

OVERVIEW OF LVC, PPP AND CREDIT ENHANCEMENT PRACTICES

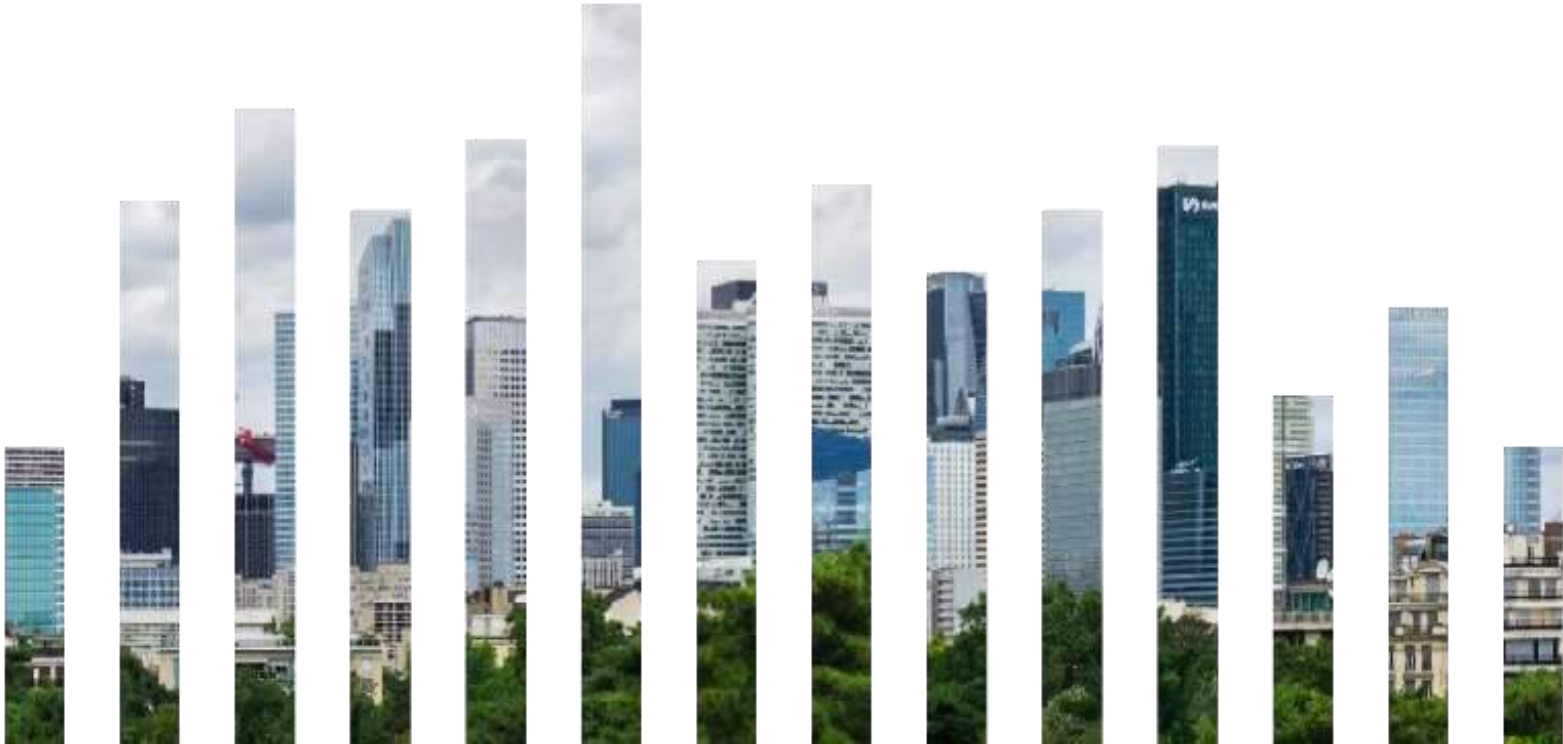
Land Value Capture

Public Private Partnership

Credit Enhancement practices

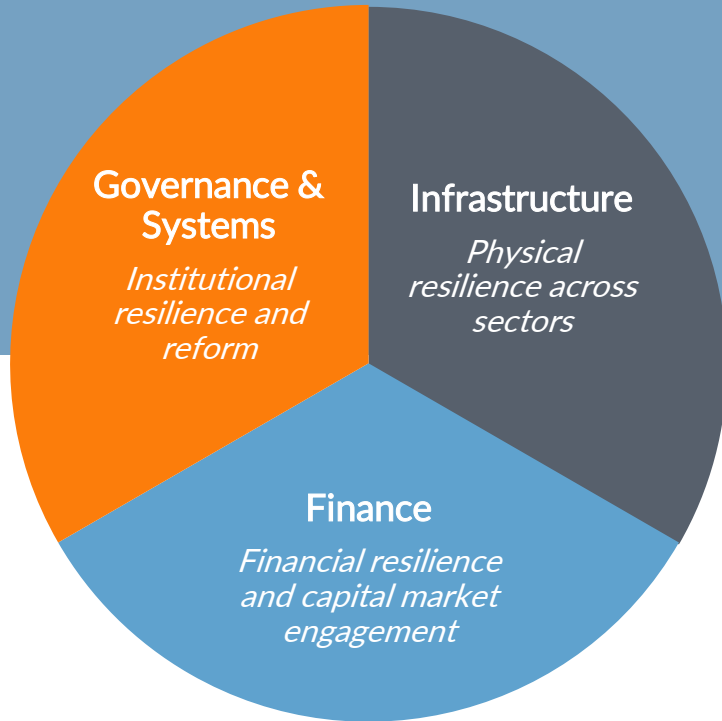
LAND VALUE CAPTURE

I N V E S T M E N T I N I N F R A S T R U C T U R E



INVESTMENT IN INFRASTRUCTURE

THREE PILLARS OF CITY RESILIENCE



- Investment needs for cities extend beyond the reach of public finances
- Projections show that investments of \$4.1 to \$4.3 trillion in urban infrastructure are needed every year
- An incremental 9 to 27 percent (\$0.4 trillion to \$1.1 trillion) needed to be climate resilient
- Capital does not flow easily to meet this demand due to lack of knowledge and support from financial services



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PRIVATE SECTOR INVESTMENT IN INFRASTRUCTURE HAS THREE OVERLAPPING MODALITIES

Debt

- ✓ Direct lending to a responsible jurisdiction
- ✓ Variety of borrowing mechanisms that can complement each other
- ✓ Full control and financial risk born by public entity

Concession

- ✓ Public entity transfers some or most of financing (including but not limited to equity project financing), construction and/or operating responsibilities (and risks) to a private partner

Land Value Capture (LVC)

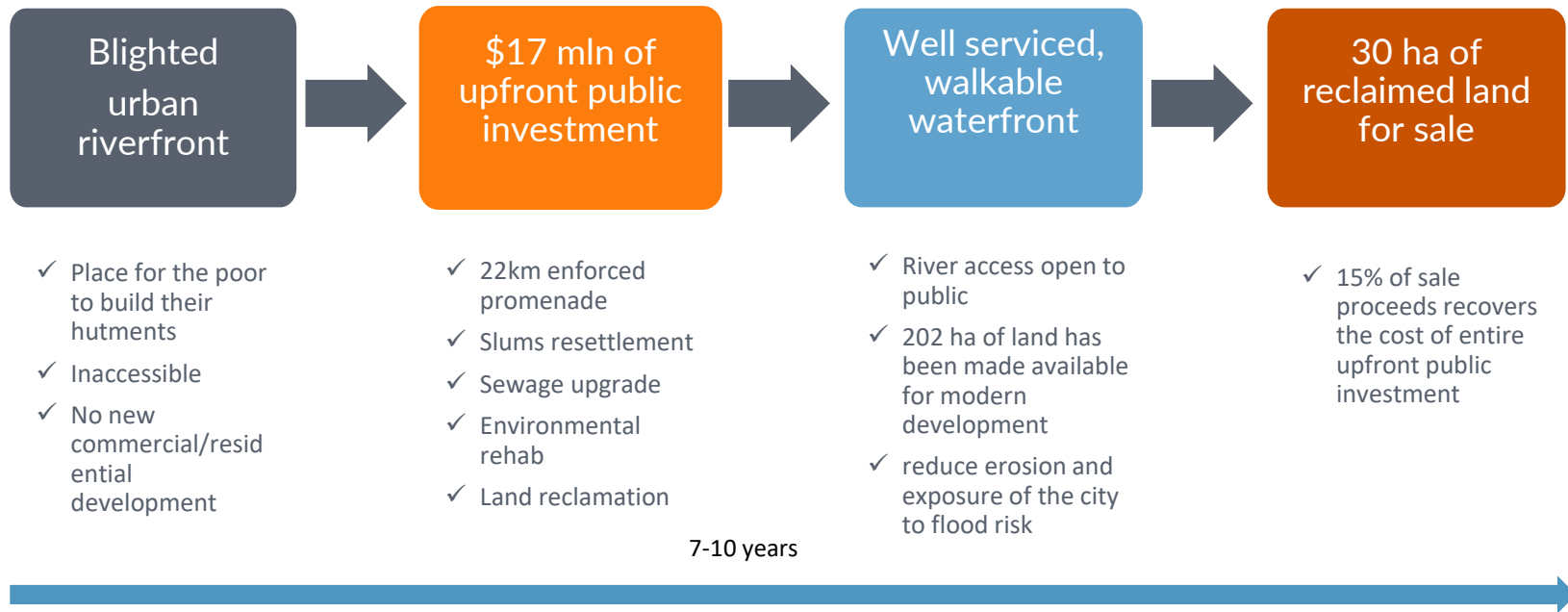
- ✓ Infrastructure financing is part of a broader development effort
- ✓ Reduces impact on government balance sheet
- ✓ Facilitates creation of private economic value in benefiting location

LVC is a financial policy mechanism that helps governments to:

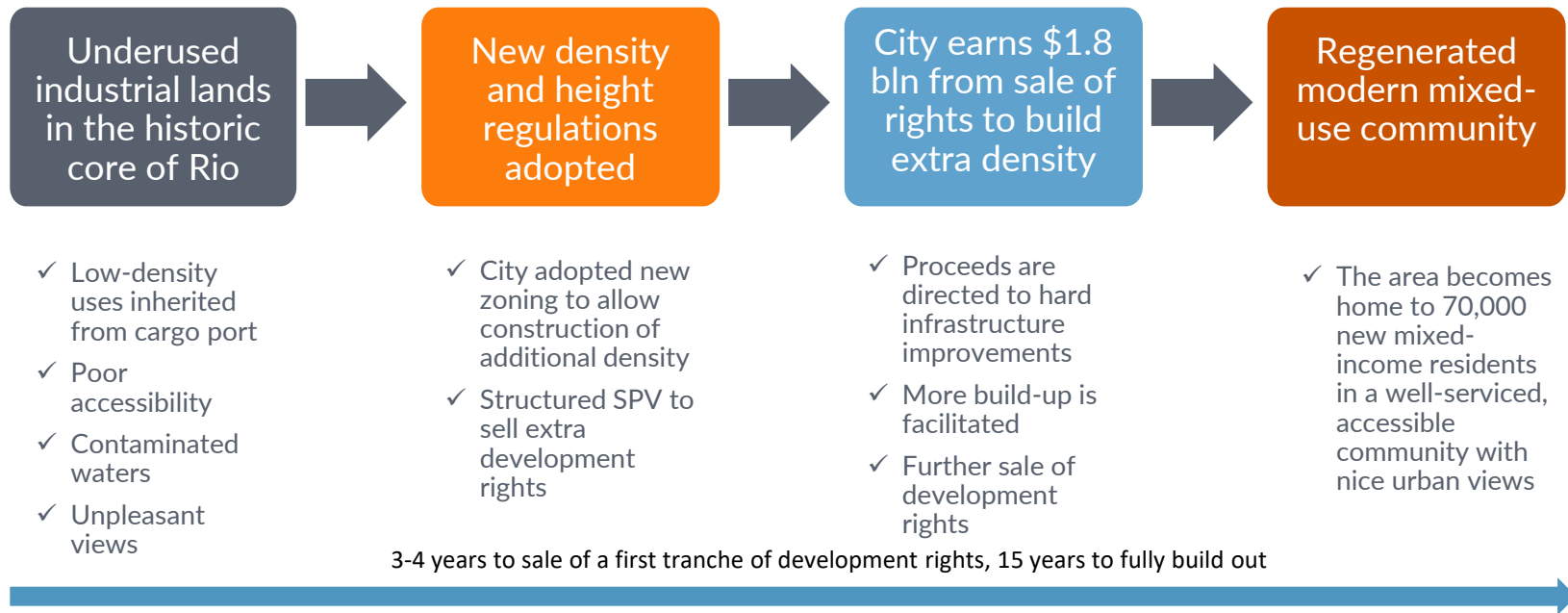
- ✓ Finance public investment in infrastructure to reduce physical vulnerabilities due to floods, environmental degradation, etc, thereby unlocking land values that are then captured by the city
- ✓ Secure (or reimburse) upfront infrastructure funding by recouping real estate value gains generated by infrastructure upgrades
- ✓ Levy direct beneficiaries of public improvements, which would otherwise benefit from such improvements as “windfall gains”
- ✓ Unlock additional funding in conditions of limited access to traditional sources of public sector financing
- ✓ Promote infrastructure cost-sharing with win-win outcomes to public and private stakeholders
- ✓ Incentivize wider policy measures that increase land value, e.g. reduction of local risks



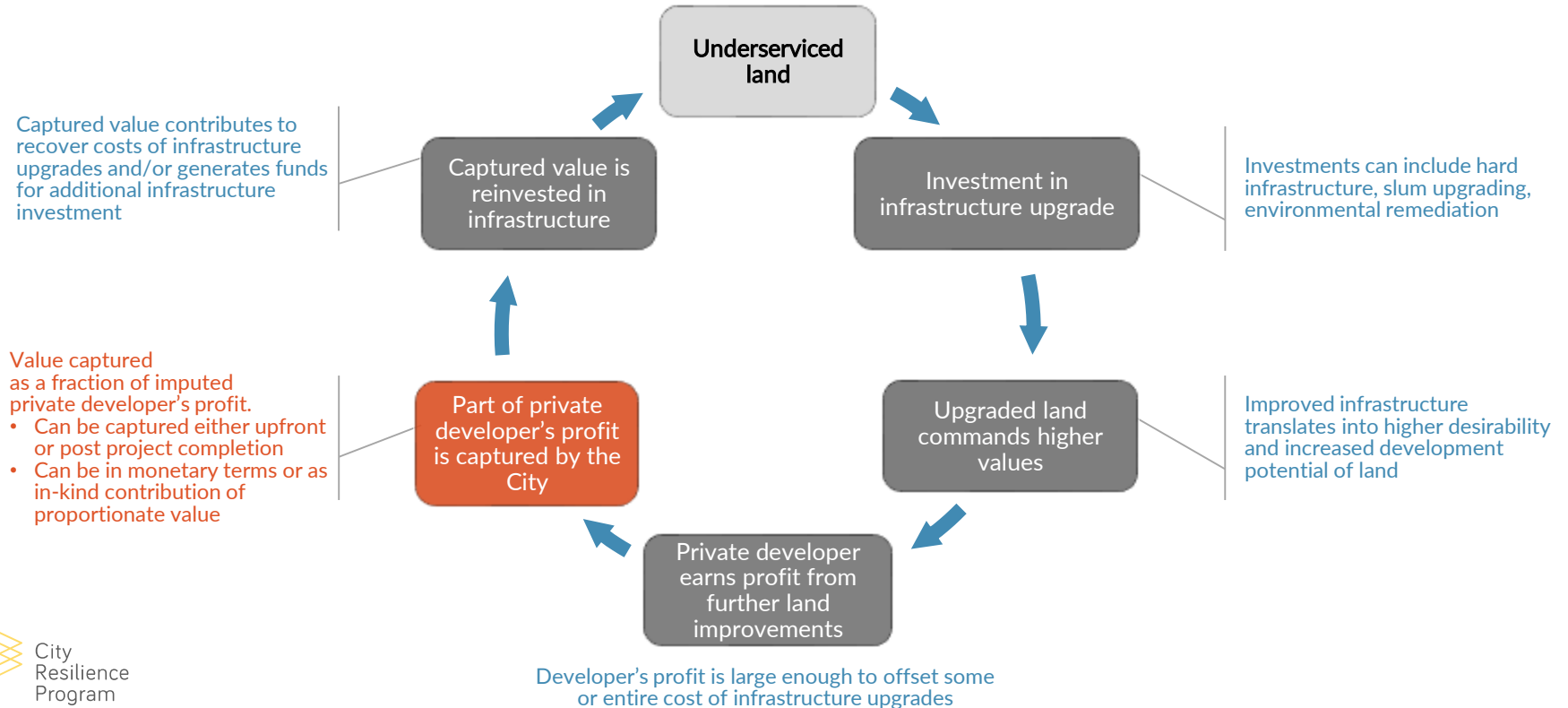
Example 1: LVC helps the city of Ahmedabad to open up the riverfront



Example 2: LVC helps regenerate Rio de Janeiro's historic area near Bay



LVC establishes a virtuous circle of value from infrastructure upgrades



LVC is a new source of project financing promoted by The World Bank

If there is a \$ 1 billion capital investment program contemplated by a city:

- **Business as usual:**
 - ✓ The World Bank finances \$100 million with an interest-bearing term loan
 - ✓ Another \$900 million is raised from general funds, public/private debt and grants
- **Leveraging LVC:**
 - ✓ In concert with all of the above, The World Bank provides comprehensive technical assistance to the city to help structure additional funding with re-captured land value (e.g. cash proceeds from sale of land / development rights, special tax assessments, etc.)
 - ✓ This works towards overall reduction of the principal of interest-bearing loans, general fund appropriations and grant resources and enhances bankability of the \$1 bln program



Conceptualization of LVC - hypothetical disaggregation of land value

Increases in land value due to population growth and economic development.

Increases in land value due to public investment in infrastructure and changes in land use regulations.

Increases in land value due to landowners' investments.

Intrinsic land value

The government, on behalf of the general public, may keep this portion of the land value.

Public service providers could capture this portion of the increment to cover the costs of public infrastructure and local service provision.

Private land owners should profit from this portion of the increment.

Land buyers (or lessees) pay sellers (lessors) to obtain the property rights of land.

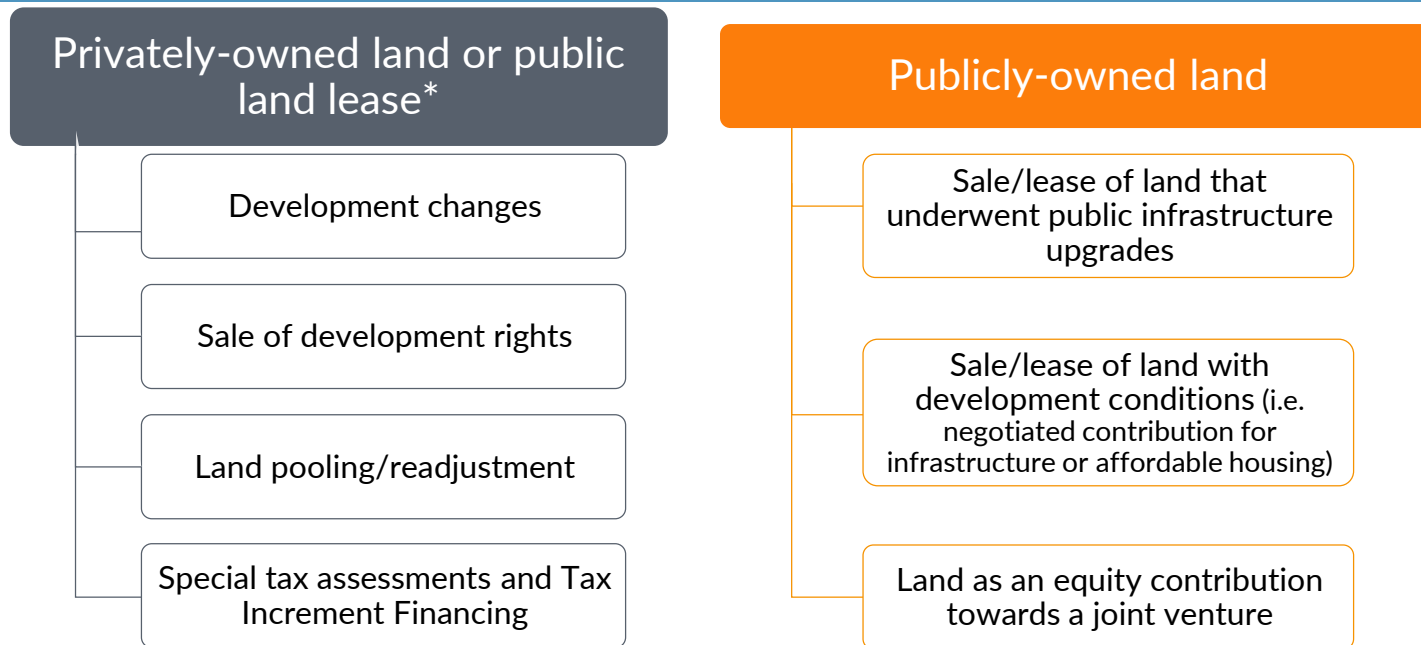


There is a range of tools used by public sector to capture land value gains

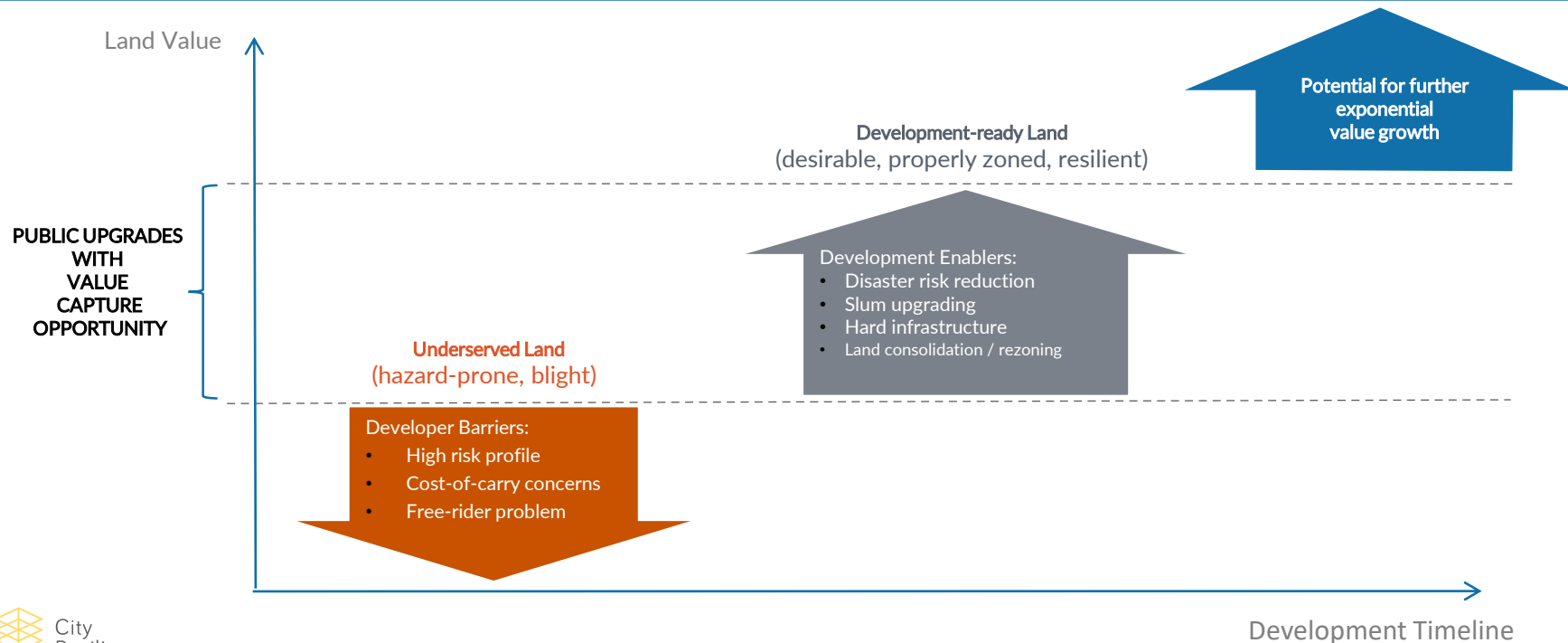
Leveraging public real assets	Disposition (sale or lease) of excess/underutilized public assets (land, property) for cash that is re-invested in local infrastructure
Development charges	Developer receives development rights (or tenure rights in land, or approval of land use changes) in exchange for obligation to compensate in cash (or provide in-kind) the cost of certain items of public infrastructure benefitting larger area.
Sale of development rights	Development rights or certificates of additional density are sold for cash to finance infrastructure improvements
Land pooling /readjustment	Land owners or occupants voluntarily contribute part of their land for infrastructure development and for sale to cover some project cost. In return, each land owner receives a serviced plot of smaller area with higher value within the same neighborhood.
Special assessments/ betterment levies	Locally administered tax increments (property taxes, sales taxes, etc.) that generate additional tax revenues for re-investment in local infrastructure
Tax increment financing	Capturing increases in property/land tax base (after infrastructure upgrades) and using such incremental tax proceeds as collateral and refinancing source for infrastructure loans



LVC mechanisms can be promoted both on privately-owned and public lands, depending on local context

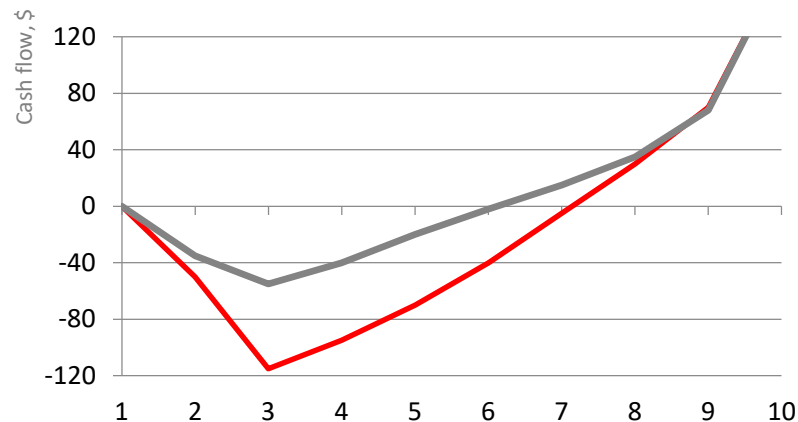


LVC mechanism allows cost-sharing on initial development stages and that way helps reduce /re-distribute development activation costs

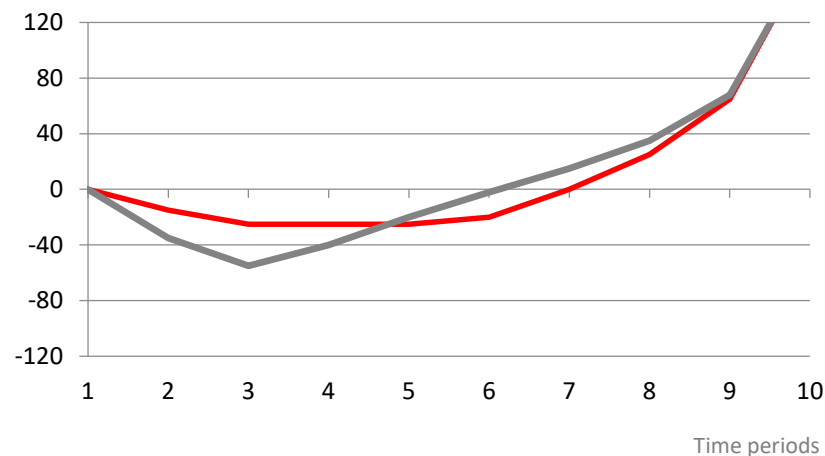


LVC may be structured to either increase or to decrease the infrastructure carrying cost of a private project, depending on the project's risk-return profile

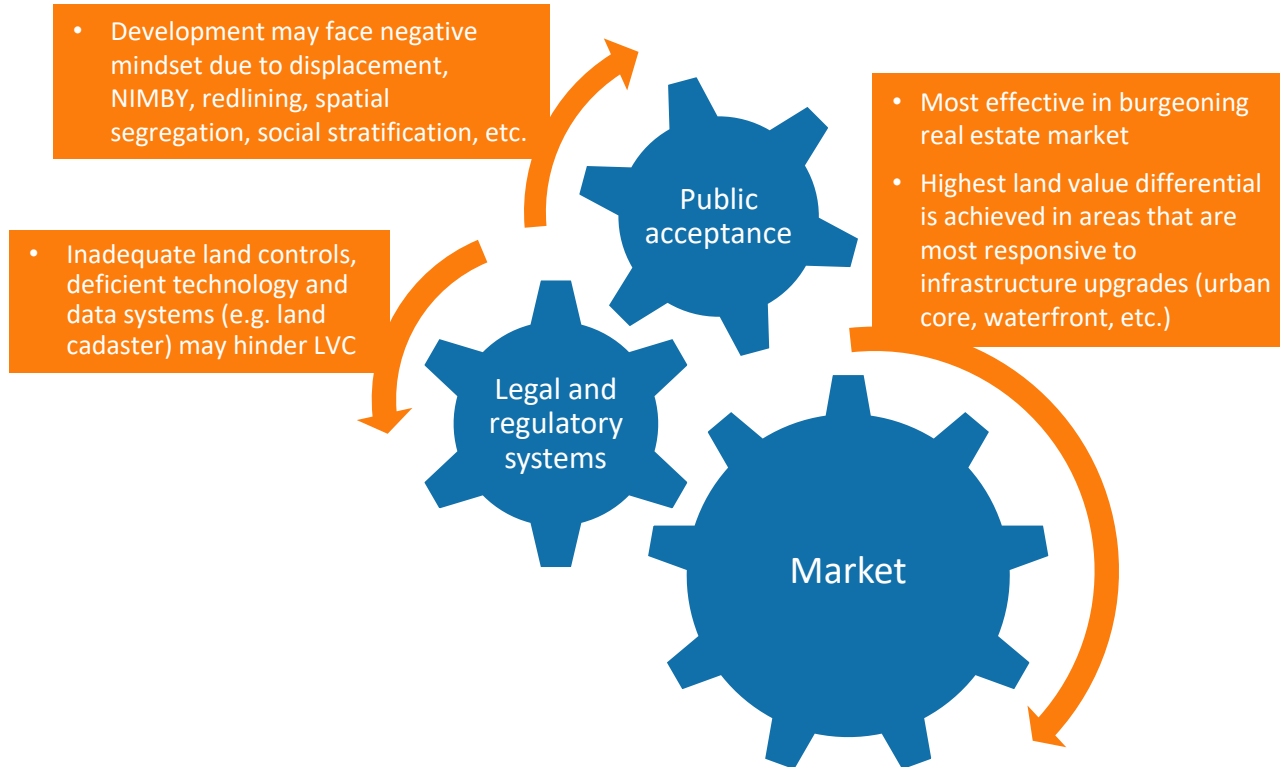
Infrastructure windfall: public costs for infrastructure are offloaded to private sector; private partner's returns are high enough to absorb extra costs and extended payback



Infrastructure bottleneck: upfront infrastructure costs are too high for private sector and are paid by public funds; public costs are later recovered from private partner's operating revenue



LVC is an universal policy tool, which could be implemented in various contexts



LVC presets numerous opportunities for local economic development, but may be hindered by local and system-wide constraints

LVC builds into the local economic development context by:

Bringing positive development implications

- Improved urban environment
- Self-financed infrastructure
- Land value gains / Increased tax revenue
- Enhanced budgetary resources for addressing social goals

Being hampered by development challenges

- Lack of real estate market dynamics
- Insecure land / property rights
- Regulatory constraints
- Lack of knowledge / management capacity
- Corruption

Despite being largely associated with transportation upgrades, LVC opens financing opportunities for many more infrastructure items

Areas with proven track record in LVC

- ✓ Transportation and transit-related assets
- ✓ Water-supply sanitation
- ✓ Sewage and landfill

Lack of LVC track record *but high LVC potential*

- | | |
|--------------------------------------|-------------------------|
| ✓ Flood mitigation | rehabilitation |
| ✓ Slum upgrades and resettlement | ✓ Historic preservation |
| ✓ Water-basin / land decontamination | ✓ Land consolidation |
| ✓ Environment cleaning and | |

Table below summarizes the common LVC instruments used in practice

Instruments	Description	Examples in developing countries
Leveraging publicly owned land / property	Disposition of “excess” public land generates cash for area-wide infrastructure upgrades. Often involve land consolidation (e.g. through <i>eminent domain</i>) or/and entitlement before disposition	- Bonifacio Global City (Philippines); - Sabarmati Riverfront (India)
Development charges / impact fees / developer exactions /	Developer receives development rights in exchange for obligation to compensate in cash (or provide in-kind) the cost of certain items of public infrastructure benefitting larger area.	- Impact fee formula introduced to fund construction of 21-km highway connector between Santiago and northern suburbs - In kind/cash developer exactions in cities of Columbia and Chile
Sale of development rights	Development rights or certificates of additional density are sold for cash to finance infrastructure improvements	- CEPAC bonds (Brazil), e.g. Porto Maravilla drainage upgrades; - Sale of FSI rights in Mumbai (India)
Land pooling / readjustment	Land owners or occupants voluntarily contribute part of their land for infrastructure development and for sale to cover some project cost. In return, each land owner receives a serviced plot of smaller area with higher value within the same neighborhood.	- About 1/3 of total urban area in Japan and 1/4 of total urban area in South Korea were developed through LP/R. - Used in many countries to facilitate peri-urbanization, urban regeneration including slum upgrading, and post-disaster reconstruction.
Introduction of land value taxes	Levy on value of underlying land “as unimproved” (as a substitute or supplement to property tax levied to buildings). Stimulates development to avoid taxation of idling land. Generates property tax and economic activity. Can be effective in areas plagued by disasters	- Separate taxation of land is introduced in select countries (Taiwan) - Land value tax was temporarily introduced in cities of Baja California (Mexico) in early 1990s
Betterment levies / special assessment	Public sector taxes away a portion of land-value gain resulting from publicly funded infrastructure upgrades	- Riverfront in Pimpri-Chinchwad (India); \$2 bln levied during 1997-2015 in Bogota (Columbia) to fund city-wide road/bridge upgrades
Tax Increment Financing (TIF)	TIF aims to capture and leverage estimated future revenues from incremental increases in collection of property (or other) taxes within a geographically specified area of redevelopment, a “TIF district”	- Colombia and South Africa are currently piloting TIF. “Proxy” TIF in Greater Hyderabad (India) where conventional loans were originated to fund infrastructure projects and set to be refinanced with property tax gains

A wealth of value capture techniques established in practice, can be classified based on the nature and timing of “value-capturing charges”

Tax-based vs. Fee-based vs. Incentive-based

- ✓ **Tax-based:** betterment levies, special assessment, TIF, land value tax
- ✓ **Fee-based:** exactions, sale/lease of public land, sale of development rights
- ✓ **Incentive-based:** land pooling/readjustment, density bonus, negotiated land sale/lease with development conditions, joint development with public land as equity

Value capture timing (one-time vs. recurring; upfront vs. upon completion)

- ✓ **One-time charges:** exactions, sale of development rights, betterment levies, public land sale, land pooling/readjustment (upfront land contribution)
- ✓ **Recurring charges:** TIF, land value tax, special assessment
- ✓ **Either-or:** public land lease

Relevance of LVC tools may vary depending on the implementation conditions of each context (table below only indicative)

LVC Challenges LVC tools	Unestablished land market	Lack of land use controls and regulations	Deficient land Cadaster / records	Insecure property rights	Limited access to capital markets	Non-devolved fiscal powers
Impact fees / Exactions	●	●	●	●	●	●
Betterment levies	●	●	●	●	●	●
Leveraging public assets	●	●	●	●	●	●
Land pooling / readjustment	●	●	●	●	●	●
Sale of development rights	●	●	●	●	●	●
Land value tax	●	●	●	●	●	●
Tax Increment Financing	●	●	●	●	●	●



Prohibitive challenge
(regulatory / systemwide
changes are prerequisite)



Significant challenge
(regulatory/legislative changes
required in certain conditions)



Limited systemwide arrangements
needed. Respective
implementation terms can be set
at deal level



SELECTED LAND VALUE CAPTURE INSTRUMENTS

APPENDIX

- ❖ Negotiated Exactions
- ❖ Impact Fees
- ❖ Leveraging Public Assets
- ❖ Sale of Development Rights
- ❖ Land Pooling/Readjustment
- ❖ Land Value Tax
- ❖ Betterment Levies
- ❖ Tax Increment Financing



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Negotiated Exaction: Overview

DESCRIPTION

- In-kind (land, improvement) or cash contribution by a developer to foster infrastructure upgrades related to a proposed real estate project (to that end, *Exactions* are similar in principle to *Impact Fees*).
- It typically works as a payment for building exemptions (higher land use, density, or eased construction norms) or other forms of development-enabling certifications.
- In contrast to *Impact Fees* (that are applied systemwide on a formula basis), *Exactions* are typically applied case by case through a *vis-a-vis* negotiated transaction.

KEY REQUIREMENTS / IMPLEMENTATION FACTORS

- Clear land use and town-planning regulations and rigid construction norms (for setting baseline conditions).
- Local government's capacity in planning and implementation (to be able to fulfill infrastructure obligations).
- Rigid public outreach approach to explain what standard building/land use regulations are traded for.

Negotiated Exaction: *Lessons Learned*

CHALLENGES

- As long as exactions are negotiated on case by case, entry barriers to development projects are less predictable
- Regulatory exemptions traded for development permits may fail to generate enough public good outside of a project itself. Infrastructure upgrades and related development with “eased regulations” shall generate wider public benefit and justify diversion from standard regulations
- In view of the above, objection from the public to exaction-driven private development is common

OPPORTUNITIES

- Straightforward two-way transaction
- Minimal fiscal impact
- Minimum framework regulatory arrangements needed. Transaction can be fully structured with *ad hoc* deal terms



Negotiated Exaction: *Sample Project*

Western super-collector, Casablanca, Morocco

Project Description

The project equips the city of Casablanca with a 9-km long collector to drain and canalize floodwater of Oued Bouskoura river and discharge directly into the ocean.

The collector will reduce exposure of large parts of Greater Casablanca to flooding and will increase the city's flood protection to a 20-year level.

\$90 million, 95% complete as of March 2017. Funding sources include PPP to include government (40%) and municipal funds (30%), National Fund to Combat Natural Disasters, and private funds

Value Capture Component

A fraction of the project was financed with contributions from private companies owning and developing real estate in the flood-affected areas of Oued Bouskoura basin.

Such contributions included \$8 million from the Morocco's largest private company, OCP Group (phosphate producer), which develops industrial facilities and a leisure center in the Bouskoura basin.



Impact Fees: Overview

DESCRIPTION

- Developers are assessed an extra cash charge to compensate the cost of area-wide infrastructure upgrades.
- Per standard scheme, it is a one-time charge applied routinely by a local jurisdiction to real estate development projects contemplated in the area impacted by infrastructure upgrades. The proceeds from the charge finance (or refinance) a portion of the cost of facilities upgrades.
- Such charge is assessed on a formula that considers benefit allocation, intensity of land use, distance to the upgraded infrastructure etc.

KEY REQUIREMENTS / IMPLEMENTATION FACTORS

- Strong planning and analytical capacity at local level needed for planning and costing infrastructure upgrades, along with devising a solid approach in allocation of benefits across different locations / projects.
- Strong execution of public investment plans.
- Transparent and stringent formula for impact fee calculation (allowing developers to credibly project impact fees in development financial pro forms).

Impact Fees: *Lessons Learned*

CHALLENGES

- Extra charges may hinder development activity.
- If applied improperly may become a disincentive to develop land to its highest and best use
- Infrastructure benefits are distributed unevenly. Imperfections in apportioning off-site costs are inevitable
- Works best for hard and basic infrastructure that has direct and quantifiable impact (such as transit or sewer/water upgrades). Less prudent for infrastructure items where short-term impacts are less tangible (e.g. resilience enhancement, “green” infrastructure).

OPPORTUNITIES

- Relatively straightforward two-way transaction
- Minimal negative fiscal impact (e.g. municipal cash flow is not ring-fenced in any way)
- Efficient tool to redistribute costs of development-enabling infrastructure (avoids overburdening of first-comers and free-riding of followers)

Impact Fees: *Sampled Project*

New highway to connect sprawled development with urban core, Santiago, Chile

Project Description

In late 1990s Santiago metropolitan region started expanding north in the Chacabuco province with 14 major real estate projects approved (primarily housing), adding 40,000 new households to the metro region.

The new housing projects were to be built on agricultural land lacking urban infrastructure services. Most notably the new urban districts were lacking connectivity to Santiago's urban core. To address that, a 21-km radial highway connecting to central Santiago was to be built with additional 41-km of byways and interchanges.

The total cost of new road network development was estimated at US\$106 million.

Value Capture Component

National government took the upper hand in planning, organizing a builder concession and structuring funding that comprised 39% government funding and 61% coming from developer impact fees.

The impact fee formula implied a cash charge levied per buildable housing unit. The fee varied based on each project's formalized impact on regional road network: location relative to new road, project size, and estimated travel demands.

The impact fee averaged about US \$1,600 per housing unit.

Leveraging Public Assets: Overview

DESCRIPTION

- Disposition of publicly-owned assets (land, buildings) to a private developer whereby value is realized either directly (e.g. sale proceeds) or through creation of future development value or socioeconomic benefit
- Depending on market conditions and a specific deal structure such disposition may come through direct arm's length sale, auctioning, lease, or conveyance/below-market sale as a form of in-kind contribution to developer equity or for infrastructure or amenity provision
- The asset may be disposed either in "as is" condition (if it immanently represents tangible value to the private-sector partner) or following some initial investment by government

KEY REQUIREMENTS / IMPLEMENTATION FACTORS

- Availability of excess/underutilized public assets either *per se* or through asset consolidation / optimization
- Market value of the public assets can be clearly established and have potential to generate additional value
- Government must communicate effectively to citizens its rationale for disposing public assets
- Public entity must have negotiating capacity *on par* with private sector developers to achieve fair pricing

Leveraging Public Assets: *Lessons Learned*

CHALLENGES

- Sizing and timing market demand requires special knowledge that municipality may not possess
- Regulatory /legislative limitations on public asset disposition may stall or encumber the process
- Sale of municipality-owned land may result in loss of control over future development (especially when city-level land use controls are not robust)
- Negotiated disposition price of publicly-owned assets may face public objection and raise political concerns

OPPORTUNITIES

- Can result in direct cash revenue for a municipality
- Puts a vacant or underutilized asset back into productive use
- Allows quick value recycling (in certain conditions enables a city to invest in infrastructure upgrades upfront without tapping general revenue funds)
- Minimal negative fiscal impact
- Relatively straightforward two-way transaction (once value to private sector partners is established and price of property negotiated)



Leveraging Public Assets: Sampled Project 1

Sabarmati Riverfront Upgrade, Ahmedabad, India

Project Description

Aims to provide the city of Ahmedabad with an improved and accessible waterfront along the Sabarmati River, reduce erosion and exposure of the city to flood risk, upgrade sewers, and rehabilitate and resettle slums

\$17 million spent on all heavy engineering works and land reclamation as well as on 22 km lower river promenade complete, upper promenade still in development. Key financing sources are loans from a local municipal corporation and a central government financial institution

SPV established to manage initial investment in riverfront upgrade and subsequent land sales to the private sector.

Value Capture Component

The project is self-financed – cash for recovery of capital expenditure and operating costs comes from sales of reclaimed and serviced land for commercial development

Completion of major infrastructural components have already led to increased land values, thus reducing the amount of land that needs to be transacted for servicing the loans.

Overall the amount invested has been recovered from sales of less than 15% of improved land.

Leveraging Public Assets: *Sampled Project 2*

Bonifacio Global City Drainage, Manila, Philippines

Project Description

An underground drainage detention structure serving as a flood control facility for Bonifacio Global City

Core element of an elaborate drainage system that collects rainwater from paved urban surfaces then releases it under controlled conditions

Construction was financed by proceeds from the \$800 million land sale following packaging of public/private interests into a development joint venture

Value Capture Component

Funding infrastructure improvements with land sale proceeds post entitlement of undeveloped military lands to real estate development area

Sale of Development Rights: Overview

DESCRIPTION

- Generates funding for public infrastructure by selling development rights instead of rights in land (rights in land may either be already obtained, or not intended for transfer or simply come with development rights)
- Sellable development rights fall into two categories: the right to convert less productive (lower) use to a higher use, and the right to build at greater densities than normally would be allowed by existing zoning
- Sale of development rights can be organized through sale of development certificates that act as financial market derivatives (bonds) transferrable in the stock market and thus able to increase liquidity and cash generating potential of this instrument (such as CEPAC bonds in Brazil)

KEY REQUIREMENTS / IMPLEMENTATION FACTORS

- Larger urban areas with strong real estate markets maintaining enough demand and growth potential for high-density development
- Relatively deep capital markets for realization of schemes similar to CEPACs
- Rigid land use controls, property records (cadaster) and property appraisal systems have to be in place

Sale of Development Rights: *Lessons Learned*

CHALLENGES

- Restricted applicability, i.e. may not work in the secondary markets where demand for higher density development is not strong enough
- Vulnerable to macroeconomic conditions (more than many other LVC tools)
- For efficient and equitable implementation, strong and transparent land use controls are prerequisite

OPPORTUNITIES

- Direct revenue source that may generate cash for front-funding or expedited cost recovery of infrastructure projects – i.e. positive fiscal impact
- More liquid revenue source than sale of land rights
- Sale of development rights better mitigates the risks of loss of control over land use (relative to selling land title alone)



Sale of Development Rights: *Sampled Project*

Porto Maravilha Urban Waterfront Revitalization, Rio de Janeiro, Brazil

Project Description

Revitalization of underutilized Guanabara Bay waterfront (mostly government-owned port and near-port lands) into a brand new mixed-use, mixed-income community. The main rationale is the regeneration of this heavily underserved area in the heart of Latin America's major metropolis, by intensifying and blending new uses

The development plan includes complete reconstruction of local water, sanitation, and drainage systems, extensive streetscaping and landscaping, installation of three brand new sanitation plants, historic preservation, social inclusion (at least 3,000 social housing units are being delivered), and cultural and education initiatives

The area comprises 1,250 acres and is home to 35,000 residents (subject to increase to 100,000 post regeneration). The program commenced in 2009, with full recycling of approved additional density anticipated by 2025.

Value Capture Component

Project-underlying infrastructure has primarily been financed through CEPACs, following adoption of a new law to substantially increase density and height limitations set in the Porto Maravilha area.

More than 4 million sq m of additional density was sold via CEPACs during 2011-2013 generating US\$1.8 billion in upfront infrastructure funding (the initial purchaser of a CEPACs was a state-owned financial bank CEF, which passes CEPACs through, selling them at a profit, to private real estate developers as demand arises)

Land Pooling / Land Readjustment: Overview

DESCRIPTION

- A participatory process in which land owners (or occupants) voluntarily contribute a certain percentage of their land for infrastructure development and for sale to cover part of project cost. In return, each land owner receives a serviced plot of smaller area but with higher value within the same neighborhood
- LP/R provides an alternative to expropriation, with minimal displacement
- Many countries used LP/R to facilitate peri-urbanization, urban regeneration including slum upgrading, and post-disaster and post-conflict reconstruction

KEY REQUIREMENTS / IMPLEMENTATION FACTORS

- Generally requires consent of supermajority of land owners to approve the project
- Appropriate legal framework that empowers local authority to legally take land from dissenting landowners when supermajority agrees
- More feasible in areas with high land value increase potential after project completes
- Shall be guided by a city's master plan
- Quality of property records and cadaster map is important to expedite implementation



Land Pooling / Land Readjustment: *Lessons Learned*

CHALLENGES

- Land owners' consensus can be difficult to obtain especially if projects fully rely on their voluntary participation
- Requires strong project management and technical capacity, particularly in negotiation and building consensus with land owners
- Not all projects can achieve self-financing and may require public funding to cover part of project cost

OPPORTUNITIES

- Assembles land for urban expansion and revitalization with minimal displacement.
- Helps recover a portion of the project cost.
- Promotes intensification of land use, thereby enhancing land value for landowners and expanding the property tax base for the municipality.
- Distributes land redevelopment costs and benefits equitably among landowners and other stakeholders such as the municipality, private developers, and the community, especially the urban poor and landless.
- Encourages public participation in policy decision-making.

Land Pooling / Land Readjustment : *Sampled Project*

Land Pooling/Readjustment Pilot, Tra Vinh, Vietnam

Project Description

With technical assistance from the World Bank, Tra Vinh city in Vietnam is currently piloting land pooling/readjustment approach to redeveloping a centrally located low income neighborhood, in order to address issues of flooding and lack of drainage network and access roads. The city has very limited budget, and LP/R becomes the only viable approach as development cost is shared between the city and local residents.

The neighborhood has an area of about 24 hectares, including about 1000 land plots that belong to 480 land users (under Vietnam's public leasehold system). A sub-area of 4 hectares was selected as the pilot site. Site plan ensures access to every land parcel yet avoid demolition of existing structures to the extent possible. Over 90% of the land users in the pilot area have agreed to participate in the project so far.

With World Bank support, a new decree that includes LP/R provisions was approved in January 2017, which became the first legal framework for LP/R in Vietnam.

Value Capture Component

As this is the first pilot project, the city plans to cover about 70% of the total investment cost from its budget in order to reduce land contribution from the land users and gain support from the community. The remaining 30% of the total cost will be covered by sale of surplus land.

For agriculture land, each land user will contribute 33% of their land area into the project, and for residential land each land user will contribute 13%. Preliminary land value assessment shows that land price on average is estimated to increase by 3.5 to 5 times after the pilot project.

The city expects that future revenue from land in the project area, such as land transaction tax, land use conversion fee (from agricultural to residential), and land tax, will also increase substantially as a result of the pilot project.

Land Value Tax: Overview

DESCRIPTION

- Tax instrument that assesses value of land “as unimproved”, opposite to conventional property tax that focuses on taxing factual value of land with improvements.
- Aims to differentiate tax burden to land owners based on “windfall” benefits of unimproved land – location, physical characteristics and neighboring uses
- Directed at incentivizing improvement of underused urban sites by making land idling and holding prime lands for speculation a burdensome option for landowners

KEY REQUIREMENTS / IMPLEMENTATION FACTORS

- Robust land cadaster, land assessment and regular re-assessment practice
- Effective tax administration capacity at the local level
- Strong local real estate market that naturally differentiates values of land in unimproved condition based purely on location quality and preeminent development potential
- Fiscal decentralization

Land Value Tax: *Lessons Learned*

CHALLENGES

- Might increase complexities of tax administration
- Needs technical capacity at municipal level for maintaining advanced land cadaster and land reassessment systems
- Fiscal powers have to be devolved so that municipalities could structure and impose such a tax

OPPORTUNITIES

- Incentivizes development of unimproved/underutilized land in prime urban locations
- Can leverage property tax assessment systems already in place
- Can be an effective tool to spur revitalization in areas affected by natural hazards
- If adequately structured and implemented can increase tax revenue providing additional funds for public works



Land Value Tax: *Sampled Project*

Introduction of Land Value Tax in the City of Mexicali, Mexico

Project Description

In 1989 the city of Mexicali diverted from conventional practice assessing a composite property tax on both land and permanent structures and started taxing only the value of the land

This fiscal policy shift involved major changes in tax administration including changes in land assessment promoted by consensus of representatives from real estate organizations and professional appraisal associations

New tax rates were specified based on distance from pre-specified “high-value locations”. Separate flat-rate surcharges were applied to residential and commercial lands.

This new tax policy waned out after changes in Mexicali’s municipal administration and the land value tax was eventually terminated in the City of Mexicali. However, the positive results in the first years of land taxing in Mexicali prompted other municipalities of the state of Baja California to implement land value taxing in their jurisdictions

Value Capture Component

During the first periods of implementation the new taxing system allowed the Citi of Mexicali to increase property tax revenue twofold generating additional revenue for infrastructure upgrades



Betterment Levies: Overview

DESCRIPTION

- An additional tax/special rate levied to property owners within a specifically defined geographic area, which is regarded as the main concentration of beneficiaries of respective publicly funded infrastructure upgrades
- Betterment levies are also called special assessments in some countries
- Application of betterment levy can be narrowed down to specific types of users or owners within the defined geographic area, such as owners of large commercial building or owners who have an intent to develop in the area and are seeking construction permit
- Rate and length of time of the levy depends on when and how funding requirement is fulfilled
- In contrast to Tax Increment Financing (TIF), betterment levy is applied to full assessed value, whereas in TIF a special assessment applies to incremental property value increase.

KEY REQUIREMENTS / IMPLEMENTATION FACTORS

- Systemwide fiscal regulations should allow special tax assessment and collection at municipal level
- Robust property appraisal and land cadaster systems

Betterment Levies: *Lessons Learned*

CHALLENGES

- Can be a legally complex and time-consuming arrangement
- Requires adoption of special fiscal regulations that are out of control of municipality
- Administration of such tax may be costly
- Delineation of special assessment area often follows jurisdictional borders which causes imperfection in allocation of cost to actual beneficiaries

OPPORTUNITIES

- Generally allows to raise money off balance sheet without increasing city-wide property taxes
- Tends to align costs of public improvements with those who will benefit the most from such improvements
- Recurrent and reliable source of municipal revenue
- Less complex than TIF as another tax-based LVC
- Cost effective alternative to municipal borrowing with no negative fiscal impact



Betterment Levies: *Sampled Project*

Riverfront Development, Pune, India

Project Description

Local Municipal Corporation is considering complex improvements on the banks of three rivers flowing through the municipality (building embankments for flood protection, sewage treatment, desilting, landscaping, and enhancing connectivity between the banks)

\$18 million, concept stage – master planning works started in 2016

Upfront costs to be covered by government and the municipal corporation

Value Capture Component

Recovery of municipal costs through charging flood premiums on top of construction permitting fees

Changes in town-planning codes proposed to allow development in the 25-year flood zones on condition of recovering a flood premium from developers

Flood premium is calculated as 25% of assessed value (“ready reckoner rate”) of land or real property in a respective geographic area of the city

Such flood premium to be administered by the Municipal Corporation and has to be utilized for riverfront development

Tax Increment Financing (TIF): Overview

DESCRIPTION

- TIF provides an alternative to finance urban infrastructure in blighted and underdeveloped areas, unlocking (private) development that wouldn't otherwise occur in the absence of those up-front investments
- TIF aims to capture and leverage estimated future revenues from incremental increases in collection of property (or other) taxes within a geographically specified area of redevelopment, a "TIF district".
- Local governments use a debt instrument (bonds or loans) backed by the projected future tax revenue within the TIF district. The debt instrument proceeds to pay for up-front investments such as land acquisition, upgrade of water system, road improvements, or remediation of environmental contamination.
- Up-front investments create the real estate market and economic conditions that lead to the incremental increase in land value and tax revenue, which closes a virtuous cycle in which "growth pays for growth"

KEY REQUIREMENTS / IMPLEMENTATION FACTORS

- Robust land cadaster, land assessment and tax administration capacity at the local level
- Strong political backing to enabling legislation
- Might require credit enhancement (e.g guarantees) from the city or the nation
- Strong real estate markets maintaining enough demand and growth potential for high-density development
- Relatively deep capital markets



Tax Increment Financing (TIF): *Lessons Learned*

CHALLENGES

- Not all cities, not at all times: it requires a robust real estate market
- Requires a strong cadastre and tax collection system
- It absorbs and restricts the use of future revenues (the delta generated by development)
- It is vulnerable to national and local economic crises, which creates repayment risks
- It requires a strong commitment of the city beyond political cycles to ensure continuity of economic development and TIF legislation between administrations

OPPORTUNITIES

- It complements the traditional financing instruments
- If properly structured, TIF debt does not affect the balance of the city
- Maximizes private investment since it uses financial structuring
- TIF allows for greater private economic investment without requiring infrastructure investment by the city official books
- Strengthens municipal management as it requires high coordination between entities
- Promotes the depth of capital markets in municipal financing

Tax Increment Financing (TIF): *Sampled Project*

Creating the first TIF in Latin America in Medellin, Colombia

Project Description

Since 2011 the World Bank has provided technical advice to the Government of Colombia to support cities to structure & take to market innovative land-based financial instruments that would leverage private finance for urban infrastructure.

The initiative thus far has focused on ascertaining the legal and financial feasibility of implementing a TIF operation of a major urban renovation project in Medellin called the Innovation District

The proposed urban development plan includes redevelopment of 184 hectares comprising four neighborhoods in downtown Medellin, targeting to develop 1.6m m2 over a 12 year period, including 60,000 m2 of social housing

Legal feasibility analysis showed that Colombian legislation indirectly limits the use of incremental revenues by restricting local administrations to securitize future revenues beyond their government periods (four years). With the support of the Bank, the City of Medellin is currently in the process of developing the overall regulatory framework to legally enable the use of TIF at the city level

Value Capture Component

Preliminary results showed that the Innovation District would potentially benefit from use of TIF to fund catalytic public infrastructure

If the project meets expectations (1.6 million m2), cash-flow analyses showed that the project has the potential to increase tax revenue from the area by over 400% in peak years, which could potentially collect about US\$45m in revenue bonds, which would enable the city to fund 25% of projected up-front infrastructure requirements.



PUBLIC PRIVATE PARTNERSHIP

INVESTMENT IN INFRASTRUCTURE



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- Introduction.....3
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- Sampled PPP Cases.....25



Introduction

PPP-AN OVERVIEW

1

Public-Private Partnerships (P3 or PPP) are characterized by a **public entity transferring or sharing** ownership, financing responsibility, or operations of a public facility or asset with a private company. The private company commits to a combination of constructing, financing, or operating responsibilities in relation to the public facility of asset, eliminating or reducing the responsibility of the public sector.

2

In exchange for incurring the responsibility of construction / financing / operating the asset, the **private sector partner collects fees or other revenues** that would otherwise go to the public treasury.

3

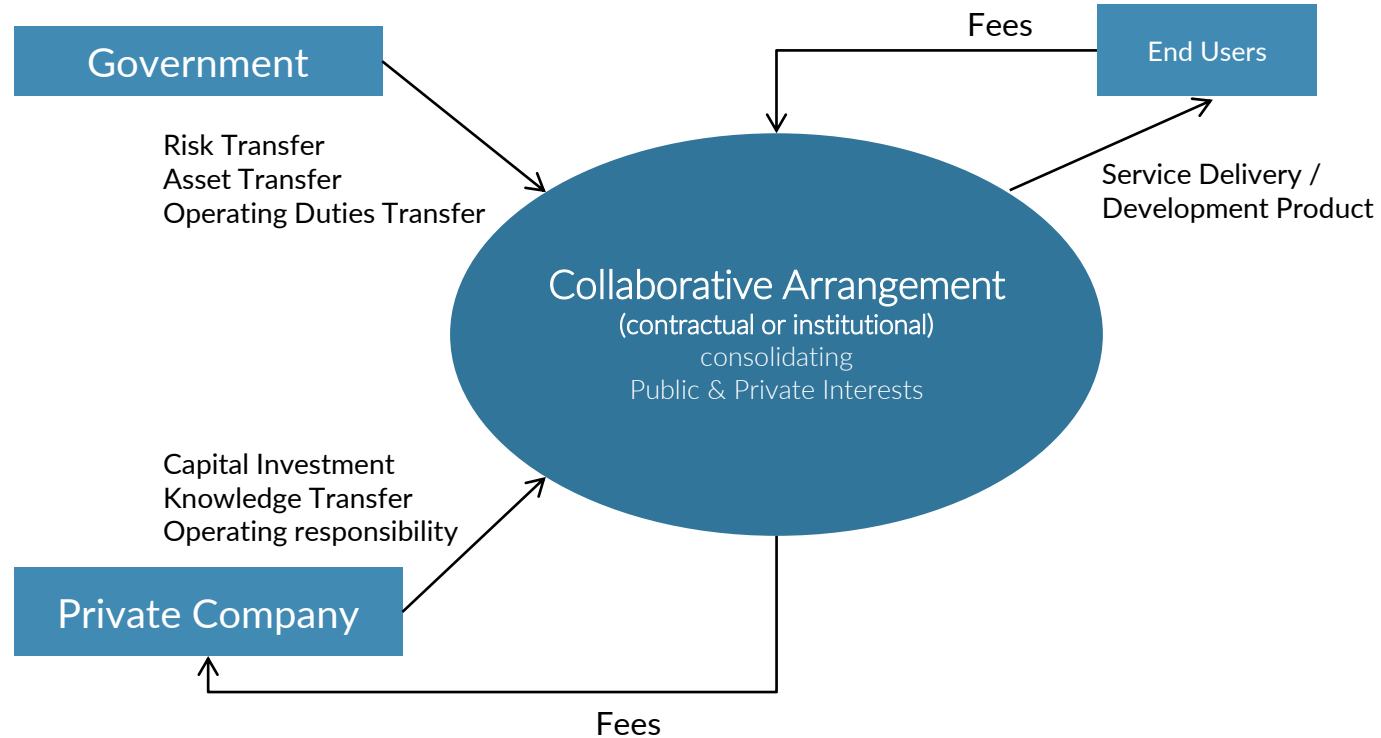
In theory, the private sector benefits by earning a profit on the capital improvement and/or operation of the asset, while the **public sector benefits from avoidance of upfront capital and/or operational costs**, as well as efficiencies in construction and service delivery

4

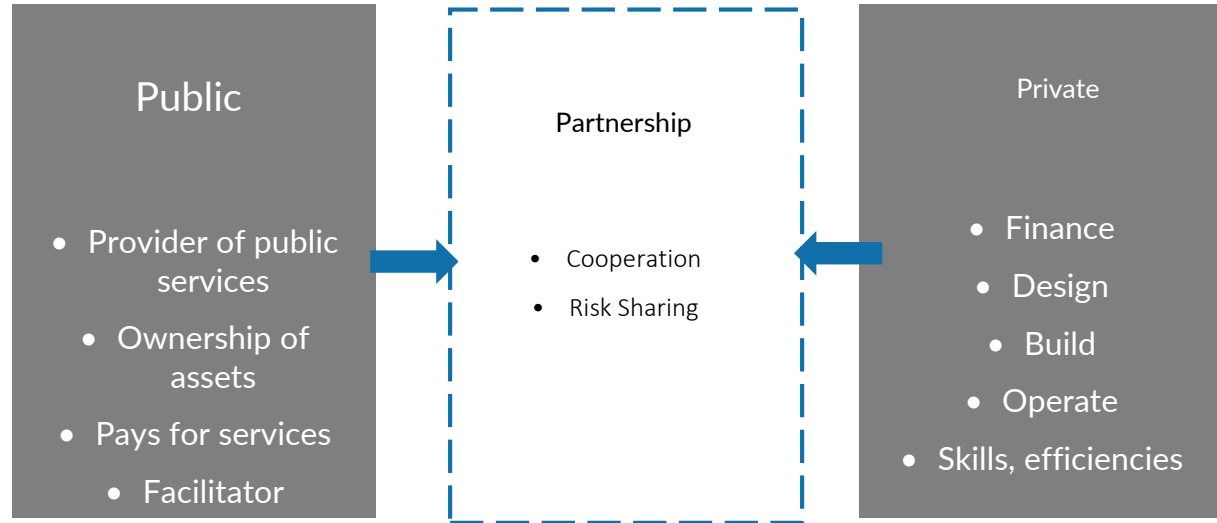
The P3 arrangement is typically governed through a **formal partnership agreement** that stipulates how the costs, risks and rewards of the transaction are shared, what each party must guarantee, and what remedies can be used in the event of nonperformance or default



PPP-PRINCIPLE STRUCTURE



PPP-THREE ELEMENTS



So, any transaction structure involving both private and public parties working together towards a common goal may be referred to as a P3

PPP-MAIN FEATURES (1)

- **Long-term** contractual or institutional arrangement between a public authority and a private party, e.g.:
 - A concession for services (example: Private sector management of toll roads or utility services provision)
 - A long-term lease structure (Example: Transit agency leases air rights to developer over metro station)
 - A formal joint venture (Example: Government creates housing authority and shares equity with private investors for developing affordable housing)
 - A general agreement for cost, revenue and risk sharing (Example: contracting a private partner to build and operate a municipal asset)
- The private party provides a public service and/or builds public infrastructure
- There is well defined allocation of risk between the private sector and the public entity and the private entity complies with pre-determined performance standard



PPP-MAIN FEATURES (2)

- Participation of the private sector in managing and improving public facilities can take the following **principal forms**:
 - Operating an existing public facility, or
 - Building a new public facility, or
 - Refurbishing / upgrading an existing asset to improve public service, or
 - Pursuing a combination of either of above.
- The overarching **objective of engaging a private partner is to generate efficiencies** in delivery and/or operation of public assets by leveraging the private management and access to capital while retaining public control
- **Public sector defines service requirement** (“outputs”) and monitors implementation (penalty regime)
 - Transaction structuring involves making **tradeoffs between control of an asset, realizing reward from an operation, and assumption of risk**
 - Transaction timeframe (contract term, SPV mandate) is linked to **economic life of the underlying asset**



PPP-VARIOUS LEVELS OF CHALLENGES

P3 can mean a formal joint-venture structured between the Public and Private sectors (institutional arrangement), or simply having the private sector engage (on reciprocal contract) to maximize utilization of public assets

Complex



Joint Ventures, Build-Operate-Transfer arrangements

Development Right Sharing, Ground Lease Participation

Concessions

Outsourcing operations, Operating and Maintenance contracts

Simple



PPP COMMON CHALLENGES

P3 are not

- Source of “free” money
- Way of financing unaffordable projects
- Means of implementing non-bankable projects

P3 always face increased scrutiny for the following reasons:

The private sector has a higher cost of finance;

P3 are long-term relatively inflexible structures;

The procurement can be lengthy and costly;

P3 imply a loss of management control by the public sector



PPP-KEY SUCCESS FACTORS

- Large-scale investment
- Private partner has the expertise to design and implement complex projects
- Public sector capable of defining its service needs
- Good understanding of long-term lifetime cost of assets
- Risk allocation among public and private sectors
- Technological aspects of the project reasonably stable



PPP-ISSUES IN RAISING COMMERCIAL FINANCING

Bankability

- ✓ Key requirements for bankability vary by market and industry
- ✓ Not all capital costs involved in a project can be financed by private sector unless supplemental commercial revenue/upside is involved

Affordability

- ✓ Projects tend to be over-designed and over-capacity, which represents a serious threat to ultimate viability
- ✓ Demand may not be sufficient to support efficient capacity and design
- ✓ Projects are subject to political/social pressures and unpredictable change of tariffs (revenue base)

Government support

- ✓ Government Guarantee
- ✓ Viability Gap Funding
- ✓ Availability Payments or Demand Guarantee (minimum revenue guarantee)



Description of sampled P3 structures

- Ground Lease
- Concession
- Design-Build-Transfer arrangement



I. GROUND LEASES-OVERVIEW



leasing rights to the private sector to develop or manage;
Public sector retains long-term control



99 years

The lease term should be long enough to recoup investment and use as a security for financing

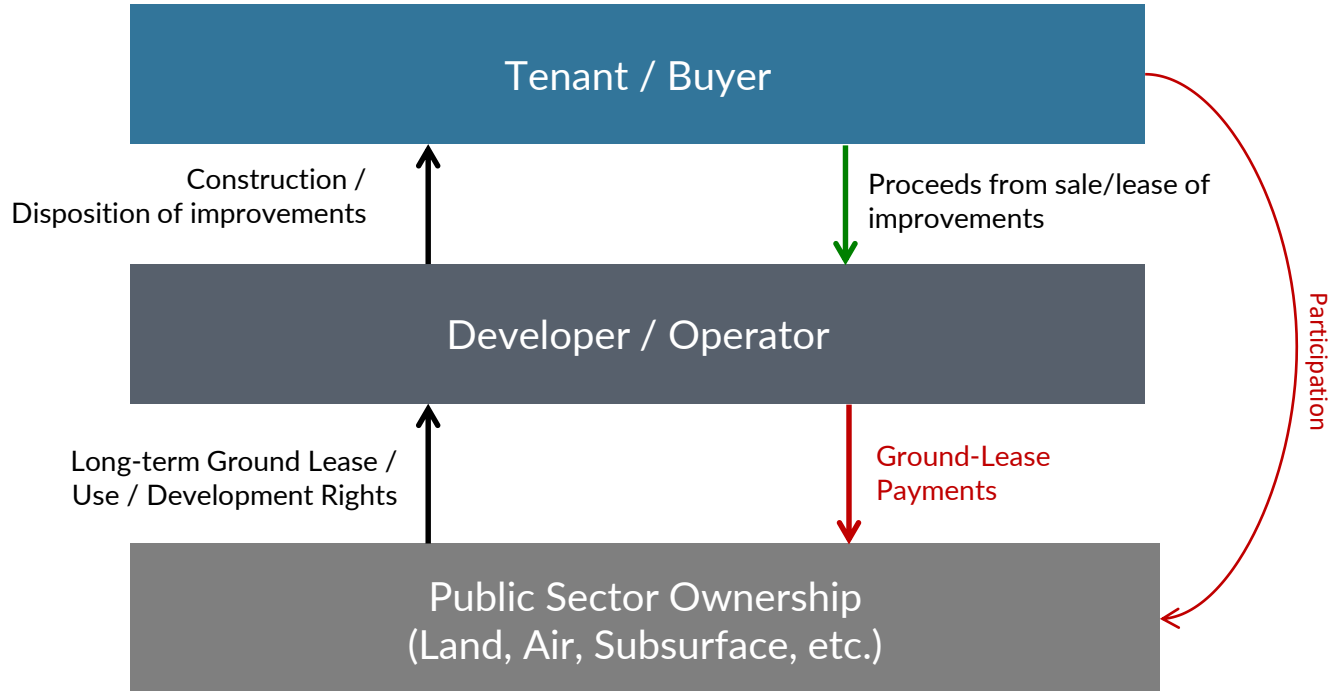


typically include regular fixed
payments to the public entity



may or may not have clauses for
participation

I. GROUND LEASES-GRANTING LEASE RIGHTS WITH PARTICIPATION

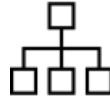


I. GROUND LEASES-TRANSACTION CONSIDERATIONS

Ground lease transaction should **balance private sector risk and reward with risk and value from surrendering control over asset by the public sector**. Some transaction terms for consideration are:



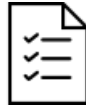
Lease term length



Structure and
Schedule of Lease
payment



Lessor participation in
development output –
requires Lessor audit rights



“Lookbacks”, where the lease payments are reviewed on a set term basis in order to adjust lease rates to market value, preventing “windfall” profits by the Lessee



“Promotes”, where additional rights are granted to lessee upon reaching certain performance of financial return thresholds



Rescission rights, whereby the lease may be terminated if the Lessee does not use the property in accordance with the Master Lease

I. GROUND LEASES-STRENGTHS AND WEAKNESSES

Strengths

Less time and effort in transaction origination and management from the part of the public sector

- Municipality activates productive use of idling/underutilized assets with limited knowledge/financing capacity required
- Structuring and oversight requires minimum effort by the public sector
- Leases can be structured so that delivery of public facilities on/off-site can be part of private sector's consideration for lease rights

Offloading financing responsibility to private partner

- Municipality offloads capital expenditures and long-term operational responsibilities
- Leases can be structured to shift all development and operating risk to the private sector, diminishing financial cost to the public sector

Flexibility in controlling the asset use

- Cities can use the ground lease as a governing tool, and the lease can be as prescriptive or permissive as is necessary.

Weaknesses

Evident opportunity cost – ground lease brings much lower returns than successful full-cycle development

- Generally, the public sector foregoes riskier and efforts of financing and developing a project in exchange for a guaranteed lease payment by the private sector. The private sector benefits from subsequent upside to full-cycle development. Depending on the complexity of the transaction or the market challenges, the public sector may elect to completely foregoing participation in the upside, or utilize participation in order to capture some upside if the transaction can sustain this.

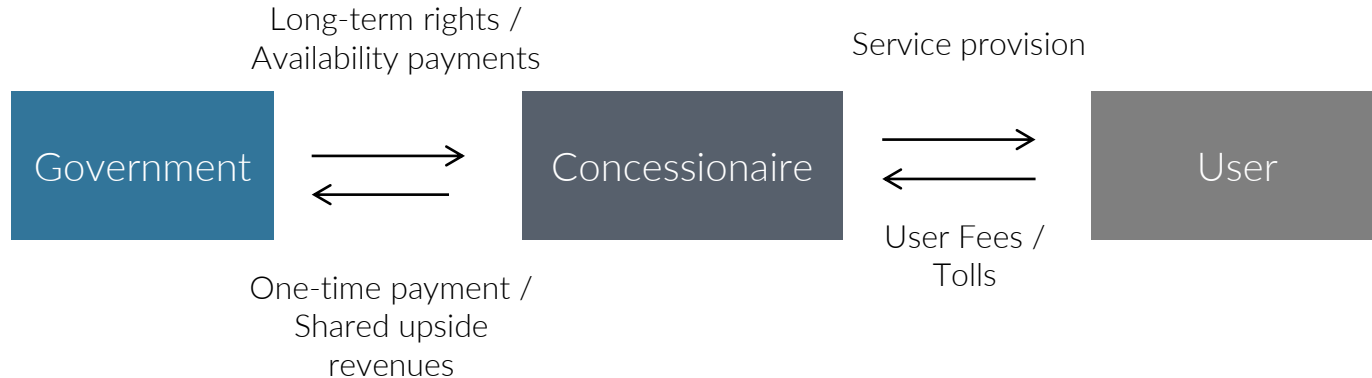
Limited market interest

- Private partners may find ground-lease structure highly inferior to fee simple ownership or a JV with land-equity contribution. This is particularly the case in less mature markets where insecurity of ground lease rights – versus fee simple – may inhibit raising financing for development.



II. CONCESSIONS-OVERVIEW

- In a concession arrangement a government agency typically allows *user payments to go to a 3^d party provider in exchange for a commitment to operate public assets* on a long-term basis.
- This arrangement might include construction or financing commitments from the 3rd party as well (however, those commitments would typically relate to improvement/refurbishment of an existing assets that is transferred to the operator under concession agreement)

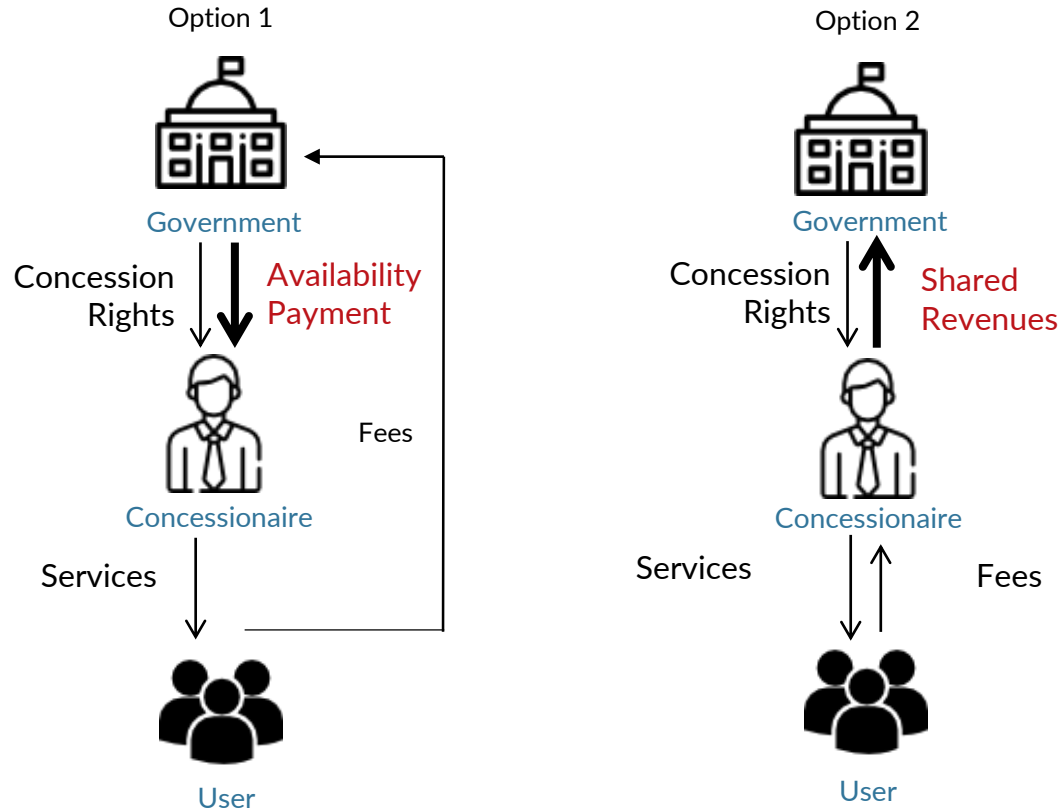


II. CONCESSIONS-KEY IS GUARANTEEING STABILITY OF REVENUE STREAM

- Negotiation of a concession arrangement will trade more or less stable cash-flow from public services (user fees) for concessionaire's operating capacities (including investment in service set up and in further facility maintenance).
- Concessionaire will seek rights to additional user fees without sharing with the public sector.
- The public sector will seek to collect main portion of the user fees generated by the public facility, but should expect to provide a guarantee to the concessionaire for these rights.
- Such guarantee comes either in the form of a *minimum revenue guarantee*, or an *availability payment* (payment of fixed amount to a concessionaire irrespective of demand while user fee are still administered and collected by the public entity), or allowing for a *greater portion of the upside user payments* to be retained by concessionaire



II.CONCESSIONS-SAMPLED FUNDING STREAMS



II.CONCESSIONS-STRENGTHS AND WEAKNESSES

Strengths

Immediate positive impacts to budget

- Municipality outsources labor and/or capital intensive operations
- Impacts to budget and operational costs can be immediate.

Reducing financial risk by offloading long-term operating costs and sometimes capital requirements

- Concession structuring can ensure that private operators in addition to operating responsibilities can bear risk of capital upgrades.

Weaknesses

Limited participation in revenue upsides

- Concession agreements typically imply that most operations are outsourced, allowing for concessionaires to collect excess revenues. This is appropriate, given that concessionaire takes on full operating risk
- Concession agreements must balance city risk of outsourcing critical municipal operations with potential benefits.

Incomplete project control

- Cities can govern via concession agreements, determining when default or other non-performance metrics have been triggered. However cities forego political and economic opportunities by not controlling these services directly.

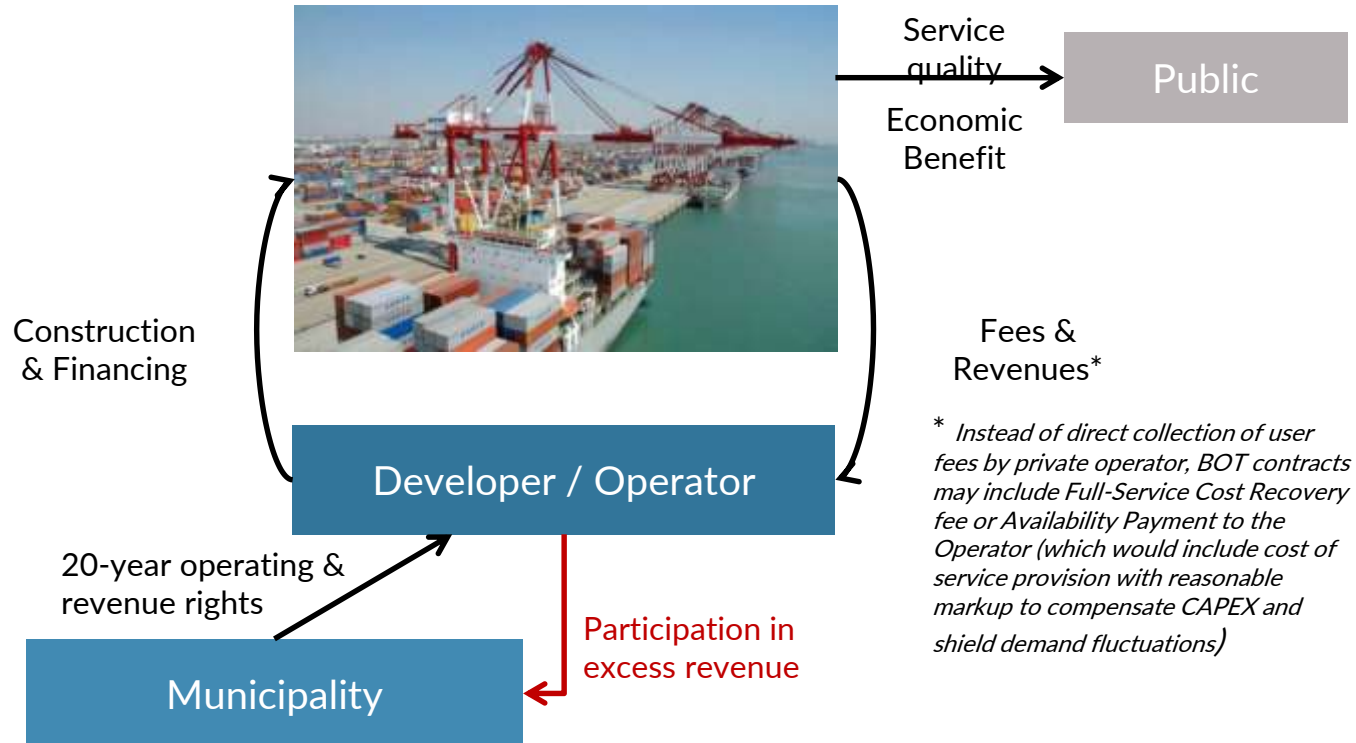


II. BUILD OPERATE TRANSFER (BOT) ARRANGEMENTS

- The public sector often seeks to build new public serving infrastructure, but doesn't have the means to finance and/or construct the improvements. Such public infrastructure might include transportation hubs, wastewater treatment facilities, toll roads, etc.
- As infrastructure of this type has a revenue component associated with it, private sector developers and operators will be interested in securing rights to this revenue. In exchange, developers and operators will construct and/or operate the infrastructure for a fixed period of time, after which ownership and control will revert to the public sector.
- Such arrangements are called “Build Operate Transfer”, as the private sector provides financing and construction for the infrastructure, then operates the facility for a fixed period in which they receive either all or a portion of the operating income. At the end of the contract term, the private operator cedes the infrastructure back to the public sector, at no cost to the public.



II. BUILD OPERATE TRANSFER(BOT)-PRINCIPLE STRUCTURE



II. BUILD OPERATE TRANSFER(BOT)-Strengths and weaknesses

Strengths

Offloading of upfront capital and long-term operating responsibilities

- While structuring the BOT contract can be time consuming and difficult, the ultimate output is highly encouraging for the city. The city offloads (to a large degree) capital and operating cost of infrastructure provision to the private partner, retaining control over use rights and operational performance

Minimizing financial risk and avoiding public borrowing

- City minimizes exposure to borrowing
- Financial risks to the public sector are largely related to viability gap funding (if so designed in the transaction) and compliance with covenants not to compete in the areas affecting BOT operations.
- The risk also remain in the event that the Operator does not deliver and the municipality faces the need to intervene and/or fulfill development or operating functions.

Weaknesses

None or very limited cash-flow for municipalities, economic effects are either indirect or in in-kind form

- For an investor, maximizing returns for a typical BOT requires that the Operator earns back not only its own investment but also a return on capital over the life of the contract. Therefore BOT rights typically do not return a direct payment to municipalities, however they do contribute to economic development overall, which is how BOT contracts should be evaluated.

Limited project control in construction & implementation

- City effectively cedes control of any decision making regarding the daily operations of the asset. While the city can keep the governing role through a master contract, there is effectively little that will alter the nature of the long-term contract

Offloading capital and financing responsibility to private sector comes at cost

- Transfer of most risks to private sector comes with a cost in the form of a higher equity return required by investor



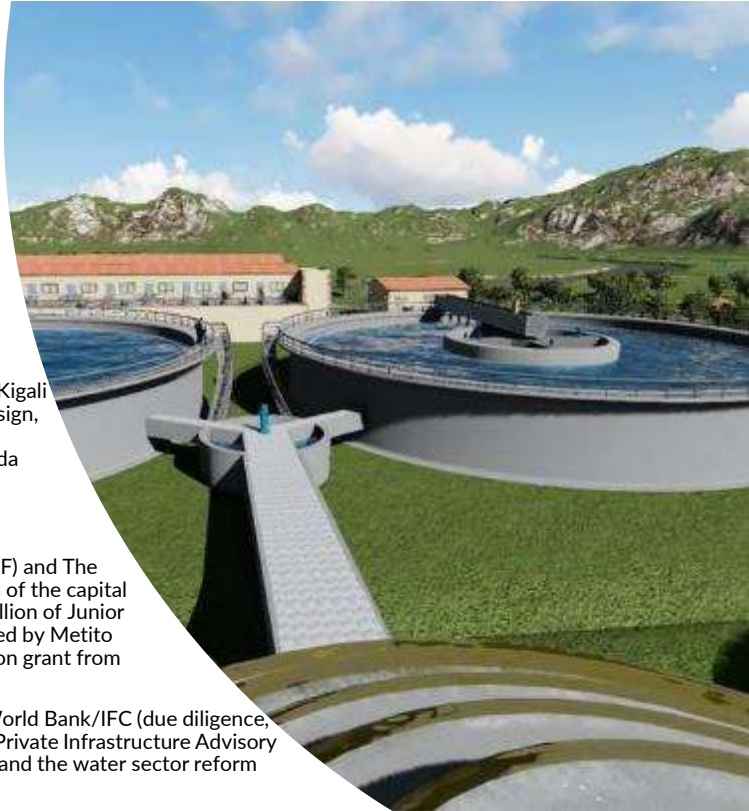
SAMPLED PPP CASE STUDIES

1. Kigali Bulk Water Supply
2. Bucharest Water and Sanitation
3. New Cairo Wastewater Plant
4. West Bank & Gaza Solid Waste Management
5. Urban Solid Waste Management in Minas Gerais
6. Berhampur Solid Waste Management (*not operative*)



Kigali Bulk Water Supply Project (Rwanda)

- **Project description:** the Government of Rwanda decided to partner with the private sector to diversify and improve water supply for the nation's fast growing capital city through a public-private partnership. The future plant will have the capacity to supply up to 500,000 people in Kigali, providing 40 million liters of fresh, clean water a day.
- **Private sector partner(s):** Metito, a global provider for intelligent water management solutions.
- **Public sector contracting party:** The sole off-taker for the project is the national water utility, Water and Sanitation Corporation (WASAC), while the Ministry of Infrastructure (MININFRA) will be the grantor of the project on behalf of the Government.
- **Delivery structure:** Build, Operate and Transfer (BOT) structure. Kigali Water Limited (KWL), a fully owned subsidiary of Metito, will design, build, maintain and operate the treatment plant and will then sell potable water to the Water and Sanitation Corporation of Rwanda (WASAC) under the 27- year PPP Agreement.
- **Investment size:** US\$60.8 million
- **Funding structure:** The Emerging Africa Infrastructure Fund (EAIF) and The African Development Bank (AFDB) are covering US\$40.6 million of the capital cost of the project; US\$38 million of Senior Debt and US\$2.6 million of Junior Debt with all loans on 18-year terms. The balance will be provided by Metito as equity finance. The project also benefits from a US\$6.25 million grant from the Private Infrastructure Development Group (PIDG).
- **IFIs involvement:** African Development Bank (lending) and the World Bank/IFC (due diligence, competitive selection of investors, and funding from the Public-Private Infrastructure Advisory Facility (PPIAF) to support capacity building for the water utility and the water sector reform process.)
- **Status:** The project's financial close was announced in November, 2017. The large-scale water treatment plant is due for completion in 2020. When complete, the facility will provide around one third of Kigali's water.
- **Comments:** This is the first competitively tendered Water Build Operate Transfer Concession in Sub-Saharan Africa (outside of South Africa).



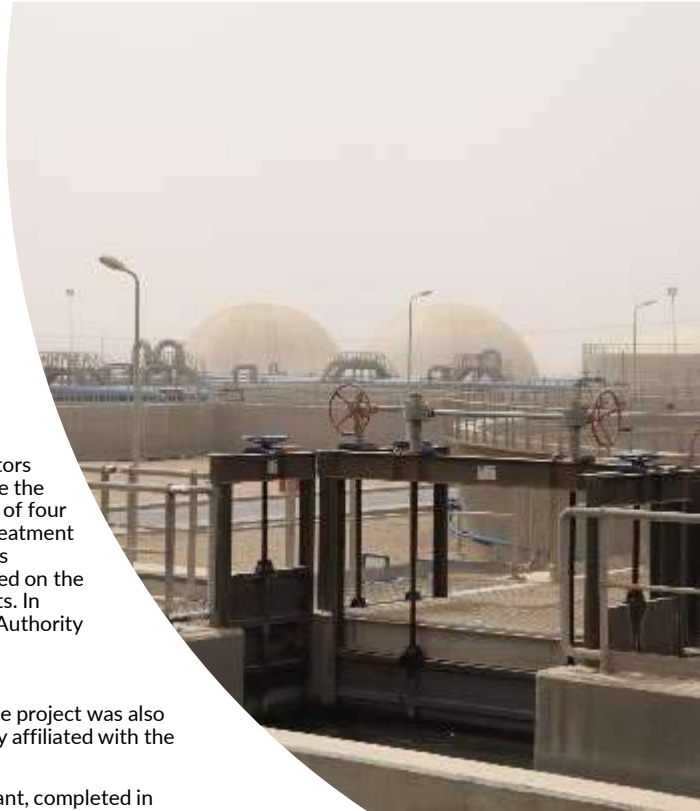
Bucharest Water and Sanitation (Romania)

- **Project description:** Prior to 2000, water infrastructure of Bucharest had been poorly managed by municipal operator Regia Generala de Apa București (RGAB). Because of leaks in the distribution network, water losses were nearly 50 percent, which together with an inadequate metering system resulted in low revenues for the municipality. As part of the project, RGAB was transformed into a joint stock company (Apa Nova București) and 83.69% of its stakes obtained by French Veolia Environnement S.A. following an open competitive tender.
- **Private sector partner(s):** Veolia Environnement S.A., a France-based transnational utility company with focus on water and waste management operations
- **Public sector party:** Bucharest Municipality
- **Delivery structure:** 25-year build-rehabilitate-operate-transfer concession for the city's water and wastewater services to the water management firm Apa Nova București (Joint venture concessionaire between Bucharest Municipality and Veolia Environnement S.A.). The concession covers the treatment and distribution of potable water and sanitation services. Tariffs are set from bid values (with indexation: ordinary adjustments), levels of services attainment and periodic and extraordinary adjustments. The municipality retains ownership of all infrastructure and also retains the power of veto on certain decisions.
- **Investment size:** As of 2010, Veolia had invested more than US\$250 million in upgrading and servicing the system.
- **IFIs involvement:** World Bank Group (IFC) conducted prequalification of bidders and drafted concession contract (no lending) The project has benefited from generous funding in the form of loans from the European Bank for Reconstruction and Development (EBRD).
- **Status:** The transaction was completed in March 2000. Water quality has improved since then: in 2000, 69 percent of samples complied with the standard for residual free chlorine; in 2009, 100 percent of water samples met or exceeded Romanian and E.U. quality standards.
- **Comments:** The Bucharest concession was Romania's first public-private partnership in the water and sanitation sector and one of the first such transactions in the sector in Europe.



New Cairo wastewater plant (Egypt)

- **Project description:** The project consisted of the design, finance, construction, operation, and maintenance of a new wastewater treatment plant with a capacity of 250,000m³ per day in New Cairo City, a satellite town of greater Cairo. The city is being promoted as a new destination to alleviate overcrowding in the center of Cairo. New Cairo's population of 550,000 is expected to increase to approximately three million by 2029.
- **Private sector partner(s):** Consortium of Egyptian firm Orascom Construction Industries (OCI) and Spanish firm Aqualia.
- **Public sector contracting party:** New Urban Communities Authority
- **Delivery structure:** DBFMOT. Orasqualia, as the consortium is known, is responsible for the transfer of the ownership back to government at the concession expiry date (20 years term).
- **Investment size:** The deal mobilized US\$150 to US\$200 million in private investment.
- **Funding structure:** Orasqualia financed the project fully; they are investors themselves with 30 percent equity and 70 percent debt. They also have the building and maintenance contract with its member companies. A total of four banks are lenders to the project. The government is to pay a sewage treatment charge that includes a fixed portion to recover the investor's fixed costs (including debt service and return on equity) and a variable portion based on the actual volume of treated sewage, to cover the investor's operating costs. In addition, electricity costs will be paid by the New Urban Communities Authority (the off-taker) as a pass-through item. The credit of the New Urban Communities Authority is underpinned by the Ministry of Finance.
- **IFIs involvement:** The transaction structuring was supported by IFC. The project was also implemented with the financial support of DevCo, a multi-donor facility affiliated with the Private Infrastructure Development Group (PIDG).
- **Status:** The consortium was awarded the contract in 2009. The new plant, completed in March 2012, is now operational.
- **Comments:** This was the first successful transaction under the government's PPP program and a model for future PPPs in Egypt.



West Bank & Gaza Solid Waste Management (West Bank & Gaza)

- **Project description:** Decades of conflict and political instability have meant that municipalities in the West Bank and Gaza have been unable to invest sufficiently in solid waste management (SWM) infrastructure or services. The volume of solid waste, 500 tons daily in 2013, was rapidly growing, exacerbating the problem and posing growing health and environmental risks affecting nearly one million people. To address this problem, the Joint Services Council for Hebron and Bethlehem (JSC-H&B) was established to focus on improving solid waste management operation in West Bank and Gaza.
- **Private sector partner(s):** The Greek consortium W.A.T.T. S.A.-MESOGEOS S.A. & EPEM S.A
- **Public sector contracting party:** The Joint Services Council for Hebron and Bethlehem (JSC-H&B)
- **Delivery structure:** Operations, Maintenance and Management (OMM) structure. The World Bank and international donors funded the development of a modern sanitary landfill, transfer stations, and access roads at Al Minya that would enable the closure of existing, unsanitary dumpsites. The private partner is responsible for the operation and management of brand new Al-Minya landfill and two transfer stations at Tarqoumiya and Hebron, including the long-haul transfer of waste from the transfer stations to the landfill.
- **Investment size:** The project benefitted from significant donor coordination. The construction of the landfill, transfer station and related infrastructure was made possible through grants from the World Bank, European Commission, USAID, and the Government of Italy totaling US\$30 million.
- **Funding structure (for OMM):** The JSC-H&B will provide a minimum waste guarantee of 500 tons per day to the operator and pay fees per ton of waste managed at the landfill and transfer stations. Primary waste collection is not a part of the private sector's responsibilities and will remain in the hands of various municipal entities.
- **IFIs involvement:** IFC designed a PPP structure built on a sound technical, legal, and regulatory foundation. To improve the sustainability of the project and the sector, the World Bank Group also structured an US\$8 million output-based grant from the Global Partnership on Output Based Aid
- **Status:** The concession was signed in September 2013. The new landfill became operational in 2014 and It is now serving 33 municipalities with 840,000 residents.
- **Comments:** First PPP in the West Bank



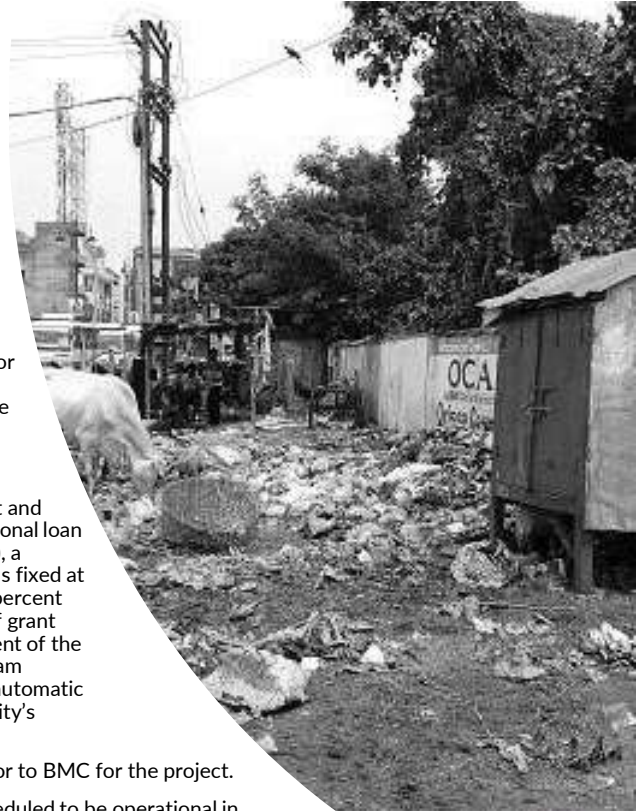
Urban Solid Waste Management in Minas Gerais (Brazil)

- **Project description:** The Government of Minas Gerais and 43 municipalities from Belo Horizonte's Metropolitan Region and Metropolitan Belt came together around a PPP that would improve the much fragmented and inefficient municipal solid waste management systems. This would contribute towards the national goal of eliminating the disposal of solid residues in inappropriate areas and directly benefit 3 million citizens (15% of Minas Gerais population).
- **Private sector partner(s):** CMTR (Metropolitan Waste Treatment Consortium) conformed by Vital Engenharia Ambiental, Revita Engenharia and Constructora Barbosa Mello.
- **Public sector contracting party:** Secretariat of State for Regional Development, Urban Policies and Metropolitan Management (SEDRU)
- **Delivery structure:** DBFOM. The 30-year concession contract transfers to the private initiative the tasks related to the implementation and the execution of the services of transport, storage, environmental treatment and final disposal of waste. The partner remuneration, in turn, depends on performance indicators, in order to ensure substantial results and the quality of the services delivered. The PPP contract establishes that the concessionaire has one year to build the transshipment station and two years to construct the central station for solid waste treatment, considering the contract signature date.
- **Investment size:** US\$ 105 mln of private investment in construction and operation of facilities.
- **Funding structure:** State compensation of US\$ 723 on average per ton; Municipalities compensation of US\$ 5,50 minimum per ton. The private sector is stimulated to use new waste treatment technologies with the possibility of obtaining an extra income through the energy exploitation of the treated material, reducing the volume of buried waste and bringing more benefits to the local economy and to the environment.
- **IFIs involvement:** No IFIs involvement identified. In 2012, Bain & Company was hired to prepare the data and information that supported the project's elaboration, especially with regard to the design of the business plan and the economic and financial feasibility model.
- **Status:** Contract signed in 2014 and operative since then.
- **Comments:** First PPP for urban solid waste management in Minas Gerais.



Berhampur Solid Waste Management (India) – *Transaction Fell Through*

- **Project description:** With little to no primary waste collection in about half of Berhampur city, many citizens, mainly in low-income areas, are exposed to health risks resulting from pollution, water contamination, and untreated solid waste. Seeking an affordable solution for delivering improved solid waste management services to its citizens, Indian authorities turned to the World Bank Group to help structure a PPP transaction and attract a private operator to improve the efficiency and management of the system.
- **Private sector partner(s):** UPL Environmental Engineers Limited, one of India's leading environmental engineering companies.
- **Public sector contracting party:** The Department of Housing and Urban Development (H&UDD) of the Government of the Indian state of Odisha and the Berhampur Municipal Corporation (BMC).
- **Delivery structure:** BOT. 20-year concession in which UPL will be responsible for collection and transportation of waste, development of a segregation line and composting facility, a greenfield sanitary landfill and the decommissioning of the existing dumpsite.
- **Investment size:** The project will attract investments of \$10.3 million.
- **Funding structure:** To ensure the financial viability of the project, a capital grant and concessional loan were introduced during construction. The grant and concessional loan were provided by the Odisha Urban Infrastructure Development Fund (OUIDF), a specialized fund financed by the German State-owned KfW. The tipping fee was fixed at an affordable level for the municipality. The concessional loan was fixed at 25 percent of the initial project cost. The project was bid out on the basis of the amount of grant required by the private sector to make the project viable with a cap at 25 percent of the initial project costs. To minimize the payment risk from the municipality, the team introduced an escrow account mechanism with a three-month reserve and an automatic release of funds upon receipt of the invoices on a monthly basis. The municipality's payment obligations were backed by a comfort letter from H&UDD.
- **IFIs involvement:** The World Bank Group (IFC) served as lead transaction advisor to BMC for the project.
- **Status:** The concession agreement was signed in 2013 and the project was scheduled to be operational in 2015. Unfortunately, UPL withdrew from the project, apparently due to public disagreements.
- **Comments:** Operations were expected to benefit over 350,000 people, including approximately 100,000 in low-income areas.





CREDIT ENHANCEMENT PRACTICES

S U P P O R T I N G I N V E S T M E N T I N
I N F R A S T R U C T U R E



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CREDIT ENHANCEMENT PRACTICES

General Overview

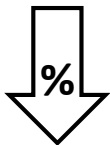
- ❖ Definition
- ❖ Benefits
- ❖ Covered risks
- ❖ Forms of credit enhancement
- ❖ Partial Credit Guarantees in detail

Definition

- ✓ Financial instrument designed to **lower repayment risk** of debt and security instruments
- ✓ Its main objective is to **improve the credit profile** of borrowers
- ✓ Its main function is to create **more confidence among investors** by decreasing perceived and actual risks of investment losses and that way **expand financing resources** for the beneficiary borrowers
- ✓ The customary use of credit enhancement in development finance is providing **partial credit guarantees to qualifying borrowers** against the risks associated with lending either on concessional and market-based terms
- ✓ In most instances credit enhancement is a **complex structured finance transaction** requiring strong knowledge and financial capacity of the guaranteeing institution

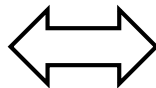
Main Benefits

1.



Reduction of
interest rate

2.



Extension of
debt maturity

3.



More favorable debt
amortization/
repayment schedule

4.



Easement of debt
covenants

5.



Extended list of
available lenders

6.



Introduction of
new borrowers to
the market

7.



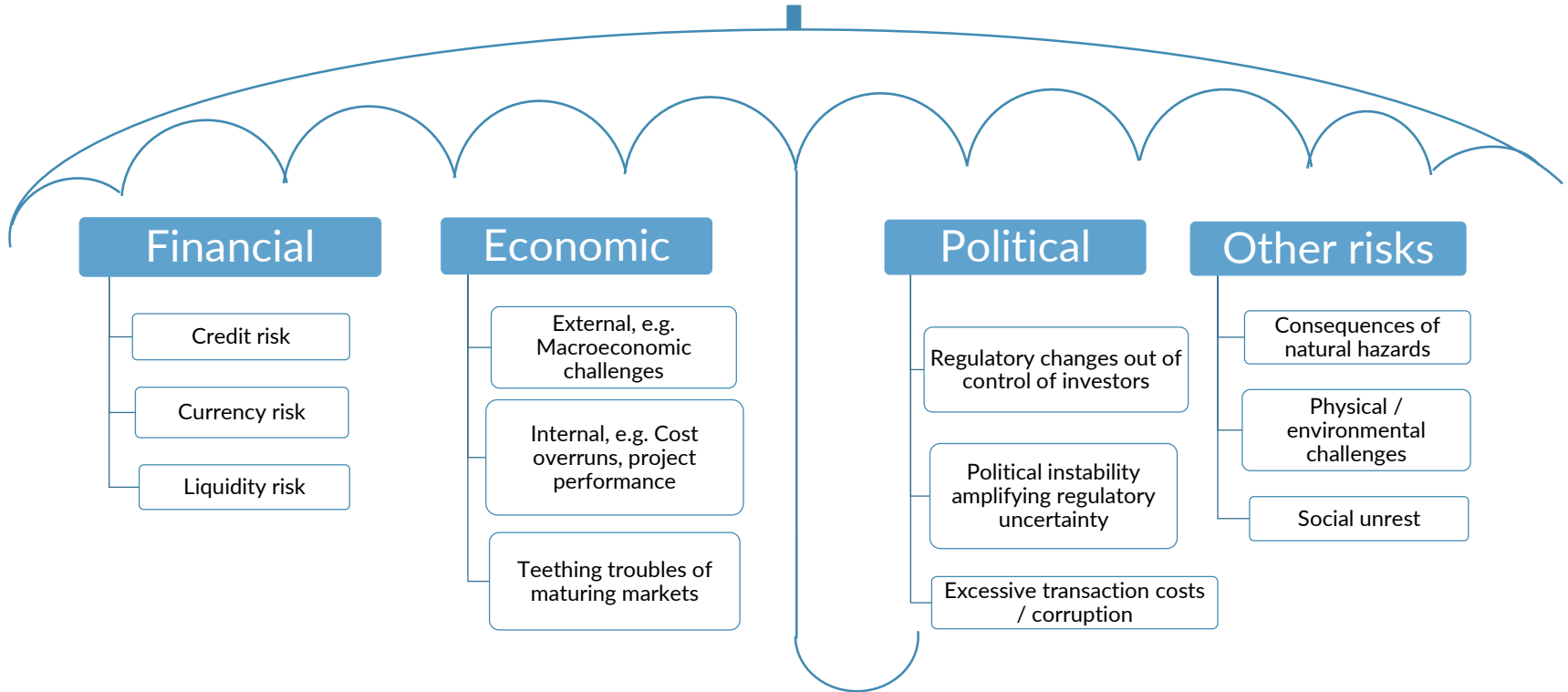
Introduction of large
scale lending operations
(never supported by
local market)

8.



Implementation of
more ambitious
projects with
lesser risk

Risk Covered



Forms of Credit Enhancement in Infrastructure Finance (1)

Tool	Description	Key features
Partial credit guarantee	Equivalent to structuring a “ wrapped security ” as defined more broadly in the structured financed field; it is an irrevocable promise by a third party financial institution to reimburse the creditor/investor in case of obligor’s technical default up to a certain amount (e.g. repaying principal and/or interest)	Typical guarantee amounts to 30-50% of total obligation
First-loss provisions	Refer to any instrument designed to protect investors from the loss of capital that is exposed first in case of erratic cash flows. It shields investors from a pre-defined initial losses. Often structured as a Partial Guarantee described above.	These could be debt, equity or derivatives instruments such as cash facilities or guarantees.
Cash collateral	Cash or equivalently liquid commercial papers collected and held in reserved account for the benefit of creditors	Lower percentage, on-demand coverage
Letter of credit	Written commitment by a financial institution to guarantee recovery of a specified cash amount in the event of any cash shortfalls in the project	Lower percentage (10-15%), on-demand coverage



Forms of Credit Enhancement in Infrastructure Finance (2)

Tool	Description	Key features
Political risk insurance	Cover private lenders and investors for certain risks of lending to sovereign or sub-sovereign borrowers. By definition, a Political Risk Guarantee (PRG) necessarily needs to include private participation in the project . Some risks covered entail currency inconvertibility, political force majeure such as war, regulatory risk and fulfillment of government payment obligations.	PRGs are used often and favorably in green energy/energy efficiency projects.
Loan syndications	The process of involving several different lenders in providing various portions of a loan. Loan syndication most often occurs in situations where a borrower requires a large sum of capital that may be too much for a single lender to provide or outside the scope of a lender's risk exposure levels.	Interest rates on this type of loan can be fixed or floating, based on a benchmark rate.
Reinsurance	The practice of insurers transferring portions of risk portfolios to other parties by some form of agreement to reduce the likelihood of paying a large obligation resulting from an insurance claim. Reinsurance allows insurers to remain solvent by recovering some or all of amounts paid to claimants	The premium paid by the insured is typically shared by all of the insurance parties involved.

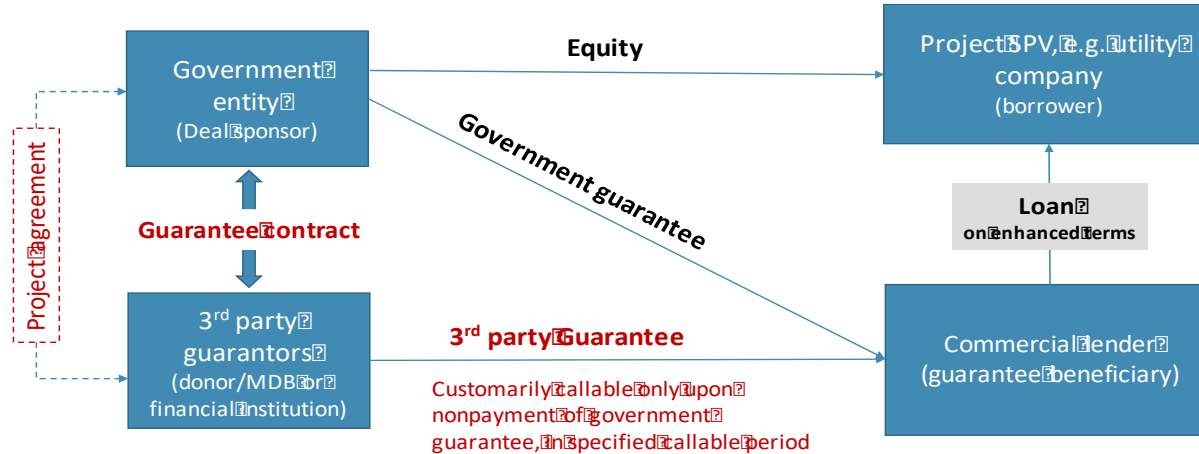
Forms of Credit Enhancement in Infrastructure Finance (3)

Tool	Description	Key features
Contingent credit lines	Surety instrument approved <i>ex ante</i> to backstop the main debt by providing cash resources for debtor in case of severe exogenous shocks (e.g. natural disasters, political or economic turmoil).	
Viability gap funding (VGF)	Used specifically and heavily in infrastructure to cover for the heavy upfront funding that is required to kick start projects . An analysis of the viability of a proposed project points out the weak areas that prevent large-scale funding from being obtained.	Can be implemented through capital grants, subordinated loans or even interest subsidies to target specific issues affecting the project's viability
Performance bond	Specific type of a financial surety instrument issued by a financial institution (insurance company or a bank) to guarantee satisfactory completion of a project and ensure that the project has enough liquidity to be completed even in case of an unfortunate event (e.g. contractor contract breach, construction or financing breakage)	Covers up to 100% of project value. Widely used to secure design-build contracting obligations

** Internal credit enhancement measures (such as excess spread or cross-/ overcollateralization) which are customary for loan pooling and securitization are excluded from this list; the focus here is on external credit enhancement measures such as providing third party financial guarantees to obligors engaged in infrastructure finance.*



Case in focus: Partial Credit Guarantee – illustrative flowchart



Key points on Credit Guarantee:

- Financial surety offered by a 3rd party in addition to debt service warranties and indemnities provided by borrower and its sponsors
- Improves standard loan term available to the subject borrower in the marketplace (decreasing interest rate, extending maturity)
- Offered through structures that are able to raise or place funds into a reserve which can be used to repay interest and/or principal in case of erratic project cash flows
- Partial guarantee covers a fraction of the total amount of loan facility

Case in focus: main features of Partial Guarantee

Covered risks – reasons of default that qualify for guarantee call (in exceptional cases, guarantee may cover debt service default regardless the reason of default)

Guarantee term – period of validity of guarantee (typically covers duration of the loan, subject to additional clauses on the callable period and the guaranteed amount)

Callable period – period of loan service when debt service default may cause call of guarantee

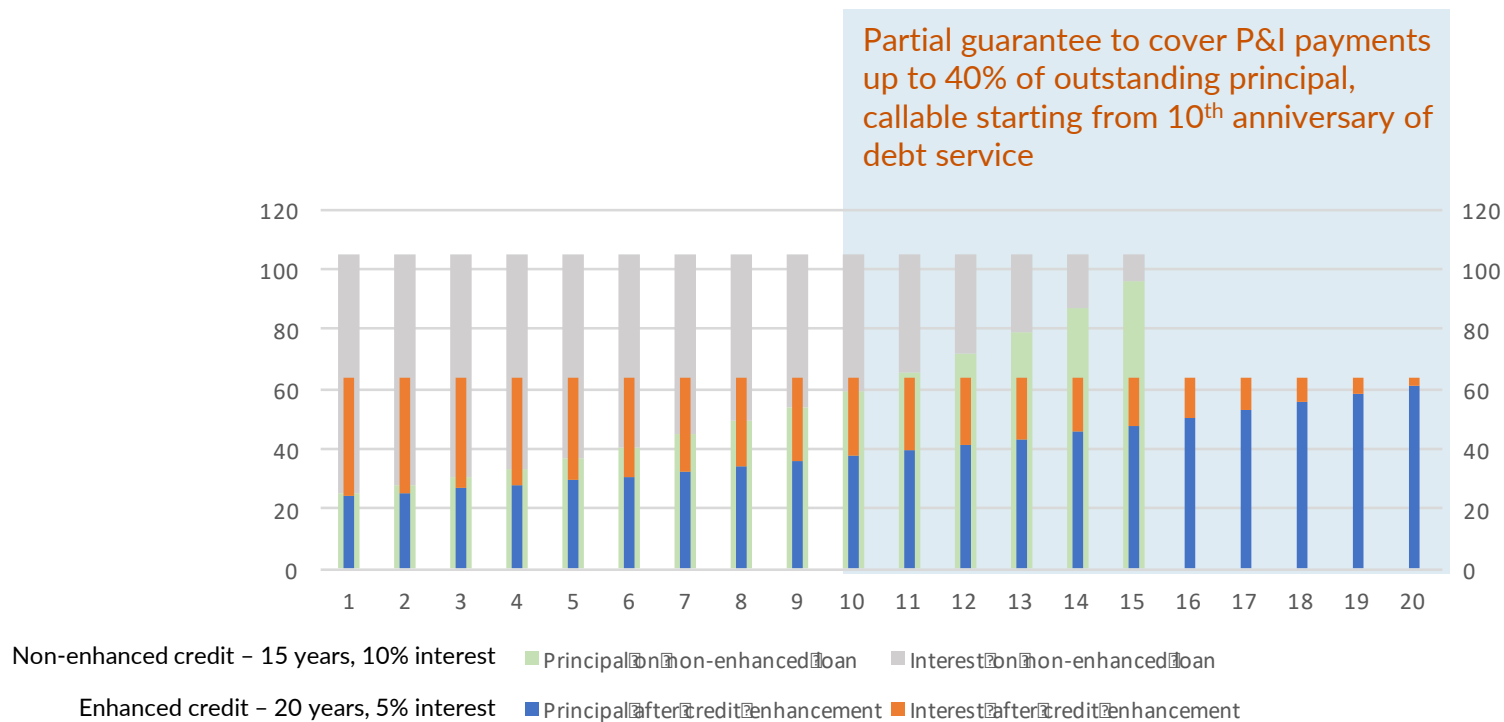
Guarantee coverage

- Covers outstanding principal and/or accrued interest up to certain amount, within callable period
 - Guarantee contract specifies maximum portion of total principal and/or interest covered; typically 25-40%, in exceptional cases up to 100%; may change over the course of debt maturity
-

Accelerable / non-accelerable – whether guarantee can be re-aligned with accelerated debt repayment

Guarantee agreement: in addition to key terms specified above the agreement may regulate matters of particular concern such as use of proceeds of guaranteed debt, compliance with guarantor's social and/or environmental safeguards, guarantor consent requirements for project changes, and transfer of rights. Such matter may also be regulated in a separate Project Agreement where Guarantee Agreement becomes a constituent project documentation

Case in focus: loan amortization enhanced by Partial Guarantee





CREDIT ENHANCEMENT PRACTICES

Sample transactions

- ❖ Brazil
- ❖ Turkey
- ❖ Nigeria
- ❖ Pan-European
- ❖ Bulgaria
- ❖ India

World Bank Group: transport project in Sao Paulo (Brazil)

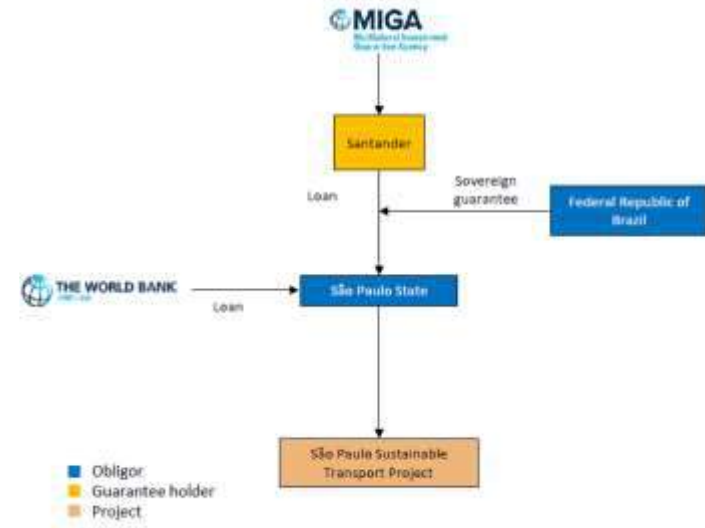
Project description: The World Bank's worked with the State of Sao Paulo to design the Sao Paulo State Sustainable Transport Project aimed at rehabilitating and upgrading approximately 750 km of motor roads and the reconstruction of two bridges for inland waterway transport on the Tiete River.

Total investment: US\$729 million

Key stakeholders: State and federal government, private sector, IBRD

Key project finance: Banco Santander commercial loan (US\$ 300 million), IBRD loan (US\$ 300 million) and State of Sao Paulo equity (US\$ 129 million)

Guarantors: Government was a primary guarantor on commercial loans. MIGA issued a non-honoring guarantee for US\$ 361 million to Banco Santander SA of Spain. This guarantee provided specific coverage of Santander's loan to the State of São Paulo



Structure of credit enhancement

World Bank Treasury facilitated the mobilization of additional financing from international private banks with the help of MIGA credit guarantee non honoring of sovereign financial obligations. Tenor extended from 7-8 years to 12 years.

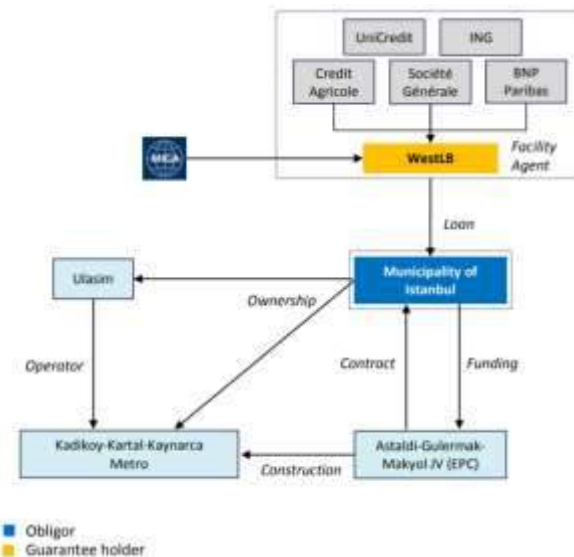
Supporting the Expansion of Istanbul's Metro System

Project description: In December 2010, MIGA issued a NHSFO guarantee of \$19.5 million insuring an investment by WestLB AG (currently Portigon AG) in the expansion of Istanbul's light-rail transit network. WestLB later approached MIGA to seek additional coverage for a much larger loan for financing extension of Metro's M4 line. In the former case, WestLB AG was the lead agent for a consortium of lenders.

Key stakeholders: Municipality of Istanbul (borrower), WestLB AG

Key project finance: Commercial loan

Guarantors: MIGA guarantee protecting against non honoring of sovereign financial obligations up to \$409 million, tenor 9.5 years



Structure of credit enhancement

MIGA's guarantee covers the risk of a default by Municipality of Istanbul on its obligation to repay principal and interest due to Portigon AG and the lenders related to this loan. The project is an example of how MIGA can cover sub-sovereign credit risk without the requirement of a national Ministry of finance guarantee

Unlocking the potential for infrastructure financing in Nigeria

Project description: GuarantCo and the Nigeria Sovereign Investment Authority (NSIA) sponsored the creation of InfraCredit, a start-up local guarantor established to support long term infrastructure financing in Nigeria. This is the first Nigerian based credit guarantor focused on credit enhancing infrastructure bonds. It targets pension fund investors.

Total investment: InfraCredit capital is comprised of paid-in equity and “second loss” contingent funding, altogether up to US\$200 million

Key stakeholders: InfraCredit, NSIA, GuarantCo (a guarantee company sponsored by governments of Sweden, UK, Australia, Switzerland and The Netherlands; supports infrastructure lending in local currency on emerging markets)

Guarantors: GuarantCo capitalized InfraCredit with US\$50million in the form of Callable Funding Facility; this facility will insure a first series of guaranteed transactions worth US\$100 million



InfraCredit guarantee model

Structure of credit enhancement

GuarantCo's product is a coverage of second loss of InfraCredit. In turn, InfraCredit's provides guarantees to derisk bonds issued by eligible companies, increasing the confidence of Nigeria's pension funds to invest in long-tenor, Naira-denominated bonds.

The Loan Guarantee Instrument for TENs

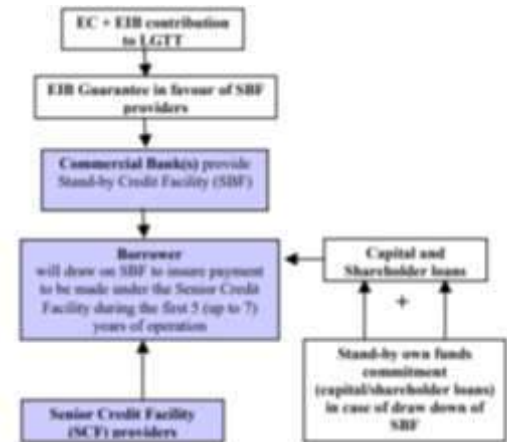
Project description: The Loan Guarantee Instrument for Trans-European Transport Network Projects (LGTT) is an innovative financial instrument set up and developed jointly by the European Commission and the European Investment Bank (EIB) which aims at facilitating of the private sector involvement in the financing of Trans-European Transport Network infrastructure ("TEN-T").

Total investment: Up to €40 billion of Pan-European investments in TEN

Key stakeholders: EBRD, EIB, commercial banks

Key project finance: €1 billion in loan guarantees intended to support up to €20 billion of senior loans

Guarantors: EIB and the European Commission. Guarantees capped €200 million per project



Structure of credit enhancement

The stand-by liquidity facility (SBF) guaranteed by the LGTT should not normally exceed 10 % of the total amount of the senior debt (up to 20% in exceptional cases). As a guarantee covenant, all free project cash flows shall go for debt's principal refinancing without any profit left at the project level

Maritza East, Bulgaria

Project description: AES Corporation, a US-based energy company, was awarded a concession to finance, build, own, and operate a 600 MW lignite-fired power plant adjacent to the existing coal-fired power plant in the city of Galabovo, 270 km southeast of Sofia.

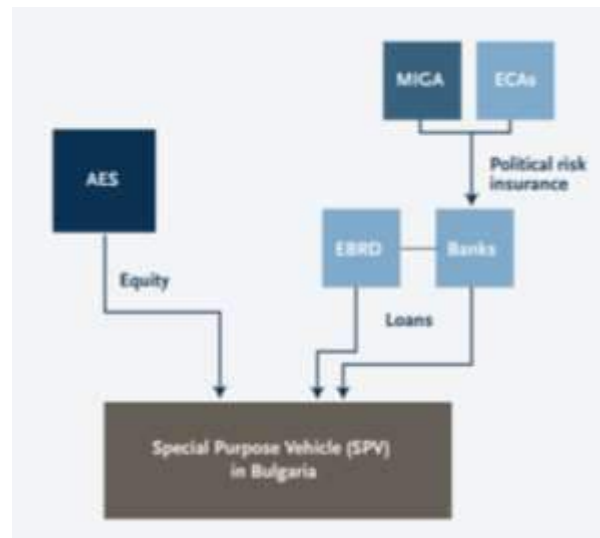
Total investment: €1.09 billion

Key stakeholders: AES Corporation, Newedge Group (of Societe General, a loan syndicator), EBRD, multiple private lenders, Alstom (contractor)

Key project finance: project achieved favorable debt-to-equity ratio of 30/70

Guarantors: MIGA issued €99 million in guarantees against political risks of default on loan repayment and equity returns.

In addition to MIGA, main guarantee coverage was provided by private credit export insurers, Coface and Euler Hermes



Structure of credit enhancement

MIGA's coverage ensures lenders and equity provider that they will be compensated in the event that the investor defaults on debt payments due to a covered event (expropriation, war, civil disturbance). The guarantees are for 16 years.

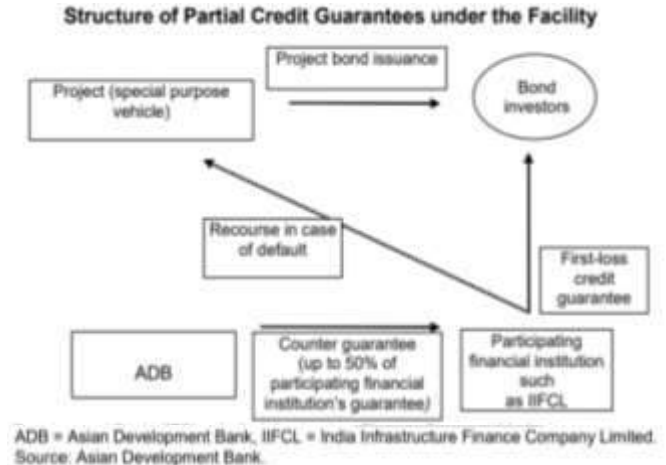
Asian Development Bank: India-IIFCL (2012)

Project description: First-of-a-kind partial credit guarantee facility in India to provide partial guarantees on rupee-denominated bonds issued by Indian companies to finance infrastructure projects. ADB takes on a part of that guarantee risk, improving the credit rating of an infrastructure project to A or AA.

Key stakeholders: Institutional investors (e.g. pension funds) that can only invest in assets graded AA or above.

Key project finance: rupee-denominated bonds

Guarantors: Asian Development Bank counter-guarantees the India Infrastructure Finance Company Limited (IIFCL) and other domestic finance companies that serve as primary guarantors on individual transactions



Structure of credit enhancement

US\$128 million in partial credit guarantees to back multiple bond issuances (i.e. supporting different projects). IIFCL can independently provide partial credit guarantee worth up to 20% of project value and up to 40% of project value with a co-guarantor/risk sharing partner. IIFCL can also lend directly. Total IIFCL project exposure are subject to 20% project value limit.

CREDIT ENHANCEMENT
**EXAMPLES OF GLOBAL
CREDIT ENHANCEMENT
FACILITIES**

World Bank Group products

	World Bank (IBRD+IDA)*	MIGA	IFC
<i>Risk Coverage</i>	Government / parastatal obligations and credit risk	Political risk; credit risk when borrower is a sovereign or sub-sovereign government or state-owned enterprise	Credit risk
<i>Eligible investment instruments</i>	Debt or payment obligations (international or domestic)	Equity, debt, and any other forms of trans-border investments	Debt (international or domestic)
<i>Pricing</i>	IBRD and IDA loan equivalency, risk managed through size of lending programs	Based on administrative costs, country and project risk	Commercially based
<i>Sovereign Guarantee needed as a primary guarantor?</i>	Yes	No (but projects has to obtain host country approval)	No
<i>Eligibility requirement</i>	The project must be of strong interest to, and have the express commitment of, the host Government	Requires foreign investor or lender	Private lenders and investors
<i>Major clients</i>	Host government -If it is a private project, it might be eligible for a World Bank Guarantee if it is the direct beneficiary of an obligation from the Government, a political sub-division of Government, or a Sovereign Owned Entity, which can be guaranteed by the WB.	Private sector	Private sector

*Whether the guarantee is issued by the IBRD or IDA depends on whether the host country of the project is eligible for IBRD support or is an IDA-only country

European Bank for Reconstruction and Development (EBRD)

- ✓ Initially focused on the countries of the former Eastern Bloc, The European Bank for Reconstruction and Development (EBRD) expanded to support development in the democracies of 30 countries from Central Europe to Central Asia.
- ✓ The EBRD has consistently provided co-financing, guarantees and syndications over the years, but has a renewed interest in credit enhancements recently.
- ✓ One of the primary forms of EBRD support to infrastructure projects is B Loan syndication/junior debt, guarantees and targeted credit lines
- ✓ EBRD has employed credit-enhancement schemes heavily in the municipal and environmental infrastructure (MEI) sector (water, solid waste, urban transport, energy, etc).



European Investment Bank (EIB)

- ✓ Although about 90% of projects financed by the EIB are based in the EU member countries, the EIB also funds projects in about 150 other countries around the world
- ✓ The EIB provides guarantees both for senior and subordinated debt and for projects of various scale. ranging from complex Pan-European PPPs to supporting small and medium-sized enterprises
- ✓ Examples of EIB-guaranteed projects include a guarantee facility to cover medium term revenue risks for Trans-European rail network development, risk-sharing provided as part of initiatives for supporting small business such as JEREMIE and CIP, as well Risk Sharing Finance Facility for projects in research, development and innovation.
- ✓ The EIB has also actively supported the issuance of long-term bonds for PPP projects by providing contingent credit lines (i.e., cash that can be disbursed if the project is unable to repay the bondholders)



SIDA/IFC Partnership

- ✓ IFC and the Swedish International Development Cooperation Agency (SIDA) partnered to facilitate access of institutional investors to emerging-market infrastructure.
- ✓ This partnership is based on the IFC's Managed Co-Lending Portfolio Program (MCP)
- ✓ IFC's invests in a junior tranche of MCP loan portfolio (subordinated to senior investors of that loan portfolio) but maintains a first-loss position. This structure improves the risk position of the senior investors in MCP.
- ✓ SIDA shares risks by providing a guarantee against the first loss on a portion of the MCP loan portfolio.
- ✓ The IFC/SIDA partnership enables each US\$1 invested to mobilize additionally US\$8-10 from a third party



Asian Development Bank (ADB)

- ✓ ADB's principal credit enhancement products include Political Risk Guarantees (PRGs) and Partial Credit Guarantees (PCGs). A majority of such guarantees cover borrowing in local currency, which facilitates local financing.
- ✓ ADB guarantees cover a wide variety of debt instruments and may provide either comprehensive (financial risk) or limited coverage, including political risk.
- ✓ The ADB also extensively acts as Guarantor-of-Record where it "fronts" a guarantee contract for the entire amount of the guarantee and then transfers the exposure to one or more insurers who end up underwriting the risk.
- ✓ Another customary form of credit enhancement pursued by ADB is the loan syndication. ADB runs a Complementary Financing Scheme whereby ADB acts as lender-of-record in joint lending transactions with other banks (including commercial banks) participating as B loan providers and benefiting from privileges and immunities of ADB

*Example of ADB credit enhancement in the form of PCG was coverage of principal and interest due for first 3 years on a 5-years \$950 million syndicated loan to the Export-Import Bank of Thailand. The PCG was fully counter-guaranteed by the Kingdom of Thailand.



USAID – Development Credit Authority (DCA)

- ✓ USAID runs the DCA as a partial credit guarantee program designed to help generate additional lending opportunities in underserved markets
- ✓ Core objective is to mobilize local private capital in infrastructure and economic development
- ✓ Standard DCA guarantee products include individual loan guarantees, portfolio loan guarantees and portable guarantees (where DCA provides commitment to ensure loan-servicing performance of an identified borrower while lenders are not yet identified)
- ✓ Main features of DCA guarantees:
 - Backed by the full faith and credit of the U.S. Treasury
 - Covers loan principal and does not cover fees or interest
 - Typically structured as a *pari passu* guarantee (i.e. guarantees predetermined – customarily 50% - share of losses and participates in recoveries of losses alongside with the lender, not waiting for the lender to recover debt first)
 - Guarantees non-sovereign debt capital (e.g., cities, SMEs, commercial banks)
 - Flexibility to guarantee local and/or foreign currency
 - Guarantees loan maturities of up to 20 years
 - Guarantees may be paired with USAID or other technical assistance projects

*Since its inception in 1999, USAID's Development Credit Authority (DCA) has issued guarantees that have mobilized up to USD 5.4 billion in credit to entrepreneurs in 76 developing countries.



African Development Bank (AfDB)

- ✓ The AfDB's main guarantee products are: Partial Credit Guarantee and Partial Risk Guarantee
- ✓ Partial Credit Guarantee (AF-PCG) is a comprehensive coverage that insures debt service obligations of sovereign borrowers and related state-owned enterprises in low-income African countries
- ✓ Partial Risk Guarantee (AF-PRG) covers private lenders against the failure of a government or a government-related entity to honor repayment obligations due to realization of well-defined political risks; such political risks could include political force majeure, currency inconvertibility, regulatory risks (e.g. adverse changes in law), and various forms of breach of contract by government and related entities; AF-PRGs have been extensively used to attract commercial financing in public sector utilities such as power, water, oil and gas, and mining.
- ✓ Borrowers eligible for an African Development Bank's loan are eligible for its Guarantee
- ✓ Maturities of covered debentures may extend up to 20 years

* The AfDB has successfully implemented PCGs and PRGs in various African projects through the African Development Fund's initiatives over the past two years. A significant example of these efforts is the PRG provided to coal-based independent power plants in Nigeria, enabling local private investors to come into the projects.

Interamerican Development Bank (IDB)

- ✓ Provides guarantees for the credit enhancement of loan and bond issuances, and for structured trade finance transactions and securities backed by assets or future flows.
- ✓ Offers flexibility to furnish local currency guarantees to enable greater local lending
- ✓ Has launched guarantee products to address specific project-level risks such as performance bonds. This also includes a special focus on risk-mitigation of green infrastructure projects to attract additional commercial financing in this green building
- ✓ IDB guarantee products range from partial credit guarantees on larger loans of up to \$400 million to smaller guarantee products of \$15-100 million targeting availability of capital to SMEs.



GuarantCo

- ✓ The Governments of Australia, UK, Sweden, Switzerland and Netherlands sponsored creation of infrastructure guarantee company GuarantCo.
- ✓ Principal product are partial guarantees backing local currency loans and bonds which proceeds are used to finance infrastructure development needs
- ✓ Full spectrum of a GuarantCo products includes: partial credit and partial risk guarantees, first loss guarantees, tenor extension or liquidity guarantees as well as joint guarantees or counter guarantees.
- ✓ The guarantee cover available from GuarantCo for any single transaction is between USD 5 million to USD 50 million or the equivalent amount in local currency.
- ✓ GuarantCo will not typically cover more than 50% of the total debt of the project or corporate.
- ✓ GuarantCo can cover senior and subordinated debt but not equity. Maximum tenor is 15 years.

