Infrastructure and Natural Resources Department

IFC: Transport PPP Experience

28 March 2013

Ankara

The World Bank Group

	IBRD International Bank for Reconstruction and Development	IDA International Development Association	IFC International Finance Corporation	MIGA Multilateral Investment and Guarantee Agency
	Est. 1945	Est. 1960	Est. 1956	Est. 1988
Role:	To promote institutional, legal and regulatory reform	To promote institutional, legal and regulatory reform	**To promote private sector development**	To reduce political investment risk
Client:	Governments of member countries with per capita income between $1,025 and $6,055.	Governments of poorest countries with per capita income of less than $1,025	**Private companies in member countries**	Foreign investors in member countries
Product:	- Technical assistance - Loans - Policy Advice	- Technical assistance - Interest Free Loans - Policy Advice	**- Equity/Quasi-Equity - Long-term Loans - Risk Management - Advisory Services**	- Political Risk Insurance

Shared Mission: To Promote Economic Development and Reduce Poverty

International Finance Corporation

International Finance Corporation, IFC, is the private arm of the World Bank Group dedicated towards the promotion of private sector participation in emerging countries.

Our vision is that people should have the opportunity to escape poverty and improve their lives.

Our values are excellence, commitment, integrity, and teamwork.

IFC's Purpose is to create opportunity for people to escape poverty and improve their lives by

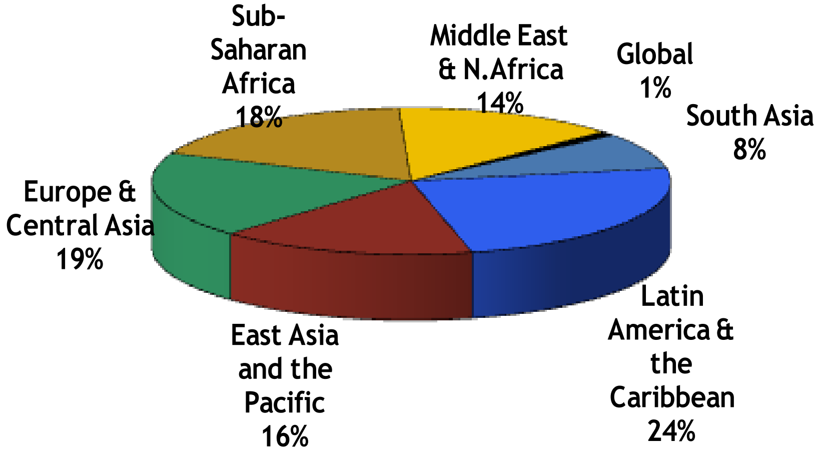
- Promoting open and competitive markets in developing countries
- Supporting companies and other private sector partners where there is a gap
- Helping generate productive jobs and deliver essential services to the underserved
- Catalyzing and mobilizing other sources of finance for private enterprise development

To achieve its Purpose, IFC offers development-impact solutions through firm-level interventions (direct investments, advisory services, and the IFC Asset Management Company); standard-setting; and business enabling environment work.

Over $100 Billion Invested Since 1956

- Largest multilateral source of loan/equity financing for the emerging markets private sector
- Founded in 1956 with 184 member countries
- AAA-rated by S&P and Moody's
- Equity, quasi-equity, loans, risk management and local currency products
- **Takes market risk with no sovereign guarantees**
- Promoter of environmental, social, and corporate governance standards
- Resources and know-how of a global development bank with the flexibility of a merchant bank

FY 2012 Investments by region



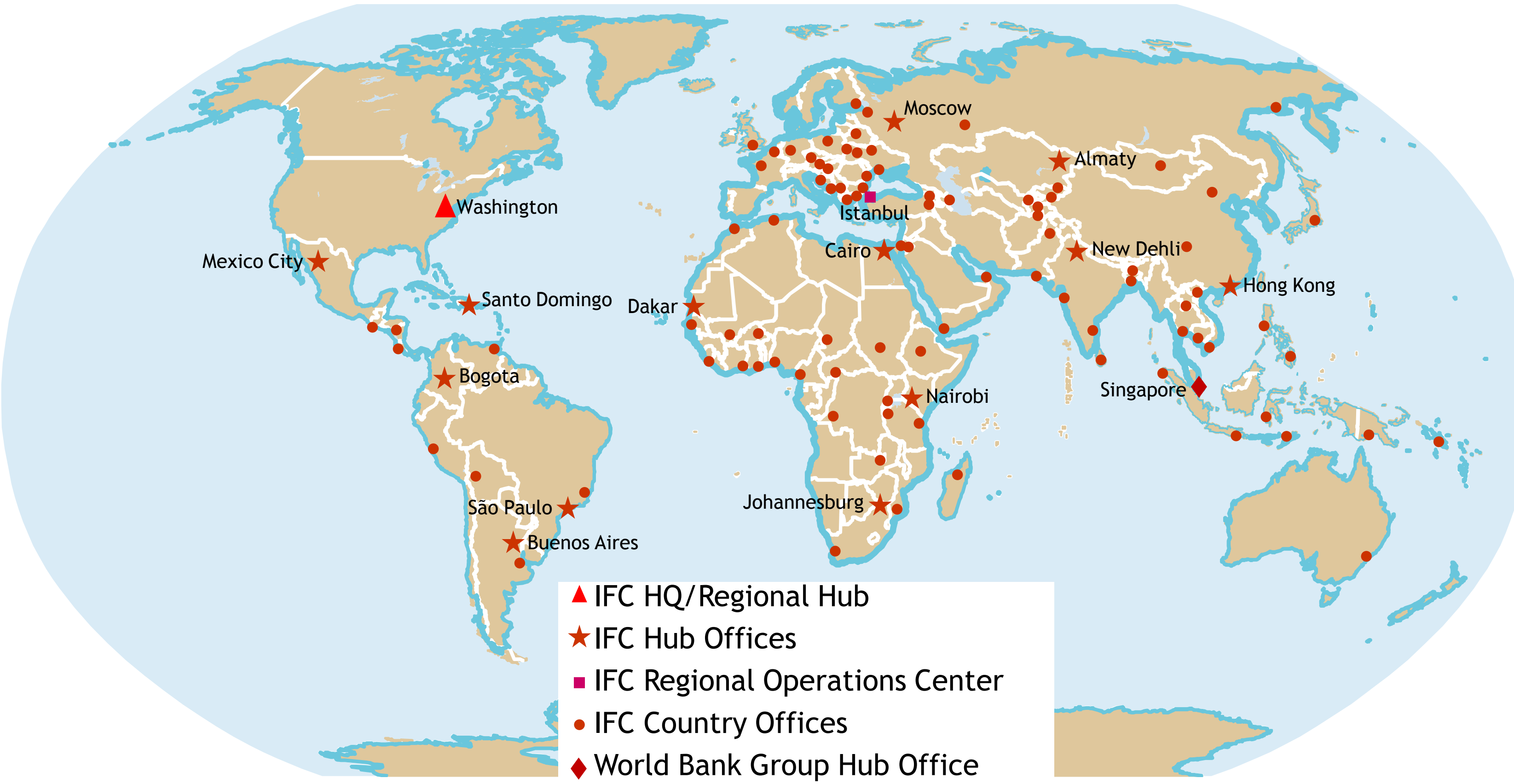
FY2012 highlights

Portfolio*	$56.5 billion
Committed	$15.5 billion
Mobilized	$4.9 billion
# of Companies	1,825
# of Countries	127

*IFC's account only.

IFC's Global Reach to 104 country and regional offices worldwide

***3,763** staff of which **56%** are outside of Washington*



IFC has gone through a structural change in 2010, moving its EMENA management team to Istanbul from Washington DC. Istanbul is the Operating Center for EMENA region.

IFC in Europe Middle East and North Africa

IFC's Three Businesses

IFC Investment Services	IFC Advisory Services	IFC Asset Management Company
❑ *Loans* ❑ *Equity* ❑ *Other forms of financing* ❑ *Resource Mobilization*	❑ *Advice* ❑ *Problem-solving* ❑ *Training*	❑ *Wholly owned subsidiary of IFC* ❑ *Private equity fund manager* ❑ *Invests third-party capital alongside IFC*
$56.5 b portfolio	**$200 m per year**	**$4.5 b under mngt**

IFC Investment Services: Infrastructure & Natural Resources

- Current portfolio: $12.5 bn, $2.6 bn of which is equity investments
- FY12 investments: $4.3 bn, including $2.1 bn in mobilizations
- Infrastructure practice group established in early 1990s
- Dedicated team of 136 investment professionals; 12 technical and regulatory experts and 4 economists located in 35 country offices and in Washington. In-house environmental, social and legal experts.

Power	Utilities	Transport Infrastructure	Transport Services	Natural Resources	Telecom, Media, Tech
• Generation, thermal and renewable • Transmission • Distribution • Integrated Utilities	• Water, Waste • Privatized Public Services	• Airports • Ports • Roads • Railroads	• Logistics • Shipping • Airlines • Rolling Stock	• Oil & Gas • Gas Distribution • Mining • Pipelines • LNG	• Broadband • Mobile • Data Centers • E-banking

IFC's Investment Parameters

Commercially Sound	• IFC invests exclusively in for-profit projects and charges market rates for its products and services
Market Catalyst	• IFC generally finances no more than 25-50% of total project cost • Never the largest shareholder, typical stake up to 20% • Typical ticket size $20-50m, but can go to $100m + • Able to mobilize additional debt (B loan program) and equity funds (AMC)
Long-term Horizon	• IFC invests for the medium-to-long term
Environmentally & Socially Responsible	• Each investment assessed for E&S risks by in-house team of experts, and action plan put in place to mitigate risks • Increasingly relevant for clients, namely land acquisition, carbon footprint, community buy-in • Facilitates debt raising (Equator Principles)
Corporate Governance	• Detailed corporate governance assessment carried out (dedicated internal resources) • Work on governance issues with companies pre-IPO and those already listed • Roster of quality independent directors • Facilitates exit, especially in public markets

IFC Offers a Wide Range of Financial Products

Equity

$2.3bn committed in FY12

Mezzanine / Quasi-Equity

$13.2bn committed in FY12

Senior Debts & Equivalents

- Corporate
- Typically 5-15% shareholding. Cannot exceed 20% of total equity.
- Long-term investor, typically 6-8 year holding period, though no formal tenor constraints
- Primary share issuance

- Subordinated loans
- Income participating loans
- Convertibles
- Other hybrid instruments

- Senior Debt (corporate finance, project finance)
- Fixed/floating rates, US$, Euro and local currencies available
- Commercial rates, repayment tailored to project/company needs
- Long maturities: 7-15 years, appropriate grace periods tailored to cash flow needs
- Mobilization of funds from other lenders and investors, through financings, syndications (IFC “B” Loan structure), and guarantees

IFC's Project Cycle

Early Review

- Client needs determined
- Assessment of project's impacts and development contributions
- Management committee approval
- Mandate letter

Due Diligence

- Assessment of business opportunities and risks
- Analysis of environmental and social opportunities and risks
- Appraisal
- Credit committee approval

Disclosure

- Disclosure of environmental and social information
- Opportunity for public comment

Commitment and Disbursement

- Negotiation and agreement of principal terms
- Board approval
- Signing of legal documents
- Disbursement

Monitoring

- Annual review of project performance

We agree on a specific timeline to meet client's needs

How We Finance Projects

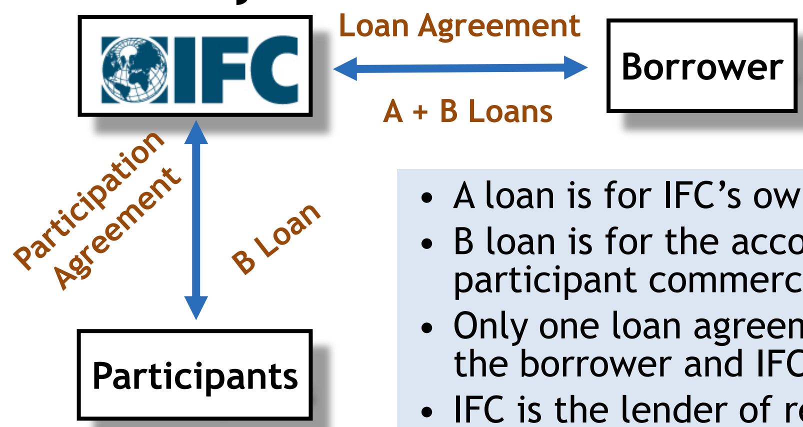
•Project Type	•IFC Investment
•Greenfield, total cost less than $50 million	•Up to 35% of project cost for IFC's account
•Greenfield, total cost more than $50 million	•Up to 25% of project cost for IFC's account
•Expansion or rehabilitation	•Up to 50% of project cost

- Umbrella for participants in IFC's syndication program: IFC lender of record, immunity from taxation and provisioning requirements.
- IFC's total financing (for its own account) must be less than 25% of total company capitalization

IFC works together with banks and investors to mobilize additional resources for projects

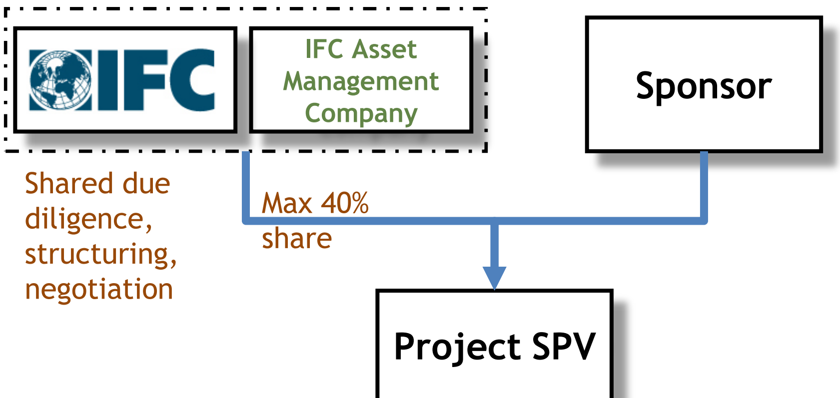
- IFC leverages its balance sheet by mobilizing additional capital from the market
- Total mobilization, including equity (Asset Management Company) and debt (syndication + parallel loan) was nearly US$5 billion in FY12

Debt Syndication

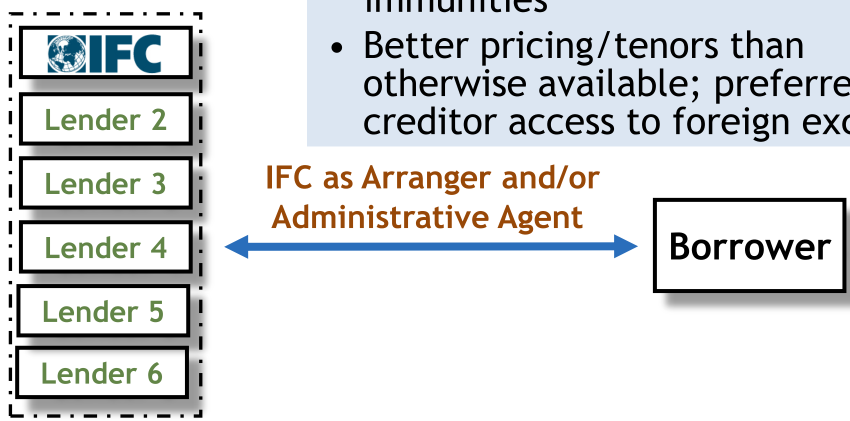


- A loan is for IFC's own account
- B loan is for the account of participant commercial banks
- Only one loan agreement signed by the borrower and IFC
- IFC is the lender of record for the entire loan (A+B)
- Structure allows participants to benefit from IFC privileges and immunities
- Better pricing/tenors than otherwise available; preferred creditor access to foreign exchange

Equity Mobilization



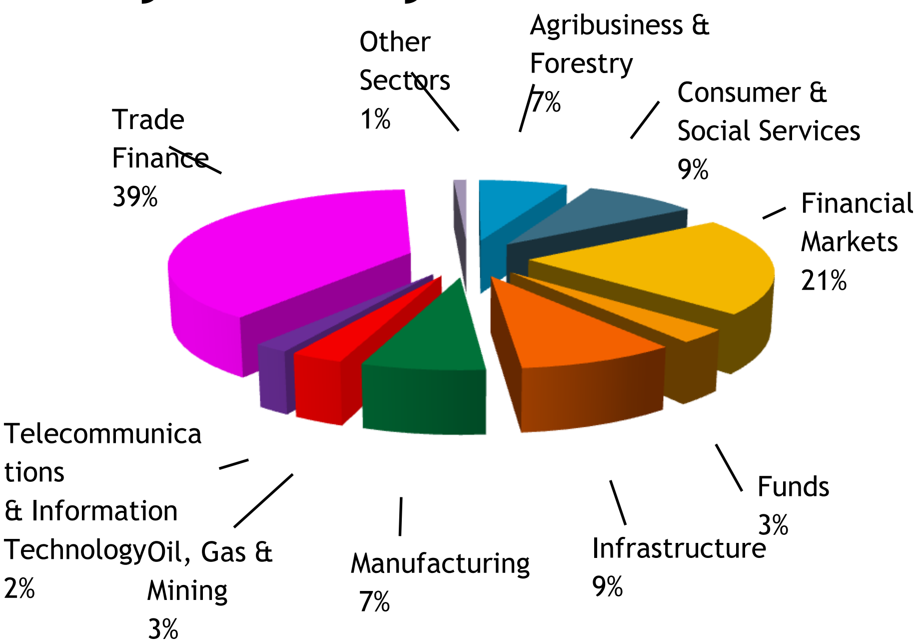
Parallel Loan



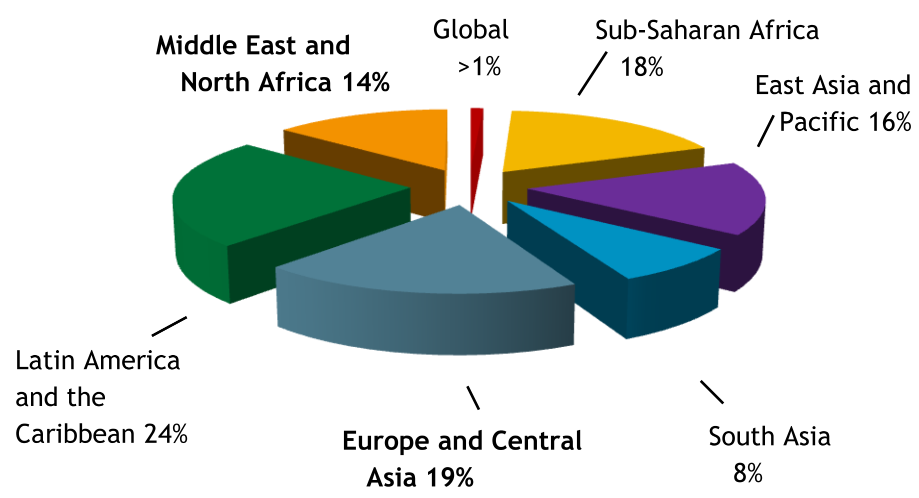
IFC Investments by Industry and Region, FY12

Commitments for IFC's Account: $15.5 Billion

By Industry



By Region



EMENA accounted for **33%** of IFC commitments in FY12, while Infrastructure and Natural Resources accounted for **14%** of commitments (~25% excl. trade finance).

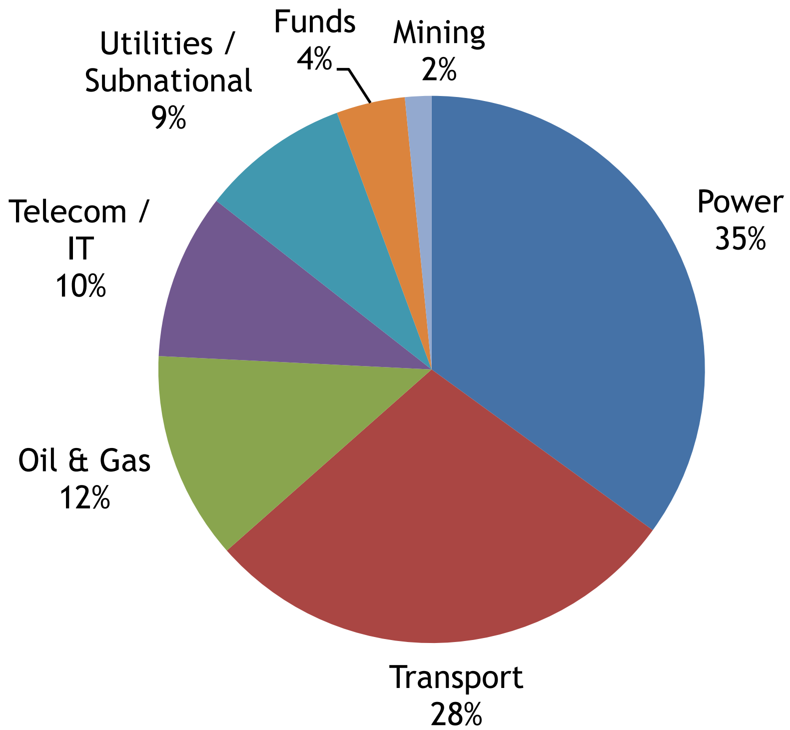
International Finance Corporation
World Bank Group

IFC Infrastructure and Natural Resources: EMENA

Infrastructure and Natural Resources Overview

- IFC's EMENA Infrastructure and Natural Resources (INR) commitment volumes averages around US$1.5bn per year.
- In the EMENA region, IFC's outstanding INR portfolio is around US$4.0bn. Close to 10% of our portfolio is equity.
- IFC is active in all infrastructure sectors in the region. Power and Transport are the largest exposures at 35% and 28% of our outstanding portfolio.

EMENA Portfolio Breakdown by sectors - Outstanding Portfolio - December 2012



Transport PPP Projects

Infrastructure: A Consistent Problem

- Availability of public capital remains constrained due to deficits and/or necessity of prudent fiscal management;
- Availability of private capital also constrained: investors generally more risk-averse and less willing to take risks on infrastructure in emerging markets;
- Yet… huge capital needs remain in infrastructure, for development and for competitiveness.

➢ ***Widespread calls for "PPPs"***

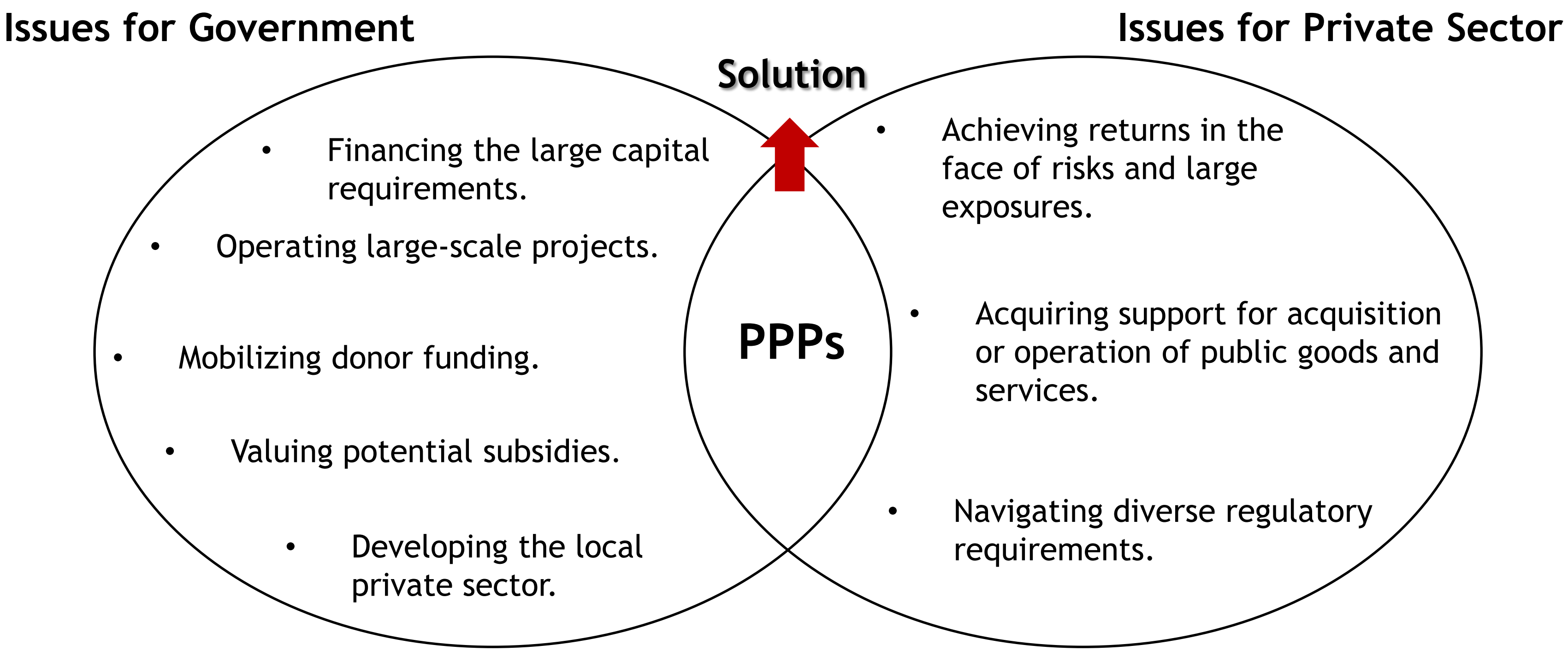
Public Private Partnerships: A Definition

- A Public Private Partnership is an arrangement between a government entity (central or sub-national) and a private entity established for the purpose of providing an essential service or facility to the public.

- The goal of this arrangement is to provide the service or facility more efficiently and at a lower cost to the end user than either entity could provide the service on its own.

- The arrangement will try to allocate the risks of the venture fairly between the private and government entities, based on each entity's ability to manage these risks and to provide rewards to each party based on the risks they have assumed.

PPPs : A Win-Win Solution for Infrastructure Financing



PPPs are a risk-management technique to privatize a project or a service traditionally provided by the public sector.

Pros and Cons of PPPs

Pros	Cons

Pros

- Competitive process;
- Increased transparency;
- Balance sheet consideration;
- Private sector efficiencies and innovation;
- Well designed risk allocation and transfer of project risk to the private sector;
- Improved levels of service;
- Enhancement of revenues:
  - PPPs may set user fees that reflect the true cost of delivering a particular service.

Cons

- Complexity;
- High transaction costs:
  - Large tendering and contracting costs (for some projects, total tendering costs can equal around 3% of total project costs as opposed to around 1% for conventional procurement);
  - Significant legal costs in contract negotiation;
- Higher borrowing costs than public financing;
- Skill deficit for administration;
- Structuring risks;
- Public perception that critical “public” assets are controlled by private sector;
- Difficulties in ensuring good performance, especially with respect to “soft” performance dimensions.

Why PPPs?

- Can make projects viable where economics and risk are more difficult
- Leverage limited public resources
  - Stretching payments over a period of time enhances access to funds for the private sector
- Maximise “Value-for-Money”
  - Tap private sector operating efficiencies
- Enhance accountability of public funds
  - Clearly demarcated payment streams for funds, administered by Independent Boards
- Expedites project completion (BOT…)
- Project cost savings
- Improved quality

PPP: Key Factors

What is Needed to Succeed

- Understanding of public interests and ability to balance public/private issues
- Capacity building of governments to increase their expertise in structuring and managing PPPs
- Transparency and Communication
- Oriented towards development objectives
- Knowledge of investors' market and confidence of investors
- Leverage international experience elsewhere
- Public dissemination and PR campaigns

Making PPPs Last

- **Public support is critical for a PPP to be sustainable. A transaction process must include:**
  - Tariff affordability and acceptability
  - Transparency and clear communication
  - Visible benefits, particularly on service delivery
  - Credible sharing of risks, costs and benefits
  - Avoidance and mitigation of unintended downsides (e.g., community disruption, resettlement).

Transport: Key Factors

Transport projects - important characteristics:

- Long-term: to give private sector incentives for investment
- Tariff adjustment mechanism and financial equilibrium concept
- Termination provisions

Key Success Factors

- **Realistic market expectations**
- Construction cost control
- Competent Sponsors (operations and commercial aspects)
- Government commitment
- Robust financial structure
- Sponsors' financial resources

Key Failure Factors

- **Unrealized market expectations:**
  - **ramp up period**
  - **gaining market share**
  - **changing traffic flows**
- Over-supply leading to declining rates
- Financially weak sponsors
- Labour unions unrest
- Political events
- Government interference
- Bad Management

“Delivering” a Project

- Reasonable size…
  - Particularly, if this is the first transport PPP for the country
  - Pharaonic scale projects rarely close
- Sustainable project economics…
- Transparent tender and award of concession
- Fair allocation of risks between public and private sectors…
  - If too much risk shifted to private sector then it will seek higher returns
  - Difficult to raise debt financing
- **Result:**
  - less money for the public sector, in case of concession payments, or
  - more money from public sector, in case of capital subsidy / availability payments
- Good concession agreement…
- “Good” treatment of lenders upon termination…

- **Granting authority should engage good advisers:**
  - Experience and credentials will more than compensate for higher costs…

Key Characteristics for a Bankable Concession

- **Termination compensation in case of early termination due to:**
  - government default - termination compensation should be sufficient to cover:
    - Lenders’ debt outstanding
    - Shareholders’ equity contributed, and
    - Return on equity to shareholders
  - concessionaire default - termination compensation should be sufficient to cover Lenders’ debt outstanding
  - force majeure - termination compensation should typically be sufficient to cover:
    - Lenders’ debt outstanding, and
    - Shareholders’ equity contributed

Do not leave this to general legal concepts present in national laws…

Concept of “Unjust Enrichment” – no lender wants to test this

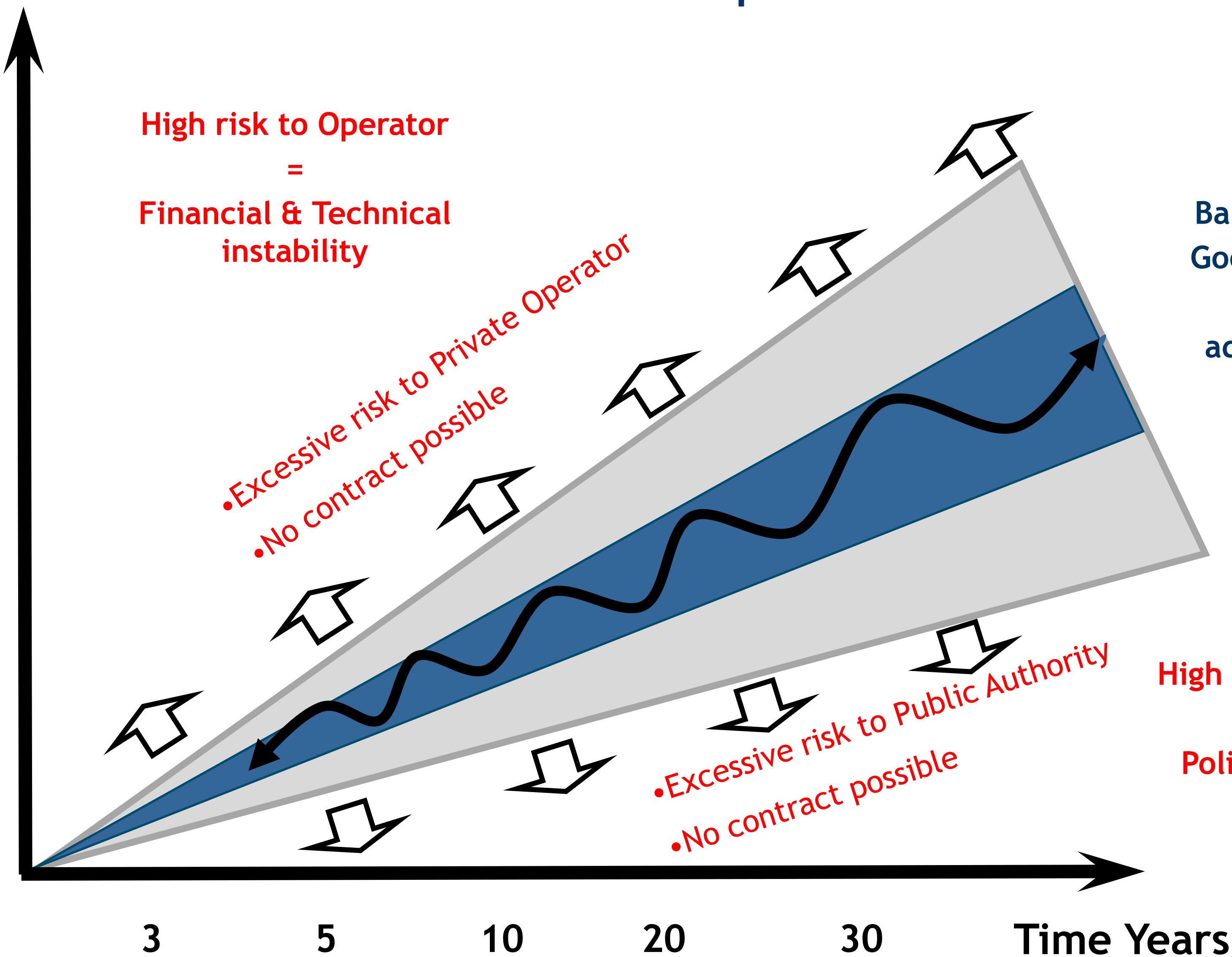
in a court system of the country

Key Characteristics for a Bankable Concession

- **Lenders' step-in-rights and cure periods:**
  - in case of default by concessionaire under the concession contract
  - enabling Lenders to nominate a substitute operator (subject to the granting authority's acceptance)
    - … do not make it a multi layer process as this takes away the mitigation character of the step-ins
  - Cure periods should be reasonable to have a chance to work

- **Provisions enabling an appropriate security package for Lenders' debt financing, including, in favour of Lenders:**
  - Mortgage on concessionaire's assets
  - Pledge of shareholders' shares in concessionaire
  - Assignment of termination compensation under concession
  - Assignment of insurance proceeds

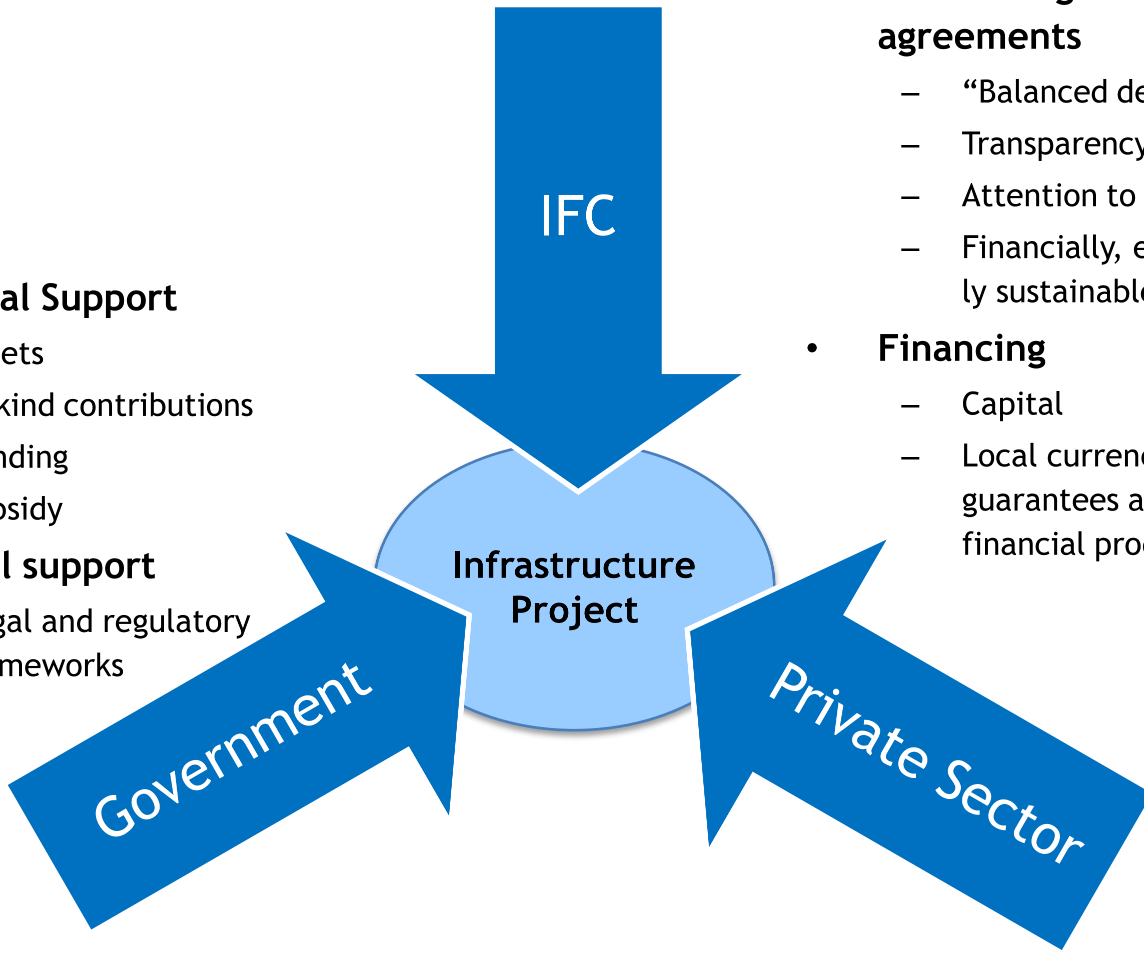
Risk "Envelope" in Contracts



Shared Responsibility

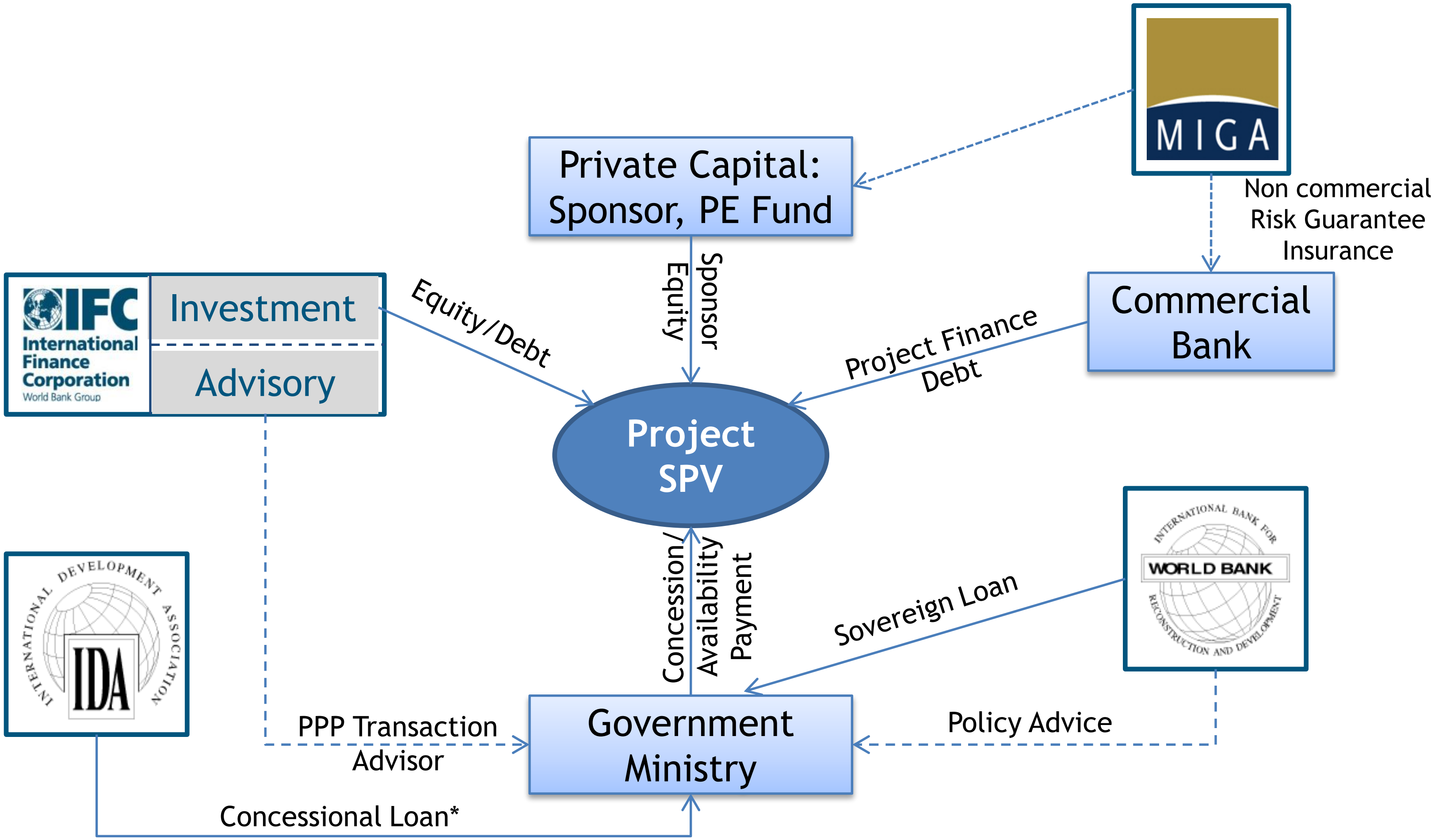
- **Structuring sustainable agreements**
  - "Balanced deals"
  - Transparency
  - Attention to downside
  - Financially, economically, politically sustainable structures
- **Financing**
  - Capital
  - Local currency facilities; guarantees and structured financial products

- **Financial Support**
  - Assets
  - In-kind contributions
  - Funding
  - Subsidy
- **Political support**
  - Legal and regulatory frameworks



- **Financing**
- **Management Expertise**
- **Technical Expertise**

The World Bank Group Can Play Various Roles in a PPP Infrastructure Transaction



* Only available for IDA categorized poorest countries

IFC Management Team in the Region
Istanbul is the new Hub office for the Region

Vice President of IFC
Dimitris Tsitsiragos
(Istanbul)

Regional Director
Mouayed Makhlouf
(Dubai)

Regional Director
Tomasz Telma
(Moscow)

Director of Natural Resources and Infrastructure
Gulrez Hoda
(Istanbul)

Director of Manufacturing, Agribusiness & Services
Guy Elena
(Istanbul)

Director of Financial Markets
Aftab Ahmet
(Istanbul)

We are organized around the Istanbul OC & are improving our efficiency

IFC has gone through a structural change in 2010, moving its EMENA management team to Istanbul from Washington DC. Istanbul is the Operating center for EMENA region.

Through this new structure, we will be close to our clients and have a faster decision making process.

Regional Infrastructure and Natural Resources Management Team in EMENA

Director of Natural Resources and Infrastructure
Gulrez Hoda
(Istanbul)

Central Europe, Russia and Central Asia
Sergei Mytarev
Moscow

Southern Europe and Turkey
Martin Spicer
Istanbul

Middle East and Noth Africa
Adil Marghub
Dubai

Portfolio
Deema Fakhoury
Dubai

Thank you!

Pavlo GRABOVETS
Senior Investment Officer
Infrastructure and Natural Resources - Transport
Buyukdere Caddesi 185
Kanyon Ofis Blogu, Kat 19
34394 Istanbul Turkey
Tel: +90 212 385 3026
E-mail: PGrabovets@ifc.org

Annex: Case Studies

Queen Alia International Airport - QAIA

Project Description

- 25-year concession to upgrade an existing and build a new airport terminal in Amman
- The concessionaire was required to build a new terminal with a 9mn pax p.a. capacity to operate at IATA "C" level; to expand apron area, improve existing runway, road access and parking facilities (Phase 1)
- Expansion to 12mn pax (Phase 2)
- Tender was announced in February 2007
- 6 consortia prequalified
- 5 submitted bids
- Selection based on NPV of percentage of revenues paid to Government of Jordan as a concession fee
- The concession was awarded to Airport International Group (AIG) in May 2007

Sponsors

Project Company - Airport International Group:

- Aeroport de Paris Management (France)
- J & P and affiliates, a design and construction group with experience in building the Athens airport (Greece)
- Abu Dhabi Investment Company (Abu Dhabi)
- Engineering and Development Group (Jordan)
- Noor Financial Investment (Kuwait)

Queen Alia International Airport - QAIA

Financing Package - First Iteration

- A loan for 12 years plus 3.5 grace
- B loan at 10 years plus 3.5 grace
- IDB lease 12 years plus 3.5 grace
- Total debt payment too high vzv cash flows in earlier years - 1.3 DSCR only in 2019

Getting DSCR Targets

- Skewed repayment schedule
- Add a C loan
- Extend maturity
- Extend grace period

Final Financial Structure

- Grace period increased from 3.5 to 4.5 years.
- Maturity of A loan 13.5 years plus 4.5 grace – USD 75mn
- Maturity of B loan 11.5 years plus 4.5 grace – USD 172mn
- IDB loan maturity same as A loan – USD 100mn
- C loan created with 10-year grace and 8-year repayment – USD 40mn (A loan reduced)
- A, B, C loans and IDB loan have skewed principal payments

Queen Alia International Airport - QAIA

The Result

Senior debt was signed in November 2007

“'This innovative financing structure includes a mix of senior and subordinated financing…

It also breaks new grounds of achieving an attractive financing structure and completing a concession financing in record time without government guarantees, despite the complexity of marrying conventional financing structure with Islamic facilities.” (Manish Gupta, infrastructure advisory director at Ernst & Young)

IFC’s Dual Role

- IFC acted as both an adviser and financier
- IFC applied the firewall principle in separating advisory and investment functions
- Structuring the financing package which allowed for debt service payments to replicate Project’s cash flows based on extended grace periods of 4.5-10 years

Pulkovo Airport – the first PPP in Russia

Project Description

- 30 year concession to operate existing airport of St. Petersburg, construct a new terminal and modernize existing assets
- Concession awarded to Northern Capital Gateway (NCG) consortium of VTB (57.5%), Fraport (operator, 35.5%) and Copelouzos (7%), following international tender; other bidders included Changi Airport/Basel and Vienna Airport/Gazprom
- Project will expand airport capacity from 7mn pax to 17mn pax per annum in Phase I, and up to 27mn pax in Phase 2, develop a state of the art terminal and lift operational performance to IATA C level. Total project cost Phase I: EUR 1.2bn
- High visibility as first PPP implemented in Russia, after years of unsuccessful attempts to move forward with PPP's in other sectors.

Key Objectives

- Fraport: further expand their international footprint and growth, profit
- VTB Group, financial leadership in landmark transaction and develop infrastructure investment portfolio, profit
- City of St. Petersburg, modernize the airport and create a model for other PPP's to follow, fund airport expansion out of private resources not public budget
- IFC and EBRD, create a bankable structure and realize the first privately funded PPP in Russia

Pulkovo Airport – the first PPP in Russia

The Challenge

- PPP Contract was signed in October 2009 => all financing had to be in place by end of April 2010, or concession falls back to government
- Structure a bankable project jointly with EBRD and a consortium of other IFIs (EAB,BSTDB,NIB) and VEB
- Negotiate with government on Concession/LDA and in parallel with company on the loan agreements
- Raise approx. EUR 720mn in debt financing and sign everything up by end of April 2010, including EUR 200mn in B loans

Financing Aspects

- Debt of EUR 720mn (60% of the Project)
- IFC (EUR 70mn A loan), EBRD (EUR 100mn A loan) and VEB (EUR 230mn); other IFI's incl. NIB, EAB and BSTDB; B loans
- 12- /15-year tenor, 4.5-year grace, sculpted

Difficult Syndication Process

- Total B Loan of up to EUR 200mn, split 50/50 between IFC and EBRD in joint effort
- Syndication teams faced a "frozen" market in Russia for commercial financing
- Pulkovo project was the first of its kind (PPP structure) in Russia, no precedent available

Process:

- Lengthy due diligence process with more than 10 banks across the world, involving extensive data room
- Meetings hosted by IFC/EBRD and NCG on-site, in London and remotely

Pulkovo Airport - the first PPP in Russia

The Result

- Senior debt was signed on April 28, 2010
- Syndication closed on July 15, 2010
- Deal was heavily over-subscribed!
- Project is expected to set the stage for future PPPs in Russia

The Role of IFIs

- First PPP in Russia, landmark transaction likely to unlock a multitude of further PPP’s in more remote regions
- Involvement of IFC and EBRD was crucial in negotiations with governments to make concession bankable
- Mobilization – IFC and EBRD were able to successfully syndicate EUR 200mn in B loans

Istanbul Municipality – Metro Rail Line

ISTANBUL METROPOLITAN MUNICIPALITY

Project Description

- Istanbul, a mega-city of over 13 million generating around 27% of national GDP.
- Project consists of the construction of the 20-kilometer Kadikoy-Kartal metro rail line on the fast-growing Asian side of the city.
- Total project cost: EUR776 million
- Closing: September 2008

Financing Aspects

Tranche	Product	Amount	Tenor
IFC	Senior Debt	EUR50 million	10 years
Parallel Loan Facility	Senior Debt	EUR476 million	10 years
ECA Financing (SACE)	Senior Debt	EUR250 million	10 years

Annex:

PPP Transaction Advisory Services

PPP Transaction Advisory Services

- **Long, successful global track record**
  - Over 165 projects in more than 60 countries since 1989
  - Mobilized more than $8 billion in capital since 1995
- **Specializes in infrastructure sectors**
  - Water & sewerage, transport, telecoms, electricity and health
- **Adds considerable value to the PPP transaction**
  - Identifies and markets projects to qualified investors
  - Brings transparency and credibility to the bidding process
  - Signals country's commitment to improve its economy through private sector participation (PSP)
  - Focus on creating balanced deals through financially, economically, politically sustainable structures

Approach

- **IFC's approach:**
  - Work closely with the Government to ensure the transaction is designed to meet the Government's objectives;
  - Design transaction process to maximize transparency and ensure investor confidence and public support;
  - Market the transaction widely to all potential strategic investors;
  - Ensure that:
    - Social and labor benefits are maximized;
    - Environmental issues have been addressed;
    - The transaction is structured to provide sustainable benefits to consumers

Offering

- **Objectivity and transparency**
  - Independent advice, no links to potential investors
  - Separation between advisors and investors within IFC (“Chinese Wall”)
  - Precise procedure and rules, based on best practices and experience
- **Orientation towards development and results**
  - Importance attached to social and developmental objectives of client country
  - Transactions structured to be sustainable and bankable for all parties
  - Staying the course with our clients
- **Knowledge of investors’ market**
  - Broad expertise covering private sector transactions
  - Regular contacts with leading companies
  - Essential marketing role on behalf of our clients, lends confidence to investors
- **Integrated approach and synergies within the World Bank Group**
  - Access to experts; coordination of institutional reforms and resources
  - Search for public financing and guarantees, when needed

PPP Transaction Advisory Services

- **Lead advisor, mostly to governments**
  - Strategy definition for private sector participation / PPPs
  - Coordination with World Bank and other multilaterals, on sector policy, institutional reforms and needed resources
  - Transaction due diligence: legal, technical, other
  - Preparation of tender documentation
  - Marketing of business opportunities to selected investors
  - Transparent international competitive bidding
  - Post-transaction assistance, as needed
- **Fee based services**
  - Modest retainer paid by Clients (according to milestones)
  - Largest portion of remuneration to be paid as success fee at closing of transactions (by winning bidder)