

The European Investment Bank

and

Public Private Funding

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Financing Inga Hydropower Projects

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BRIEF INTRODUCTION TO THE EIB



- ✓ The Financing Institution of the European Union, with headquarters in Luxembourg; 1958 – 2008 : 50 years of activity
- ✓ A major source of long-term finance – EUR 47.8 billion in new loans during 2007, of which 87% within the European Union. EIB-financed projects (e.g. infrastructures, hospitals, schools) can be found all over Europe.
- ✓ One of the largest borrowers in international capital markets; in 2007, EUR 55 billion was raised in 24 different currencies.
- ✓ Although the majority of activity is concentrated within the EU, the EIB is also mandated to support the European Union's external policies, including as regards the African Caribbean Pacific States. EIB has supported such external policies for over 40 years.

EIB ACTIVITIES IN THE AFRICAN CARIBBEAN PACIFIC REGION (ACP)



- ✓ **ACP** is the oldest external mandate given to the EIB, and dates back to 1963 (first Yaoundé Convention)
- ✓ Since 2003: the **ACP Cotonou Agreement** which provides for an Investment Facility (IF) as well as lending from EIB own resources. A separate mandate exists for loan finance to South Africa.
- ✓ EIB Signatures under Cotonou (2003-2007) total **EUR 2 530 m** of which EUR 1 712 m under the IF and EUR 818 m under EIB own resources. Sub-Saharan Africa represents the lion's share of EIB activities in the ACP - 90% of commitments.

WHAT CAN EIB OFFER IN THE AFRICAN CARIBBEAN PACIFIC REGION ?



Over the next 6 years:

- EUR 3 bn under the Investment Facility
- EUR 2 bn Own Resources
- EUR 400 m for subsidies, feasibility studies or technical assistance

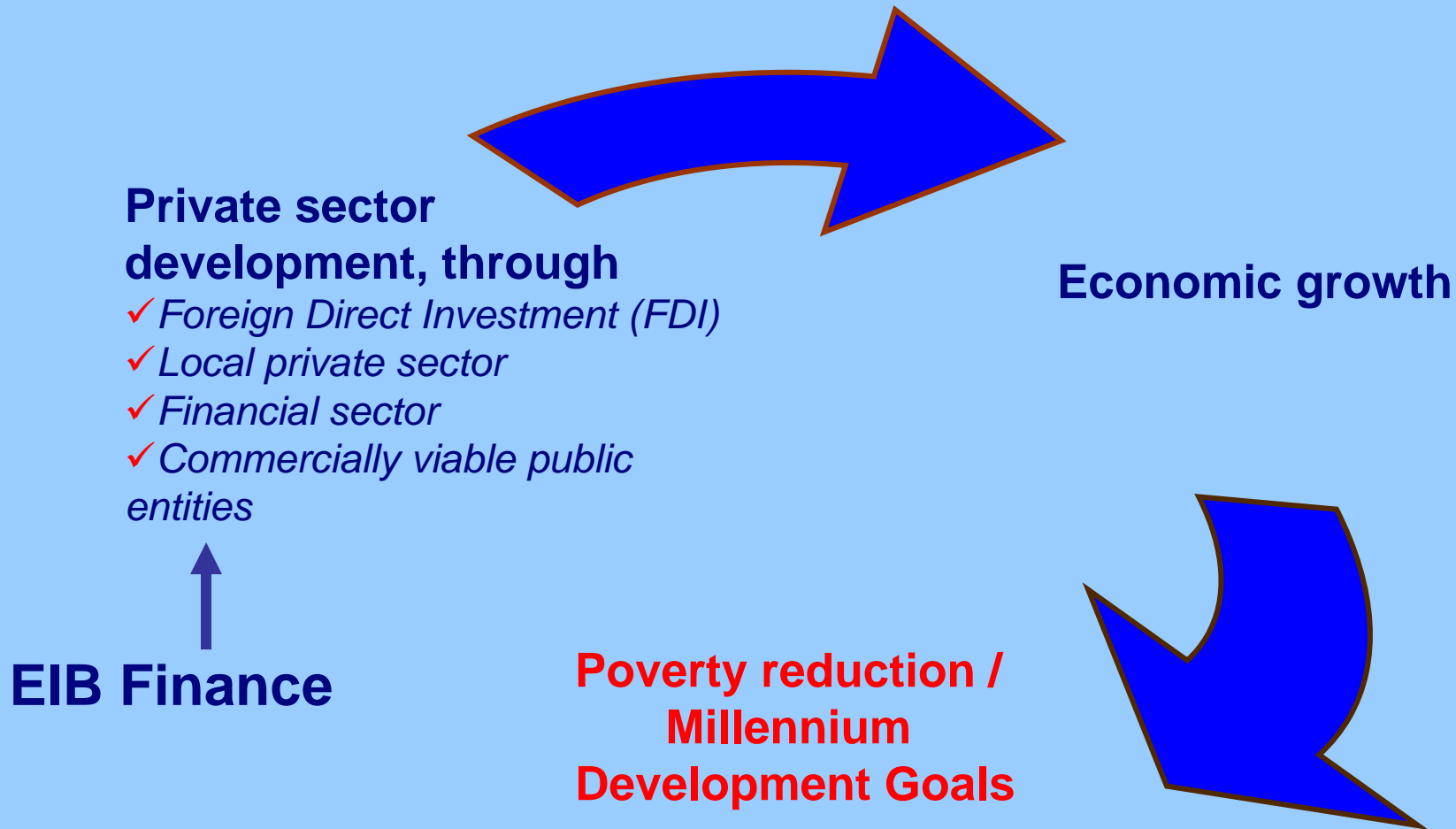
An extended range of flexible financial instruments

denominated in EUR, other widely traded currencies and also local African currencies :

- Ordinary or senior loans
- Junior or subordinated
- Quasi-equity (participating, conditional or convertible loans)
- Equity (direct and indirect)
- Guarantees

EIB OBJECTIVE

Targeting development through economic growth



AFRICAN INFRASTRUCTURE / PPP



- ✓ **Infrastructure : the largest single sector of EIB finance in the ACPs, representing one third of total investment**
- ✓ **Heavy concentration in the energy sector**

African Infrastructure / PPPs



EIB regards Public-Private Partnerships (PPPs) as a procurement option for essential public services and not as a policy imperative.

EIB is a major financier of PPPs in and outside Europe:

Over EUR 20 bn of signed PPP exposure to some 140 projects worldwide, covering most sectors.

PPPs in Africa:

Recent success stories: energy, Bujagali (Uganda), AES Sonel (Cameroon); transport, N3 Toll Road in S.Africa

But there have been failures, notably in the water sector, as well as operations cancelled or rejected

AFRICAN INFRASTRUCTURE / PPPs



Reason why PPPs are preferred to public service:

- **insufficient public funding for large projects**
- **insufficient public sector capacity to manage additional, large investment**

Whereas PPPs have demonstrated their ability to deliver projects on time and within budget in Europe, there are additional risks which can complicate the equation in Africa: political risks; uncertainty about future demand/ traffic; forex risk

Conclusion: PPPs have a role in Africa but are not the miracle solution. There are prerequisites to their success.

PREREQUISITES TO SUCCESS:



- **Project economically well-justified in context of sector analysis and programme prioritisation**
- **Public sector capacity is adequate to play its role in the partnership**
- **Service outcomes can be clearly specified and measured**
- **There exists potential to introduce incentives, design innovations and operational improvements liable to raise efficiency**
- **Payments mechanisms are devised in a way that motivates operators to maintain service quality**
- **Value-for-money can be demonstrated after allowing for extra project development and monitoring costs**
- **Transparent accountability procedures and due regard for the public interest**

PREREQUISITES TO SUCCESS:



Governments' input:

- **Commitment to PPP principles**
- **Focused and dedicated public sector teams**
- **Clear legal and institutional framework**
- **Transparent and fair procurement process**
- **Realistic approach to risk sharing**

Input of multilateral institutions like the EIB:

- **Seek to maximise public benefits, whilst ensuring that projects are “bankable”**

EIB's INPUT: WHAT CAN WE BRING?

- **Development agenda: ensure PPP option is the best one for the recipient country**
- **Poverty alleviation : ensure project encompasses pro-poor components**
- **Strict criteria in favour of environment protection / introduction of mitigating measures**
- **Requirement for transparent procurement**
- **Pro-active dissemination of best practice, sharing experience to contribute to optimise project design and implementation**

AFRICAN INFRASTRUCTURE / PPPs



Terms of EIB lending (1)

- Non-recourse lending, or lending with credit enhancement
- Assumption of risks - e.g., political risk - commercial lenders do not normally take
Most African countries are sub-investment grade: commercial finance can often be prohibitively expensive, entailing that the presence of multilateral/bilateral organisations is essential (eg Bujagali: only 13% commercial funding)

AFRICAN INFRASTRUCTURE / PPPs



Terms of EIB lending (2)

- Long term, up to 25 years (depends on project lifetime)
- Grace period corresponding to construction period
- Senior or subordinated debt
- Interest rate: Bank reference rate (cost of funds) + administrative margin+ premium to reflect project risks
- Possibility to grant technical assistance for capacity building
- Possibility to finance feasibility studies

THE PROJECT CYCLE AT THE EIB



PROJECT SELECTION AND APPRAISAL (1)



- Detailed due diligence carried out alongside the other co-financiers
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- All projects are subject to technical, economic and financial review
 - promoter's technical and market studies
 - technical/market analysis carried out for lenders
 - technical aspects of concession, construction
 - legal documentation

PROJECT SELECTION AND APPRAISAL (2)



- **Review of**

- **Compliance with international social and environmental standards**
- **Risk assessment**
- **Economic performance: , socio-economic profitability, Value For Money (VFM) for Public Sector**

- **In house assessment of the above**

TO CONCLUDE



- ✓ **The appraisal of PPPs entails a long and complicated due diligence by a large Bank team, as well as by external legal advisors and engineering consultancy firms**
- ✓ **Due diligence alongside other financiers and sponsors ongoing until conclusion of negotiations to ensure that all required conditions are met**
- ✓ **Prerequisites for a successful PPP must be there, but the EIB is ready to bring its experience and cooperate with the other financiers to optimise the interest of all the stakeholders in a sustainable way**

THANK YOU