



the World Bank Group risk mitigation instruments

OPEC Gas Flaring Workshop
30 June 2005



the World Bank Group



**a group of institutions with a common goal:
poverty reduction through economic development**

- IBRD** provides market-based loans, guarantees, and advice to governments in middle-income countries
- IDA** provides concessional loans and guarantees to governments of the poorest countries
- IFC** finances private businesses in developing countries
- MIGA** provides political risk insurance for foreign direct investment into developing countries

World Bank Group risk mitigation instruments

IFC	MIGA	IBRD/IDA
IFC A-Loan	Political Risk Insurance	Guarantees
IFC B-Loan	● expropriation	● partial risk
IFC C-Loan	● transfer restriction	● partial credit
IFC Guarantees (partial credit structures usually for local financing)	● breach of contract	IBRD Loan
Interest Rate and Currency swaps	● war & civil disturbances	IDA Credit



deployment of World Bank Group instruments

- hierarchy of instruments
 - market
 - IFC/MIGA
 - World Bank Guarantees
- clients/projects specifics
- similar requirements on safeguards, development impact
- joint transactions (e.g., MIGA/IFC)



Multilateral Investment Guarantee Agency



overview of MIGA Guarantees

types of investments


- new cross-border investments (expansions, modernizations, privatizations, refinancings, acquisitions)
- equity/quasi-equity/performance bonds
- debt; capital market transactions
- management contracts, technical assistance agreements, operating leases

terms and conditions

- tenors: minimum 3 years; up to 15-20 years
- amounts: no minimum size and up to \$110 million on a net basis (larger amounts possible through co- and re-insurance)
- pricing: risk-based

coverage

transfer restriction, expropriation, war and civil disturbance, breach of contract



value added

- to member countries**
 - allows deals to go forward that have developmental impact: local jobs, forex earnings, technology transfer, privatizations, access to international markets etc.
 - can improve investors' impression of country
- to investors**
 - provides confidence in investing in frontier markets
 - improves project risk/return profile
 - can lower cost of financing



value added

- to financial institutions/lenders**
 - long-term commitments in frontier markets / portfolio diversification
 - leveraging of country limits (provisioning requirements reduced)
 - can enable investment grade ratings for emerging market securities; allows bond issuers to pierce the sovereign ceiling
- to insurers**
 - complements public and private insurers
 - training to public insurers
 - foster the growth of the private PRI market for the benefit of developing countries
 - capacity to act as lead arranger with private, public insurers
 - MIGA allows them to go long term, and where they would not go on their own

MIGA's role in the market

- MIGA complements public and private ECAs and insurers
- longer tenors (private insurers typically 3-5 yrs)
- ability to mobilize insurance capacity from others to go into frontier markets
- recognized leader in risk management
- ability to mediate disputes between investors and host countries to preserve investments
- World Bank 'umbrella' provides deterrence against government actions for MIGA-insured investments
- extensive resources and unparalleled knowledge of emerging economies from all parts of World Bank Group
- knowledge of best practice in environmental and social management

responding to new financing realities - new products

- breach of contract (termination payments, government obligations)
- performance bonds (wrongful call)
- interest rate swaps (breakage)
- coverage at the sub-sovereign level

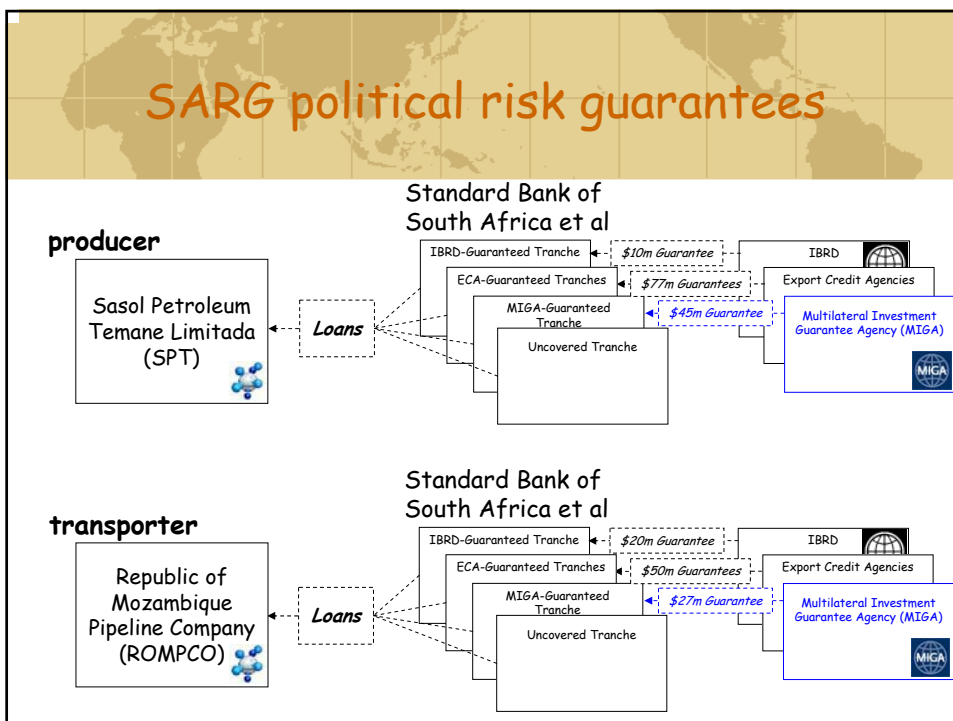
sub-sovereign risk:

- result of increasing decentralization of infrastructure services
- definition of sub-sovereign critical for eligibility reasons. Part of the host government when it has regulatory powers, or government exercises regulatory powers through the sub-sovereign
 - significant number of MIGA applications involve contractual arrangements between private sector and sub-sovereign
 - number of projects (water, waste management, for example) done at the sub-sovereign level



an example

Southern Africa Regional Gas (SARG) Project





International Finance Corporation

Oil, Gas, and Chemicals Sector



IFC will help support investments in the following sectors

- development of oil and gas fields
- oil and gas pipelines
- oilfield services
- LNG & LPG
- refining
- petrochemicals
- other downstream oil and gas

IFC can provide a range of financing

- senior long-term debt
 - project finance
 - corporate loans
- income-participating debt
- convertibles
- revolving credit facilities
- equity
 - corporate equity investment
 - participations in unincorporated joint ventures (UJVs)

IFC can help support local and international clients

- local companies - large and small
- international majors and independents
- IFC supports private sector investments and cannot accept government guarantees
- but IFC can support State companies when they are operating outside of their home countries and are exposed to market risks



as well as financing IFC can add value for clients in other ways

- IFC's approach to environmental and social issues
- assistance to clients, when appropriate for:
 - development of environmental and social management capacity
 - corporate governance
 - IFC's own engineers and its business appraisal may add value for clients
 - linkages programs to broaden community development impacts and support for projects



some project examples





supporting local companies

Venezuela

- Petrofalcon - Vinccler Oil & Gas

- development of two oil and gas fields in Western Venezuela, operated by Vinccler Oil & Gas (VOG), a local E&P company
- IFC is providing US\$36 mm long-term financing that will support the emergence of VOG as an important local private participant in the oil and gas sector
- IFC provided Technical Assistance to help VOG improve its environmental and social management system



supporting local companies

Oman

- Mazoon Petrogaz SAOC

- \$166m project for further development by local company of an old field to enhance oil recovery
- associated gas will be reduced by setting up gas processing plant
- IFC approved a long-term \$40m loan
- the project will help a local company that started as an oil services contractor develop as an oil producer

supporting refining investment

Romania

● Petrotel-Lukoil

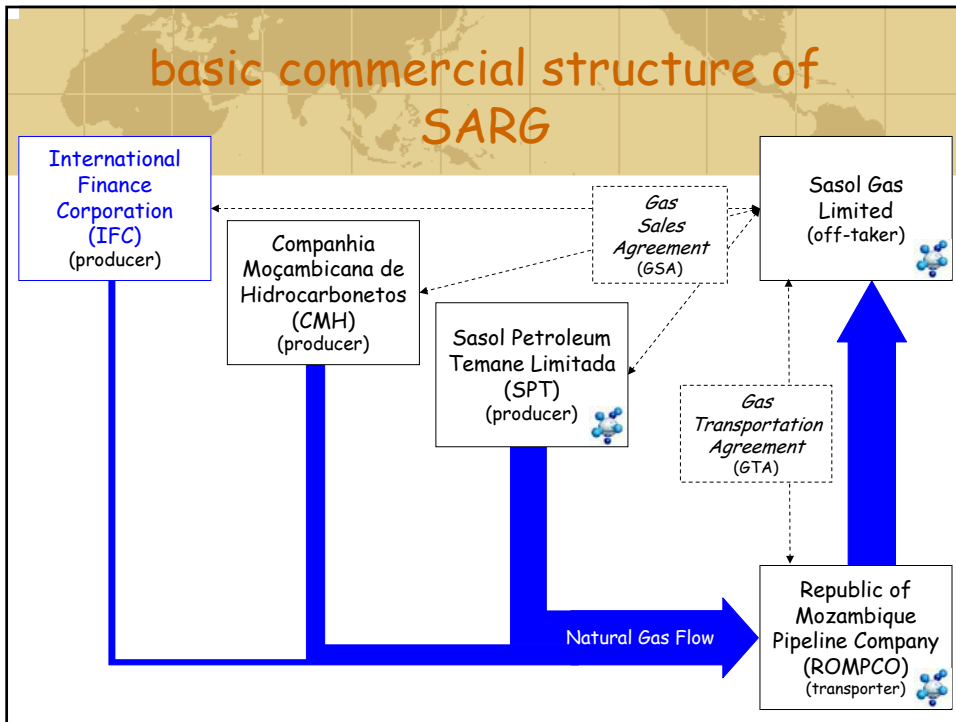
- IFC approved \$35m in A-Loans and mobilize \$47m in B-Loans from commercial banks
- project is to modernize and upgrading refinery in Romania bought by Lukoil from the state
- upgraded refinery will produce EU quality products and support Lukoil's downstream operations

facilitating host country participation in complex cross-border projects

Mozambique

● Southern Africa Regional Gas (SARG) Project

- over US\$1 billion project to develop gas fields in Mozambique and 900 km pipeline to market gas in South Africa (Sasol Gas Ltd)
- IFC undertook strategic option review for equity investment by Mozambican state-owned company - ENH
- US\$18.5 million IFC equity investment in upstream component
- IFC providing advisory services to ENH - funding and participation by Mozambican entities
- coordinated WB Group support for the project - WB and MIGA also provided guarantees for South African sponsor's financing



in summary...IFC's value added

- long-term loan and equity financing, including mobilization from the financial markets, tailored to project/client needs
- environmental, social, and other expertise
- implied political risk mitigation for foreign investors
- relationships with governments and "honest broker" role



World Bank Guarantees



World Bank Guarantees: key features

- IBRD/IDA balance sheet
- available to all countries eligible for borrowing from IBRD or IDA
- Bank Guarantees **back government obligations**
- Bank Guarantees **cover** private debt against a government's (or government entity's) failure to meet specific obligations to a private or public project
- mobilize private sector participation and help catalyze debt with extended maturities and lower financing costs
- flexibility - structured to meet borrower and project requirement
- an integral part of Country Assistance Strategy
- **counterguarantee** from Member Country
 - Bank Articles requirement
 - indicates project priority for Government and Bank
- benefits from the ongoing sector and country engagement of the Bank

benefits of World Bank Guarantees

for governments...

- catalyzes private financing for key sectors such as infrastructure
- provides access to capital markets as well as commercial banks
- reduces cost of private financing to affordable levels
- facilitates privatizations and public private partnerships
- reduces government risk exposure by passing commercial risk to the private sector
- encourages cofinancing

for the private sector...

- reduces risk of private transactions in emerging countries
- mitigates risks that the private sector does not control
- opens new markets
- improves project sustainability

overview of the World Bank Guarantees Program

- **approved operations:**
 - 28 guarantees approved for 26 projects
 - Private capital catalyzed in the last 8 years: US\$ 12 billion
 - 2 PBGs, 8 PCGs, 18 PRGs; total exposure as of May 2005: US\$ 1.4 billion
 - Total amount of guarantees approved: US\$ 2.9 billion dollars

- **in FISCAL YEAR 2005:**

COUNTRY	PROJECT
West Africa	West African Gas Pipeline
Uganda	Distribution Privatization Project (supported by an IDA credit)
Romania	Power Sector Distribution Project
Peru	Guarantee Facility
Senegal	Kounoune Power
Lao PDR	Nam Theun 2 Power
Sierra Leone	Bumbuna Hydropower

- future operations: 26 transactions in pipeline; 58% in Africa; infrastructure focus

guiding principles on deployment of instruments

- PRGs can be considered in the following situations:
 - sectors in early stages of reform
 - larger size/riskier operations
 - operations highly dependent on support/undertakings of governments
 - clout of the Bank needed
- joint transactions
- coordination

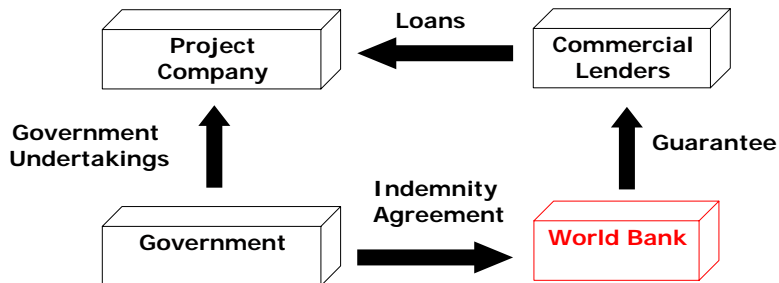
partial risk guarantees (PRGs): key features

- cover private lenders against the risk of a public entity failing to perform its obligations with respect to a private project
- PRG reinforces obligations of the Government – does not add to them
- structured to provide minimum coverage necessary to mobilize private financing
- the World Bank also offers **enclave guarantees** which are PRGs structured for export oriented foreign exchange generating commercial projects in IDA-only countries
- a flexible instrument – various structures available
- new developments:
 - Letter of Credit Structure for Greenfield projects
 - Privatization Guarantees
 - Guarantee Facilities
 - Local Currency Guarantees

which risks can be covered by a PRG?

- tariff
- regulatory risk
- collection risk
- arbitration
- change in law
- convertibility
- transferability
- subsidy payments (e.g., Output-Based Aid)

PRG basics





partial credit guarantees (PCGs): key features

- cover private lenders against all risks during a specific period of the financing term of debt for a public investment
- specially designed to extend maturity and improve market terms
- lengthen the maturity of the private debt financing beyond that available in private markets by covering a part of the scheduled repayments of private loans or bonds against all risks
- PCGs are flexible, allowing different structures for meeting different client needs, such as:
 - bullet guarantee
 - later maturities
 - rolling non-reinstatable
 - amortizing syndicated loan
- at present, partial credit guarantees are available only for countries eligible for loans from IBRD
- no overlap with MIGA or IFC instruments



case study

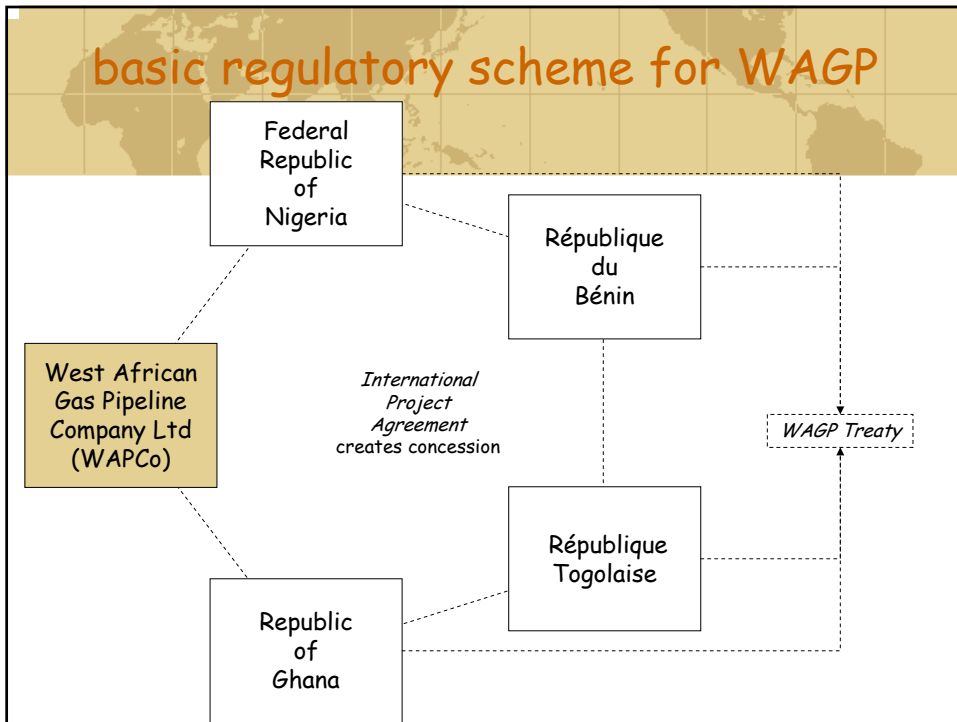
West African Gas Pipeline



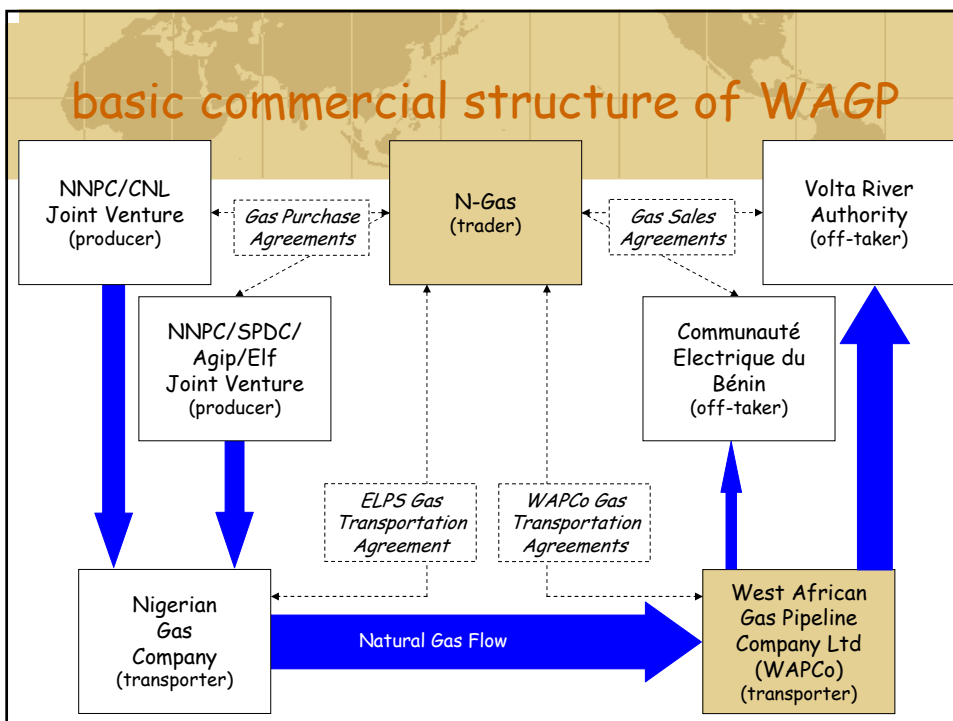
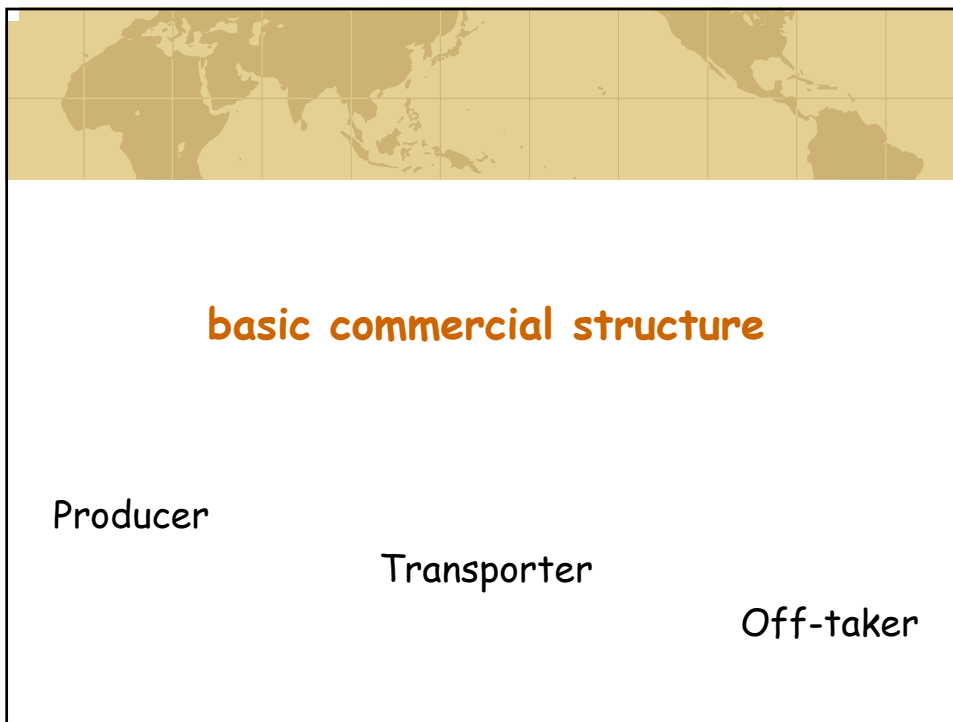
West African Gas Pipeline (WAGP)


	<u>WAGP</u>
Length	678 km
Diameter	51 cm (20 in)
EPC cost	US\$518 m
Max throughput	164 MGJ/yr *

* This throughput requires additional capital expenditures for compression



- ### public disclosure
- **Already Public Domain**
 - Treaty and International Project Agreement
 - Environmental Assessments
 - Resettlement Action Plans
 - Access Code
 - World Bank Project Appraisal Document
 - **Ongoing Disclosure Requirements**
 - payments by the project to the Federal Government of Nigeria and its political subdivisions
 - upstream producers must be participants in EITI in Nigeria
 - reports on environmental and social aspects





project economics

	Ghana	Nigeria	Togo	Benin	Private Participants	Project as a Whole
<small>(in constant 2004 USD)</small>						
Low Demand Scenario:						
Total Net Economic Benefits (NPV)	549	292	192	149	238	1,421
High Demand Scenario:						
Total Net Economic Benefits (NPV)	998	331	238	178	275	2,021

Conclusion: overall, the Project is economically beneficial to each of the four participating countries, the sharing of benefits amongst participants is reasonable, and the Project is a fair commercial transaction for the participating countries and for the private shareholders.



perceived risks

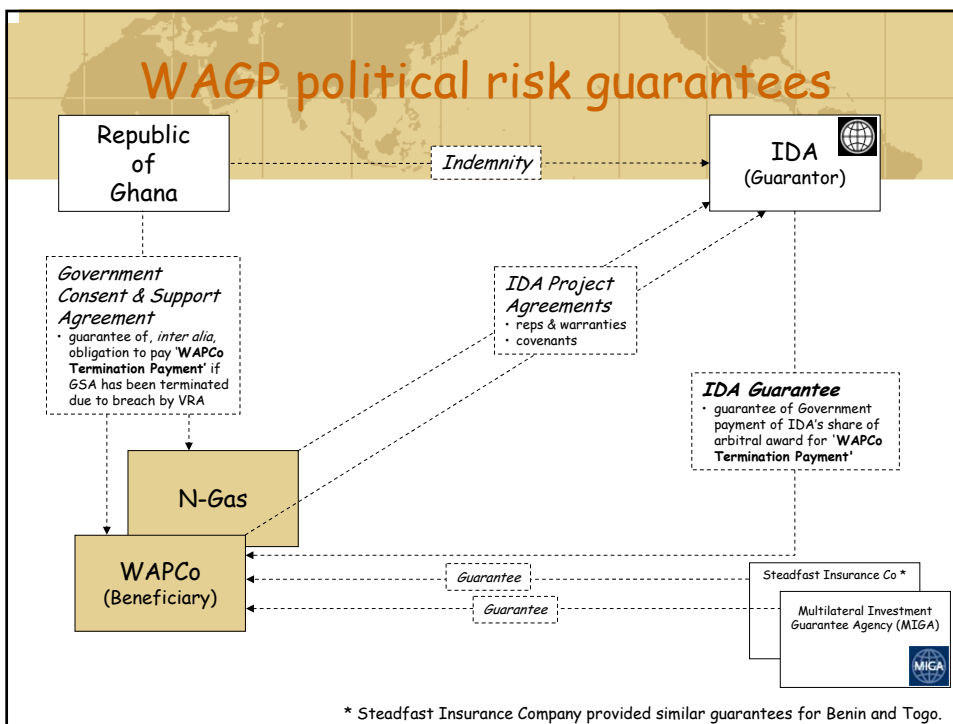


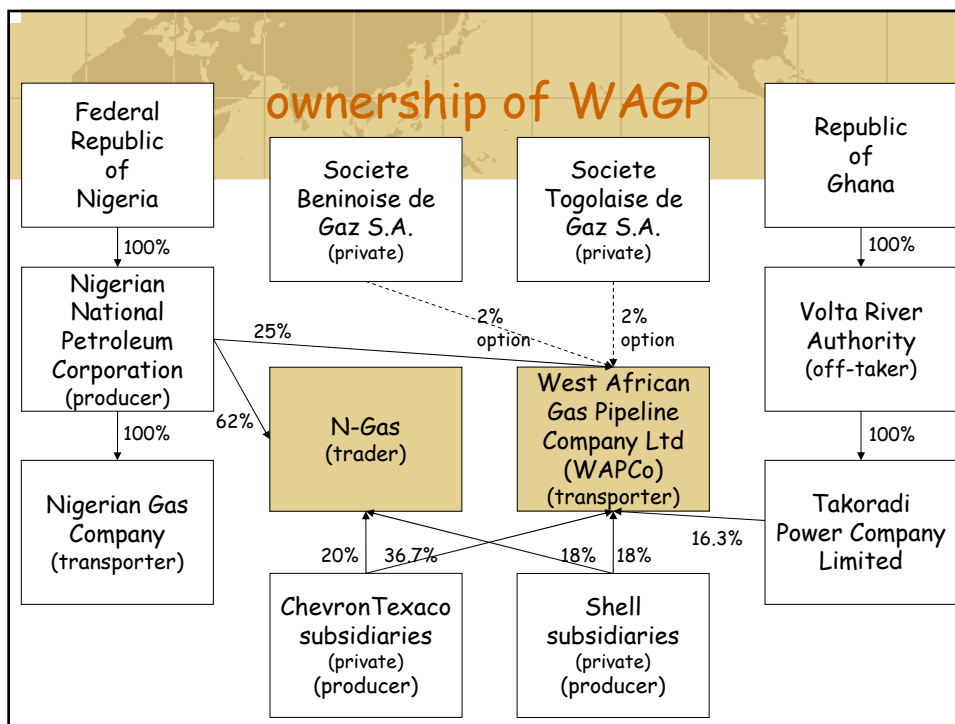
perceived risks

- Government Consent and Support Agreement
 - early termination damages
 - specified in Gas Sales Agreements
 - Benin, Togo, but particularly Ghana because of high concentration of sales to Ghana (>90% initially)



guarantee structuring





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