

Customized Financial Solutions Energy Week

Banking and Debt Management
Department (BDM)
World Bank Treasury

Key messages



- A. Current **financial crisis** has severely **restricted** flow of credit from public and private sources to all borrowers. **Emerging markets** in particular.

- B. IBRD is committed to helping clients through crisis by **increasing lending** substantially over the next three years.

- C. In parallel, World Bank provides expanding menu of **customized credit enhancement and risk management tools** to help clients leverage Bank financing and protect public resources by managing wide range of financial risks.

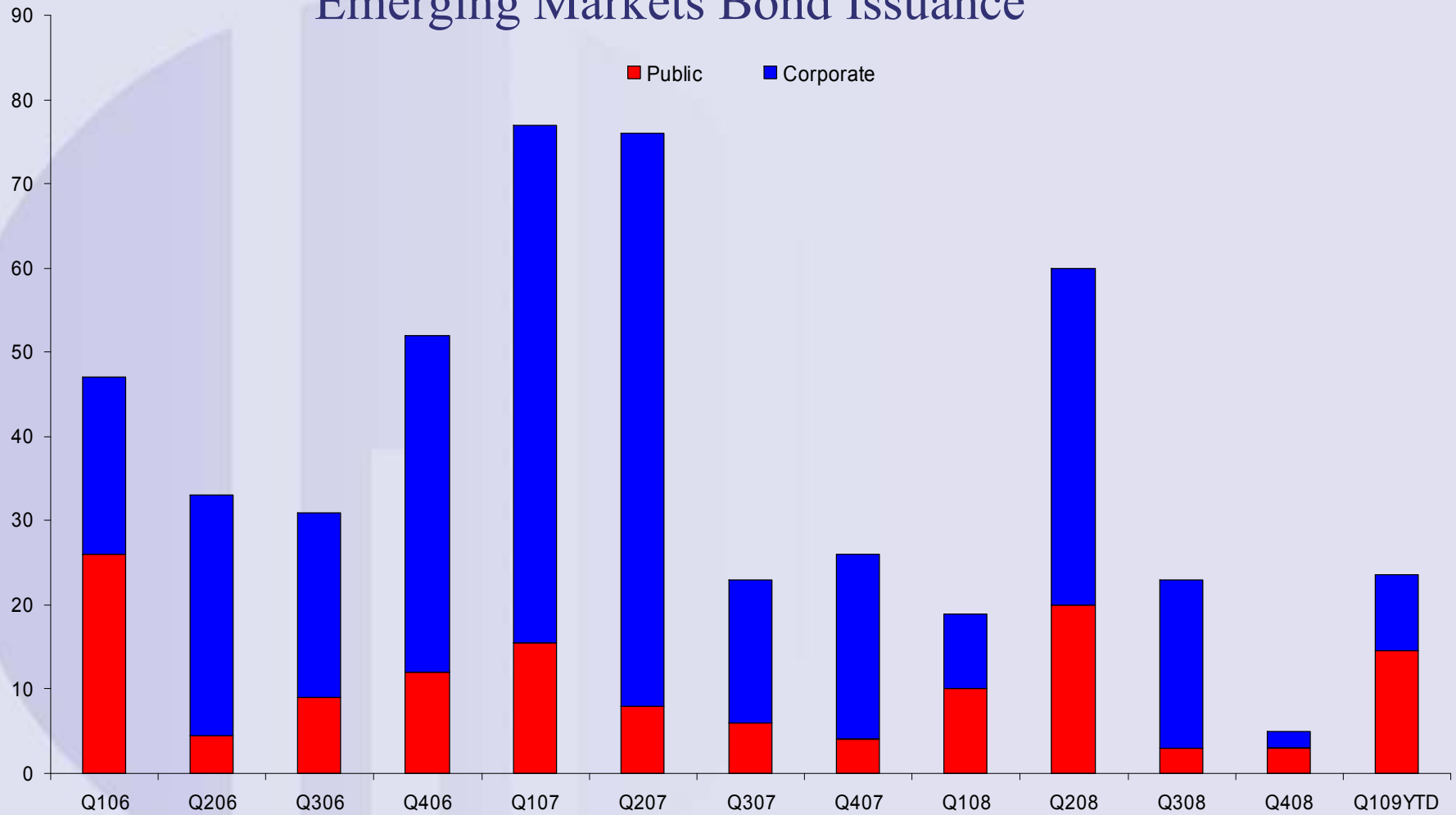
Capital market conditions have deteriorated substantially



- Changes in market fundamentals for **emerging markets**:
 - ✓ Extremely high risk aversion
 - ✓ Decreased availability of funding
 - ✓ Rise in cost of borrowing
 - ✓ Much shorter maturities
 - ✓ Depreciation of most emerging market currencies
 - ✓ Drop in foreign capital flows expected
 - ✓ Tax revenues expected to decline
 - ✓ Changes not expected to be short-lived
- As a consequence:
 - ✓ **funding for infrastructure** projects worldwide expected to be **constrained** from public and private sources, in short and medium term

Sharp decline in availability of funding

Emerging Markets Bond Issuance



Source: IMF and Dealogic Analytics

Cost of borrowing for sovereigns has risen dramatically



EMBI/EMBI+ Spreads over US Treasury
January 2, 1996 to March 20, 2009



Source: JP Morgan

The World Bank today is better equipped to help its clients



Traditionally...

Serving: Member countries

Providing: Access to finance for development

Offering: One-size-fits all loans

...2009

Serving: Member countries and global community

Providing: Financial solutions through financial products and advisory services to access, protect and manage development resources

Offering: Full menu of financial services

Loans

Credit Enhancement (Guarantees)

Risk Management Tools

Asset/Wealth Management

Treasury Management Services

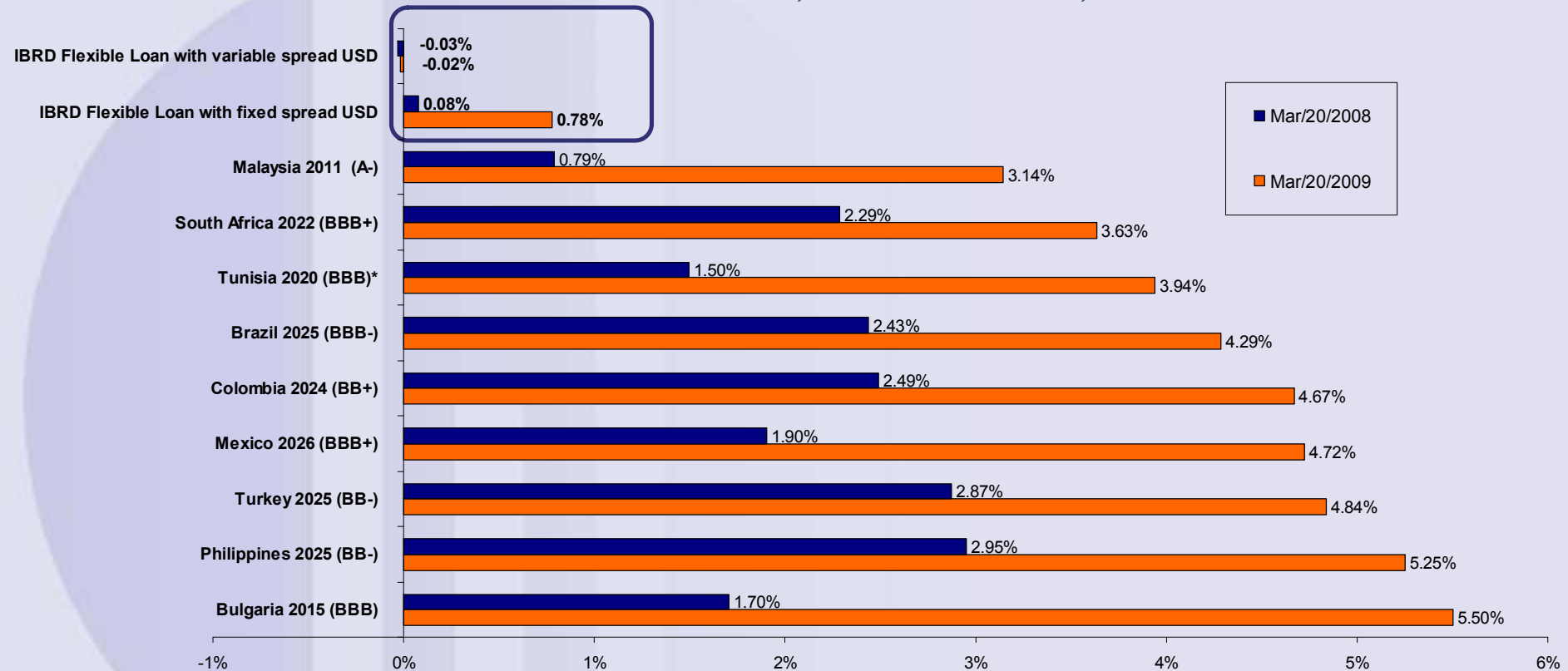
✓ *Shift in delivery model to client-focused approach:
Customized financial solutions based on needs/risks of each client*

IBRD financial solutions can help protect past investments & enable future projects

Loans	<ul style="list-style-type: none"> <input type="checkbox"/> IBRD Flexible Loan <input type="checkbox"/> Local currency loans <input type="checkbox"/> Sub-National finance
Contingent Financing	<ul style="list-style-type: none"> <input type="checkbox"/> Deferred Drawdown Option (DDO)
Credit Enhancement	<ul style="list-style-type: none"> <input type="checkbox"/> Partial risk guarantees (IBRD and IDA) <input type="checkbox"/> Partial credit and policy-based guarantees
Hedging Products	<ul style="list-style-type: none"> <input type="checkbox"/> Currency swaps <input type="checkbox"/> Interest rate swaps <input type="checkbox"/> Interest rate caps and collars <input type="checkbox"/> Commodity price swaps
Catastrophe Risk Management	<ul style="list-style-type: none"> <input type="checkbox"/> Weather hedges (IBRD and IDA) <input type="checkbox"/> CAT DDO <input type="checkbox"/> Insurance pools <input type="checkbox"/> Catastrophe bonds
Client Advisory Services	<ul style="list-style-type: none"> <input type="checkbox"/> Asset management <input type="checkbox"/> Public debt management <input type="checkbox"/> Asset-liability management <input type="checkbox"/> Capital market access strategy & implementation <input type="checkbox"/> Transaction processing, reporting, and IT

How does IBRD pricing compare to clients' cost of borrowing from the bond markets?

Funding Cost Comparison
 Spreads over USD/EUR LIBOR
 March 20, 2008 and March 20, 2009



1/ IBRD pricing includes annualized front-end fee of 0.03%.

2/ The variable spread changes every six months.

Spreads over LIBOR are based on the current secondary market yields of sovereign issuances.

Source: Bloomberg and World Bank.

Financial Risks

Common to Energy and Other Infrastructure Projects



Financial issues

- Liquidity / Credit Crunch
- Mismatch between foreign currency of loans and local currency of revenues
- Cash flow/liquidity issues affecting compliance with investment programs
- Reduced private sector appetite
- Interest rate volatility

Available instruments

- Scaling up of IBRD lending
- Partial Credit Guarantees
- Local Currency Financing / Currency Swaps
- Customized Repayments
- Longer repayment terms (up to 30 years)
- Partial Risk Guarantee
- Swaps / conversions to fixed interest rates

Delivering customized financial solutions

Case study: ICETEX (Colombia)



Background

- ❑ Client goal: Increase tertiary school enrollment by providing affordable **student financing**
- ❑ Issues: Financing available in Pesos had **short grace** periods and **short maturities**
Students needed **5 years** to complete studies, **1 year** to find employment
Each new incoming class would have the same recurring needs
- ❑ Requirements: Enable ICETEX to **match borrowing and lending terms** (currency & maturity)

Financial Risks

- Currency Risk
- Interest Rate Risk
- Cash Flow Risk

Financial Solution

- **IBRD Flexible Loan (Fixed Spread) of USD 300 millions:**
 - **6 Year Grace period and 22.5 year final maturity**
to match the student's capacity to repay the loans
 - **Disbursement-linked repayment schedule**
to match student loan repayment program
 - **Conversion of the loan into fixed interest rate Colombian Pesos**
upon disbursement, to match terms of student loans

Outcome

Delivered a **customized financial solution** to meet **unique financing** and **risk management** objectives of the project, using the flexibility of the IBRD's financial products menu

How IBRD Financial Products have helped meet borrowers' needs for infrastructure projects



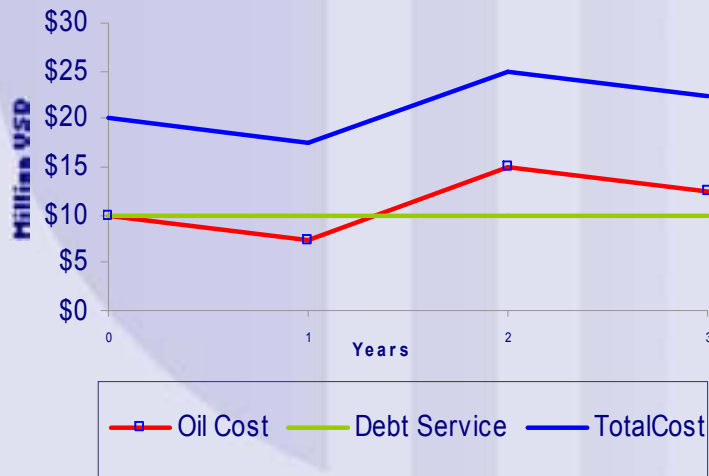
Borrower/Client	Project	Borrower's Objective	Financial Product Choice
Cartagena	Cartagena Water Supply, Sewerage and Environ. Project	Reduce overall financial risks	Conversion to Local Currency at fixed interest rates
Bogota	Bogota Urban Services Project	Reduce overall financial risks	Conversion to Local Currency at fixed interest rates
BANOBRAS	Decentralized Infrastructure Reform and Development Loan	Borrow in local currency at highly competitive terms for on-lending operations to sub-national governments	Conversion to Local Currency
Romania	Power Distribution Privatization (Banat and Dobrogea companies)	Facilitate the privatization of the distribution companies	Partial Risk Guarantee (PRG)
Jordan	Amman East Power Project	Catalyze private investment for the construction of a power station	Partial Risk Guarantee (PRG)
Lebanon	Power Sector Restructuring and Transmission Expansion Project	Obtain long-term financing in the capital markets via bond issuance	Partial Credit Guarantee (PCG)

How IBRD Financial Products could help meet borrowers' needs for energy projects

Case study: Hypothetical Oil Hedging for a Power Utility

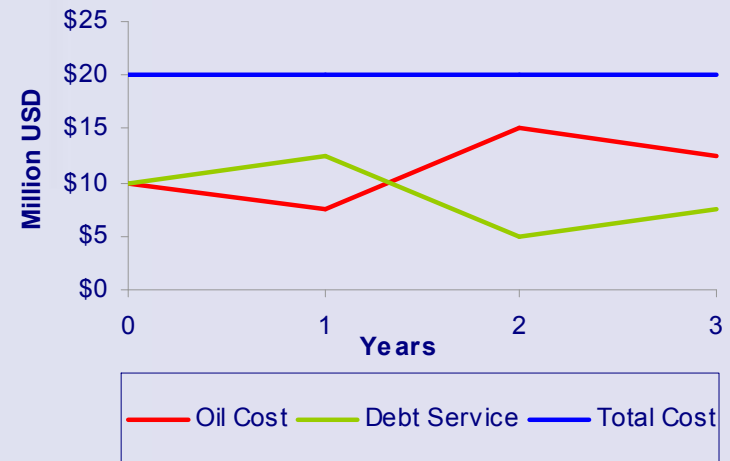
Oil Price Volatility: Issues

- Oil prices - an important proportion of utility's costs
- Oil prices are very volatile
- cash flow volatility makes funding the project challenging



Customized Financial Solution

- Funding could be indexed to oil prices
- Debt servicing compensates for oil volatility
- **smoother and more predictable cost structure could make project more viable**



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