



Transport Infrastructure Development: IsDB Group's Experiences Regarding Risk Management in Transport PPP Projects

14TH Meeting of the COMCEC Transport and Communications

Working Group

October 3rd, 2019,



IsDB Group and Mandate

IsDB Activities

- **Project Finance, Loans and Technical Assistance aimed at the development of:**
 - Agriculture
 - Basic Infrastructure & Industrial sectors
 - Education
 - Healthcare and other Social Sector
- **Equity Investment and Lines of Financing for the development of Financial Institutions**

IsDB Priority Areas

- **Human Development**
- **Agricultural and Rural Development and Food Security**
- **Infrastructure Development**
- **Private Sector Development (ICD)**
- **Intra-Trade Among Member Countries (ITFC)**
- **Research and Development in Islamic Banking and Finance (IRTI)**

Key IDB Group Members*



International Islamic Trade Finance Corporation (ITFC): Supports trade finance activities amongst member countries.

Islamic Corporation for the Development of the Private Sector (ICD): Supports the private sector in the member countries.

Islamic Corporation for Insurance of Investment and Export Credit (ICIEC): Provides investment protection and export credit insurance for member countries.

The Islamic Research and Training Institute (IRTI): Leads the development and sustenance of a dynamic and comprehensive Islamic Financial Services Industry.

IsDB Group Portfolio



IsDB Group has a **mission** to promote comprehensive human development with a focus on the priority areas of alleviating poverty, improving health, promoting education, improving governance and prospering the people. Under its **Ten-Year Strategy**, IsDB Group aims to become a preferred partner for Member Countries (MCs) economic and social development, a strong catalyst for South-South cooperation and a leading authority in Islamic Finance. It endeavors to realize the strategic objectives through cooperation in Economic & Social Infrastructure, private sector development, inclusive social development, cooperation among MCs and development of Islamic Finance. IsDB has adopted **a new business model under the President's Five Year Program** to empower people for a sustainable future through a focus on driving Innovations, Partnerships, Islamic Finance and support for Value Chains.

Since inception, IsDB Group has cumulative approvals of around USD 138 billion including USD 72 billion of trade financing and USD 61 billion of project financing. As for the IsDB's financing from Ordinary Capital Resources of USD 57 billion, major sectors of support include infrastructure (71%) followed by human development (13%) and agriculture (12%). The aggregate business insured by our insurance arm, the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) is US\$52.8 billion.

Definition of Public Private Partnership

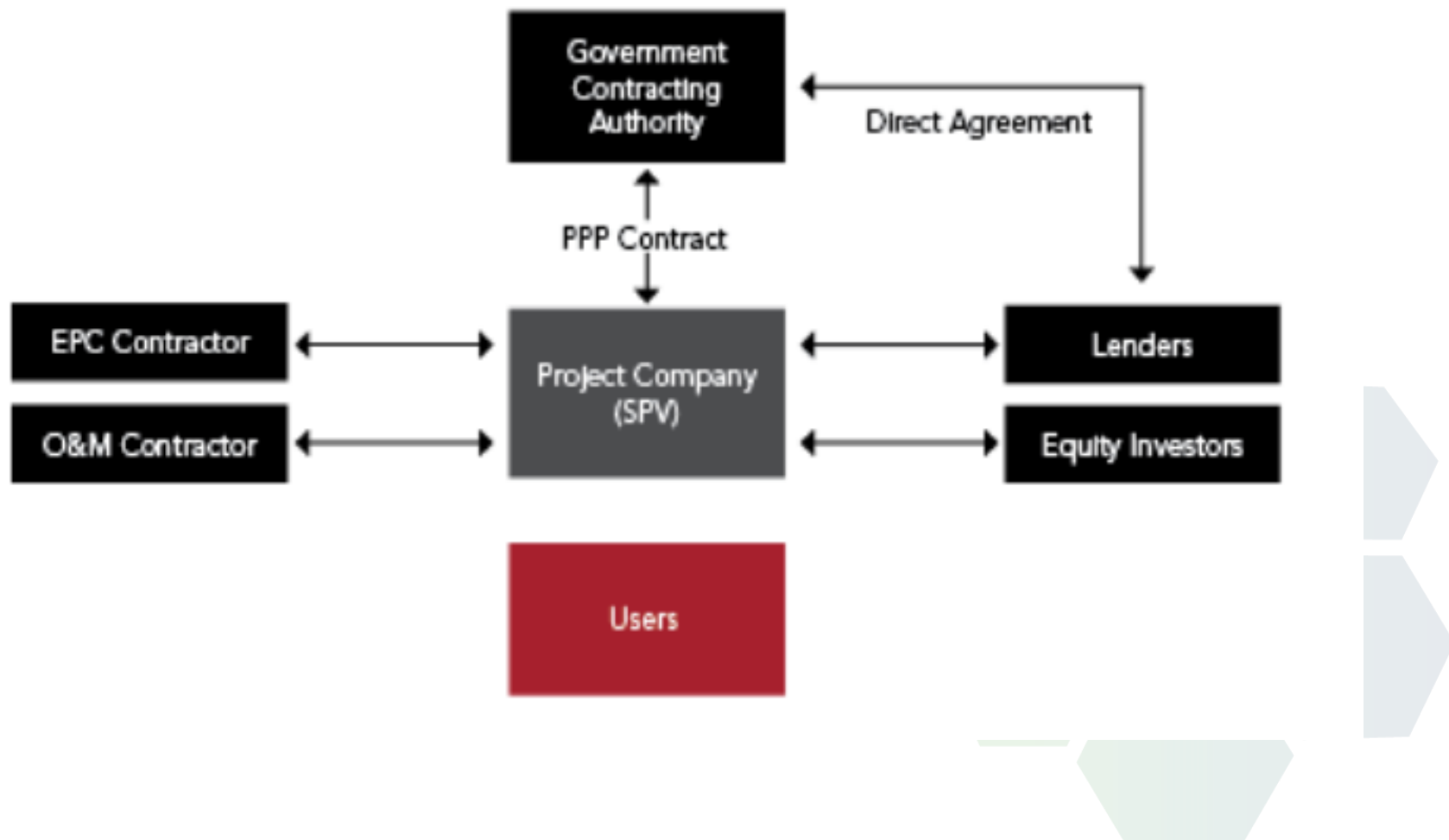
A public-private partnership (PPP) is a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance. (PPP Knowledge Lab)

Long term contractual arrangements between the government and a private partner whereby the latter delivers and funds public services using a capital asset, sharing the associated risks. (OECD)

Forms of co-operation between public authorities and the world of business which aim to ensure the funding, construction, renovation, management and maintenance of an infrastructure of the provision of a service. (European Commission)

The arrangements where the private sector supplies infrastructure assets and services that traditionally have been provided by the government. (IMF)

Typical PPP Structure



Benefits of PPP



Increasing transparency

Improving service delivery

Reducing construction time and costs

Ensuring regular maintenance

Providing better value for money



PPPs– General Requirements



Transparent bidding process for the concession agreement part

Experienced Sponsors

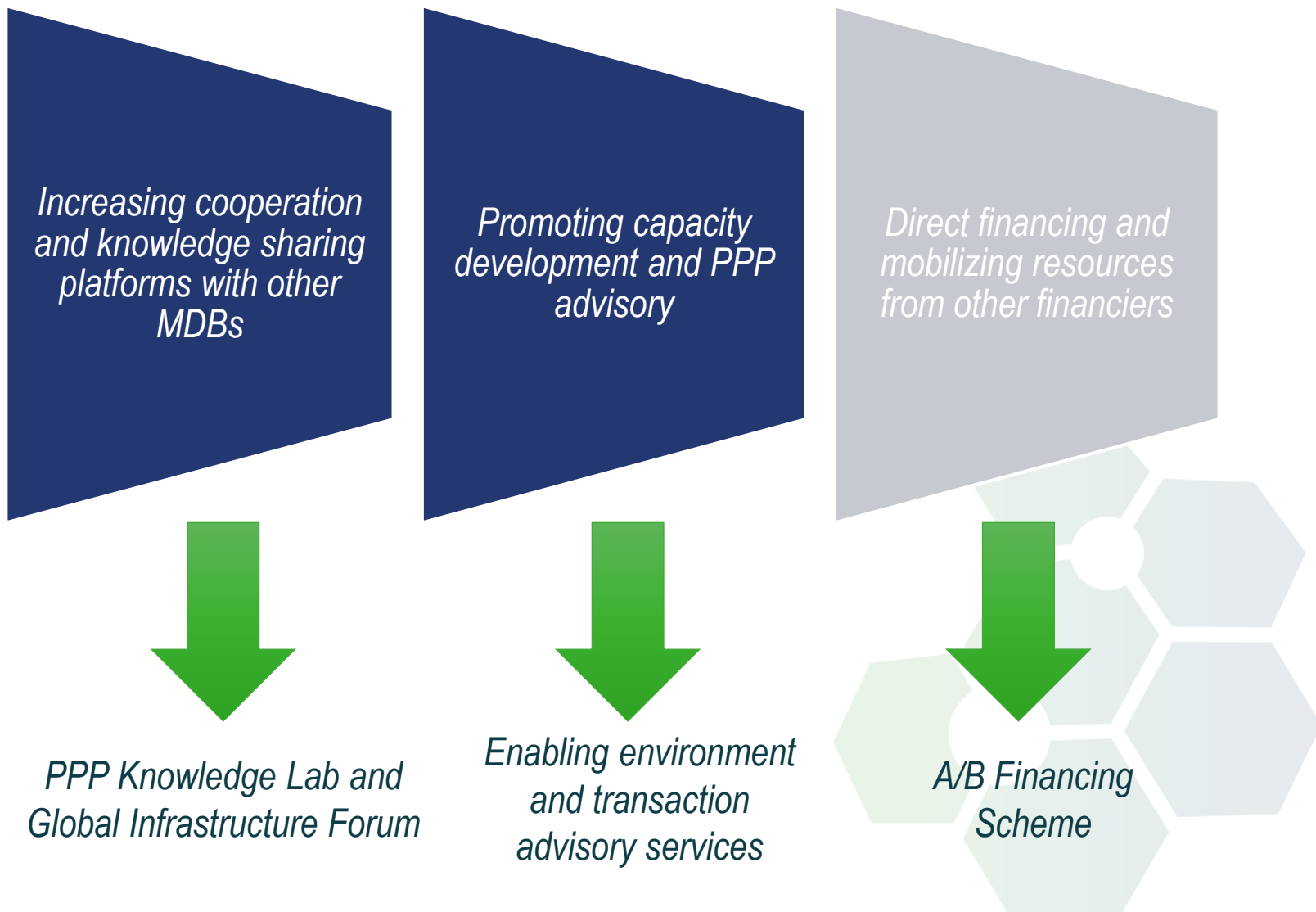
Reputed consultants working for the Banks (*flexible procurement*)

Risk mitigation

Adequate risk allocation between the Public Entity, the Private Entity and the Banks.



IsDB's PPP Interventions

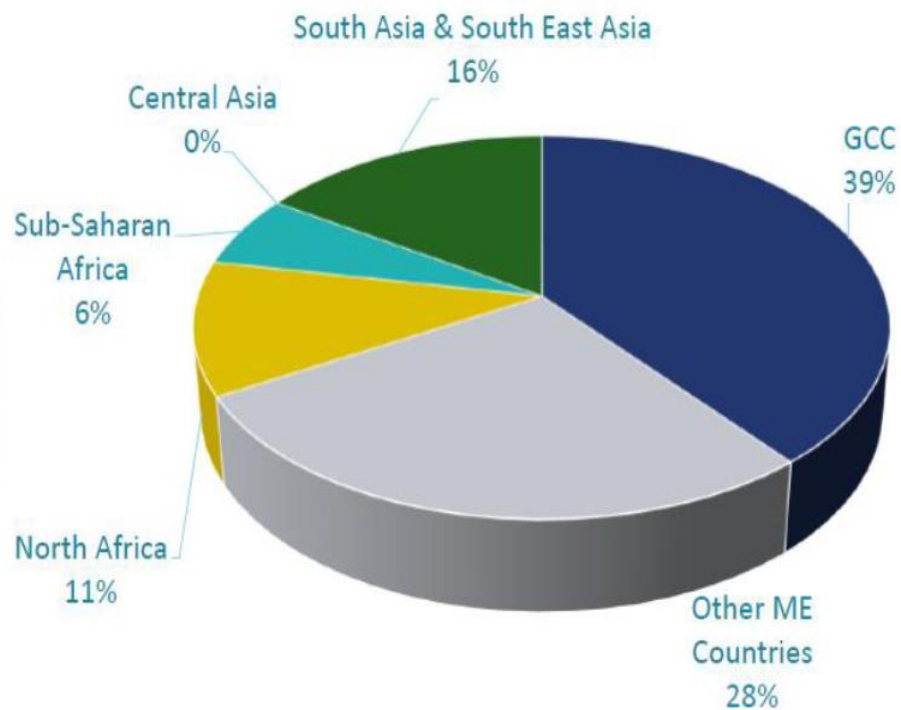
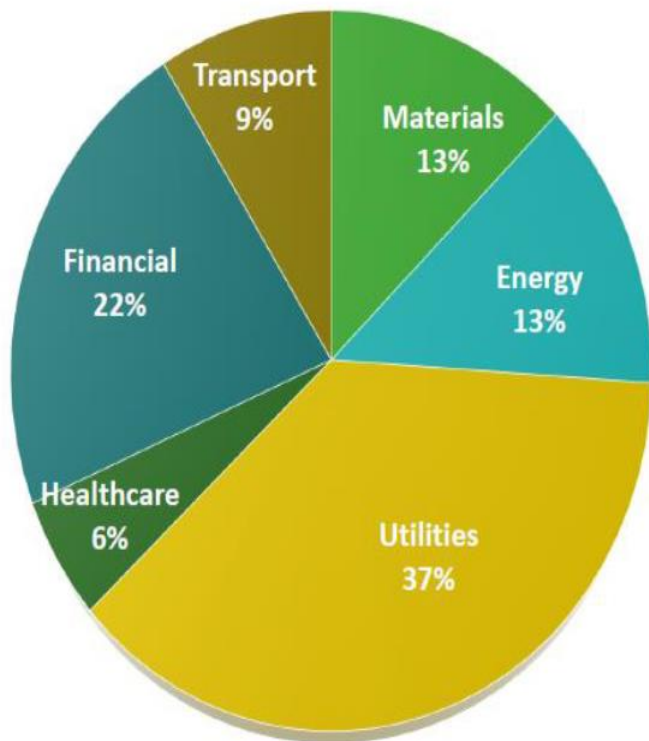


IsDB Involvement in PPPs

Number of transactions: 57

Number of countries: 20

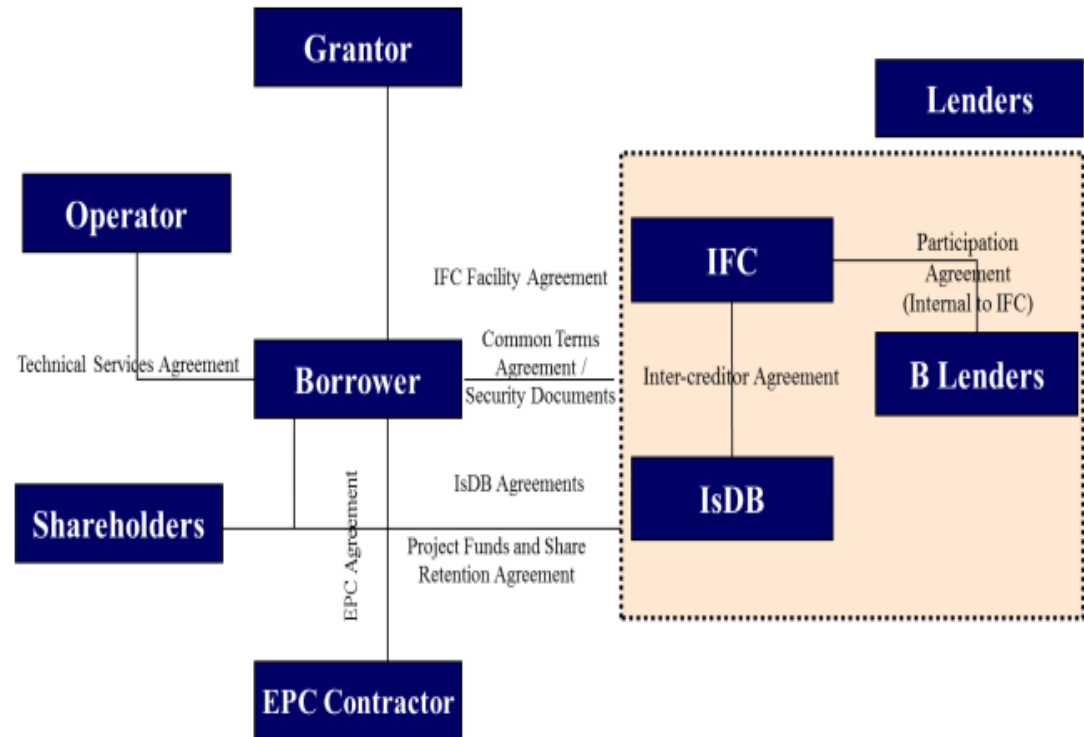
Total approvals: USD 4.3 bn



Case - 1

- The Jordanian Government awarded a 25-year concession to AIG to reconstruct and expand the airport's terminal in 2007.
- It was the first successful airport PPP in the Middle East.
- The number of international flights has increased from 120 flights per day to more than 190 daily flights in 2015.
- The sale of AIG's shares marks the first transaction of its kind in the Middle East as it was the first sale of a secondary infrastructure asset in the Middle East.
- The consortium of investors consist of Groupe ADP, Meridiam, IsDB Infrastructure Fund II and EDGO Group.

Queen Alia Airport Transaction Structure



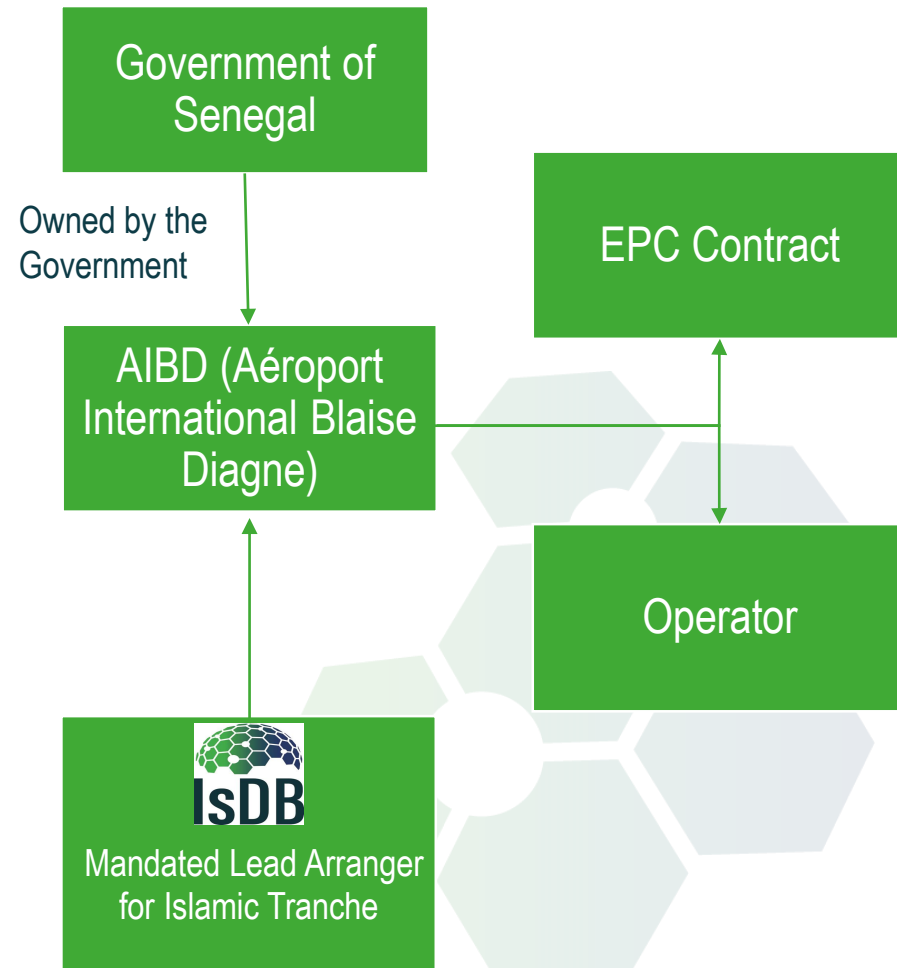
Case – 1: Risk Management Issues

- Ensuring reasonable risk allocation at structuring
 - **Mitigant:** IFC's PPP advisory team played an important role in designing the concession contract. Collaborative efforts by the government and financial institutions supported upstream reforms, fair concession design, a competitive tendering process, and a flexible transaction structure.
- Lack of appetite from international commercial banks
 - **Mitigant:** Presence of development finance institutions, namely IsDB's and IFC, provided comfort to international commercial banks and they also joined the transaction.
- Cost overruns
 - **Mitigant:** Contingent financing was agreed by AIG's shareholders to cover any cost overruns or other contingencies.
- Change in capacity and funding gap
 - **Mitigant:** During implementation, the Government approved a significant resizing to increase the capacity from 9 million passengers per year for the new terminal to 12 million passengers. A phasing approach was adopted and additional funding needed to make these changes was provided by the existing financiers, sponsors and by cash generated from the existing terminal's operations. AIG, the sponsors and financiers, as well as the government, all worked together to review and ultimately approve these changes.

Case - 2

- AIBD is a high priority project for the Government of Senegal, and it fits well with their overall plans to improve connectivity and positioning Dakar as a regional hub for business.
- Turkish construction companies Summa and Limak were selected to complete the construction of the airport, which is a demonstration of a south-south initiative.

Dakar Airport Project



Case – 2: Risk Management Issues

- Environmental and social risk
 - **Mitigant:** Environmental and Social Impact Assessment (ESIA), an Environmental and Social Management Plan (ESMP) and a Full Resettlement Action (Full RAP) were prepared. Environmental and Social Management Plan and the Resettlement Action Plan were implemented in compliance with the best practices.
- Delay in implementation
 - **Mitigant:** Lenders agreed to a restructuring of their respective financing facilities by extending the availability period. New contractors took over the project and project was completed.



Lessons Learned

1 PPP Advisory & Project Preparation Services help structuring.

2 MDBs involvement facilitates mobilization of commercial funding.

3 Experienced and strong project sponsors reinforces implementation.

4 Collaboration of project parties is essential in large scale projects.

5 Best practices should be adopted in all aspects of the project management including environment and social fronts.



IsDB

Empowering people for a sustainable future
Driving innovation, partnerships, Islamic Finance and value chains

**THANKS FOR
LISTENING.**



IsDB

