Main Messages

- Our clients face a range of risks and challenges in putting together financing to meet their development objectives.
- The World Bank Group can help identify these risks and propose options based on client needs.
- IBRD is a full financial service provider with an extensive menu of products and services to help clients deal with these risks.
- The process begins with understanding the client’s financing needs and risk management objectives.
- WB can design a customized financial solution that supports the client’s development objectives.
World Bank’s Role Evolving to Meet Client Needs

Traditionally...

Serving: Eligible borrowers

Providing: Access to finance for development

Offering: One-size-fits all loans

...Today

Serving: All member countries as well as development community

Providing: Financial solutions to access, protect, and manage development resources and address global challenges

Offering: Broad menu of financial services
- Loans
- Credit enhancement (Guarantees)
- Risk management tools
- Asset/wealth management
- Treasury management

✓ World Bank is a full financial service provider
✓ A client-focused approach
✓ Customized financial solutions based on needs/risks of each client
# Managing Risks

<table>
<thead>
<tr>
<th>Financial Risks</th>
<th>Risks</th>
<th>Financial Solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Liquidity and credit crunch</td>
<td>Low cost loans; Contingent credit lines; Guarantees and political risk insurance (IBRD/IDA)</td>
</tr>
<tr>
<td></td>
<td>Uncertain govt. regulatory regimes</td>
<td>Local currency financing (IBRD); Derivative transactions to convert currencies (IBRD)</td>
</tr>
<tr>
<td></td>
<td>Foreign currency loans and local currency revenues mismatch</td>
<td>Customized repayments and longer repayment terms (up to 30 yrs) (IBRD)</td>
</tr>
<tr>
<td></td>
<td>Cash flow issues jeopardizing compliance with investment programs</td>
<td>Fix interest rate fixing with derivatives (swaps, caps, collars) (IBRD)</td>
</tr>
<tr>
<td></td>
<td>Interest rate volatility</td>
<td>Commodity hedges (IBRD/IDA)</td>
</tr>
<tr>
<td></td>
<td>Commodity price volatility (oil, food)</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>Non-Financial Risks</th>
<th>Risks</th>
<th>Financial Solutions</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Extreme weather risks</td>
<td>Weather hedges (IBRD/IDA)</td>
</tr>
<tr>
<td></td>
<td>Natural disasters</td>
<td>Markets instruments to manage risk and mobilize financing (IBRD)</td>
</tr>
<tr>
<td></td>
<td>Adaptation to climate change</td>
<td></td>
</tr>
</tbody>
</table>
WB Products Cover Full Project Spectrum

Spectrum of WBG Projects/Clients

Public

IDA

IBRD

Private

MIGA

Private Public Partnership

Financing

Risk Management

Advisory Services

IDA

IBRD

IFC

MIGA

IFC

MIGA
## WB Financial Products and Services

<table>
<thead>
<tr>
<th>ELIGIBILITY</th>
<th>IBRD</th>
<th>IDA</th>
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<td>Middle-income country governments and subnational entities (with government guarantee)</td>
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<td>Low-income country governments</td>
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### Financing

<table>
<thead>
<tr>
<th>Financing</th>
<th>IBRD</th>
<th>IDA</th>
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</thead>
<tbody>
<tr>
<td>IBRD Flexible Loan</td>
<td></td>
<td>Credits</td>
</tr>
<tr>
<td>Local Currency Loans</td>
<td></td>
<td>Grants</td>
</tr>
<tr>
<td>Sub-national Finance</td>
<td></td>
<td>IBRD Flexible Loan for Enclave Operations</td>
</tr>
</tbody>
</table>

### Contingent Financing

<table>
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<tr>
<th>Contingent Financing</th>
<th>IBRD</th>
<th>IDA</th>
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</thead>
<tbody>
<tr>
<td>Deferred Drawdown Option (DDO)</td>
<td></td>
<td>DDO for IDA Blend countries</td>
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# WB Financial Products and Services

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### Risk Management

**Credit Enhancement**
- Partial risk guarantees (PRGs)
- Partial credit guarantees (PCGs)
- Policy based guarantees (PBG)

**Hedging Products**
- Currency swaps
- Interest rate swaps
- Interest rate caps and collars
- Commodity price swaps

**Catastrophe Risk Financing**
- Weather hedges
- Catastrophe Risk Deferred Drawdown Option (Cat DDO)
- Insurance pools
- Catastrophe bonds

**Catastrophe Risk Financing**
- PRGs
- PCGs/PBGs for IDA Blend countries
- Enclave operations

**IBRD Hedging products for IDA Blend countries**

**Weather hedges**
**Catastrophe bond**
**Insurance pools**
Partial Risk Guarantee for PPPs
Limited Recourse Structure

A Partial Risk Guarantee (PRG) can cover lenders in support of Public Sector contractual commitments

- Project Company
- Loans
- Commercial Lenders
- Guarantee
- Indemnity Agreement
- World Bank

Contractual Government Undertakings
IA PPA

Government
Partial Risk Guarantees for PPPs
L/C Structure

- Contractual Agreements with no regular Payment flows
- Contractual Agreements & regular Project Payment flows
- Payment flows in the event of a Breach of the Gas Supply Agreement
Partial Risk Guarantee for PPPs

Deferred Loan Structure

- Counter-Guarantee
- Government
- PPP Project
- Termination Payments
  Up to 12 Month deferred payment loan
- Project Company
Guarantees help Extend Maturities ...
... at the same time Reduce Spreads

Interest Spreads over UST/Libor

<table>
<thead>
<tr>
<th>Country</th>
<th>Without Guarantee</th>
<th>With Guarantee</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>0.75%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Philippines</td>
<td>3.0%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Pakistan</td>
<td>4.5%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Morocco</td>
<td>3.4%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Thailand</td>
<td>8.5%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Côte d’Ivoire</td>
<td>3.0%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Colombia</td>
<td>6.5%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>5.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Laos</td>
<td>2.25%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Uganda</td>
<td>3.0%</td>
<td>2.25%</td>
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FEU – Financial Solutions
Benefits of the Guarantee to the Private Sector

- Would help to mitigate critical perceived political risks
- Would help to make privatizations financeable through facilitating direct access to financial markets
- Would help to catalyze long term “non recourse” debt financing thereby reducing the risk profile of the investment and overall capital costs
- Associates the Bank with the Project providing comfort on Government governance issues
Benefits of the Guarantee to the Government

- Catalyzes financing through market access, longer tenors and lower financings costs
- Facilitates privatization & PPPs by enhancing investor interest
- Accelerates the pace of new investment for expansion of relevant services
- Sustains relatively more attractive retail tariff regimes by significantly improving the debt profile of financings and by leveraging the investment return of investors
- Enhances the potential “sale” value of existing assets or of the franchise for the Government
Benefits of the Guarantee to the Government (Contd.)

- No additional contingent liability
- Is additional to the country lending program
- Creates market confidence through Bank leverage and track record
- Provides for risk sharing with the private sector
- No associated costs (guarantee fee would be payable by the investor as part of project costs)
- Transitional - can be structured to fall away
NIGERIA – Power Sector Reform
A Case Study
Reform Objectives

- Improve efficiency and performance
- Ensure transparent and responsible management
- Limit political interference
- Eliminate government’s involvement in utility management
- Promote Private Sector Participation
- Management and technical operations
- Encourage private investment in generation to address inadequate supply
- Ensure level playing field for all investors
- Release government funds to finance core activities
Market Development

- National Electricity Power Policy (NEPP) & Electric Power Sector Reform Act 2005 (EPSR) provides for development of Nigeria Electricity Market
- Wholesale competition was recommended for Nigeria to assist in monopoly control & cost insensitivity
- Implementation of the Nigeria Electricity Market is through a gradual process of increasing competition designed as three market stages:
  - Transitional Market Stage: Characterized mainly as competition for the market
  - Medium-Term Market Stage: Characterized by full wholesale competition for the market & in the market
  - Final Market Stage: Open to full wholesale competition and retail competition
Market Reform Model

- **Type of market**
  - Competitive wholesale market and retail competition in the long term.
  - Multi-buyer model - (hybrid during a transition period)
  - Private sector driven
  - Cost reflective market structure
  - Encourage full competition in the long term.
  - Market Operator to be a ring-fenced semi-autonomous entity during the transition

- **NEPP & EPSR Act: Provisions for development of market**
  - Competitive market guaranteed by Act, Policy and Market Rules.
  - Creation of an independent electricity regulator
Key Features of Contracting

- **Vesting contracts**
  - Intermediate step to move from integrated utility to fully competitive market
  - Designed to ensure an orderly transition

- **Bilateral contracts**
  - Only contractual tool used in buying and selling electricity

During Transition

As Market Matures
Key Contracting Risks

Gas Supply Risks
- Gas E&P
- Gas gathering / processing
- Gas availability
- Gas quality

Gas Pipeline Risks
- Gas transportation
- Gas quality / pressure
- Gas availability
- Line pack

Take-or-Pay Obligation at Receipt (Gas Supplier)/Delivery (Gas Transporter) point of pipeline

Generation Risks
- Construction
- Operation & Maintenance
- Technology
- Financing / interest Rate
- Labor availability and disputes
- Equipment and spare parts
- Non-payment for gas transportation failures
- Single Buyer payment risk

Payment & Credit Risk
- Non-payment by DISCOs
- Non-performance by GENCO

Transmission Risk
- Operation and maintenance of the transmission line
- Non-payment by DISCOs of transmission charges

Distribution Risk
- O&M of DISCO network
- Collection risk
- Technical, commercial and non-technical losses
- Non-payment by TRANSCO for transmission failures
- Tariff/ regulatory risk
- Government tariff subsidy payments risk

World Bank

FEU – Financial Solutions
Market Reform Outcome

- When demand is fully met, GDP growth in 10 years could be in two digits annually.
- Creation of more businesses and more jobs.
- FGN subsidies to national electrical utility will be re-channeled to other sectors like agriculture, health etc.
- Reduced risks to taxpayers.
- Reduced environmental impact.
- Stronger Naira against others currencies.
- Saving of estimated $1bn losses annually.
- Increased foreign exchange earning as export of finished goods is enhanced.
- Re-direct spending to other critical social services.
Market Reform Outcome

- Increased competition
- Lower prices
- Increased operational efficiency in generation and distribution
- Improved customer service/rural electrification
- Improved service standards
- Wider service provider choice
- Increased consumer protection via Nigerian Electricity Regulatory Commission (NERC)
- As the industry tariffs is stabilized over a periods, there would be tariff reduction in real terms. This happened in several countries including Spain
- Better standard of living and family life
How can we work together to support sustainable development objectives?

- Identify opportunities at the country, project and sector levels for customized financial solutions that support project implementation
- Explore opportunities to implement innovative global sustainable development initiatives