Project Cycle and Bankability of Infrastructure Projects

Continental Infrastructure Seminar

Addis Ababa, 1-3 October 2013

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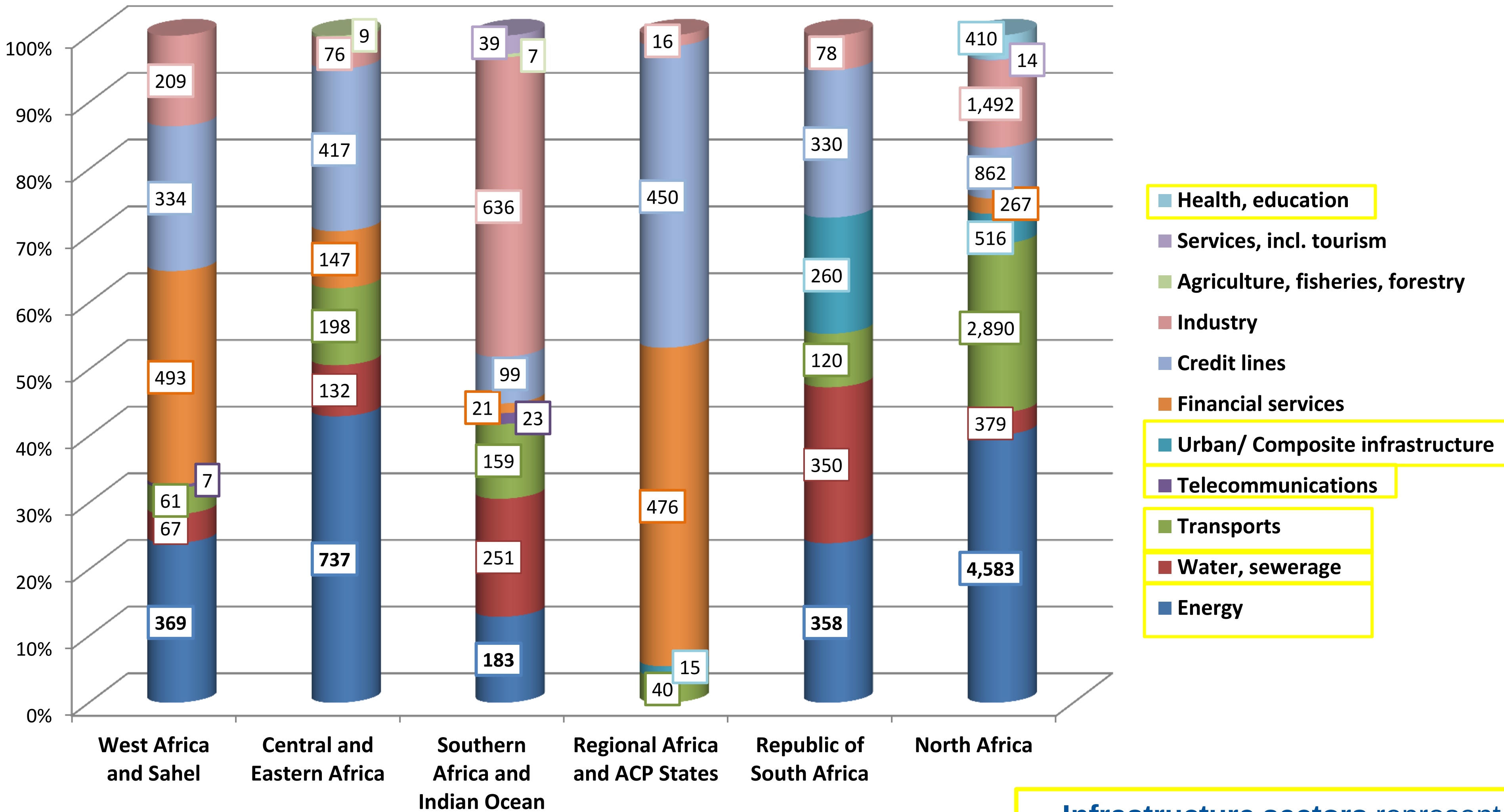
EIB signatures by section by region Africa - 2003-2013* (EUR m)



** to end June 2013*

Infrastructure sectors represent 63% of the total signed portfolio

Resources and amounts

European Development Fund

(EU Member States' budgetary funds)

European Union

►Grants ►Tenders

- National and regional indicative programmes
- Intra-ACP and inter-regional cooperation

European Investment Bank

Investment Facility

►Loans*

►Equity

►Guarantees

Revolving fund

Total capital endowment under 9th,10th and 11th EDFs

- ACPs EUR 3 637m
- OCTs EUR 48.5m

Subsidies

►Interest rate

►Technical assistance

Own resources

►Senior loans

Amounts available under the 11th EDF 2014-2020

Subsidies:

- ACPs EUR 634m
- OCTs EUR 1.5m

Own resources:

- ACPs up to EUR 2 500m
- OCTs up to EUR 100m

* Senior, junior, subordinated and intermediated loans, as well as quasi-equity operations.

Financial Instruments

EIB Own Resources

Funds raised on the capital markets (EU Member States guarantee)

Senior loans

Intermediated loans

Interest rate subsidies

Technical assistance

Widely traded currencies

Junior or subordinated loans

Quasi-equity funding

Equity funding

Guarantees

Local currencies

Investment Facility

Own Resources versus Investment Facility

OR & IF resources complement each other

EIB own resources:

✓ Public sector investments: sovereign/sub-sovereign borrowers

✓ Private sector projects covered by a third party guarantee

IF resources:

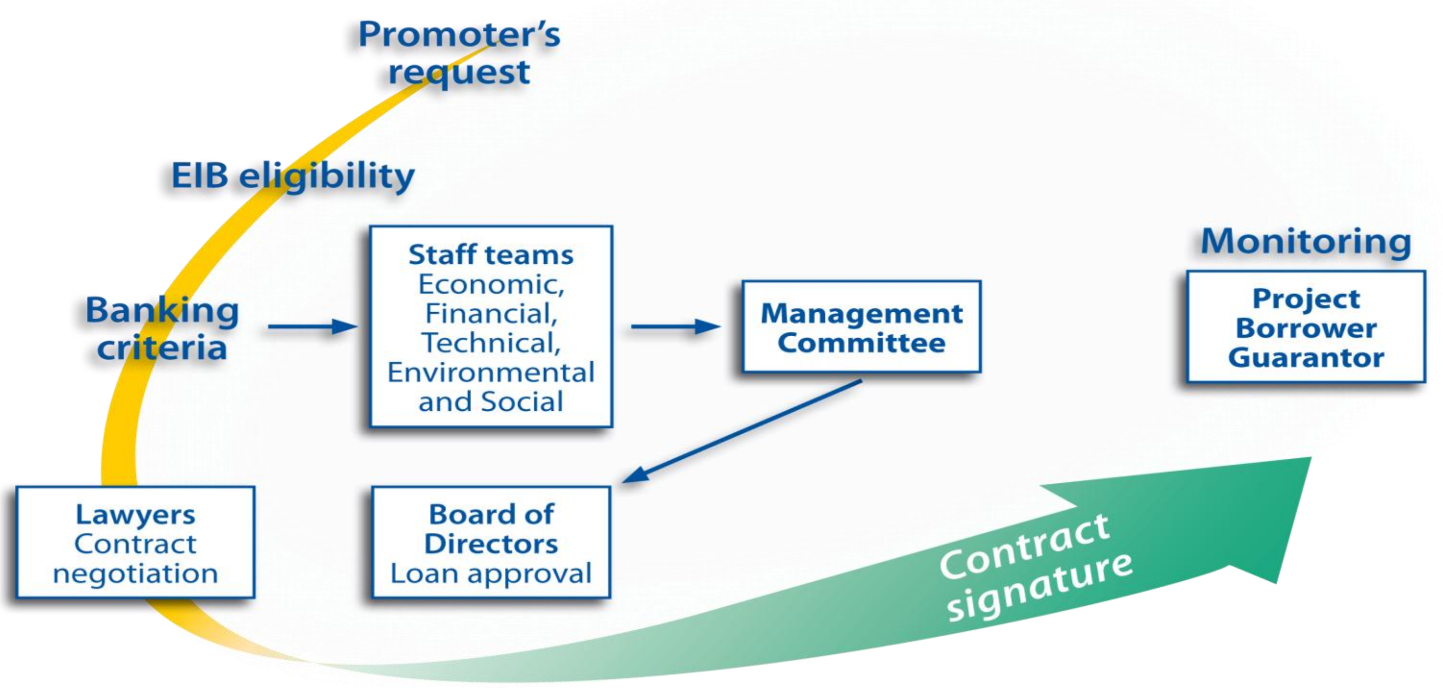
✓ Private sector investments requiring risk-bearing instruments

e.g.: conditional loans/ subordinated loans/guarantees/equity

June 2013: new EUR 500m envelope for the IF approved by the ACP-EU Joint Council of Ministers

=> ‘impact investing’ = more risk for more development

The EIB project cycle



- **Strong ownership of project promoters**, support provided if required

- **Opinion from Partner Country** and Commission sought **before appraisal**

What is an eligible project?

- Must contribute to EU development policy objectives and should be:
  - ✓ Technically sound
  - ✓ Financially viable
  - ✓ Produce measurable development results:
    - ⇒ *Results Measurement framework (ReM)*
  - ✓ Comply with environmental protection and procurement regulations:
    - ⇒ *"EIB environmental and social guidelines"*

- Significant financial contribution from promoter

- Co-financiers (EIB maximum 50% of project cost)

How is project quality assessed?

- Technical soundness, risks and mitigation measures, capacity for products/services
- Promoter capability to implement, operate and maintain project
- Timing, employment, operating and maintenance costs, comparison with costs of similar projects
- Compliance with applicable legislation and EIB guidelines on procurement and environmental impact
- Analysis and market and demand
- Economic and financial profitability (e.g. rate of return)

Measuring project impact

January 2012: Introduction of a **Results Measurement Framework (ReM)** enabling an analysis of aggregate results as data build up

Pillar 1	**Expected contribution to lending objectives**	An assessment of a project's consistency with EIB mandate objectives and its contribution to EU priorities and country development objectives, going beyond a focus on eligibility alone.
Pillar 2	**Quality and soundness of the operation, based on expected results**	A series of sector-specific standardised indicators to capture a project's economic, social, environmental and institutional outcomes. It continues to measure project quality and its ability to achieve the expected results.
Pillar 3	**Expected financial and non-financial additionality**	An assessment of the EIB additionality over market alternatives in terms of financial product, technical, structuring and sector contribution and standards and assurance.

EU blending mechanisms for the ACP

- *ACP Investment Facility (IF) – a risk-bearing revolving fund for private sector development managed and operated by EIB*
- EIB Cotonou subsidy envelope (11th EDF € 634m for IRS and TA)
- Global Energy Efficiency and Renewable Energy Fund (GEEREF)
- EU-Africa Infrastructure Trust Fund (ITF)

- Infrastructure Investment Programme for South Africa (IIPSA) *(under Development and Cooperation Instrument – DCI)*

- Caribbean Investment Facility (CIF)
- Investment Facility for the Pacific (IFP)

EU-Africa Infrastructure Trust Fund (ITF)

EU initiative in partnership with the African Union launched in 2007

Main objective: promotion of regional infrastructure projects in sub-Saharan Africa

Blending loans with grants to leverage EU donors' funding

Budget of EUR 747 million (incl. EUR 329 million pledged by European Commission for SE4All* initiative)

Donors: European Commission + 12 EU Member States

Instruments: interest rate subsidies, technical assistance, direct grants, Insurance Premia

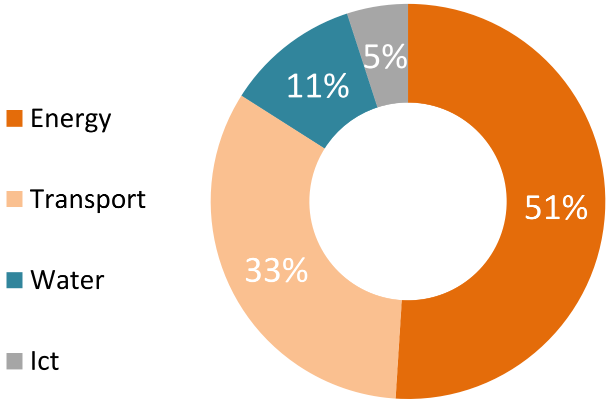
To date: EUR 385m approved for 77 operations

*SE4All = Sustainable Energy for All

Eligibility criteria

- A contribution to poverty reduction
- A contribution to economic development
- Provisions for sustainable operation and maintenance
- African ownership

Breakdown by sector



Why blending?

- Achieving EU policy goals more effectively
  - ✓ « Aid effectiveness » and « aid coherence »
  - ✓ Efficiency and best use of resources
  - ✓ Bridging a financial gap when resources are scarce
  - ✓ Project quality and impact
- Optimising service to beneficiaries
- Promoting donor cooperation in particular between European aid actors

Grants: "Adding further value"

What is blending?

Instruments:

⇒ Investment grants

⇒ Interest rate subsidies

⇒ Technical assistance

⇒ Risk Capital

⇒ Guarantees

Interest rate subsidies

Available to increase concessionality for:

- ✓ Infrastructure projects in Least Developed Countries, post-conflict and post-natural disaster countries, HIPC countries
- ✓ projects with substantial and clearly demonstrable environmental or social benefits
- ✓ restructuring operations in the framework of privatisations

General rule applied :

- *Interest rate subsidy: maximum 3 %*
- *Final rate of loan: cannot be less than 50% of the reference rate*
- *In the case of HIPC countries, the interest rate may be reduced by such amount as required to comply with the level arising from the HIPC initiative*

Between 2003 and 2012, 40 projects benefited from over EUR 330m in interest rate subsidies in the ACPs

Technical assistance

TA grant funding covering the whole project cycle

Project-related | **Strategic initiatives**

Capacity building:

✓ Infrastructure projects

✓ Microfinance undertakings

✓ Focus on project preparation and implementation

- *enhancing project quality and success rate*
- *increasing the efficiency of EIB's investment activities*
- *complementing other EIB products*

Procurement: what is it for?

- The DFIs will ensure that there funds are employed as rationally as possible.
- The objective of procurement: procure in the economically most advantageous way works, goods and services to implement a project.
- 6 pillar assessment: compliance with EU procurement
- Why are there strict and formal rules for public procurement?
  - The promoter is using public money. Therefore, the proccess must be:
    - Transparent
    - Fair and non-discriminatory
    - Traceable
- Full access of international firms to procurement

DFI and Promoter respective roles

- Promoters are fully responsible for all aspects of the procurement process.
- The DFI's involvement is confined solely to verifying whether or not the conditions attached to its financing are met.
- The DFI may advise or assist promoters, but is not a party to the resulting contracts.
- For EIB: the EIB Guide to Procurement is NOT a legal framework, and therefore the national legislation is the framework governing procurement procedures.

Joint Co-financing

- Various degrees of reliance possible:
  - Use the procurement procedures of the co-financing institution
  - Entrust the co-financing institution with the supervision of procurement
  - Entrust the co-financing institution to appraise and/or monitor the project on its behalf: “Mutual Reliance”

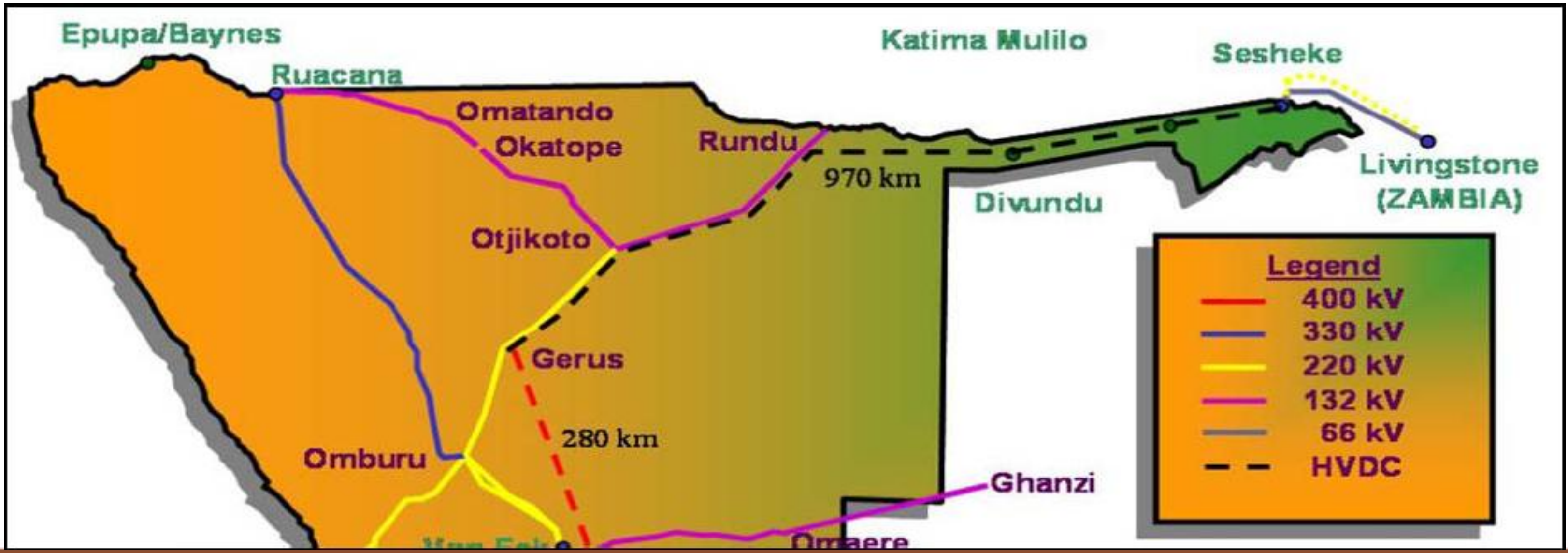
Mutual Reliance

- The Lead Institution is fully in charge of procurement and applies its own rules and procedures, as long as they meet the Bank's minimum requirements.

- *Mutual Reliance Initiative* with AFD and KfW: one counterpart for project promoter; reliance on project appraisal, procurement rules, monitoring by Lead Institution

Case study: Southern Africa
Caprivi Interconnector

- Connects the Namibian, Zambian and Zimbabwean transmission networks, and thus creates the first western backbone of the SAPP
- The **first stage** of the project comprises a ±970km 350kV (200 MW) HVDC transmission line
- The **second stage** (not included) entails upgrading and adding a 280km 400kV AC transmission line and associated substation extensions (600 MW).



Case study: Southern Africa Caprivi Interconnector (2)

- EUR 35 m OR loan, co-financed with matching amounts from AFD and KfW
- one of the first operations to benefit from an EU-Africa Infrastructure Trust Fund interest rate subsidy - EUR 15 m to enhance financial viability of project
- close cooperation with local power companies and renewable energy firms
- first application of HVDC Light technology on transmission lines, providing industrial scale reference project for this application
- stabilising supply across southern Africa and boosting regional energy trading

Enhancing communications for regional benefit
Case study: Seychelles Submarine Cable

- EUR 8 m EIB loan for the installation and operation of the first submarine fibre optic cable for international connections to the Seychelles
- dramatically improving telecommunications and internet access, reducing the emigration of skilled workers
- Fostering modern e-services in healthcare and education, for the benefit of the whole region
- international transmission capacity estimated at being 7 times cheaper than current prices for satellite-based links
- EUR 4m EU-Africa Infrastructure Trust Fund grant to support shareholding by the Seychelles government in a public-partnership partnership
- mandatory equity dividend to be used for social development e.g. free internet access for schools, libraries, hospitals

Transport

Developing regional trade and integration through road and railway networks, ports, maritime and river routes, air transport, etc.

Example: Great East Road Rehabilitation (EUR 38 m)

⇒ part of the regional integration agenda

⇒ supports the rehabilitation of the Great East Road linking Zambia to Malawi, and further to the deep sea port of Nacala in Mozambique

⇒ developing trade axis for the movement of services, goods and people

⇒ contributing to a safe and reliable road network in Zambia

⇒ EUR 1 m ITF grant to enhance Zambian Road Development Authority's capacity to implement and monitor the project

Major Stages of an Infrastructure Project

Months

- Project Development 0
- Early management Review
- Appraisal
- Board Approval +12 months(average)
- Negotiations
- Signature Finance contract
- Implementation of Conditions Precedent
- First Disbursement + 21 (average)
- Last Disbursement (approx. Physical Completion)+ 30 (average)
- PCReport + 15 (average)
- Supervision
- Closing (last reimbursement) +14.5 years after first disbursement

EIB in the ACP countries

50 years

http://www.eib.org/acp