bank (AfDB)
B1.5 Asian Development Bank (ADB)
B1.6 European Bank for Reconstruction and Development (EBRD)
B1.7 Inter-American Development Bank (IDB)
B1.8 European Investment Bank (EIB)
B1.9 Andean Development Corporation (CAF)
B1.10 Islamic Corporation for Insurance of Investments and Export Credits (ICIEC)
B1.11 Inter-Arab Investment Guarantee Corporation (IAIGC)

B2. Major Bilateral Risk Mitigation Instruments

B2.1 Export Development Canada (EDC)—Canada
B2.2 Agence Française de Développement (AFD)—France
B2.3 Coface—France
B2.4 Deutsche Investitions und Entwicklungsgesellschaft mbH (DEG)—Germany
B2.5 Foreign Trade and Investment Promotion Scheme (AGA)—Germany
B2.6 Italian Export Credit Agency (SACE)—Italy
B2.7 Japan Bank for International Cooperation (JBIC)—Japan
B2.8 Nippon Export and Investment Insurance (NEXI)—Japan
B2.9 Atradius Dutch State Business NV—The Netherlands
B2.10 The Netherlands Development Finance Company (FMO)—The Netherlands
B2.11 Norwegian Guarantee Institute for Export Credits (GIEK)—Norway
B2.12 Swedish Export Credit Guarantee Board (EKN)—Sweden
B2.13 Swiss Investment Risk Guarantee Agency (SERV)—Switzerland
B2.14 Swiss Export Risk Guarantee (ERG)—Switzerland
B2.15 Department for International Development (DFID)—United Kingdom
B2.16 Export Credits Guarantee Department (ECGD)—United Kingdom
B2.17 United States Agency for International Development's (USAID's) Development Credit Authority (DCA)—United States
B2.18 Export-Import Bank of the United States (EX-IM Bank)—United States
B2.19 Overseas Private Investment Corporation (OPIC)—United States

Appendix B1 Profiles of Major Multilateral Risk Mitigation Instruments

Table B1.1 World Bank: International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA)

Institution type	Multilateral development agency, a member of the World Bank Group
Ownership	IBRD is owned by 185 member countries; IDA has 165 member countries
Head office	1818 H Street NW, Washington, DC, 20433 U.S.A.
Rating	AAA (IBRD); not rated (IDA)
Major instruments	development loans and credits; guarantees

	Political risk coverage	Comprehensive risk coverage
Instrument name	IBRD Partial Risk Guarantee (PRG); IDA PRG; IBRD Enclave PRG	IBRD Partial Credit Guarantee (PCG); IBRD Policy-Based Guarantee (PBG)
Instrument type	debt guarantee	debt guarantee
Eligible borrowers and projects	• new investments (including expansion, privatization, and concession transactions) in a developing member country • IBRD Enclave PRG for foreign exchange–earning projects in IDA-only countries	• PBG: sovereign government borrowers for fiscal support • PCG: normally sovereign or public borrowers for new investments[a]
	• must meet development objectives of the host country and be in compliance with the World Bank's Country Assistance Strategy (CAS) for each country • technically, financially, and economically viable; and environmentally and socially sound • proceeds of the guaranteed debt for investment projects (PRG and PCG) to be used solely for the purpose of projects approved by the World Bank • no sector restriction	
Eligible beneficiaries	private lenders[b]	
Eligible forms of investment	• debt: loans, bonds, or other financial instruments that have characteristics of commercial debt (for example, a letter of credit), including local currency-denominated debt	
Risk types covered	political or regulatory risks that are assumed by the host government for a project, which may include • standard political risks[d] • breach of contract (various)[e]	• borrower credit risk, that is, "part" of debt services to encourage risk sharing[c]
Maximum tenor	consistent with project needs	
Maximum amount	• up to 100% of debt (both principal and interest payments) • subject to CAS	• no specific percentage limit and subject to specific debt instruments and market conditions
Fees (summary only)[f]		

		IBRD PRG	IBRD Enclave PRG	IDA PRG	IBRD PBG and IBRD PCG
	Initiation fee	higher of 15 bp or US$100,000			none
	Processing fee	up to 50 bp (higher for exceptional cases)			none
	Front-end fee	0 bp	0 bp	none	0 bp
	Standby fee	25 bp/y	75 bp/y	20 bp/y	25 bp/y on a PV basis
	Guarantee fee	55 bp/y	up to 300 bp	75 bp/y	50 bp/y on a PV basis
Other conditions	An Indemnity Agreement needs to be concluded with the member country				
For more information	http://www.worldbank.org/guarantees				

continued

Table B1.1 Continued

Guarantee Portfolio

Indicator	2001	2002	2003	2004	2005
No. of guarantees	2	1	2	3	4
Guarantees issued (US$ million)	159.0	75.0	30.0	126.7	95.2
Guarantees outstanding (US$ million)	1,908	1,683	1,713	1,840	1,882
Guarantees outstanding (infrastructure only) (US$ million)	1,499	1,524	1,554	1,681	1,723

Source: Authors' compilation.

Note: bp = basis points; bp/y = basis points per year; PV = present value.

a. Private entities could be considered.

b. This includes any publicly owned autonomous financial institutions that are established and operate under commercial law for the purpose of pursuing profit.

c. Guarantee coverage can be structured flexibly. For example, principal repayment can be guaranteed in full if there is an adequate noncallable period for the guarantee.

d. Currency inconvertibility or transfer restriction, expropriation, war and civil disturbance.

e. This may include, but not be limited to, risks relating to government contractual payment obligations (for example, termination payments or subsidy payments), government action or inaction having a material adverse impact on the project (for example, change in law or regulations, nonallowance for agreed tariff regime), contractual performance of public counterparties (for example, under an off-take agreement), frustration of arbitration, and the like.

f. Initiation, processing, and front-end fees are up-front, one-time fees. This table presents the summary fee levels at the time of writing only. Please refer to the Web site for details of the definition of fees.

Table B1.2 International Finance Corporation (IFC)

Institution type	Multilateral development agency, a member of the World Bank Group
Ownership	owned by 179 member countries
Head office	2121 Pennsylvania Avenue NW, Washington, DC, 20433 U.S.A.
Rating	AAA
Major instruments	loans for own account (A-loans); equity investments; quasi-equity finance (C-loans); syndicated loans (B-loans); guarantees; hedging products; and others

	Comprehensive risk coverage
Instrument name	Partial Credit Guarantee (PCG)
Instrument type	debt guarantee
Eligible borrowers and projects	• private sector projects located in developing member countries[b] (except at World Bank/IFC **Municipal Fund**, which assists subnational public sector entities)[c] • new investments (including expansion, and privatization and concession transactions), or a pool of new assets, in a developing member country; existing assets may be eligible for **Risk Sharing Facilities** (PCG for a pool of assets) or **Securitization** support[d] (PCG for debt issued by a securitization vehicle) • meet development objectives of the host country; benefit the local economy • technically sound; have good prospect of being profitable; environmentally and socially sound • no sector restriction
Eligible beneficiaries	private lenders
Eligible forms of investment	debt, including loans, bonds, or other financial instruments that have characteristics of commercial commercial debt, including local currency-denominated debt
Risk types covered	borrower credit risk; "partialness" can be structured flexibly to fit to specific debt instruments and market conditions
Maximum tenor	no limit
Maximum amount	no specific percentage limit but guarantee coverage has to be "part" of debt services to encourage risk sharing

continued

Table B1.2 Continued

	Comprehensive risk coverage
Fees	market based
Other conditions	acknowledgment by a host country
For more information	http://www.ifc.org

Source: Authors' compilation based on publicly available information.

Note:

a. IFC offers B-loans where IFC is the sole lender of record and B-loan participants would benefit from IFC's preferred creditor status (thereby A/B loan structure mitigates currency transfer risk to that extent).

b. As a rule, the enterprises IFC finances must be majority private sector-owned and -controlled. Exceptions can be made for state-owned enterprises that are in the process of being privatized. It may provide finance for a company with some government ownership, provided there is private sector participation and the venture is run on a commercial basis.

c. The Municipal Fund is a joint initiative of the World Bank and the IFC launched in 2003 to support investments (in infrastructure and other essential public services, typically in the range of US$5–$50 million equivalent) made by subnational entities (local, provincial, or state governments; enterprises; financial intermediaries; subsovereign public-private projects). Transactions are booked at the IFC and a full line of IFC financial products, including loan and bond guarantees, are available.

d. Any asset class with relatively predictable cash flows can potentially be securitized. IFC provides a PCG for up to a specified percentage of debt services to improve local or international credit ratings of such debt from the trust structure's stand-alone rating.

Table B1.3 Multilateral Investment Guarantee Agency (MIGA)

Institution type	Multilateral development agency, a member of the World Bank Group
Ownership	owned by 170 member countries
Head office	1818 H Street, NW, Washington, DC 20433 U.S.A.
Rating	not rated
Major instruments	investment insurance

	Political risk coverage
Instrument name	Investment Guarantee
Instrument type	political risk insurance
Eligible investments and projects	• new cross-border investments (including expansion and privatization) originating in a MIGA member country, destined for any developing member country[a] • meet development objectives of the host country • meet MIGA's criteria of technical, financial, and economic viability, as well as environmental and social soundness
Eligible beneficiaries	entities operating on a commercial basis
Eligible forms of investment	• equity • shareholder loans • nonshareholder loans, provided that an equity or quasi-equity investment in the same project is or has been insured by MIGA • loan guarantees by shareholders • other forms of investments, such as performance bonds, leases, franchising and licensing agreements; management contracts may be eligible for coverage • all investments have to have a minimum tenor of 3 years
Types of risk covered	Investors may choose any combination of the four types of coverage: • currency inconvertibility and transfer restriction • expropriation • war and civil disturbance (including terrorism) • breach of contract (arbitration award default)
Maximum tenor	• up to 15 years (20 years on a case-by-case basis) • insured may reduce coverage any time and cancel coverage after 3 years

continued

Table B1.3 Continued

	Political risk coverage
Maximum percentage of cover or amount of cover	• up to 90% of equity • up to 95% of debt • up to US$200 million (if necessary, more can be arranged through various forms of reinsurance and coinsurance)
Acceleration	Loan may be accelerated. Compensation for any claim will normally follow original scheduled payments.
Fees	• application fee, US$5,000 to US$10,000 (credited toward the first year's insurance premium); processing fee US$25,000 • insurance premium based on country and project risk, charged per risk; nonbinding indications can be given in 48 hours.
Other conditions	host country approval required
For more information	http://www.miga.org

Guarantee Portfolio, All Sectors

Indicator	2000	2001	2002	2003	2004	2005[b]
No. of guarantees	53	66	58	59	55	62
Guarantees issued[c] (US$ million)	1,863	2,154	1,358	1,372	1,076	1,226
Guarantees outstanding (US$ million)	4,365	5,179	5,257	5,083	5,186	5,094

Source: Authors' compilation.

Note:

a. Investments made by nationals of the host country may be eligible, provided the assets invested are transferred from outside the host country.

b. In 2005, the infrastructure sector accounted for 39 percent of MIGA's portfolio.

c. Including amounts leveraged under the Cooperative Underwriting Program (CUP).

Table B1.4 African Development Bank (AfDB)

Institution type	Regional multilateral development bank
Ownership	supported by 77 member countries, 53 from Africa, and 24 from North and South America, Europe, and Asia
Head office	Rue Joseph Anoma, 01 BP 1387 Abidjan 01, Côte D'Ivoire
Rating	Moody's Aaa, S&P Aaa
Major instruments	PCGs and PRGs, as well as Private Sector Enterprise Loans, Public Sector Non-Sovereign Guaranteed Loans, Public Sector Sovereign Guaranteed Loans, Risk Management Products

	Political risk coverage	Comprehensive risk coverage
Instrument name	Partial Risk Guarantee (PRG)	Partial Credit Guarantee (PCG) Policy-Based Guarantee (PBG)
Instrument type	debt guarantee	
Eligible borrowers and projects	• any public or private sector project eligible for AfDB financing • PBG eligibility is same as for policy-based loans • all projects must meet AfDB's environmental assessment requirements	
Eligible beneficiaries	private lenders	
Eligible forms of investment	debt financing: loans, bonds, and other financial instruments (commercial paper), including for local currency	
Risk types covered	• currency inconvertibility and transferability • expropriation and nationalization • breach of contract	PCG covers portions of scheduled repayments of private loans against all risks

continued

Table B1.4 Continued

	Political risk coverage	Comprehensive risk coverage
Maximum tenor	up to 20 years for sovereign-guaranteed public sector borrowers and 15 years for nonsovereign guaranteed borrowers (NSG), subject to principal repayment period of the financing matching requirements of project financed; in case of bullet repayment, max. tenor is 15 years; with avg. life of 10 years	
Maximum amount	• for private sector, should not exceed 33% of total project cost and facilities to financial institutions, should not exceed 50% of shareholders' net worth at the time	
Fees	• front-end fees: no front-end fees for public sector borrowers and 1% of possible max exposure under guarantee for NSG • standby fee: 0.75% for public sector borrowers and 1.0% for NSG. • guarantee fee: lending spread (for AfDB loans) + risk premium associated with particular guarantee structure • appraisal fee: fees for private sector projects to cover legal and other expenses incurred by the bank during initiation, appraisal, and underwriting process	
Other conditions	• the bank may require a counterguarantee from the member country in whose territory the project will carried out, or of a public agency or institution of that member country • AfDB reserves right to terminate the guarantee facility if agreement is not signed within 180 days of the Board's approval	
For more information	http://www.afdb.org email: afdb@afdb.org tel: (+225) 20.20.44.44	

Source: Authors' compilation.

Table B1.5 Asian Development Bank (ADB)

Institution type	Regional multilateral development bank
Ownership	owned by 65 members (47 from Asia Pacific Region)
Head office	6 ADB Avenue, Mandaluyong City 1550, Philippines
Rating	Moody's Aaa, S&P AAA
Major instruments	ADB's financial instruments are available for both public and private sector borrowers and include Ordinary Capital Resources (OCR), Asian Development Funds (ADF), guarantees, grants, technical assistance, equity, guarantee-of-record, "A/B" loans, and Trade Finance Facilitation Program

	Political risk coverage	Comprehensive risk coverage
Instrument name	Political Risk Guarantee (PRG)	Partial Credit Guarantee (PCG)
Instrument type	debt guarantee	
Eligible borrowers and projects	• wide variety of eligible debt instruments • greenfield and expansion projects, including refinancings and multi-tranche facilities • projects can be public or private sector operations, including state-owned enterprises	
Eligible beneficiaries	lenders that operate on a commercial basis, including public and private insurers and reinsurers	
Eligible forms of investment	loans, including commercial bank loans, loans by shareholders, loans guaranteed by shareholders, bond holders, and other traded debt instruments	
Risk types covered	• currency inconvertibility or nontransfer • expropriation • political violence (including terrorism) • breach of contract (frustration of arbitration process and denial of justice) • any other form of coverage approved by the Board	commercial and political risks (at left)
Maximum tenor	typically 15 years, but up to 32 years with Board approval	

continued

Table B1.5 Continued

	Political risk coverage	Comprehensive risk coverage
Maximum amount	• no project limit for guarantees with government counterindemnity • PCG: without counterindemnity, up to US$75 million or 25% of project costs • PRG: without counterindemnity, up to US$150 million or 50% of project cost; larger amounts can be guaranteed through reinsurance or guarantor-of-record structures • guaranteed percentage – PCG: a portion of borrower's debt service – PRG: up to 100% of principal and interest	
Fees	• guarantee fees – PCG: with counterindemnity, 40 bp/y; without counterindemnity, market rates apply – PRG: with counterindemnity, 40 bp/y; without counterindemnity, market rates apply. Fee is calculated on outstanding principal and accrued interest. • front-end fees – PCG: up to 1% for public sector projects, market rates for private sector projects – PRG: up to 1% for public sector projects, market rates for private sector projects	
Other conditions	• Government counterindemnity is not required for private sector projects or projects involving state-owned entities. It is required for public sector projects on public sector terms (that is, pricing, amounts). • ADB may issue a guarantee if it participates, for example, in a project (with equity or debt), a program loan, or if it provides a grant or technical assistance.	
For more information	http://adb.org or contact Mr. Werner Liepach, Principal Director, tel: +632-632-6314 email:wliepach@adb.org	

Source: Authors' compilation. ADB is revising its guarantee programs. Please consult with the ADB for program details.

Note: bp/y = basis points per year.

Table B1.6 European Bank for Reconstruction and Development (EBRD)

Institution type	Regional multilateral development bank
Ownership	owned by 60 member countries and two intergovernmental institutions (European Community and European Investment Bank)
Head office	One Exchange Square, London EC2A 2JN, United Kingdom
Rating	Moody's Aaa, S&P AAA
Major instruments	loans (senior and junior), mezzanine debt, equity and guarantees[a]

	Political risk coverage	Comprehensive risk coverage
Instrument name	Political Risk Guarantee (PRG)	Trade Finance Facilitation Program (TFP) SME Guarantee Facility Municipal Finance Facility (MFF)
Instrument type	debt guarantee	
Eligible borrowers and projects	financial sector strengthening, local capital market development, infrastructure (power, transport, waste water)	• TFP: trade finance transactions (import and export, including cross-border engineering, construction, commodities, and the like); state-owned entities are precluded • SME: loans and loan portfolios of local banks and leasing companies • MFF: municipal projects
Eligible beneficiaries	• subsovereigns, approved financial institutions, private sector	
Eligible forms of investment	• short-term loans, medium-term loans, local and foreign currency bonds, letters of credit, local-currency loans	

continued

Table B1.6 Continued

	Political risk coverage	Comprehensive risk coverage
Risk types covered	• political violence • expropriation • license revocation • currency convertibility and nontransfer • breach of contract	• commercial credit risk • political risks
Maximum tenor	• 15 years • TFP: 3 years max (5 year max is being considered)	
Maximum amount	• €150 million (can be higher subject to individual approval) or 35% of total project cost • TFP: €5 million	
Fees	• market based, case-by-case evaluation • TFP: market based, individually determined, no commitment fee	
Other conditions	• no sovereign counterguarantee (except on a case-by-case basis) • asset pledge • debt service accounts	
For more information	http://ebrd.com tel: +44 20 7338 6000	

Source: Authors' compilation.

Note:

a. Of EBRD's total board-approved projects, 80 percent are debt, 18 percent are equity, and 2 percent are guarantees. Nonsovereign projects make up 78 percent, and 22 percent are sovereign. Total guarantee exposure under the TFP program is around €300 million; for non-TFP-related guarantees, exposure is around €170 million.

Table B1.7 Inter-American Development Bank (IDB)

Institution type	Regional multilateral development bank[a]
Ownership	owned by 47 member countries (26 are borrowing members from Latin America; the remainder are from North America and Europe; in addition, Israel, the Republic of Korea, and Japan are members)
Head office	1300 New York Avenue, NW, Washington, DC 20577, U.S.A.
Rating	Moody's Aaa, S&P AAA
Major instruments	loans, grants, guarantees, A/B loans,[b] equity investments

	Political risk coverage	Comprehensive risk coverage
Instrument name	Political Risk Guarantee (PRG)	Partial Credit Guarantee (PCG) Trade Finance Facilitation Program (TFFP, initiated in 2005 is a PCG facility)[c]
Instrument type	debt guarantee	
Eligible borrowers and projects	nonsovereign guaranteed entities located in borrowing member countries: transactions include greenfield and expansion projects; loans and refinancing for corporate borrowers and subsovereigns entities; capital markets; no sector limitations	• nonsovereign guaranteed entities located in borrowing member countries: transactions include greenfield and expansion projects; loans and refinancings for corporate borrowers and subsovereign entities; capital markets; no sector limitations • sovereign and public borrowing • TFFP: international trade activities
Eligible beneficiaries	private lenders	
Eligible forms of investment	loans, bonds (both international and local currency, as well as project and corporate bonds)	• loans, bonds (both international and local currency, project and corporate bonds, asset backed securities, future flow or loan securitizations) • TFFP guarantees: cover letters of credit, documentary collections, promissory notes, and so forth

continued

Table B1.7 Continued

	Political risk coverage	Comprehensive risk coverage
Risk types covered	• expropriation of funds • currency convertibility and nontransfer • breach of contract (regulatory risks) for certain sovereign obligations	Covers portions of scheduled payments (principal and interest) of bond issues against all risks in various risk-sharing modalities: • Mezzanine Guarantee: for a specified layer of risk to raise rating on the local currency scale • Rolling Guarantee: for specified number of interest and principal amortization payments on a rolling basis • Maturity Guarantee: allows investors to put debt instrument to IDB after certain time frame to get investors to accept longer maturities • Co-Wrap Guarantee with Coinsurance: IDB is guarantor of record, a guarantee for portion of principal and interest on its account with uncovered portion being insured by private sector insurers on a pari passu basis
Maximum tenor	• PRG or PCG: no limit, depends on underlying assets • TFFP: 3 years	
Maximum amount	• PRG: up to 50% of project costs or US$200 million, whichever is less (exceptions up to US$400 million per project) • PCG: up to 25% of project costs or up to US$200 million (exceptions up to US$400 million); in certain countries, the limit is up to 40% of project costs (projects in smaller economies with limited access to capital markets), and up to 50% for expansion projects (subject to limits related to total capitalization of the issuer) • TFFP: up to 100% per transaction, per-country exposure not to exceed 30% of program amount (US$400 million); limit per issuing bank of US$40 million	
Fees	PRG and PCG: annual guarantee fees, commitment fees on the undisbursed balance, and certain upfront fees will be charged on a case-by-case basis depending on the risk covered and structure	

Source: Authors' compilation.

Note:

a. IDB also has the Multilateral Investment Fund (MIF), an independent fund managed by the IDB to promote microfinance and small business development via loans, grants, and equity investments. In addition, there is also the Inter-American Investment Corporation (IIC), an independent affiliate of the IDB group that provides loans, grants, and equity investments for private projects for small and medium enterprises.

b. The IDB offers an A/B loan structure, in which IDB lends as sole lender of record: the A-loan on its own account and the B-loan syndicated out to market participants. It can also do the B-loan as a 144a private placement instead of a syndicated loan.

c. The program amount is US$400 million.

Table B1.8 European Investment Bank (EIB)

Institution type	Multilateral development bank
Ownership	owned by the 25 member states of the European Union (EU)
Head office	100, Boulevard Konrad Adenauer, L-2950 Luxembourg
Rating	Moody's Aaa, S&P AAA
Major instruments	EIB operates both inside the EU and (on mandate from its member states) outside the EU. Inside the EU, EIB offers a full range of long-term financial instruments, principally in the form of loans; guarantees and equity participations in favor of EU small and medium enterprises (SMEs) are provided through the majority-owned European Investment Fund (EIF). Outside the EU, EIB operates in the ACP countries under the Cotonou Partnership Agreement, and can offer a full range of instruments including loans (in foreign exchange or local currency), equity, and guarantees. In ALA, EIB offers a range of instruments including loans with carve-out of political risk from the obligations of the guarantor (also available in the ACP and Mediterranean countries). In the Mediterranean region, EIB offers a full range of equity and loan instruments.

	Political risk coverage	Comprehensive risk coverage
Instrument name	• inside EU: not offered • outside EU: political risk carve-out on guarantees for EIB loans	• inside EU: EIF credit insurance, enhancement, SME Guarantee Facility • outside EU: range of guarantee instruments under the Cotonou Investment Facility (and also in the Mediterranean region from 2007 onward)
Instrument type	• inside EU: EIF loan guarantees, microcredit guarantees, equity guarantees, and loan guarantee • outside EU: political risk carve-out on guarantees to EIB (in ALA and ACP countries); credit enhancement guarantees by EIB to assist local borrowers to raise funds; portfolio credit risk sharing with local banks	
Eligible borrowers and projects	• inside EU: borrowers in the member states of the EU, the accession countries (including Bulgaria, Romania, Turkey) , and the EFTA countries of Norway, Iceland, and Liechtenstein • outside EU: borrowers in ACP states, certain countries in ALA, and the Mediterranean countries	
Eligible beneficiaries	private companies and institutions (financial institutions, leasing companies, guarantee institutions, mutual guarantee funds, special purpose vehicles, private equity vehicles, and so on), or commercially run public institutions	
Eligible forms of investment	• long- and medium-term debt (in foreign currency and in selected countries also in local currency); equity and guarantee instruments available in ACP and Mediterranean countries • via the EIF, equity and guarantees principally in the EU	
Risk types covered	• under political risk carve-out mechanisms: nontransfer of currency, war and civil disturbance, expropriation, and denial of justice • under comprehensive guarantees: proportionate or residual loss guarantee	
Maximum tenor	• inside EU: EIF credit enhancement up to 15 years average life • outside EU: tenor appropriate to the project being financed (up to 25 years for infrastructure projects)	
Maximum amount	• Inside EU: EIF – up to 50% of the total project cost – no geographic limits – EIF : Credit Insurance, takes up to 50% of the risk of every individual loan or lease in the portfolio, up to a maximum capped amount – EIF: Credit Enhancement • Outside EU: amounts by reference to geographical mandates (typical range of financing package is €10–100 million generally limited to 50% of project cost	
Fees	determined by each transaction, using market-based rates	

continued

Table B1.8 Continued

	Political risk coverage	Comprehensive risk coverage
Other conditions	• inside EU: EIF – no counterguarantee required – does not provide direct guarantees for individual SMEs, but always operates on the basis of a portfolio of guarantees or loans – equity and first loss are not normally guaranteed – portfolio or securities should normally have an investment-grade rating before the EIF guarantee • outside EU: No sovereign counterguarantee required for private-sector operations. Usual security required (as appropriate, third-party guarantees, pledge on assets, accounts, and the like) • Guarantees can be one component of a multiple-component EIB financing package.	
For more information	http://www.eib.org or www.eif.org tel: +352) 43 79 31 22 email:info@eib.org	

Source: Authors' compilation.

Note: ACP = Africa, Caribbean, and Pacific; ALA = Asia and Latin America; EFTA = European Free Trade Association.

Table B1.9 Andean Development Corporation (CAF)

Institution type	Regional multilateral development bank
Ownership	owned by 17 member countries from Latin America, the Caribbean, and Europe (86.21% is owned by the Andean countries[a]; 13.75% by nonregion countries), and 16 private banks from the Andean Region (0.04%)
Head office	Ave. Luis Roche, Torre CAF, Altamira, Caracas, República Bolivariana de Venezuela
Rating	Moody's A1, S&P A
Major instruments	loans (A/B loans), guarantees, equity and quasi-equity participation[b]

	Comprehensive risk coverage
Instrument name	Partial Credit Guarantee
Instrument type	debt guarantee
Eligible borrowers and projects	• all public and private financial institutions, private sector companies, and governments from member countries • public and private infrastructure projects, such as roads, transportation, telecommunications, power generation and transmission, water and environmental clean-up and development of border areas, and the physical integration of shareholder countries • industrial projects
Eligible beneficiaries	financial institutions, private companies, governments
Eligible forms of investment	debt
Risk types covered	borrower credit risk; partial credit enhancement can be structured flexibly to fit to specific debt instruments and market conditions, that is, guaranteeing installment of principal and an interest payment or a portion (usually no more than 33%) of a debt issue on a revolving basis
Maximum tenor	• 15 years
Maximum amount	• private sector companies up to US$80 million (unless otherwise authorized)
Fees	• market-based, subject to transaction type, structure, tenor, and credit profile of beneficiary, as well as whether it is a sovereign (subject to a lower fee structure) or private sector entity
Other conditions	• CAF does not explicitly require a host government counterguarantee • real estate and military-related transactions are not supported
For more information	http://www.caf.com tel: (58212) 209-2111 email: infocaf@caf.com

continued

Table B1.9 Continued

Partial Credit Guarantee Portfolio, All Sectors

Indicator	2001	2002	2003	2004	2005
Guarantees outstanding (US$ million)	250	400	325	299	199

Note: Political risk coverage is offered by LAIGC.

a. Andean countries are Bolivia, Colombia, Ecuador, Peru, and República Bolivariana de Venezuela.

b. Includes fixed- or variable-income instruments in companies and infrastructure projects; subordinated loans, preference shares, mezzanine financing, and convertible loans.

The Latin American Investment Guarantee Company (LAIGC)

Institution type	Insurance company for the promotion of foreign investment
Ownership	CAF (50%) and AIG Global Trade & Political Risk Company
Head office	29 Richmond Road, Pembroke HM 08 Bermuda. Telephome +441-298-5269
Coverage	LAIGC offers political risk and investment insurance for foreign credit, foreign trade, and capital investment operations in the countries of the region.
Primary business strategy	To maximize the leveraging effect of ots capital through co-insurance and reinsurance packages. For every transaction that LAIGC insures, AIG will partner in the same risk on an at least a dollar for dollar basis.

Source: Authors' compilation and 2005 CAF annual report.

Table B1.10 Islamic Corporation for Insurance of Investments and Export Credits (ICIEC)[a]

	Political risk coverage	Comprehensive risk coverage
Instrument name	• Equity Investment Insurance Policy (EIIP) • Financing Facility Investment Insurance Policy (FFIIP) • Loan Guarantees Investment Insurance Policy (LGIIP)	• Comprehensive Short Term Policy (CSTP) • Supplemental Medium Term Policy (SMTP) • Specific Transaction Policy (STP) • Bank Master Policy (BMP) • Documentary Credit Insurance Policy (DCIP)
Instrument type	investment and export credit insurance, reinsurance	
Eligible investments, borrowers, projects	• export credits pertaining to goods exported from member states worldwide • investments in member states irrespective of country origin, including direct investments in the share capital of enterprises including principal amount of loans made or guaranteed by holders of equity in the enterprise concerned • private, public, and mixed investments operating on a commercial basis	
Eligible beneficiaries	private sector, lenders (Islamic and commercial banks), national ECAs (export credit agencies)	
Eligible forms of investment	loans (including letters of credit), equity	
Risk types covered	• currency convertibility and transfer • expropriation • war and civil disturbance • breach of contract	• commercial risks: insolvency or bankruptcy of buyer; repudiation or termination by the buyer of the purchase contract; refusal of the buyer to pay the purchase price • political risks (as at left)
Maximum tenor	• export credit insurance: maximum tenor 7 years (subject to Board of Directors, tenor could be increased) • PRI: from 1 year to 15 years (20 years in special circumstances)	
Maximum amount	• PRI: up to 90% of the investor's loss, the principal plus the mark-up to be accumulated over the lifetime of the loan, less the 10% uninsured amount • commercial risk: 90% as standard, but may be increased or decreased at the discretion of the underwriter on an individual basis subject to prudent underwriting principles	

continued

Table B1.10 Continued

	Political risk coverage
Fees	• for investment insurance premium and fees – administrative fee for reviewing preliminary applications US$500, nonrefundable – processing fee for assessing main application of US$5,000 nonrefundable (subject to a refund or increase depending on actual costs incurred by ICIEC); the full processing fee will be applied to first year's premium in the event a policy is issued – premium rates depend on the risks selected by the policyholder and the host country; premium rates are per year and vary from 0.2% to 4.35% for package of four risks • export credit insurance premium and fees – policy administration fee 0.025% to 0.1% of policy limit with minimum US$1,000 premium rates depend on factors such as country risks, commercial risks, terms of payments, whole turnover cover or single transaction cover; premium rates for short term business (less than 180 days) vary from 0.4% to 3.15%
Other conditions	• export goods must be Shariah compliant • fully documented claims must be made within 60 to 365 days from date of loss, waiting period of 4 to 9 months applies • policies covered only in Islamic Dina, U.S. dollar, euro (unless otherwise approved by Board) • ICIEC is entitled to cancel policies in the event of failure by the policyholder to supply declarations or to pay premium within the periods specified by the corporation. • Specific exclusions from coverage are devaluation or depreciation of currency.
For more information	http://isdb.org tel: (+9662) 6361400 email: idbarchives@isdb.org

Guarantee and Insurance Portfolio, All Sectors

Indicator	2001	2002	2003	2004	2005
No. of approvals	183	248	455	457	874
Business insured (US$ million)	50.3	102.8	159.2	317.9	590.8
Exposure (US$ million)	65.0	109.0	123.5	227.4	447.0

Note:

a. A member of the Islamic Development Bank Group founded in 1994, 50% owned by IsDB and remainder by 35 member countries of the Organization of Islamic Conference (OIC), for more information please go to www.iciec.com or write to P. O . Box. 15722 - Jeddah 21454 - Kingdom of Saudi Arabia, tel: (+9662) 6445666 fax : (+9662) 6379504 E-mail : iciec@isdb.org

Islamic Development Bank (IsDB)

Islamic Development Bank (IsDB)	
Institution type	Multilateral development bank
Ownership	Owned by 56 countries, member countries should also be members of the Organization of the Islamic Conference
Head office	P. Box 5925, King Khaleed Street, Jeddah, 21432 Kingdom of Saudi Arabia
Rating	S&P AAA, Fitch AA
Major instruments	Shariah compliant funding: Loan financing, Technical Assistance, Leasing, Istisn'a, Lines of Financing, Equity Participations, Profit Sharing, ICIEC Investment and Export Credit Insurance, ICD Islamic Corporation for the Development of Private Sector, ITFC Islamic Trade Finance Corporation.

Source: Authors' compilation.

Table B1.11 Inter-Arab Investment Guarantee Corporation (IAIGC)

Institution type	Pan-Arab regional multilateral agency
Ownership	owned by all Arab countries (except Comoros Islands)
Head office	P.O. Box 23568 Safat 13096 State of Kuwait
Rating	Not rated
Major instruments	investment guarantees, trade finance guarantees

	Investment coverage	Export credit coverage[a]
Instrument name	• Direct Investment Guarantee • Equity Participation Guarantee • Loan Guarantee • Contractors Equipment Guarantee	• Comprehensive Guarantee • Specific Guarantee • Specific Noncommercial Risks Guarantee • Buyer Credit Guarantee • Others
Instrument type	insurance	
Eligible investments, borrowers, projects	• Arab new investments in Arab countries • equity investment (total project ownership or equity participation) • loans for new investment projects exceeding 3-year maturities	• goods of Arab origin exported from one Arab country to another Arab country • exporter must be an Arab nation
Eligible beneficiaries	• Arab nationals, be it natural or juridical persons, private or public, provided that their nationality is different from that of the host country in the case of natural persons. For juridical persons, the share capital should be substantially owned by Arab nationals and the head office seated in any Arab country. • Arab-foreign banks operating outside the Arab world if at least 50% Arab owned	
Eligible forms of investment	loans, equity, equipment contract	
Risk types covered	noncommercial risks • currency convertibility and transfer • expropriation and nationalization • war and civil disturbance	commercial risks • insolvency or bankruptcy of buyer • failure of the buyer to effect payment • failure or refusal of the buyer to accept goods • noncommercial risks[b]
Maximum tenor	• direct investment and equity participation: 10 years • loan guarantee: no maximum • contractors equipment: corresponds with the project execution period	• comprehensive guarantee: not to exceed 1 year • specific guarantee: for length of credit period
Maximum amount or cover	• max 90% loss in case of inconvertibility • 85% for all other risks	• commercial risks: up to 85% • noncommercial risks: up to 90% for inconvertibility, delay in approving transfer, discriminatory exchange rate; 85 percent for others
Fees	• US$350 registration fee • commitment fee:[c] 0.1% for amounts not exceeding US$10 million and 0.15% for amounts exceeding US$10 million • guarantee premiums: determined subject to evaluation of risks covered; around 0.4% per risk payable annually on the current amount[d]	• US$175 registration fee; US$150 importers information collection fees • commitment fee: 0.05% of the total value of the contract • guarantee premiums: dependent on risk evaluation; around 1% of the value of the shipment executed
Other conditions	• host country's prior approval is required (an implicit acknowledgment)	
For more information	http://www.iaigc.org tel: (+00965)4844500 email: info@iai.org.kw	

Source: Authors' compilation.

Note:

a. Specific Guarantee covers comprehensive risks for private sector importer; Specific Noncommercial Risks Guarantee covers noncommercial risk for export with an importer of the public sector.

b. Noncommercial risks include cancellation or nonrenewal of an import license or refusing entry of the shipped goods; refusal of the public authorities of an Arab transit country to allow transit; confiscation, sequestration, or detention of the exported goods; measures taken that prevent exporter from receiving his dues; nationalization; confiscation; compulsory seizure; expropriation; public civil disturbances; and others.

c. Paid annually on the amount that represents the difference between the maximum guarantee amount and the current amount.

d. If two risks are covered, premiums will be reduced by 5%; if three risks are covered, 10%.

Appendix B2 Profiles of Major Bilateral Risk Mitigation Instruments

Table B2.1 Export Development Canada (EDC)

Institution type	Export credit agency
Ownership	Government of Canada (a Crown Corporation)
Head office	Export Development Canada, 151 O'Connor, Ottawa, Canada, K1A 1K3
Rating	Moody's Aaa, S&P AAA
Major instruments	export credit insurance (accounts receivable insurance), political risk insurance, guarantees

	Investment coverage	Export credit coverage
Instrument name	• Political Risk Insurance (PRI)	• Contract Frustration Insurance (CFI, formerly Specific Transaction Insurance) • Accounts Receivable Insurance (ARI) • Bank Guarantee Program (BGP) • Capital Markets Coverage (CMC)
Instrument type	insurance	BGP: guarantee; Others: insurance
Eligible investments, borrowers, and projects	overseas investments beneficial to Canada	• CFI: specific export contract for services and capital goods or projects • BGP: loans by Canadian and international banks supporting the export of goods and services • CMC: bond issues by emerging market issuers into international capital markets
Eligible beneficiaries	lenders, private sector companies	lenders
Eligible forms of investment	loans, equity (paid-in-capital), shareholder loans, guarantees such as financial guarantees or completion guarantees, physical assets, service agreements, production sharing contracts	loans, accounts receivable, bonds
Risk types covered	PRI • currency convertibility and transferability • expropriation and repossession • political violence • breach of contract by a government or state-owned entity, subject to an arbitration award in favor of the investor not being honored	commercial and political risks
Maximum tenor	up to 15 yrs (unless otherwise approved)	no set maximums
Maximum amount or cover	• equity coverage: normally 90% of eligible losses, no stated project limit • bank loans: up to 100% of principal and interest, no stated project limit	• CFI and ARI: up to 90% of losses (costs incurred or receivables), no stated maximum • BGP: for less than US$10 million, 95% cover on 85% of Canadian export contract; for greater than US$10 million, 90% coverage; increases to 100% when the lending bank provides financing for the 15% uncovered portion for a minimum two-year tenor
Fees	premiums based on country, industry, and transaction characteristics and number of risks covered; discounts apply if more than one risk is insured against	• exposure fees: determined by EDC's own risk-based analysis, which can be higher than rates set by the OECD arrangement • pricing based on a number of factors including policy liability, policy duration, payment terms, buyer risks, and other contract-specific risk factors • BGP: guarantee fee equal to the OECD minimum premium rate plus a component for commercial credit risk

continued

Table B2.1 Continued

	Political risk coverage	Comprehensive risk coverage
Other conditions	• insurance can be tailored to cover only specific risks from above selection • must be compliant with EDC's code of business ethics, such as a commitment to environment	To qualify, EDC will take into account value of the exports from Canada and any other significant benefits to Canada, creditworthiness of foreign buyer, contractual terms and conditions, conditions and economic outlook in buyer's country, and exporter capabilities.
For more information	http://www.edc.ca tel: (613) 598-2500	email: export@edc.ca

Total Volume of Medium-Term Insurance Policies (PRI and CFI), All Sectors

Indicator	2001	2002	2003	2004	2005
Guarantees outstanding (CAD billion)	8.5	8.6	7.4	6.9	8.4

Source: Authors' compilation.

Table B2.2 Agence Française de Développement (AFD)

Institution type	Bilateral development agency[a]
Ownership	French government
Head office	5, Rue Roland Barthes, 75598 Paris Cédex 12
Rating	S&P AAA, Fitch Ratings AAA
Major instruments	loans (concessional, nonconcessional), subsidies, guarantees

	Political risk coverage	Comprehensive risk coverage
Instrument type	guarantee	
Eligible projects	infrastructure, urban development, rural development and environment, health, education, local financial market development, in AfD-qualified countries	• private companies and microfinance institutions operating in countries in AFD's geographical areas of operation[b] • medium- and long-term loans granted to private businesses and microfinance institutions, as well as credit lines for microfinance institutions • all activities qualify except private housing, small retail business, weapons, gambling, tobacco, and alcohol
Eligible beneficiaries	lenders, private sector companies	
Eligible forms of investment	debt, equity, bond issues	debt (not working capital)
Risk types covered	political risks • currency convertibility and transfer • expropriation and repossession • political violence (including terrorism and sabotage) • breach of contract • nonpayment by a sovereign obligor	• commercial risks (insolvency, bankruptcy) • political risks (see left)
Maximum tenor	none, project determined	loan: 2–12 years
Maximum amount or cover	• private sector: max 90% of eligible losses, no stated maximum amount • bank loans: up to 100% of principal and interest; no stated maximum amount	maximum €750,000 (for example, 50% of a loan amount of €1.5 million) and maximum 50%, except for IMMs (up to 75%)

continued

Table B2.2 Continued

	Political risk coverage	Comprehensive risk coverage
Fees	premiums based on country, industry, and transaction characteristics and number of risks covered; rates start as low as 0.5% per year to insure one political risk; discounts apply if more than one risk is insured against	2% on the current guaranteed amount for loans
Other conditions	• insurance can be tailored to cover only specific risks from above selection • sovereign counterguarantee required	• the guarantee may not be invoked within the first 12 months following the total disbursement of the loan • sovereign counterguarantee not needed
For more information	http://www.afd.fr (to identify the local offices)	tel: +33 1 53 44 31 31 email: site@afd.fr

Guarantee and Insurance Portfolio, All Sectors

Indicator	2001	2002	2003	2004	2005
No. of guarantees	8	4	4	4	2
Guarantees issued (million euro)	3.8	32.7	11.6	5.7	14.1
Guarantees outstanding (million euro)	49.9	79.6	76.4	66.8	49.8

Source: Authors' compilation.

Note:

a. Includes PROPARCO (the private sector arm, owned 67% by AFD) with the remainder by French financial institutions (15.09%), French companies (7.74%), and international finance institutions (9.07%). PROPARCO Web site address is www.proparco.fr; tel: +33 1 53 44 37 37). AFD operates in 69 countries, including those that do not belong to the French Priority Zone of Solidarity, as per the Inter-ministerial Committee for International Cooperation and Development.

b. Please see Web site www.afd.fr for qualified countries

Table B2.3 Coface

Institution type	Export credit agency (French government)
Ownership	Coface Corporation[a]
Head office	12 cours Michelet, La Défense 10, 92065 Paris La Défense Cédex
Rating	Moody's Aa3, Fitch Ratings AA+
Major instruments	Export credit insurance (accounts receivable insurance), political risk insurance

	Investment insurance	Export credit guarantees
Instrument type	insurance	guarantee
Eligible projects and transactions	all investments above €15 million and for a duration between 5 and 15 years	• companies exporting majority French produced goods, and contracting for private and public works • companies providing services for a duration longer than one year • bank credits of at least two years
Eligible beneficiaries	French companies, French banks and lenders	
Eligible forms of investment	equity participation (greenfield or expansion), allowances, shareholder loans, security guarantees for equipment lease, concession or license fees, bank loans	loans, performance and bid security, accounts receivable
Risk types covered	PRI: applicant can select from • currency convertibility and nontransfer • expropriation, change in law • political violence, war and civil disturbance • breach of contract, nongranting of rights and permits, denial of justice	Commercial risks • insolvency or bankruptcy of buyer • failure of the buyer to effect payment • termination or cancellation of contract by buyer

continued

Table B2.3 Continued

	Investment insurance	Export credit guarantees
		Noncommercial risks • political risk (country of operation) • political risk (France and EU decisions) • natural disasters, force majeure
Maximum tenor	15 years	• up to 14 years for project financing • up to 15 years for hydroelectrical projects
Maximum amount or cover	equity investments and bank loans: max 95% of eligible losses, no stated maximum amount	• no maximum amount except for some specific countries as defined in terms of cover • for credit risk: 95% for buyer credit, 90% for political risks for supplier credit, 85% for commercial risk for supplier credit (90% if a bank guarantee is available) • bank loans: 95% or less, depending on commercial risk; from 85% to 90% for bid and performance securities; 95% for project finance loans political risk
Fees	Premiums based on country, industry, and transaction characteristics and number of risks covered. Discounts apply if more than one risk is insured against	premiums based on type of risk covered (credit risk, construction risk, securities), coverage (political risk, commercial risk), country risk, financing structure, duration, buyer, and the like
Other conditions	• operate in compliance with OECD principles and standards for responsible business conduct in a variety of areas, including employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation (http://www.oecd.org) • French government needs to approve transactions.	
For more information	http://www.coface.fr or www.coface.com	tel: +33 (0)1 49 02 19 73

Guarantee and Insurance Portfolio

Indicator	2001	2002	2003	2004	2005
No. of guarantees					
all sectors	459	374	328	403	395
infrastructure transactions	17	6	5	10	12
Guarantees issued (US$ million)					
all sectors	10,822	13,167	10,499	11,662	20,401
infrastructure transactions	278	500	867	64	1202
Guarantees outstanding (US$ million)					
all sectors	66,593	71,304	71,533	68,400	60,976
infrastructure transactions	n.a.	n.a.	3,153	3,138	2,708

Source: Authors' compilation.

Note: n.a. = Not applicable.

a. Founded in 1946 as a specialized export credit insurance company, managing its own products and state guarantees for French exports. Coface privatized in 1994. In 2002, Natexis Banques Populaires became Coface's majority shareholder. Coface acquired Ort from Reuters in 2004 and became France's leading credit information provider.

Table B2.4 Deutsche Investitions und Entwicklungsgesellschaft mbH (DEG)

Institution type	Bilateral development agency
Ownership	100% KfW,[a] Frankfurt
Head office	Belvederestr. 40, 50933 Cologne, Germany
Rating	DEG: not rated; KfW: Moody's Aaa, S&P AAA, Fitch Ratings AAA
Major instruments	loans, mezzanine finance, equity capital, and guarantees

	Comprehensive coverage
Instrument name	Partial and Full Credit Guarantees
Instrument type	guarantee
Eligible borrowers and projects	• agribusiness, financial sector, infrastructure, manufacturing industries and services guarantees provided on an untied basis • Eligible borrowers are private sector financial institutions and private sector companies only; public financial institutions do not qualify.
Eligible beneficiaries	private financial institutions
Eligible forms of investment	debt
Risk types covered	borrower credit risk (insolvency, bankruptcy, and the like)
Maximum tenor	usually up to 10 years, longer tenors are possible
Maximum amount	up to US$30 million for DEG´s own account (additional amounts can be mobilized from third parties)
Fees	market based, in accordance with normal banking practices
For more information	http://www.deginvest.de tel: +49 221 – 4986 -0 e-mail: info@deginvest.de

Kredit Anstalt fuer Wideraufbau (KfW)

Institution type	Bilateral development agency
Ownership	80% held by the German Federal Government, with the remaining 20% held by the individual German federal states
Head office	Palmengartenstrasse 5-9, 60325 Frankfurt am Main, Germany
Rating	Moody's Aaa, S&P AAA, Fitch Ratings AAA
Major instruments	DEG: loans, mezzanine finance, equity capital, and guarantees IPEX Bank: loans, equity participation, export and project financing
For more information	http://kfw.de tel: +49 69 7431-0

Source: Authors' compilation.

Note:

a. KfW Group consists of DEG; KfW Development Bank, which focuses more on the public sector; and IPEX bank, which is responsible for the project and export finance activities of the KfW Group and is to be launched as an independent bank on January 1, 2008.

Table B2.5 Foreign Trade and Investment Promotion Scheme (AGA)

Institution type	Export credit agency	Investment Insurer
Ownership[a]	Euler Hermes (EH), a private company	PricewaterhouseCoopers (PwC), a private company
Head office	Euler Hermes- Export Credit Guarantees, Friedensallee 254, 22763 Hamburg, Germany	PricewaterhouseCoopers-New-York-Ring 13, 22297 Hamburg, Germany
Rating	German government: Moody's Aaa, S&P AAA	
Major instruments	Export credit guarantees	Investment guarantees and untied loan guarantees

	Investment coverage (PwC)	**Export credit coverage (EH)**
Instrument name	Investment Guarantee	Export Credit Guarantee
Instrument type	guarantee	
Eligible investments, borrowers, projects	New direct investments abroad, long-term capital investments in cash or in other in-kind contributions with the aim of entrepreneurial activity. Developmental and environmental aspects as well as positive reverse effects of the investment on Germany play a crucial role for eligibility. Only entrepreneurs and companies domiciled in Germany and having their center of activity in Germany are entitled to apply for investment guarantees. Regarding export guarantees, financial institutions and banks financing German export transactions are entitled to apply as well. Exports and manufacture of German goods, structured finance, and project finance transactions are eligible.	
Eligible beneficiaries	lenders, private companies, foreign sovereign and subsovereign borrowers	lenders, private companies, foreign sovereign and subsovereign borrowers
Eligible forms of investment	debt (shareholder and bank loans); bonds; equity (equity participations in a project company, endowment capital), including earnings (dividends, interest, capital gains)	• debt, prime costs (in case of preshipment cover)
Risk types covered	political risk • currency convertibility and nontransfer • expropriation • political violence (including terrorist acts) • moratorium risk • breach of contract	• commercial risks (insolvency, bankruptcy, and the like) • political risks
Maximum tenor	• investment guarantee up to 15 years (justified cases up to 20 years), and may be extended upon maturity for 5 more years • export credit guarantee up to 12 years (maximum as set out in the OECD Consensus—"The Arrangement")	
Maximum amount	no limit on amount of coverage	
Fees	• investment guarantee: under €5 million, no handling fee; above €5 million, a flat handling fee of 0.5%; however, total fee for each application may not exceed €10,000; policy premium after issuance is 0.5% annually • export credit guarantee: handling fee (comprises an application fee, issuance fee, and possibly prolongation fee) plus premium rate (depends on OECD system for risk analysis)	
Other conditions	• International code of practice on environmental guidelines has to be met. • Pure financial investments without entrepreneurial activity (that is, portfolio investments) are ineligible. • Legal protection for the direct investment must be ensured, such as through an investment protection treaty between host country and Germany or, alternatively, the existing legal system of the host country guarantees adequate protection of foreign investments. • Project finance transactions may require offshore escrow accounts for hard currency revenues. • For export guarantees (including preshipment cover for manufacturing risks), a percentage of loss must be carried by insured ranging from 5% to 15%, depending on type of cover.	
For more information	http://www.agaportal.de Euler Hermes: http://www.eulerhermes.com tel: +49 (0) 40 / 88 34 – 91 92 email: info@exportkreditgarantien.de PricewaterhouseCoopers: http://www.pwc.com/de tel: +49 (0) 40 / 8834-94 51 email: investitionsgarantien@de.pwc.com	

continued

Table B2.5 Continued

Source: Authors' compilation.

Note:

a. A consortium of two private companies, Euler Hermes Kreditversicherungs-AG and PricewaterhouseCoopers AG, are mandated to manage the guarantee schemes on behalf of the German government. Euler Hermes is the lead partner for export credit guarantees, and PricewaterhouseCoopers is the lead partner for investment guarantees and untied loan guarantees.

Table B2.6 Italian Export Credit Agency (SACE)

Institution Type	Export credit agency
Ownership	fully owned by the Italian Ministry of Economy and Finance
Head office	Piazza, Poli 37/42, 00187, Rome, Italy
Rating	Moody's Aa2
Major instruments	export credit insurance, investment insurance, reinsurance

	Investment coverage	**Export credit coverage**
Instrument name	• Political Risk Insurance: • Overseas Investments Insurance Policy	• Buyer Credit Insurance • Bond Insurance • Confirmation of Documentary Credits • Supplier Credit Insurance • Civil Works Insurance • Exportplus • Working Capital Facility • Credit Enhancements
Instrument type	insurance	
Eligible investments, borrowers, projects	• exports of goods and services by Italian companies • investments by Italian enterprises abroad, including indirect ones (that is, carried out by Italian companies' foreign subsidiaries); without restriction to sector, structure, or size	
Eligible beneficiaries	banks, private sector companies	
Eligible forms of investment	equity, loans, corporate bonds, project finance debt	
Risk types covered	political risks • currency convertibility and nontransfer • expropriation and repossession • political violence, war, unrest, and natural disasters • exchange rate fluctuation due to law provisions adopted by the debtor country • embargo	commercial risks • Insolvency or bankruptcy of buyer • failure of the buyer to effect payment • termination or cancellation of contract by buyer noncommercial risks[a]
Maximum tenor	12 years, unless otherwise approved by SACE	
Maximum amount	up to 95% of the eligible amount, no maximum stated	
Other conditions	all SACE commitments are guaranteed by the Republic of Italy	
For more information	http://www.sace.it tel: +39 06-67361 email: info@sace.it	

Source: Authors' compilation.

Note:

a. Noncommercial risks include cancellation or nonrenewal of an import license or refusing entry of the shipped goods; nonconversion of currency or inability to transfer funds; war, revolution, insurrection, or other political disturbances; and host government moratorium on debt.

Table B2.7 Japan Bank for International Cooperation (JBIC)

Institution type	Bilateral agency for the support of Japanese exports and imports, Japanese economic activities overseas, and stability of international financial order
Ownership	Government of Japan
Head office	4-1, Ohtemachi 1-chome, Chiyoda-ku, Tokyo 100-8144, Japan
Rating	Moody's A2, S&P AA- , Japan Credit Rating Agency AAA
Major instruments	export/import loans, overseas investment loans, untied loans, guarantees, equity participation

	Political risk coverage	Comprehensive risk coverage
Instrument name	Political Risk Guarantee (PRG)	Comprehensive Guarantee (CG)
Instrument type	debt guarantee	
Eligible borrowers and projects	private entities • projects supporting economic activities of Japanese companies both for importing and exporting goods and services, investment activities, and promoting economic activities • projects with JBIC loan participation under cofinancing[a]; and projects without JBIC loan participation	• sovereign and public entities • private entities
Eligible beneficiaries	• private financial institutions (nationals of Japan or Japanese branches of foreign financial institutions) • sovereign, public, and private entities (for bond guarantees)	
Eligible forms of investment	• loans and bonds	• loans and bonds (including local currency-denominated bonds)
Risk types covered	Political risks • currency convertibility and transfer • expropriation and repossession • political violence • breach of contract by a sovereign obligor	all types of commercial and noncommercial risks
Maximum tenor	depending on projects, generally up to 15 years	
Maximum amount	• up to 100% of debt (both principal and interest payments) • depending on project	
Fees	depends on individual structure, tenor, borrower credit risk, country risk	
Other conditions	• for covering political risk or credit risk of nonsovereign public borrowers, may require government guarantee on case-by-case basis • nonfinancial conditions of guarantee operation (for example, environmental policies) are, in principle, same as those under the loan operation	
For more information	http://www.jbic.go.jp tel: +81-3-5218-3374	

Guarantee Portfolio, All Sectors

Indicator	2001	2002	2003	2004	2005
No. of guarantees	5	36	27	23	38
Total guarantees issued (JPY billion)	87.3	333.5	240.9	216.0	273.6
Guarantees outstanding (JPY billion)	555.6	630.5	745.7	903.5	1,055.1

Source: Authors' compilation.

Note:

a. Private lenders under cofinancing arrangement can also share JBIC loan agreement (with special provisions).

Table B2.8 Nippon Export and Investment Insurance (NEXI)

Institution type	Export credit agency[a]
Ownership	100% by the government of Japan through Ministry of Economy, Trade and Industry
Head office	Chiyoda First Building, East Wing 3rd Floor, 3-8-1 Nishikanda, Chiyoda-Ku. Tokyo, 101-8359 Japan
Rating	No independent rating, Government of Japan rating (Moody's A2, S&P AA-)
Major instruments	export credit and trade insurance, investment insurance, reinsurance

	Investment coverage	**Trade coverage**
Instrument name	• Overseas Investment Insurance (OII) • Overseas Untied Loan Insurance[b] (OULI)	• Export Credit Insurance • Buyer's Credit Insurance • Trade Insurance for Manufacturers[c] • Export Credit Insurance for SMEs • Other
Instrument type	insurance	
Eligible projects	• OII: foreign investments by Japanese companies; equity investments in a subsidiary or a joint venture in a foreign country, long-term loans or surety obligations; real estate and mining rights investment • OULI: financings, guarantees, or purchase of foreign corporate or sovereign debt by a Japanese business for purpose of long-term financing not tied to Japanese exports; covers losses from both political and commercial risk	• export of Japanese goods and services; intermediary trade function by Japanese companies; Japanese commercial bank loans to foreign importers of Japanese trade goods
Eligible beneficiaries	private sector companies, lenders	
Eligible forms of investment	debt , bonds (domestic or foreign currency), equity	
Risk types covered	• political risk: currency convertibility and nontransfer, expropriation and repossession, political violence, war, unrest, and natural disasters • commercial risk: insolvency of debtor; debtor or guarantor protracted default; purchaser's arbitrary repudiation, suspension, or unilateral termination of a commercial contract or purchaser's refusal to accept the exported goods or services	
Maximum tenor	• OII: 2 years to 15 years • OULI: 2 years or more • Export Credit Insurance, Buyer's Credit Insurance:12 years in principle • Trade Insurance for Manufacturers: less than 1 year • Export Credit Insurance for SMEs: 180 days	
Maximum amount	• OII: political risk 95% • OULI: political risk 97.5%, commercial risk up to 95% • Export Credit Insurance, Buyer's Credit Insurance: political risk 100%, commercial risk 95% • Trade Insurance for Manufacturers, Export Credit Insurance for SMEs: political risk 95%, commercial risk 95%	
Fees	• OII: Political risk—subject to country risk (OECD rating) • OULI: Political risk—subject to country risk – Commercial risk: depending on buyer's financial standing, premium is collected according to grades (five grades) • Export Credit Insurance, Buyer's Credit Insurance, Trade Insurance for Manufacturers, and Export Credit Insurance for SMEs: differ depending on the country risk (OECD rating) or repayment term	
Other conditions	guidelines on environmental and social considerations	
For more information	http://www.nexi.go.jp tel: 81-(0)3-3512-7650	

continued

Table B2.8 Continued

Medium- to Long-Term Guarantee and Insurance Portfolio, All Sectors[d]

Indicator	2001	2002	2003	2004	2005
No. of insurance policies	821	672	1,172	1,009	883
Insurance issued (million Yen)	1,552,603	825,641	1,839,182	1,666,652	1,546,428
Insurance outstanding (million Yen)	4,381,351	4,017,360	4,606,028	4,944,521	5,058,753

Source: Authors' compilation.

Note:

a. Originally started by the Japanese government to facilitate trade and export; subsequently it has been spun off into an Independent Administrative Institution, to better meet the changing requirements of the global marketplace. The Japanese government reinsures insurance agreements underwritten by NEXI, thus enhancing the creditworthiness of NEXI.

b. Two categories of insurance are available under this product: (a) insurance for loan and bond subscription; financings not related to Japanese export transactions, that is, commercial bank loans to foreign companies and sovereigns; or purchase of bonds issued by foreign company or sovereign; and (b) insurance for guarantee of obligation, which covers losses by a Japanese company or bank that extended a guarantee to the borrowing (could be in form of a local bond) of its overseas subsidiary, or a foreign government or company.

c. This insurance, unlike Export Credit insurance, is exclusively for Japanese manufacturers that engage in export or intermediary trade activities. It covers losses when they are unable to make shipments or collect receivables. A manufacturer's overseas subsidiary is exempt from commercial risk cover.

d. In FY2005, the result of the total number of large-scale transactions (mostly Non-LG transactions and for OULI or BC) which were posted on the NEXI's Web site when commitment was provided shows that infrastructure transactions (transportation and power) account for 22 percent in number of transactions and 13 percent in terms of amount of money. These percentages may not be the same every year.

Table B2.9 Atradius Dutch State Business NV

Institution type	Private company, administers Dutch government export credit and investment insurance
Ownership	fully owned by the Atradius Group
Head office	Postbus 473, 1000 AL Amsterdam, Keizersgracht 281, 1016 ED Amsterdam, The Netherlands
Rating	Moody's A2. S&P A
Major instruments	export credit and investment insurance

	Investment coverage	**Export credit coverage**
Instrument name	• Investment Insurance (Direct Investment Insurance)	• Export Credit Insurance • Capital Goods Insurance
Instrument type	insurance and guarantee	
Eligible investments, borrowers, projects	• export of capital goods and performance of works abroad by Dutch-based companies • project finance • overseas property, plant, and equipment • investment insurance: equity investments abroad for establishment of a subsidiary, participation in a joint venture, investment in the share capital of a company	
Eligible beneficiaries	private companies, lenders	
Eligible forms of investment	loans, shareholder loans, equity	
Risk types covered	• currency inconvertibility and transfer • expropriation • war and civil disturbance (including terrorism and sabotage) • moratorium • breach of contract (upon request), including failure by host governments (sovereign and subsovereign) to meet their obligations under guarantees issued for a project	Insured can choose risk coverage types • commercial risk (insolvency, bankruptcy, and the like) • political risks • force majeure • catastrophe risk (natural disasters) • nuclear disaster • currency exchange risk • bond cover

continued

Table B2.9 Continued

	Investment coverage	Export credit coverage
Maximum tenor	up to 15 years	
Maximum amount	For investment insurance • maximum compensation: for loans, €75 million; for invested assets, €100 million • direct investment insurance: application fee is 0.1% of invested amount min. €450 and max €45,000, premium varies between 0.65% and 1.1% per year depending on the risk (of war, expropriation, and transfer)	For export credit insurance • maximum percentage for political risk and some subsovereign risk cover goes up to 98% • maximum percentage for commercial risk is 95%
Fees	• processing costs (information gathering, max €120; commission for the issue of a promise of cover of 0.05% of the maximum indemnification payable, subject to a minimum of €150 to €1,500; cost of issuing a policy, 0.5% of the maximum liability with a minimum of €150 and a maximum of €3,000) • plant and equipment insurance: premium varies from 0.151% to 1.314% per year	
Other conditions	• transactions must meet OECD guidelines for corporate social responsibility, including environmental standards and the combating of bribery • the insured lender may lay off his own risk to the exporter • delay interest is covered • standard waiting period for indemnification is 3 months	
For more information	http://www.atradius.com tel: +31 (0)20 553 9111 email:carlindalengkeek@atradius.com	

Guarantee and Insurance Portfolio, All Sectors[a]

Indicator	2003	2004	2005
No. of policies issued during year	109	112	121
Policies issued (million euro)	2.5	2.1	2.5
Policies outstanding (excluding claims paid) (million euro)	5.4	5.7	6.6

Source: Authors' compilation.

Note:

a. Policies for infrastructure sectors account for 17 percent of policies outstanding at the end of 2005. Please note that this figure refers to the liability under the policies. The percentage of contract amounts for infrastructure projects in the portfolio is estimated to be considerably higher. The reason for this is mainly because of the following:

1. Infrastructure contracts are often on cash basis. This means that, as opposed to many other transactions, no financing costs (interest) are involved.

2. Liability of infrastructure projects are usually capped at an amount well below the contract amount. This is because of the revolving character of the works (for example, monthly certificates).

Table B2.10 The Netherlands Development Finance Company (FMO)

Institution type	Bilateral development agency
Ownership	51% owned by Dutch government; 42% by Dutch banks; and 7% by employers' associations, trade unions, and some 100 Dutch companies and individual investors
Head office	Anna van Saksenlaan 71, 2593 HW The Hague, The Netherlands
Rating	S&P AAA
Major instruments	loans, guarantees, syndicated loans, equity, and quasi-equity

	Comprehensive risk coverage
Instrument name	Credit Guarantees (enhancements) Partial Credit Guarantees
Instrument type	guarantee
Eligible investments, borrowers, projects	• natural persons and legal entities engaged in a business or profession in a developing country[a] • commercial enterprises in agriculture and fisheries, mining, agribusiness, manufacturing industry, the service sector (including utilities), and banking and insurance in the widest sense • emphasis is placed on the development of the financial sector
Eligible beneficiaries	private sector companies and financial institutions in developing countries
Eligible forms of investment	• trade facilities and letters of credit, commercial paper, capital market transactions (bond issues, securitizations) • in addition to US$ and euro, local-currency transactions can be guaranteed under special conditions
Risk types covered	commercial and political risks
Maximum tenor	up to 12 years
Maximum amount	Up to 25% of a company's balance sheet or investment plan, or 10% in the case of financial institutions. The guaranteed amount may vary over the life of the financial instrument, based on the borrower's expected cash flows and investors' concerns.
Fees	market-based fees
For more information	http://www.fmo.nl tel: +31 (0)70314 9696 email: info@fmo.nl

Source: Authors' compilation.

Note:

a. "Developing countries" are countries that were classified by the World Bank in its recent World Development Report as low-income economies, lower-middle-income economies, or upper-middle-income economies, or countries that were classified as such when the finance was approved and countries or regions expressly designated as such by the Netherlands government.

Table B2.11 Norwegian Guarantee Institute for Export Credits (GIEK)

Institution type	Export credit agency[a]
Ownership	owned by the Norwegian government
Head office	Dronning Maudsgate 15, Postboks 1763 Vika. N-0122 Oslo
Rating	None - Norwegian government rating would apply (Moody's Aaa, S&P AAA)
Major instruments	export guarantee,[b] investment guarantee

	Investment Coverage	Export credit Coverage
Instrument name	• Political Risk Insurance	• Export Guarantees • Buyers Credit • Suppliers Credit • Preshipment Guarantee • Bond Guarantee • Building Loan Guarantee • Tender Guarantee • Whole turn-over scheme (provided by GIEK Kredittforsikring AS, a wholly owned daughter company of GIEK)

continued

Table B2.11 Continued

	Investment coverage	Export credit coverage
Instrument type	guarantee or insurance	
Eligible investments, borrowers, projects	• export of Norwegian goods and services, including ships • Norwegian investments abroad in form of equity capital, borrowing, production equipment, or other deliveries in-kind in connection with the establishment of a company or participation in financial ventures outside Norway	
Eligible beneficiaries	domestic and international lenders, and companies located in Norway	
Eligible forms of investment	loans, shareholder loans, equity	
Risk types covered	political risk • currency inconvertibility and transfer • expropriation • war and civil disturbance • regulatory risks • breach of contract (sovereign and subsovereign, public institutions) • nonpayment from public or sovereign entity	commercial risk • insolvency • bankruptcy
Maximum tenor	according to OECD rules	
Maximum amount	• risk cover is subject to type of guarantee (from 50% cover on bond guarantee to 90% on political risk cover) • no maximum, subject to overall government limit	
Fees	subject to country risk (OECD risk rating), credit tenor, and type of buyer, as well as type of coverage selected	
Other conditions	• must meet OECD rules for export credits and credit guarantees, including minimum premiums and combating bribery and corruption • exporter must not have received guarantees, insurance, or security for that part of the loss risk not covered by the guarantee; breach of this nullifies the guarantee agreement • payments under the guarantee shall be made in any convertible currency	
For more information	http://www.giek.no tel: +47 22 87 62 00 email: giek@giek.no	

Guarantee and Insurance Portfolio (all schemes), All Sectors

Indicator	2001	2002	2003	2004	2005
No. of guarantees	65	83	75	55	77
Guarantees issued (NOK million)	2,680	3,562	3,238	3,521	2,667
Guarantees outstanding (NOK million)	10,540	10,959	10,902	12,179	12,484

Source: Authors' compilation.

Note:

a. Government limit on outstanding guarantees is 40 billion NOK; as of March 2005 21.2 billion was utilized.

b. For shorter-term transactions, insurance is offered.

Table B2.12 Swedish Export Credit Guarantee Board (EKN)

Institution type	Export credit agency
Ownership	Authority, part of the State of Sweden
Head office	Kungsgatan 36, Box 3064, SE- 103-61 Stockholm, Sweden
Rating	Moody's Aaa, S&P AAA (same as the State of Sweden)
Major instruments	export guarantee, investment guarantee

	Investment Coverage	Export credit Coverage
Instrument name	• Investment Guarantees	• Contract Guarantee • Production Guarantee • Credit Guarantee • Bank Products Guarantee
Instrument type	guarantee	
Eligible investments, borrowers, projects	• export of Swedish goods and services • foreign companies eligible to apply if at least 50% of goods are of Swedish origin • investments by Swedish companies in property, plant and equipment, securities, copyright, industrial property rights, technical processes, business name and goodwill, business concessions according to public law	
Eligible beneficiaries	lenders, private companies	
Eligible forms of investment	debt and equity	
Risk types covered	political risk[a] • currency inconvertibility and transfer • expropriation • war and civil disturbance (including terrorism) • regulatory risks • breach of contract (sovereign and subsovereign, public institutions)	applicant can choose comprehensive cover or political risk cover only
Maximum tenor	no maximum stated	
Maximum amount	• uncovered portion is typically 10% for commercial risks and 0% for political risks, or 5% regardless of the event • no maximum stated	
Fees	subject to country risk (OECD risk rating), credit tenor, and type of buyer, as well as type of coverage selected	
Other conditions	• Guarantees subject to certification by business that no bribery is involved. • Transactions with heavily indebted poor countries are subject to special rules designed to prevent these countries from increasing their indebtedness. • Businesses must operate as responsible business as per OECD Common Approaches.	
Other conditions, cont,	• Exporter must not have received guarantees, insurance, or security for that part of the loss risk not covered by the guarantee (without having received written authorization from EKN); breach of this nullifies the guarantee agreement. • Contract currency can be Swedish Kroner, Euro, US dollar, Swiss francs, Japanese yen; in some cases guarantees are issued for local-currency financing.	
For more information	http://www.ekn.se tel: +46 8 788 00 00 email: info@ekn.se	

Source: Authors' compilation.

Note:

a. Actions under nationalization, expropriation, and breach of contract do not include actions in the host country that are essentially of a generally regulative or fiscal nature and that are generally applicable, or actions that, without being discriminatory, are required in the interest of public order and safety or of public health.

Table B2.13 Swiss Investment Risk Guarantee Agency (IRG)

Institution type	Investment guarantee agency
Ownership	Swiss government
Head office	Kirchenweg 8, P.O. Box CH-8032 Zurich
Rating	No independent rating; Swiss government rated: Moody’s Aaa, S&P AAA
Major instruments	investment guarantees

	Investment Coverage
Instrument name	Political Risk Guarantee
Instrument type	guarantee
Eligible investments, borrowers, projects	• Private persons of Swiss citizenship and domiciled in Switzerland, legal entities controlled by Swiss and domiciled in Switzerland, and, in exceptional cases, private or legal entities fulfilling only one criteria, but with a close relationship to the Swiss economy • Eligible investments can be equity investments in the form of a direct participation or injection of capital or goods; investment loans can be in the form of credits or loans, such as granted deposits, guarantees, or other securities that allow the investor to raise debt in the investment country.
Eligible beneficiaries	lenders, Swiss private companies
Eligible forms of investment	debt and equity
Risk types covered	political risk • currency inconvertibility and transfer • expropriation • war and civil disturbance (including terrorism)
Maximum tenor	15 years
Maximum amount	• maximum cover not to exceed 70% of investment capital or loan amount • no maximum amount
Fees	• 1.25% on the guaranteed amount for equity investments • 1.75% on guaranteed amount for capital loans (subject to a reduction to 1.25% if a sovereign payment guarantee is provided) • 4% on guaranteed amount in case of guaranteed annual income
Other conditions	• may request sovereign counterguarantee on a case-by-case basis • guarantee for equity income is limited to 24% of the underlying investment capital during the whole lifetime of the IRG guarantee • projects must undergo developmental and environmental examinations
For more information	http://www.swiss-irg.com tel: +41 (0)44 384 4777 email: office@swiss-irg.com

Source: Authors’ compilation.

Table B2.14 Swiss Export Risk Guarantee (SERV)

Institution type	Export credit agency
Ownership	Swiss government (State Secretariat of Economic Affairs)
Head office	Kirchenweg 8, P.O. Box CH-8032 Zurich
Rating	No independent rating; Swiss government rated: Moody's Aaa, S&P AAA
Major instruments	export guarantees

	Export credit coverage
Instrument name	• Predelivery (Manufacturing) Guarantee • Performance and Bid Bond Guarantee
Instrument type	guarantee
Eligible investments, borrowers, projects	Export of Swiss consumer and capital goods, construction and engineering work and other services, licensing and know-how agreements, goods on consignment abroad or on exhibition at trade fairs, bid bonds, downpayment guarantees, and performance bonds. The deliveries need to be of Swiss origin or include an appropriate element of Swiss added value.
Eligible beneficiaries	lenders, Swiss private companies
Eligible forms of investment	debt
Risk types covered	• commercial risk (insolvency, bankruptcy, and the like) • political risk – currency inconvertibility and transfer – expropriation – war and civil disturbance
Maximum tenor	no maximum
Maximum amount	• maximum cover not to exceed 95% of contract value • no maximum amount
Fees	subject to country risk (OECD risk rating), credit tenor, and type of buyer, as well as type of coverage selected
Other conditions	• confirmation that export has not come into existence through bribery • guarantees are always denominated in Swiss francs; however, transactions in other currencies can be covered
For more information	http://www.serv-ch.com tel: +41 (0)44 384 4777 email: office@swiss-erg.com

Export Credit Guarantee and Insurance Portfolio, All Sectors

Indicator	2001	2002	2003	2004	2005
No. of guarantees	1,374	1,418	1,237	1,055	998
Guarantees issued (Swiss francs)	382	479.5	681.2	890.3	n.a.
Guarantees outstanding (Swiss francs)	6,376.5	6,425.2	6,376.5	6562.6	n.a.

Source: Authors' compilation.

Table B2.15 Department for International Development (DFID)

DFID, part of the UK government, manages Britain's aid to poor countries and works to alleviate extreme poverty globally. It does this by supporting long-term programs to help tackle the underlying causes of poverty, and also responds to emergencies, both natural and man-made. DFID works in partnership with governments, civil society, and the private sector, as well as with multilateral institutions, including the World Bank, United Nations agencies, and the European Commission. In addition to its work as a bilateral donor to individual countries, 43 percent of total DFID development assistance funding goes through multilateral agencies. DFID works directly in over 150 countries worldwide, with a budget of nearly £4 billion in 2004. Its headquarters are in London and East Kilbride, near Glasgow.

In its efforts to meet the Millennium Development Goals, DFID has identified the mobilization of private sector investments in infrastructure service provision in developing countries as essential. To this end, DFID, in partnership with other institutions, supports a number international programs, the aims of which are to address some of the main constraints for infrastructure development in the less developed countries:

- an inappropriate enabling environment
- high up-front costs for project development
- lack of adequate long-term funding instruments in local and international currencies
- high or uninsurable country risks
- need for financial subsidies in the start-up phase
- lack of public capacity to negotiate and implement infrastructure projects

The following is a brief overview of some of the programs supported by DFID:

Public Private Infrastructure Advisory Facility (PPIAF): A multidonor facility working with developing country governments to improve the enabling environment for private sector participation in infrastructure services. PPIAF is currently funded by 14 donors and has a broad mandate, which includes the development of appropriate legal and regulatory systems, training of local regulators, and assisting in facilitating transactions. (For more information, please see www.ppiaf.org.)

Public-Private Partnership for the Urban Environment (PPPUE): In 1994, the United Nations Development Programme initiated this partnership to provide technical assistance and advisory support for the establishment of public-private partnerships between governments, businesses, and civil society organizations at the municipal level for the delivery of basic infrastructure services to urban poor. (For more information, please go to www.undp.org/pppue.)

Global Partnership of Output Based Aid (GPOBA): A program being implemented by the World Bank, with DFID support, to develop, demonstrate, and disseminate output-based approaches to supporting sustainable delivery of basic infrastructure services with respect to subsidies at the point of delivery. The GPOBA has recently been expanded to include a "Challenge Fund," which is open for applications, on a competitive basis, for funding of specific programs to enable the provision by the private sector of infrastructure services to the poor. (For more information, please go to www.gpoba.org.)

Community-Led Infrastructure Finance Facility (CLIFF): Launched in 2000, CLIFF, a joint program between DFID (provided funding), the Swedish International Development Cooperation Agency (SIDA, providing in-country support), and USAID (providing the guarantee program), is being implemented under the Cities Alliance program of Homeless International, initially as a development and demonstration program in India. CLIFF provides loans, guarantees, and bridge finance and technical assistance to encourage and support private sector investment in community-led urban regeneration projects. (For more information, please go to www.citiesalliance.org and www.theinclusivecity.org.)

Slum Upgrading Facility (SUF): DFID and SIDA (providing financial support via the Cities Alliance) have partnered with UN-Habitat, which manages SUF, to develop this facility as a pilot approach to meet the growing infrastructure service needs of municipalities and small and medium towns in developing countries. (For more information, please see www.un-habitat.org or contact the task manager via email at z-hensby@dfid.gov.uk.)

Private Infrastructure Development Group (PIDG): Please see separate description in transaction case 16 in appendix A for DFID support of PIDG programs and initiatives.

Source: DFID Web site: www.dfid.gov.uk.

Table B2.16 Export Credits Guarantee Department (ECGD)

Institution type	Export credit agency
Ownership	Part of UK government
Head office	ECGD PO Box 2200, 2 Exchange Tower, Harbour Exchange Square, London E14 9GS, United Kingdom
Rating	UK rating applies: Moody's Aaa, S&P AAA
Major instruments	export credit and investment guarantees and insurance

	Investment coverage	Export Credit Coverage
Instrument name	• Overseas Investment Insurance (OII) (Political Risk Insurance)	• Export Credit Insurance: • Buyer Credit Guarantees • Supplier Credit Finance Facility • Bond Insurance • Local Currency Financing Scheme • Project Finance Guarantee
Instrument type	guarantee and insurance	
Eligible investments, borrowers, projects	• OII: foreign direct investments (shareholder equity, shareholder loan, shareholder guarantee) by UK investors in new investments and purchase of existing shares • support loans (complementary investment loans to an overseas enterprise in support of a project that has a UK sponsor) • portfolio loans (investment loans where the investor does not have a proprietary interest in the overseas enterprise) • guarantees to banks providing export credit loans (loans to an overseas enterprise to help it pay for UK exports) • project finance for UK exporters (tied to national sponsor or national bank)	
Eligible beneficiaries	lenders and private companies	
Eligible forms of investment	Debt and equity	
Risk types covered	political risk • currency inconvertibility and transfer • expropriation • war and civil disturbance • regulatory risks • breach of contract	applicant can choose risk coverage types • commercial risk (insolvency, bankruptcy) • political risk
Maximum tenor	• OII: up to 15 years (with possible extensions) • project finance guarantee: up to 14 years with a max avg. life of project of 7.25 years	
Maximum amount	• OII: maximum of 90% of the current insured amount • Export Insurance: up to 95% of total value of any loss • Buyer Credit: usually 100% guarantee to UK-based bank • Local Currency Financing Scheme: guarantee 100% of export credit loan from local bank in host country • Project Finance:[a] all risk cover provides up to 100% guarantee against losses from political and commercial risks, up to 100% of the loan value and interest payable (guaranteed loan can fund up to 85% of UK content and eligible foreign costs) • no maximum amount	
Fees	• Premiums are determined case by case, based on ECGD's assessment of purchaser's and host country's ability to pay, and upon term of cover. • Project Finance guarantee: premium is individually calculated depending on project, structure, country risks, and the like; in addition, a nonrefundable administrative fee is charged, set case by case. No application or processing fees.	
For more information	http://www.ecgd.gov.uk tel: +44 (0) 20 7512 7000 email: help@ecgd.gsi.gov.uk	

continued

Table B2.16 Continued

Guarantee and Insurance Portfolio, All Sectors[b]

Indicator	2001	2002	2003	2004	2005
No. of guarantees	110	77	80	64	32
No. of OII policies	50	45	38	21	13
Civil as % of all business	66.67	61.31	58.71	53.46	29.80
Value of guarantees (million pounds sterling)	489	361	440	298	422
Value of OII policies (million pounds sterling)	1,090	950	706	351	239
Civil as % of all business	49.53	36.51	38.37	31.29	30.06

Source: Authors' compilation.

Note:

a. ECGD participation will usually be restricted to loans representing no more than 40 percent of total project capital requirements of both loan and equity; in addition, all lending covered by ECAs should normally not exceed 60 percent of total project capital costs, at least 25 percent of the project capital requirements will normally be financed in the form of equity or subordinated debt.

b. ECGD data is to the financial year end. Aircraft and defense business are excluded to arrive at civil business.

Table B2.17 United States Agency for International Development's (USAID's) Development Credit Authority (DCA)

Institution type	Bilateral development agency
Ownership	United States government
Head office	Ronald Reagan Building, 1300 Pennsylvania Avenue, NW, Washington, DC 20523 U.S.A.
Rating	Moody's Aaa, S&P AAA
Major instruments	credit guarantees (via DCA)

	Comprehensive risk coverage
Instrument name	Partial credit guarantees backed by the full faith and credit of the U.S. Treasury in the form of • Loan Guarantee • Loan Portfolio Guarantee • Portable Guarantee • Bond Guarantee
Instrument type	debt guarantee
Eligible borrowers and projects	• borrowers could be private sector enterprises, municipalities, or other subsovereign entities • projects must meet local USAID development objectives, and not be tied to U.S. export transactions or to U.S. companies • DCA guarantees support projects in the following sectors: micro, small, and medium enterprises; democracy and governance; natural resources management; agriculture; infrastructure; energy; education; and health.
Eligible beneficiaries	lenders: nonsovereign financial institutions (foreign or local); local capital market participants and investors
Eligible forms of investment	debt, loans, leases, bonds, letters of credit, or other debt instruments issued by local financial institutions, private sector lenders (denominated in U.S. dollar or in local currency)
Risk types covered	Borrower credit risk shall not cover more than 50% of lender's loss on the defaulted debt instrument unless otherwise approved (guarantee ceiling is expressed in U.S. dollars even in the case of local currency guarantees). Structured finance guarantees and guarantees of payment for capital market investments are possible.
Maximum tenor	up to 20 years
Maximum amount	US$100 million per country per year

continued

Table B2.17 Continued

	Comprehensive risk coverage
Fees	based on risk and development needs, one-time origination fee on the guaranteed portion of the total debt facility; annual utilization fees on the guaranteed portion of principal outstanding amount; minimum of 0.25% for both types of fees
Other conditions	• no sovereign loan or bond guarantees • currency mismatches discouraged; currency earned by the project should match the borrowers' debt to be guaranteed • guarantees can be structured to cover both debt principal and interest
For more information	http://www.usaid.gov, keyword "development credit" tel: +1 (202) 712-5323 email: aeskesen@usaid.gov

DCA Guarantee Portfolio

Indicator	2002	2003	2004	2005	2006
No. of guarantees	22	43	34	30	21
No. of guarantees in infrastructure	8	4	5	3	5
New guarantees (US$ million)	70	239	241	193	159
New guarantees for infrastructure projects (US$ million)	27	75	37	45	32

Source: Authors' compilation.

Table B2.18 Export-Import Bank of the United States (Ex-Im Bank)

Institution type	Export credit agency
Ownership	United States government
Head office	811 Vermont Avenue, N.W. Washington, DC 20571 U.S.A.
Rating	Moody's Aaa, S&P AAA
Major instruments	export finance (medium- and long-term loans and guarantees) and short- and medium-term insurance

	Political risk coverage	Comprehensive risk coverage
Instrument name	Political Risk Only (PRO) coverage (for Project Finance/Structured Finance transactions)	• Export Credit Insurance • Loan Guarantee • Finance Lease Guarantees
Instrument type	loans, guarantees, and insurance	
Eligible investments, borrowers, projects	Export of U.S. goods and services (Ex-Im Bank can support the lesser of 85% of the total contract value or 100% of the U.S. content of the contract). Goods must be shipped from the U.S. to a foreign buyer, services must be performed by U.S.-based personnel.	
Eligible beneficiaries	lenders, public and private sector borrowers	
Eligible forms of investment	guarantee support for dollar and eligible local-currency loans; export credit insurance for U.S. goods and services	
Risk types covered	• currency inconvertibility and transfer • expropriation • war and civil disturbance (including terrorism) • regulatory risks	• commercial risks (insolvency, bankruptcy) • political risks (as at left)
Maximum tenor	• up to 14 years for project finance transactions • up to 12 years for nonnuclear power plants, financed on a corporate basis • up to 10 years for loan guarantees	

continued

Table B2.18 Continued

	Political risk coverage	Comprehensive risk coverage
Maximum amount	• Export Credit Insurance: cover is 95% of the shipment value; U.S. content must be at least 51%. • For medium- and long-term transactions, cover is 100% of the net U.S. contract value (a 15% cash payment is required; an additional 15% local content can be supported). • No maximum amounts.	
Fees	• letter of interest application processing fee: US$100 • Loan Guarantee: no application processing fee • Commitment fee: 0.125% per year on the undisbursed balance for Corporate Finance transactions; 0.50% per year on the undisbursed balance for Project Finance transactions • Ex-Im Bank exposure fee (premium): varies depending upon disbursement period, repayment tenor, country risk, and buyer credit risk (applicable to all)	
Other conditions	• Military and defense items are generally not eligible, nor are sales to military buyers (with certain exceptions). • Ex-Im Bank may be limited or unable to offer financing in certain countries and under certain circumstances (please see the Country Limitation Schedule on Ex-Im Bank's Web site). • Projects must comply with OECD guidelines and requirements of Ex-Im Bank's Engineering and Environment Division, and policies and procedures regarding utilization; and certain transactions are subject to Congressional review.	
For more information	http://www.exim.gov tel:+1 (202) 565 3946 email: info@exim.gov	

Medium- to Long-Term Guarantee and Insurance Portfolio, All Sectors[a]

Indicator	2001	2002	2003	2004	2005
No. of guarantees	8	10	12	16	15
Guarantees issued (US$ million)	1,741	1,124	1,269	2,428	2,933
Guarantees outstanding (US$ million)					

Source: Authors' compilation.

Note:

a. These figures are all approvals for the Project and Structured Finance Division only. They relate to infrastructure projects.

Table B2.19 Overseas Private Investment Corporation (OPIC)

Institution type	Investment agency
Ownership	United States government
Head office	1100 New York Ave., NW Washington, DC 20527 U.S.A.
Rating	Moody's Aaa, S&P AAA (based on U.S. government rating)
Major instruments	insurance, reinsurance, loans, loan guarantees, investment funds[a]

	OPIC insurance products	OPIC finance guarantees
Instrument name	Political Risk Insurance (PRI)	Loan guarantees[b]
Instrument type	insurance	loan guarantee
Eligible projects	new investments, privatizations, and expansions and modernizations of existing plants	projects or transactions that are commercially and financially sound, and are within demonstrated competence of proposed management, which has a proven success record and a significant financial risk in project[c]

continued

Table B2.19 Continued

	OPIC insurance products	OPIC finance guarantees
Eligible beneficiaries	U.S. citizens, corporations, partnerships, or other associations created under the laws of the United States, its states, or territories, and more than 50% owned by U.S. citizens; foreign corporations that are more than 95% owned by eligible investors; other foreign entities that are 100% U.S. owned	Guarantees are issued to legal entities that meet the criteria specified in the left-hand column. OPIC expects the U.S. investor to own at least 25% of the equity of the project.
Eligible forms of investment	debt, equity, capital and operating leases, contractors and exporter exposures	loans, guarantees (parent company and third-party loans)
Risk types covered	• currency inconvertibility and transfer • expropriation • war and civil disturbance (including terrorism) • standalone terrorism • disputes coverage (arbitral award default and denial of justice) • wrongful calling of bid, performance, advance payment, and other guarantees	• commercial risks (insolvency, bankruptcy) • political risks
Maximum tenor	20 years	loan guarantees for up to 15 years[d]
Maximum amount	up to US$250 million per project[e]	Loan guarantees: up to a maximum of 75% of the total investment
Fees[f]	• retainer fee, which ranges from US$500 for small businesses that qualify for the Small Business Center, to US$30,000–$50,000 for investments between US$50 million and US$200 million[g] • PRI: standby fee of 20 basis points per year and 20–80 basis points per year per individual political risk	Loan Guarantees: guarantee fee ranges from 2% to 4%, depending on commercial and political risk coverage
Other conditions	Maximum cover for equity investments is up to 90% of an eligible investment. Loans and leases from financial institutions to unrelated third parties may be insured for 100% of principal and interest. Investors must comply with U.S. economic, environmental, worker rights, and anticorruption practices.	A host country guarantee is normally not required for a loan guarantee. Investors must comply with U.S. economic, environmental, worker rights, and anticorruption practices.
For more information	http://www.opic.gov tel:+1 (202) 336-8400	email:info@opic.gov

Insurance Portfolio

Indicator	2001	2002	2003	2004	2005
No. of Insurance Contracts and Commitment Letters	27	35	44	86	76
No. of Insurance Contracts and Commitment Letters for Infrastructure Projects	4	13	12	17	17
Amount of New Issuance (US$ million)	597	605	960	1,396	931
Amount of New Issuance for Infrastructure Projects (US$ million)	245	147	496	591	694

continued

Table B2.19 Continued

Source: Authors' compilation.

Note:

a. Private equity funds to which OPIC provides debt capital.

b. OPIC financing can take form of loans or loan guarantees; for more details, please see the OPIC Program Handbook at http://www.opic.gov/pubs/handbooks/index.asp.

c. Acquisitions of existing operations are eligible for financing if the investor contributes additional capital for modernization or expansion.

d. Plus a suitable grace period during which only interest is payable.

e. This limit goes up to US$300 million for projects in the oil and gas sector with offshore, hard currency revenues. If an oil and gas project receives a shadow rating of investment grade, then limit is US$400 million.

f. For a breakdown of OPIC's base rate ranges, please go to http://www.opic.gov/insurance/details/rates/index.asp.

g. Any unused portion of the retainer fee is refundable if (a) OPIC makes an offer of coverage and the client accepts it or (b) upon the completion of its review process, OPIC is not able to issue a formal commitment with regard to the project.

Although the importance of infrastructure sectors in achieving economic growth and poverty reduction is well established, raising debt and equity capital for infrastructure development and service provision has been a challenge for developing countries. Risk mitigation instruments facilitate the mobilization of commercial debt and equity capital by transferring risks that private financiers would not be able or willing to take to third-party official and private institutions that are capable of taking such risks. There has been increasing interest and discussion on risk mitigation instruments in the context of infrastructure financing among developing country governments, multi- and bilateral donors, and the private sector. However, due to the complex and diverse nature of risk mitigation instruments, what they can and cannot offer and how they can best be utilized for infrastructure financing are not well understood.

The *Review of Risk Mitigation Instruments for Infrastructure Financing and Recent Trends and Development* summarizes existing risk mitigation instruments—primarily focusing on those offered by multilateral and bilateral official agencies—and presents recent trends and developments that make these guarantee and insurance products valuable in securing financing for infrastructure projects in developing countries.

Topics covered include

- descriptions of different types of risk mitigation instruments
- characteristics of multilateral, bilateral, and private providers of risk mitigation instruments and compatibility of instruments
- recent developments and innovative applications of risk mitigation instruments through case transactions
- areas that pose challenges to the use of risk mitigation instruments as catalysts of infrastructure development.

Appendixes describe in detail each transaction case and the risk mitigation instruments offered by major multilateral and bilateral institutions.

This report will be of particular interest to readers working in business and finance, law and regulation, and infrastructure projects and finance.

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