European Investment Bank

The EU bank

"The role of EIB in financing PPP projects in Africa"

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EIB: Some facts and figures

- ü Set up in 1958 by the Treaty of Rome
- ü Shareholders: 28 EU Member States
- ü Supports EU policy
- ü AAA rating
- ü Governance
  - Board of Governors – EU Finance Ministers
  - Board of Directors - Member States & European Commission
- ü In 2014, EUR 77 billion of funding (EUR 8 billion outside the EU, out of which EUR 1.2bn was to ACP).

European Investment Bank

Activities in Sub-Saharan Africa, Caribbean and Pacific

Countries covered from the South African office:

- Angola
- Botswana
- Comoros
- Lesotho
- Madagascar
- Malawi
- Mauritius
- Mozambique
- Namibia
- Seychelles
- Swaziland
- Zambia
- Zimbabwe and
- Republic of South Africa

EIB activities in ACP

- Active in ACP since 1963 -> more than 50 years
- Mandate to support projects that promote development
- More than EUR 17bn in total lending
- Over 1 300 projects in 92 countries or regional groupings
- Around EUR 55m for some 70 technical assistance projects

EIB activities in South Africa

- Active in South Africa since 1995 -> 20 years
- Mandate to support projects that promote development
- Around EUR 2.5bn in total lending, for some 50 projects

European priority objectives outside the Union

- Private sector development
- Social and economic infrastructure
- Regional integration & trade promotion
- Security of energy supply
- Environmental sustainability

Þ climate change mitigation and adaptation

STRATEGIC FOCUS

Infrastructure

Energy **Water** **Transport** **Telecoms**

- public & private sector -

Financial sector

SMEs **Microfinance**

- mainly through intermediaries -

EIB value added

Financial terms and conditions

- EIB is not for profit
- EIB funding cost + risk and administrative margin
- EIB passes on the benefit of its AAA credit rating
- Long term funding (up to 25 years)
- Grace periods of up to 5 years
- Disbursements in all major currencies including ZAR, to be chosen by the client
- EIB = catalyst ► encourages co-financing as max. 50% of funding is provided by EIB

EIB value added (continued)

Project quality and soundness

- Technical, economic and financial soundness of the project
- Application of highest environmental and social standards
- Application of EIB procurement guidelines, based on ICB principles
- Project improvement suggestions by the EIB technical team during appraisal process
- EIB's involvement acts as a catalyst in attracting commercial bank financing

Project assessment

- Monitoring of implementation and operation aims to ensure efficient and sustainable projects

Definition of PPPs

1) An agreement between a government and one or more private partners whereby the private partner(s) undertakes to deliver an agreed upon quantity and quality of service;

2) In return for the delivery of the agreed upon quantity and quality the private partner(s) receives either a unitary charge paid by government or a user charge (e.g., a toll) levied by the private partner on the direct recipients of the service;

3) An emphasis on a whole-of-life approach. The private partner(s) is usually responsible for both the construction and operational phases of the project;

4) Some degree of risk sharing between the public and private sector that in theory should be determined on the basis of which party is best able to manage each risk, thus ensuring that the PPP optimizes Value for Money.

(source: IMF Working Paper - The Effects of the Financial Crisis on Public-Private Partnerships - July 2009)

General Features of a PPP

- Long term <u>risk sharing</u> between public contracting authority and private sector company

- <u>Bundling of certain tasks</u>, typically design, build, operation, maintenance and/or financing

- <u>Focus on</u> specification of <u>outputs</u> rather than inputs, typically considering life cycle costs of asset

- <u>Payments</u> to private sector reflect services delivered (<u>authority based</u>, <u>user based</u> or <u>combination of both</u>

(source: EPEC)

Models of PPP

Differences reflect the risk transferred to the private sector or conversely the level of partnership the public sector wishes to have

Design Build Finance Operate (DBFO) – private sector capital is at risk if project fails to meet need over the asset life therefore strong sense of “partnership”

Concessions - exclusive right granted to private sector with little public sector involvement therefore only weak “partnership”

Design and Build (DB) - public sector specifies the asset but private sector not involved in operation therefore only limited sense of “partnership”

Design Build Operate (DBO) - public sector specifies need and monitors performance but no private sector capital at risk therefore only medium sense of “partnership”

Privatisation – Asset transferred to the private sector in perpetuity, no “partnership”

Increasing Risk Transfer to the Private Sector

Joint Ventures or Institutional PPPs – The level of equity stakes taken by the public and private sector determines the level of risk transfer and the level of “partnership”

(source: EPEC)

The Potential Benefits of PPP

- Accelerated delivery:

  Earlier investment and delivery; on-time delivery

- Enhanced delivery:

  Due diligence/Better defined and controlled project scope; anti-corruption; commitment to maintenance; innovation in service delivery; customer orientation; public sector can concentrate on core business; private sector management skills

- Wider socio-economic benefits:

  Cultural shift in how public sector operates (service and performance driven); replication of design, management and technology practices in future projects; greater cost transparency in public services; contestability of procurement forms; long term fiscal planning

(source: EPEC)

The Public Sector Investment Decision:
Building a business case

3 key questions /The "five case model"

- **What** are the project scope and requirements?
  1. Strategic case – the case for action, programme aims and objective, consistency with sector/government strategy
- § **Can** a project be delivered as PPP?
  2. Commercial case – risk allocation, market sounding/appetite, bankability
  3. Affordability case – assessment of capex, opex and contingent liabilities against available funding
  4. Management case – implementation plan
- § **Should** the project be delivered as a PPP?
  5. Value for money case – socio-economic case for PPP

Iterative process throughout project preparation and procurement

The Public Sector Investment Decision:

Affordability case

- **Who will pay for an asset and how?**
- **Can a Public Authority afford to pay the service fees? Can and will users pay service fees?**
  - Set affordability limit. Public Authority needs to estimate costs, financing and demand to deliver specified requirements (“Shadow bids”).
  - If affordability limit is breached in proposals and budget cannot be increased, project needs to be de-scoped.
  - Avoid sculpting service payments so that they are affordable at the beginning
  - Importance of multi-annual budgeting

(source: EPEC)

Value for Money
Public Sector Comparator (PSC)

Public Sector Comparator (PSC): how much would a project cost if done in-house

- *Actualised costs of construction and management*
- *Correction for neutral competitiveness*
- *Value of transferred risks*
- *Value of retained risks*

Net Payment: net costs when using PPPs

- *Contribution during construction*
- *Service payments*
- *Value of retained risks*

VfM if PSC > Net Payment

(source: EPEC)

Balance sheet treatment:

Generally, the ***whether*** and ***when*** depend on the classification of the assets

The **classification** depends on the distribution of **most project risk** between the public and private partners

For statistical purposes **most project risk** is transferred when both

Construction risk and either Demand risk or Availability risk

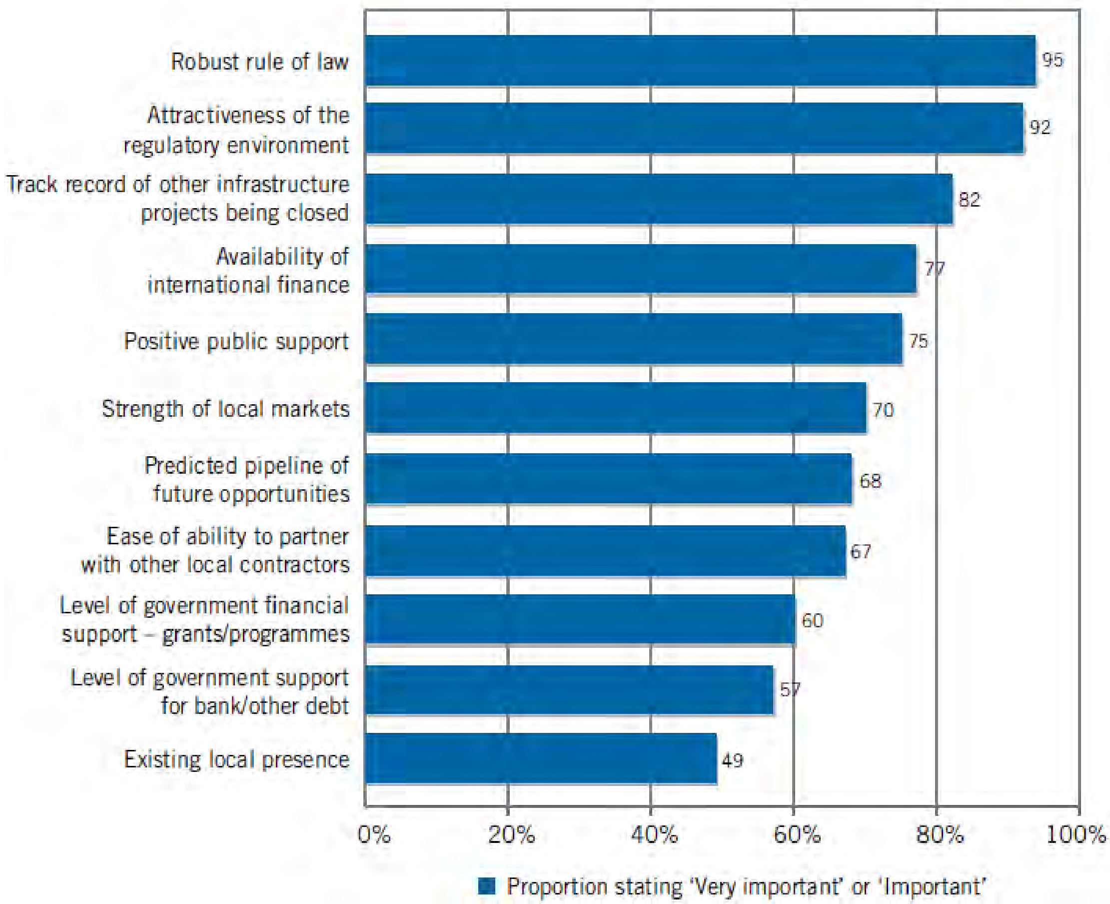
Has been transferred to the private partner

Government Guarantees

- Guarantees are *per se* considered contingent liabilities … but may change the risk distribution.
- If a guarantee commits government to repay more than 50% of debt of an SPV at non-performance, the project may have to be reported on-balance sheet.
- Availability payments as well as termination payments may be treated similarly to guarantees.

The infrastructure investor decision

Fundraising level



"When deciding which jurisdiction to invest in infrastructure, how important in your opinion is each of the following factors?"

Source: Allen & Overy, Global infrastructure development and delivery, 2009

South African Development Community (SADC) PPP Network

- The Southern African Development Community (SADC) established the SADC PPP Network (SADC 3P) in February 2011.
- Purpose: To strengthen PPP capacity by *learning* from each other and *harmonising* processes, institutions and policies across the region.
- The SADC 3P Network consists of a Secretariat, an Advisory Committee and a Steering Committee.
- The Steering Committee consists of one representative from every SADC country. It is responsible for the direction of the Network and provides guidance on policy and activities.
- EIB is currently exploring ways of supporting the SADC 3P Network.

Examples of PPPs financed by EIB in Africa

- Energy:
  - Cape Verde Wind Power, Cape Verde (EUR 30m)
  - Bujagali Hydroelectric Power Plant, Uganda (EUR 92m)
  - West African Gas Pipeline, Ghana (EUR 75m)
- Transport
  - Port of Tanger-Med Second Terminal, Marocco (EUR 40m)
  - N4 Platinum Toll Highway, South Africa (EUR 50m)
  - N3 Toll Road, South Africa (EUR 45m)

(source: EPEC)

Marocco: Port of Tanger-Med – Second Terminal

Borrower/Final Beneficiary	TangerMedGate S.A. (SPV)
Promoters	Various shareholders (incl. shipping co's) of the SPV
Currency	EUR
Amount	EUR 40m (some 28% of total project cost)
Source of funding	EIB Own Resources – ENP Mandate
Co-financiers	Promoters, Maroccan banks

The project concerns the design, supervision and construction of the second container terminal of the port of Tanger Méditerrannée, about 20 km east of the city of Tanger, Marocco. It involves a 30-year concession to build, operate and transfer the terminal (BOT).

The concession contract specifies maximum prices to be charged by the terminal for import and export movements.

Maturity of EIB loan: 14 years, including 4 years grace period.

Security for EIB loan: First demand guarantee from a Belgian bank; various other security arrangements.

Date of signature: June 2008.

South Africa: N3 Toll Road Project

Borrower/Provider	N3 Toll Concession (Pty) Ltd (SPV)
Promoter	South African National Roads Agency Ltd. (SANRAL)
Currency	GBP, swapped to ZAR
Amount	ECU 45m (roughly 50% of total project cost)
Source of funding	EIB Own Resources – SA Mandate
Co-financiers	DBSA, AfDB, BoE Bank Ltd, Rand Merchant Bank, Southern Life

The project concerns the modernisation, upgrading and operation of 418km of the N3 road between Heidelberg (Gauteng Province, south of Johannesburg/Pretoria) and Cedara (KwaZulu-Natal Province, north of Durban). The N3 is one of the main transportation axes of the country and needed upgrading to cope with growing traffic and reduce accidents.

The project benefits from a 30 year concession between Promoter and Provider.
Payment mechanism: Real tolls charged to road users.

Maturity of EIB loan: 25 years, including 5 years grace period.
Security for EIB loan: 100% guarantee from FirstRand Bank throughout the term of the loan.
Date of signature: October 1999.

This was one of EIB's first PPP projects to be signed in South Africa.

Questions?