



EIB FINANCING OF PORT PROJECTS IN AFRICA

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- **About the EIB**
- **EIB Terms and Conditions**
- **EIB transport lending policy**
- **PPPs in EIB-financed Port Projects**



About the EIB





- ❖ European Union's long-term lending bank set up in 1958 by the Treaty of Rome.
- ❖ Shareholders: 27 EU Member States
- ❖ Governance
 - ❖ Board of Governors – EU Finance Ministers
 - ❖ Board of Directors - Member States & European Commission
 - ❖ Management Committee –EIB's executive body
 - ❖ Audit Committee – independent, non-resident



➤ **Within the Union:**

- Cohesion and convergence
- Small and medium-sized enterprises (SMEs)
- Environmental sustainability
- Knowledge Economy
- Trans-European Networks (TENs)
- Sustainable, competitive and secure energy

➤ **Outside the Union:**

- Private sector development
- Infrastructure development
- Security of energy supply
- Environmental sustainability
- Support for EU presence in Asia & Latin America via Foreign Direct Investment



➤ **Projects signed**

- European Union **EUR 70.56 bn**
- Partner countries **EUR 8.6 bn**
- Total Lending **EUR 79.1 bn**

➤ **Borrowings** **EUR 79.4 bn**

➤ **Subscribed capital (at 01/04/2009)** **EUR 232.4 bn**

***Situation as at 31/12/2009**

SUPPORTING EU DEVELOPMENT AND COOPERATION POLICIES

- **Pre-accession countries**
 - Candidate countries - Croatia, Turkey and the FYRM*
 - Potential candidate countries in the Western Balkans

- **European neighbourhood**
 - Mediterranean Neighborhood (FEMIP)
 - Russia and Eastern Neighbours

- **Co-operation policy**
 - Africa, Pacific and Caribbean States (ACP)
 - Overseas Countries and Territories (OCT)
 - South Africa
 - Asia and Latin America (ALA)

* Former Yugoslav Republic of Macedonia



- ❖ Value added of the Bank's lending activities:
 - ❖ Support for EU priority objectives
 - ❖ Project quality and soundness
 - ❖ Financial benefits of EIB funds
 - ❖ Technical assistance
 - ❖ Project assessment



➤ **The FEMIP Mandate**

(Facility for Euro-Mediterranean Investment and Partnership)
(Northern Africa)

➤ **The ACP-EU COTONOU PARTNERSHIP AGREEMENT**

(Sub-Saharan Africa except RSA, as well as Caribbean and Pacific ACP countries)

➤ **The RSA Mandate**



The FEMIP Mandate



Mediterranean Neighborhood Facility for Euro-Mediterranean Investment and Partnership

- ❖ Established October 2002
- ❖ EIB can lend up to EUR 8.7bn during 2007-2013
- ❖ Priorities:
 - ❖ Private sector ventures
 - ❖ Infrastructure projects
 - ❖ Investment in human capital
 - ❖ Schemes specifically targeting environmental protection
- ❖ Total lending in 2009 reached EUR 1.6bn
- ❖ Total loans of EUR 6.8bn 2005-2009

Dates back to 1963 (1st Yaoundé Convention)

- ❖ Series of Conventions since then (Yaoundé and Lomé) to provide finance in the ACP Regions
- ❖ **Since 2003:** the EIB manages the **Investment Facility** under the **Cotonou Agreement** + lending from its own resources

Private sector development, through

- *Foreign Direct Investors,*
- *Local private sector*
- *Financial sector*
- *Commercially viable public entities*



Nearly 7 years down the road

(as of 31 December 2009):

 **Total signatures of EUR 3.9 bn**

- EUR 2 489 m under the IF
- EUR 1 446 m under EIB own resources

75 % of the portfolio relate
to **private sector operations**

Close to 80 % of the portfolio
relate to **Africa**

More than one third of total investments went
to **African infrastructure**

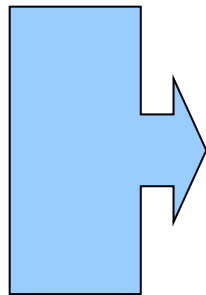


EIB lending in South Africa

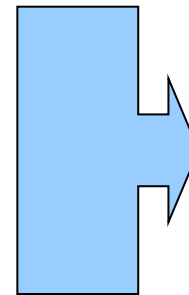


EIB supports South Africa's
economic development since 1995

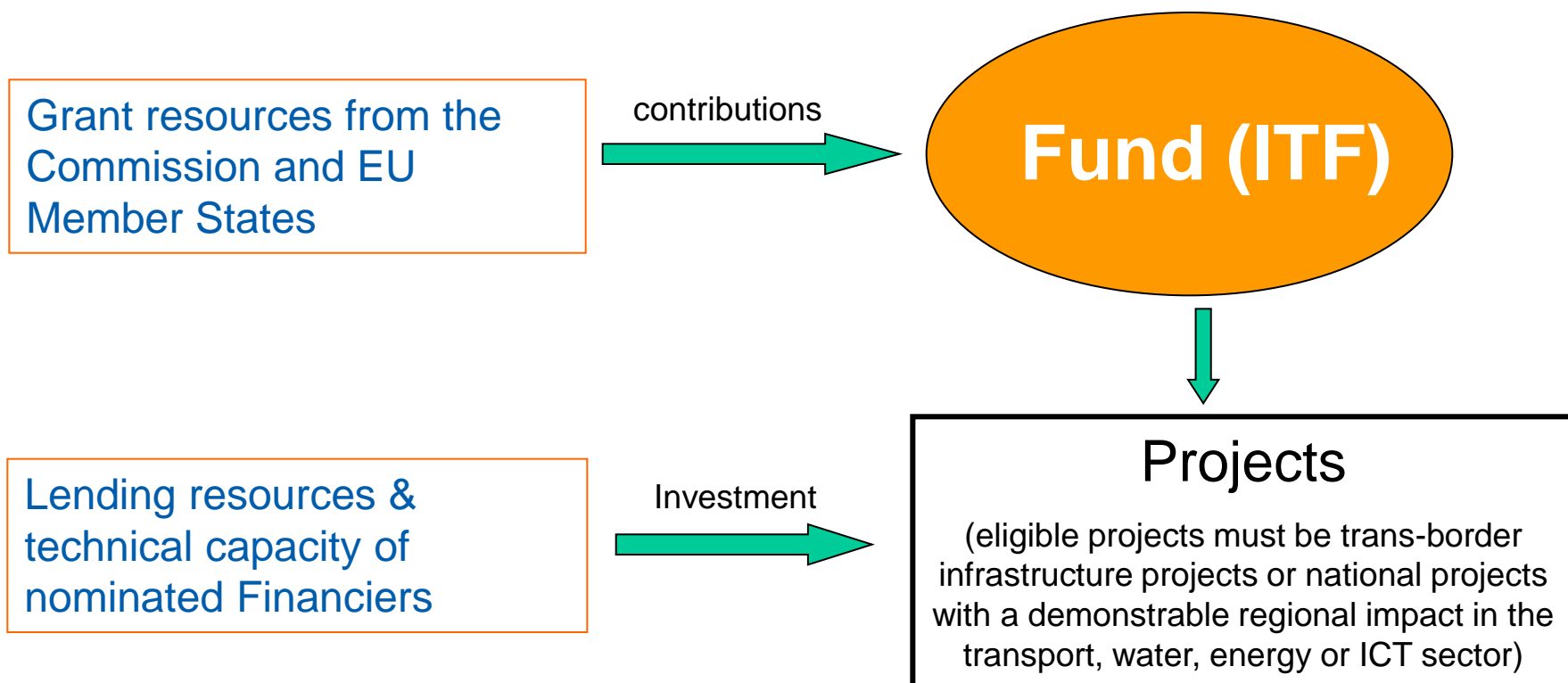
First Mandate 1995-1997 – EUR 300 million
Second Mandate 1998-2000 – EUR 375 million
Third Mandate 2000-2007 – EUR 825 million
Fourth (current) Mandate 2007-2013 – EUR 900m



EUR 2bn
cumulative
lending to date



47% public sector
53% private sector



- ❖ **Interest rate subsidies (IRS)** – can be applied in flexible ways to reduce the total amount of debt payable by the borrower.
- ❖ **Technical assistance (TA)** – preparatory work for eligible projects, project supervision and targeted capacity building.
- ❖ **Direct Grants (DG)** – to finance project components with social or environmental benefits.
- ❖ **Insurance Premia (IP)** – Payment of early-stage premium on project risk.

- ❖ **Financial contributions (to date):** EUR 172.7m
- ❖ **Approved grant amount (to date):** EUR 96.3m



Overview of EIB Terms and Conditions





Projects should be:

- **Eligible for EIB finance;**
- **Technically sound;**
- **Financially viable;**
- **Show a positive impact on the economy – social and development assessment;**
- **Comply with environmental protection and procurement regulations;**
- **Have adequate security (for debt instruments only).**

Range of Available Financial Instruments in the ACPs



	Investment Facility	EIB Own resources	RSA/ EIB Own resources	FEMIP
Senior debt	✓	✓	✓	✓
Junior/subordinated debt	✓	No	No	✓
Intermediated loans	✓	✓	✓	✓
Quasi-equity	✓	No	No	✓
Equity	✓	No	No	✓
Guarantees	✓	No	No	✓
Currencies				
- widely traded	✓	✓	✓	✓
- local	No	No	✓	No
Interest rate subsidies	✓	✓	No	No
Project related TA	✓	✓	No	✓



➤ **Environmental and social impact**

measure added-value of projects from an economical, environmental, social and governance perspective (Environmental and Social Impact Assessment Framework - ESIAF)

➤ **Complementarities** with operations/ instruments of EU, bilateral or multilateral institutions

Illustrations: - *the EU-Africa Infrastructure Trust Fund*
- *the Neighbourhood Investment Facility*

➤ **Acts as a catalyst** in mobilising local resources and encouraging foreign lending and investment
(*EIB financing ≤ 50 % of project cost*)



Technical Assistance



EIB technical assistance operations aim to:

- *Enhance project quality and success rate;*
- *Increase the efficiency of the EIB's investment activities;*
- *Complement other EIB financial products.*

Technical assistance grants cover the whole project cycle from project identification to project completion

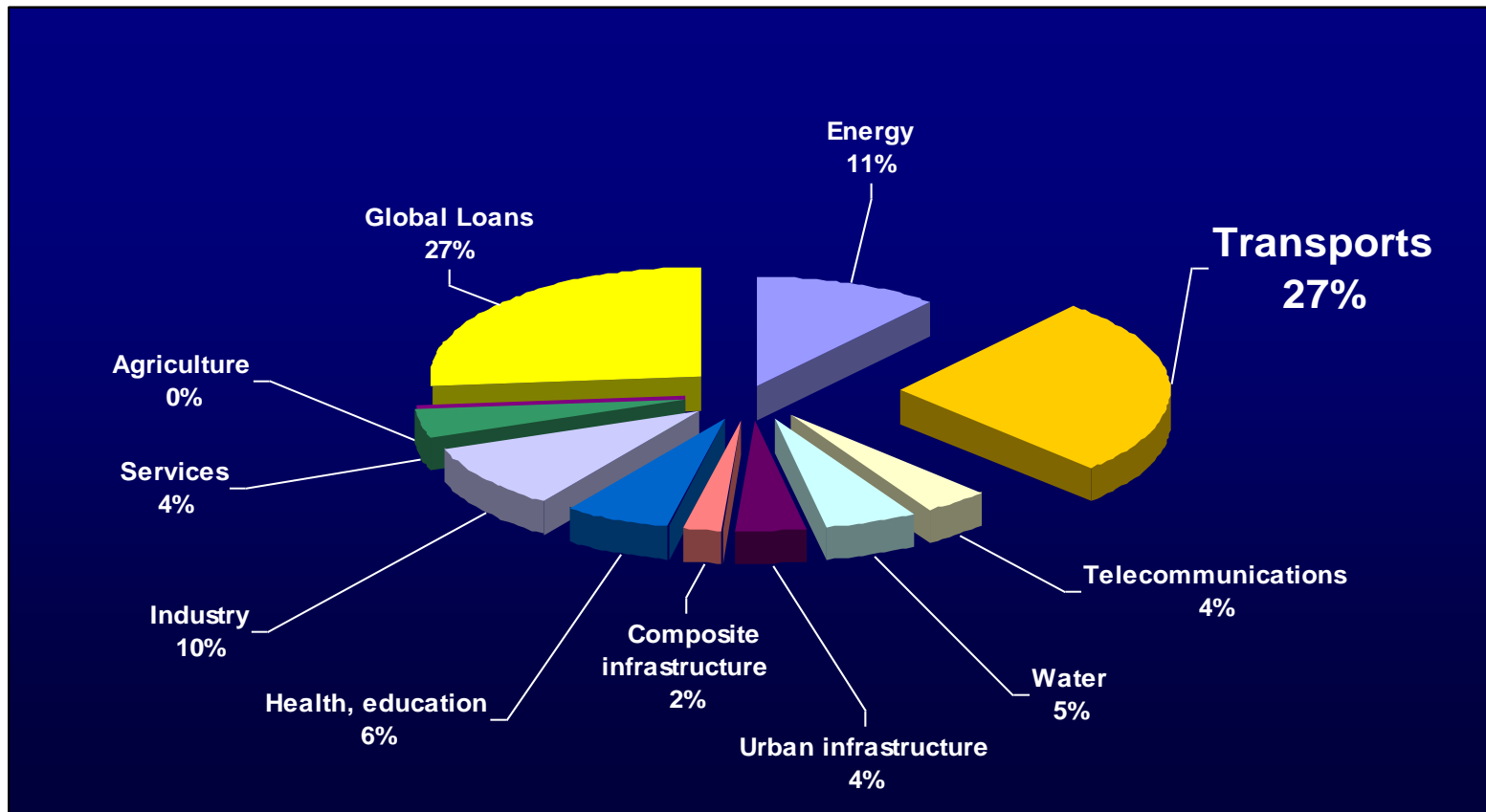


EIB Transport Lending Policy



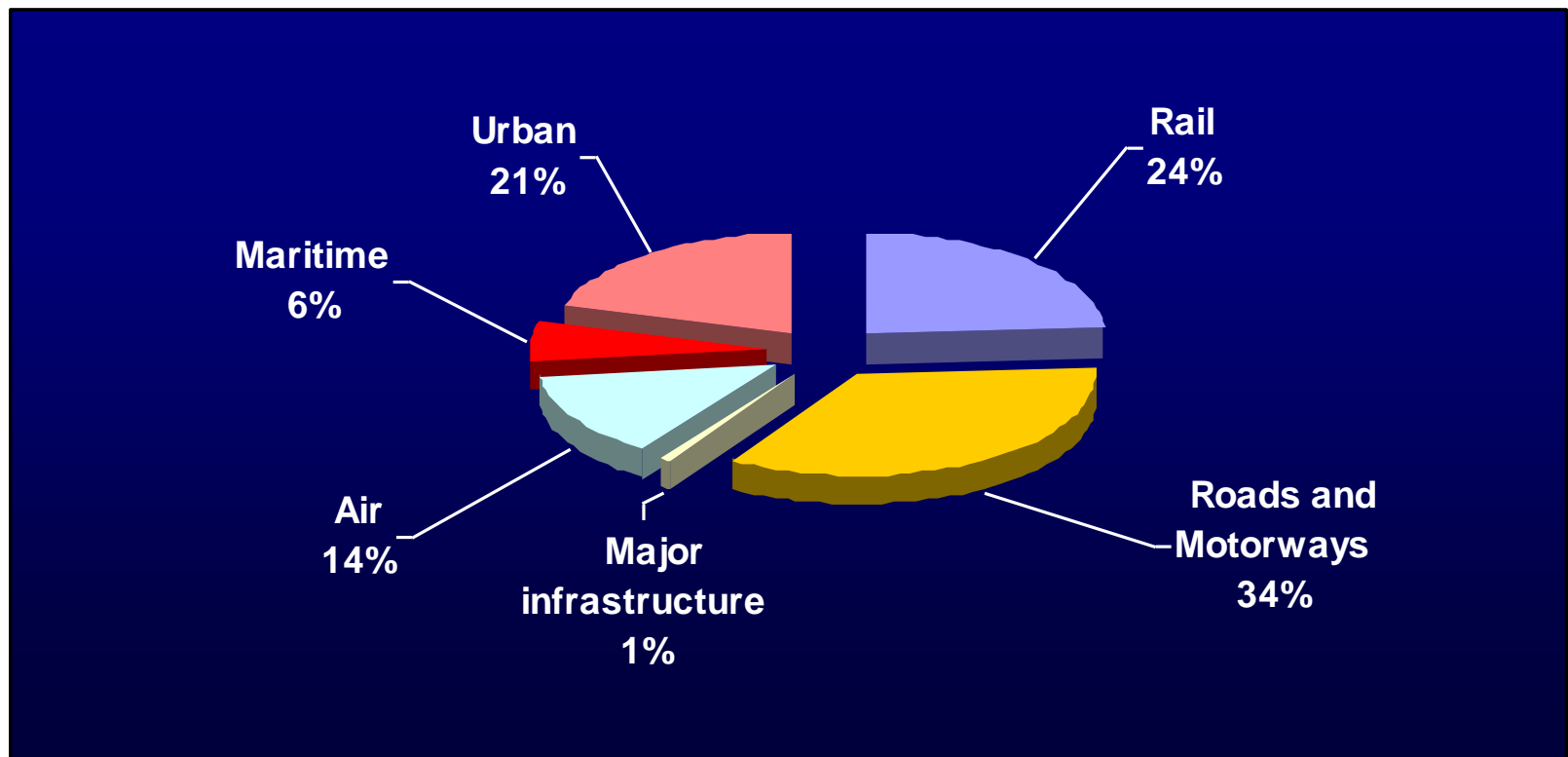


2000-2009: EUR 475 billion





2000-2009: EUR 124 billion



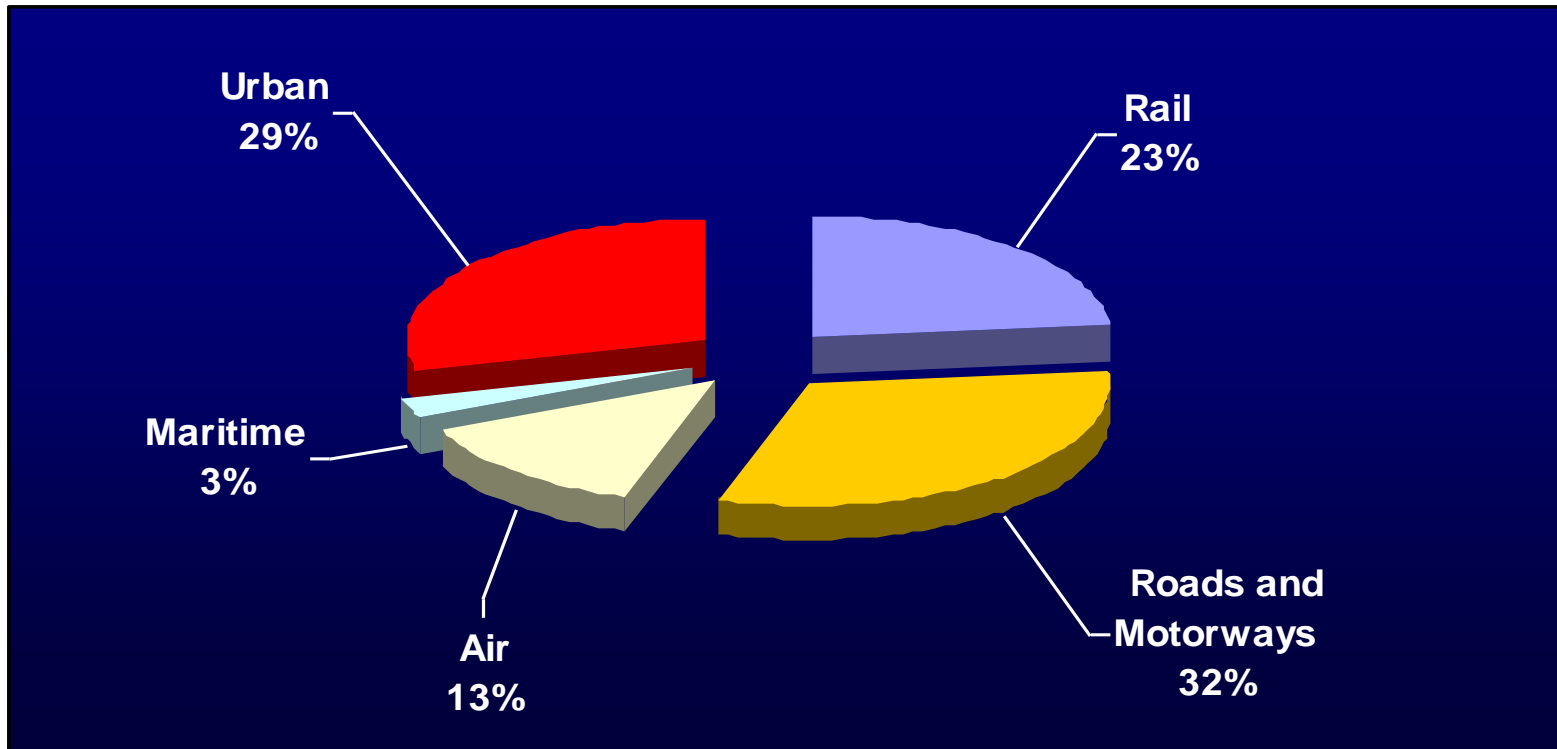


EIB Transport Lending Policy

EIB Lending to Transport sector in FEMIP countries (including Turkey)



2000-2009: 6,446 million EUR





- ❖ EIB should pursue an approach that strives for the most efficient, most economic and most sustainable way of satisfying transport demand. This will require a mix of transport solutions, covering all modes, though carefully planned to control the negative environmental impacts of transport.
- ❖ Strong commitment to the development of TENs. The relationship between the stock of infrastructure capital and greenhouse gas emissions is complex -but does in itself not call into question this continued EU commitment to TENs.
- ❖ Priority should continue to be given to railways, inland waterways and maritime projects (such as Motorways of the Sea) as these are intrinsically the most promising in terms of reducing greenhouse gas emissions per transport unit. The same applies to urban transport and inter-modal hubs.
- ❖ Further emphasis should be given to RDI activities with vehicle manufacturers whatever the sector involved. This should primarily focus on ensuring energy efficiency, emissions reduction and safety enhancement.



- ❖ Long-term increase of maritime trade flows generated by globalised economy, particularly for containerized cargo
=> need for capacity investment.
- ❖ Increase in average size of vessels (post-Panamax)
=> Need for adaptation of port infrastructure and terminal facilities.
- ❖ Congested hinterland road connections and associated environmental impacts
=> need to improve multimodal options and connections to rail and inland waterway networks.
- ❖ Global trend towards concessioning of transport terminals
=> increased private sector investment in the sector, usually in parallel with public sector investment.



EIB Transport Lending Policy

Project Requirements



- ❖ Projects must:
 - ❖ Correspond to at least one of the EIB objectives (including TENs)
 - ❖ Be technically sound
 - ❖ Be financially viable
 - ❖ Show an acceptable economic return
 - ❖ Comply with environmental protection and procurement regulations



- ❖ Major expansion projects often located in environmentally sensitive areas in terms of biodiversity, in particular birds and wetland. Capital dredging and reclamation (ports) have large unavoidable impacts.
- ❖ Very significant short-term impact of global economic downturn on trade.
- ❖ Many competing projects and risk of over-capacity in some regions.
- ❖ Feasibility studies not always in line with international best practices.
- ❖ Selection process for concessionaires (should be open to wide international competition, fair and transparent).



- ❖ **Existing ports - common user infrastructure rehabilitation/expansion**
(breakwater, access channel, maritime locks, navigation aids, quays)
 - ❖ Full support

- ❖ **Existing ports - new terminals**
 - ❖ For container terminals: traffic commitment of shipping lines (transshipment hubs in particular)
 - ❖ Selection of concessionaire (open to wide international competition, fair and transparent)

- ❖ **New ports**
 - ❖ Economic justification
 - ❖ Environmental impact

- ❖ **Improvement of hinterland transport connections**
 - ❖ Full support, particularly rail, inland waterways, intermodal terminals

Examples of Projects financed by EIB

FEMIP and ACP Projects



- ❖ Gaza Port (Gaza, 1996)
- ❖ Aqaba Port (Jordan, 1997)
- ❖ Beirut Port (Lebanon 1993)
- ❖ Port de Tripoli (Lebanon, 2002)
- ❖ Port de Tanger-Med – Deuxieme Terminal (Morocco, 2007)
- ❖ Ports du Maroc (Morocco, 1999)
- ❖ Ports du Maroc II (Morocco, 2003)
- ❖ Port of Tartous (Syrian Arab Republic, 2002)
- ❖ Ports of Cape Verde (Palmeira and Praia) (Cape Verde, 2008)
- ❖ Port de Conakry (Guinea, 2003)
- ❖ Kingston Container Terminal (Jamaica, 2000)
- ❖ Mauritius Container Terminal (Mauritius, 2004)
- ❖ Beira Corridor Project (Mozambique, 2009)
- ❖ Port Autonome de Pointe Noire (Congo, 2010)



PPPs in EIB-Financed Projects



PPP in EIB-Financed Projects

A complex balance



Pros

- Could provide effective solutions to infrastructure financing
- Increase public sector flexibility to invest
- Benefit from management skills of private sector
- Make available for public sector initiatives, risk capital that is difficult to attract to public uses
- Transfer and sharing of risks to allocate them to those best able to handle them

Cons

- Complex structures that make success difficult to achieve
- Legal and administrative framework must be adapted to the specific needs of these partnerships
- Rigorous control is needed to avoid overcosts, especially when private partner is a construction company
- Very high transaction costs due to legal and financial fees
- In practice, risk transfer is much more limited than foreseen in the covenants (monopolistic position)



PPPs in EIB-Financed Projects

Essential conditions for successful PPPs



- ❖ Adequate planning context
- ❖ Economic feasibility based on reasonable forecasts
- ❖ Adequate definition of the project's technical characteristics and its long-term operation
- ❖ Competition and transparency in procurement
- ❖ Balanced concession structure: Adequate distribution of risks and rewards. Private sector should only take risks it can handle: construction, market, etc. but not political or force majeure risks
- ❖ Sustainable financial structure (reasonable macroeconomic forecasts; coherent and enforceable approach to public subsidies, tax exemptions, etc.)
- ❖ Experienced private partners with a long-term vision
- ❖ Public sector expertise, possibly through a specialized agency



PPPs in EIB-Financed Projects

Critical (strategic) PPPs aspects



Risk Assessment

- who takes decisions
- clear definition of responsibilities
- Government partnership
- legal & institutional framework (contract issues)
- managerial arrangements (who takes each risk)
- construction risks (technical, timing, cost)
- technology related risks (R&D, deployment...)
- financial risks (structure, money cost...)
- operation risks (availability maintenance)
- market risks (demand, tariffs, payment mechanism)
- residual value (concession conditions)
- other (political, force majeure...)



PPPs in EIB-Financed Projects

Critical (strategic) PPPs aspects



however, in most of cases...

Implementation delays

- ❖ Administrative obstacles
- ❖ Legal framework (undeveloped)
- ❖ Land acquisition
- ❖ Protestors
- ❖ Insufficient detailed design
- ❖ Optimistic proposals (commercial aggressive)
- ❖ Remains, soil conditions, environmental constraints
- ❖ Weak partner agreements

Cost overruns

- ❖ Unrealistic timetable
- ❖ Construction or technical problems
- ❖ Latent/unexpected defects
- ❖ Weak management
- ❖ Conflict of interest (shareholders)
- ❖ Insufficient financial support
- ❖ Optimism bias, both on traffic forecasts and investment costs

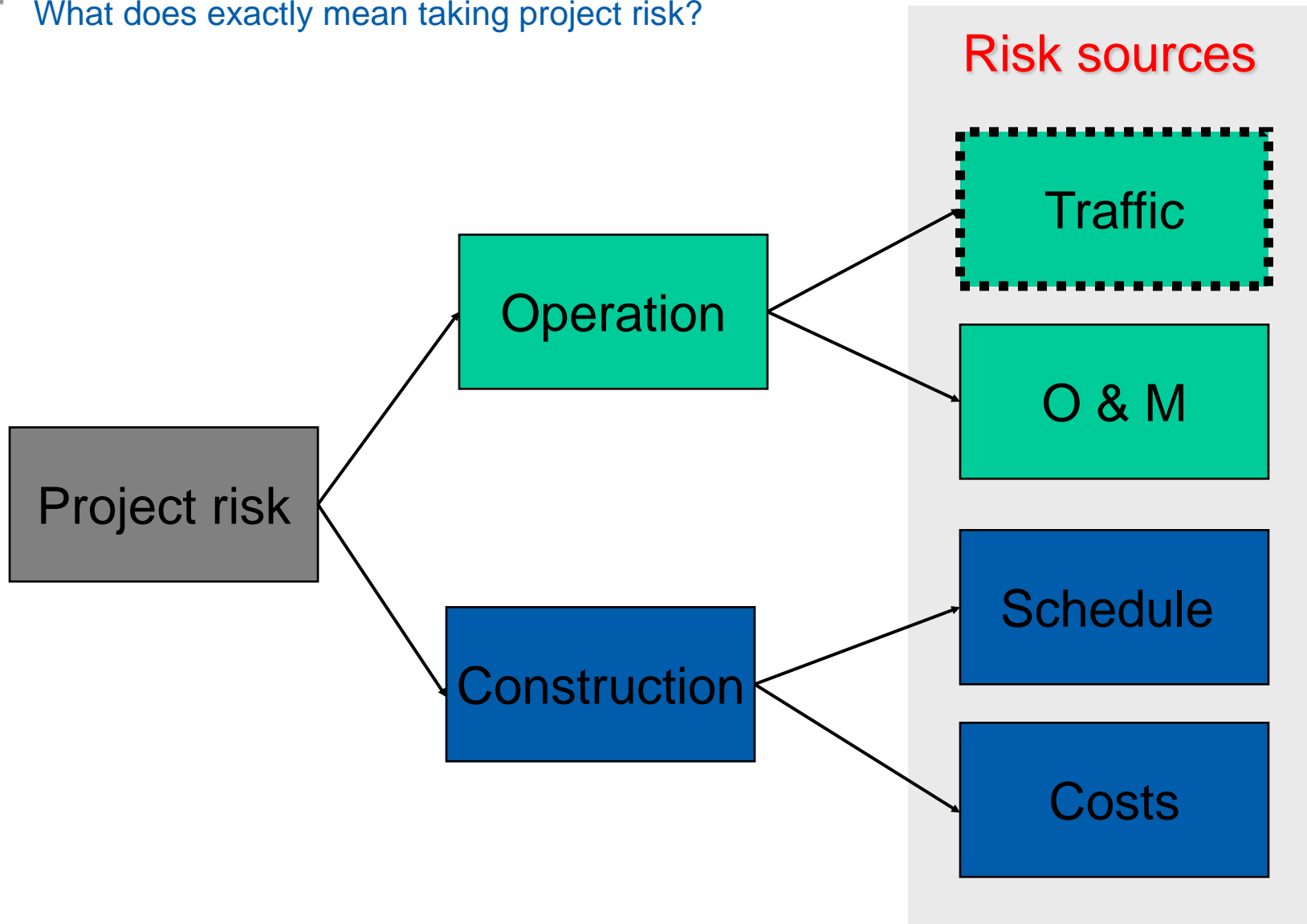


- ❖ Advisor to Public Authorities, Member States, Accession Countries and EU Institutions
- ❖ Close cooperation with the public sector
- ❖ Close collaboration with private sector contractors, financing institutions
- ❖ Sharing experience from various PPP environments
- ❖ Applying best practice of successful PPP on a case-by-case basis (no pre-defined PPP model)
- ❖ Assuming (some) risks
- ❖ EIB benefits passed to Public Authorities and end-users



PPPs in EIB-Financed Projects

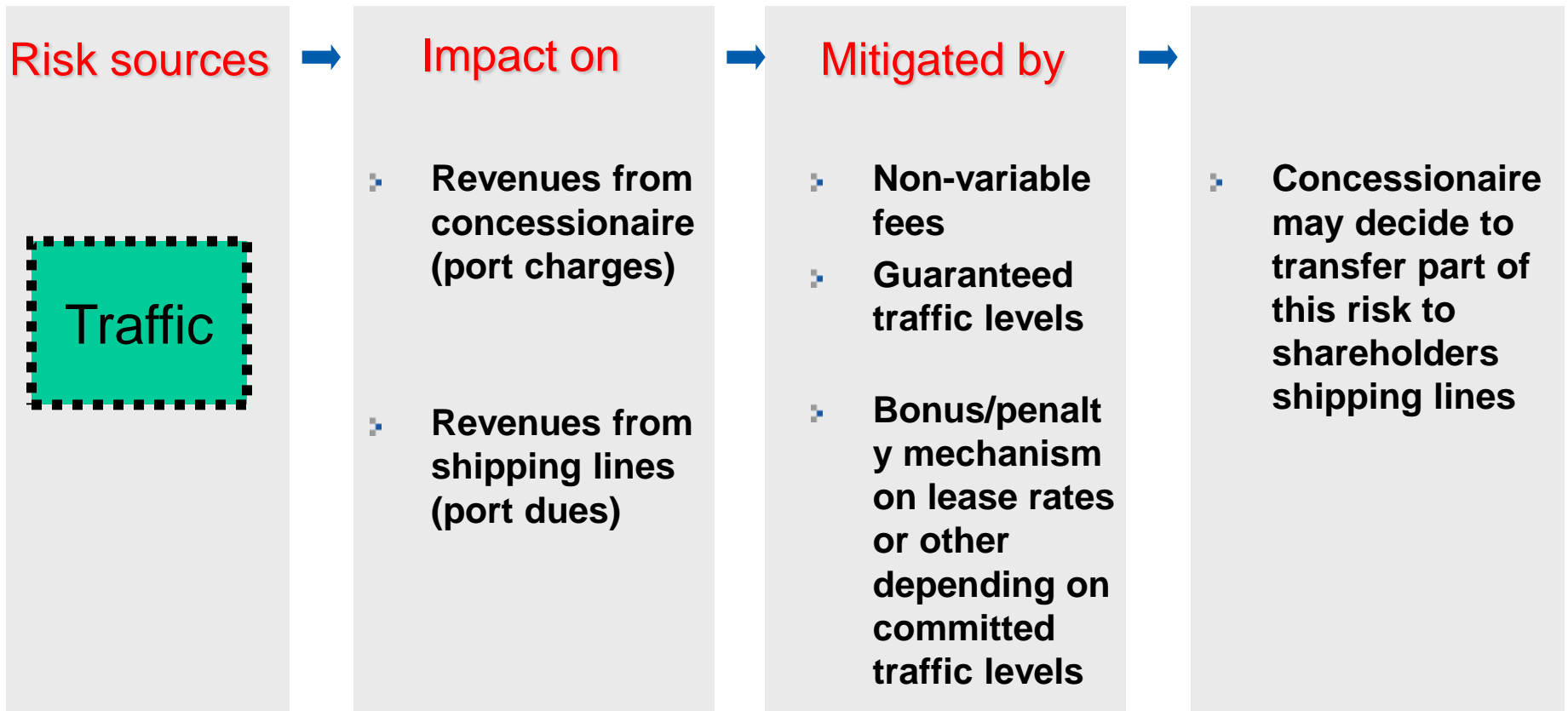
What does exactly mean taking project risk?





PPPs in EIB-Financed Projects

How to mitigate traffic risks for Port Authority?





PPPs in EIB-Financed Projects

Examples: **Pointe Noire**



- ❖ Rehabilitation, modernization and extension of Port of Pointe Noire, Congo.
- ❖ EIB Loan (EUR 29 M) to Port Authority (public promoter). Port Authority does the contracting for all civil works, although two thirds of the cost of the new quay are financed by concessionaire.
- ❖ Concessionaire is in charge of paving and equipment of the new terminal.
- ❖ Concessionaire and Port Authority share traffic risk:
 - ❖ Concessionaire guarantees revenue from transshipment traffic through guaranteed traffic levels and non-variable fee.
 - ❖ Port Authority bears some risk of traffic: port dues from shipping lines



PPPs in EIB-Financed Projects

Examples: **Tanger Med I**



Tanger Med Port at the time of appraisal (early 2007)



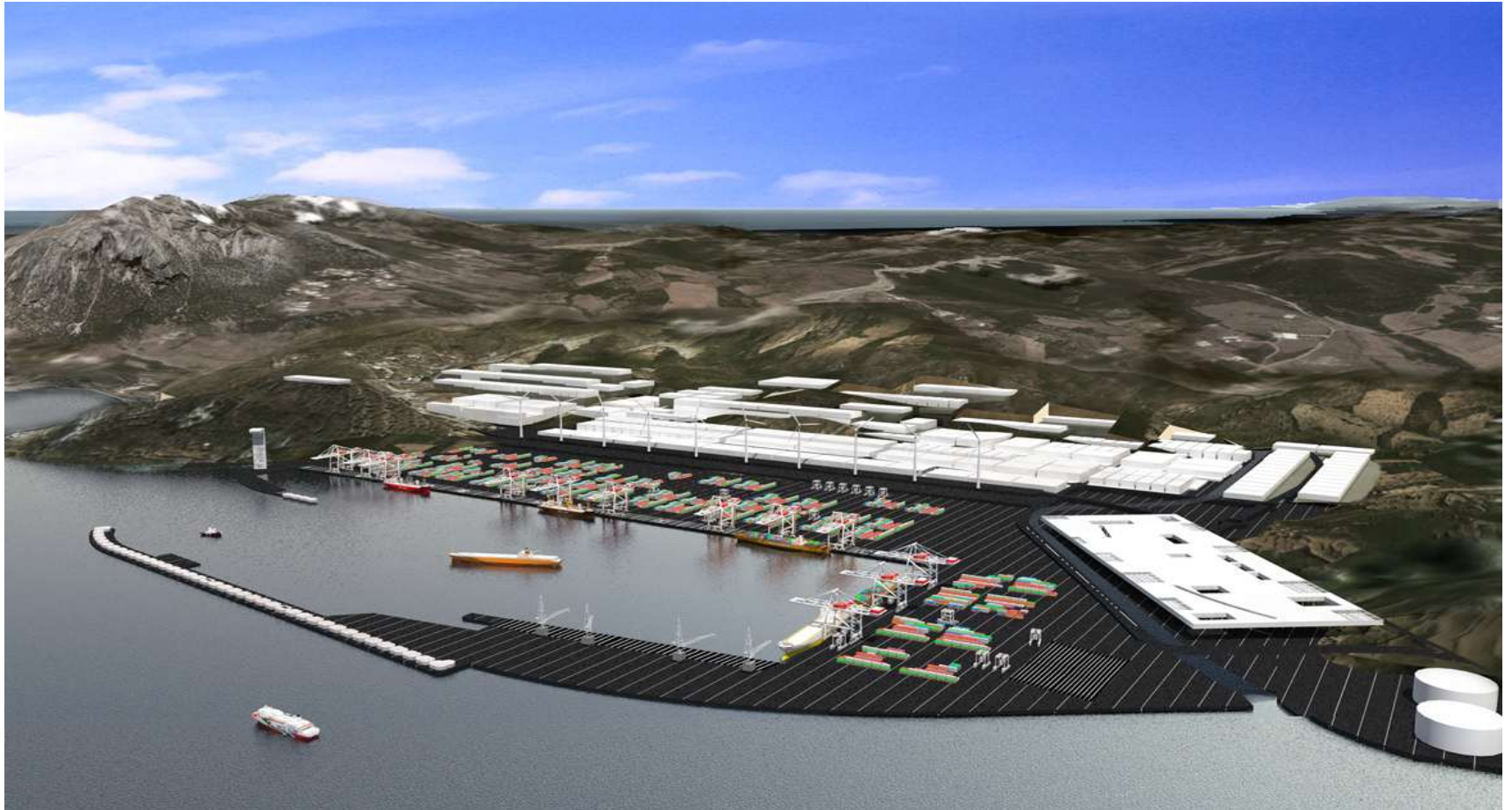


PPPs in EIB-Financed Projects

Examples: **Tanger Med I**



Tanger Med Port completed





PPPs in EIB-Financed Projects



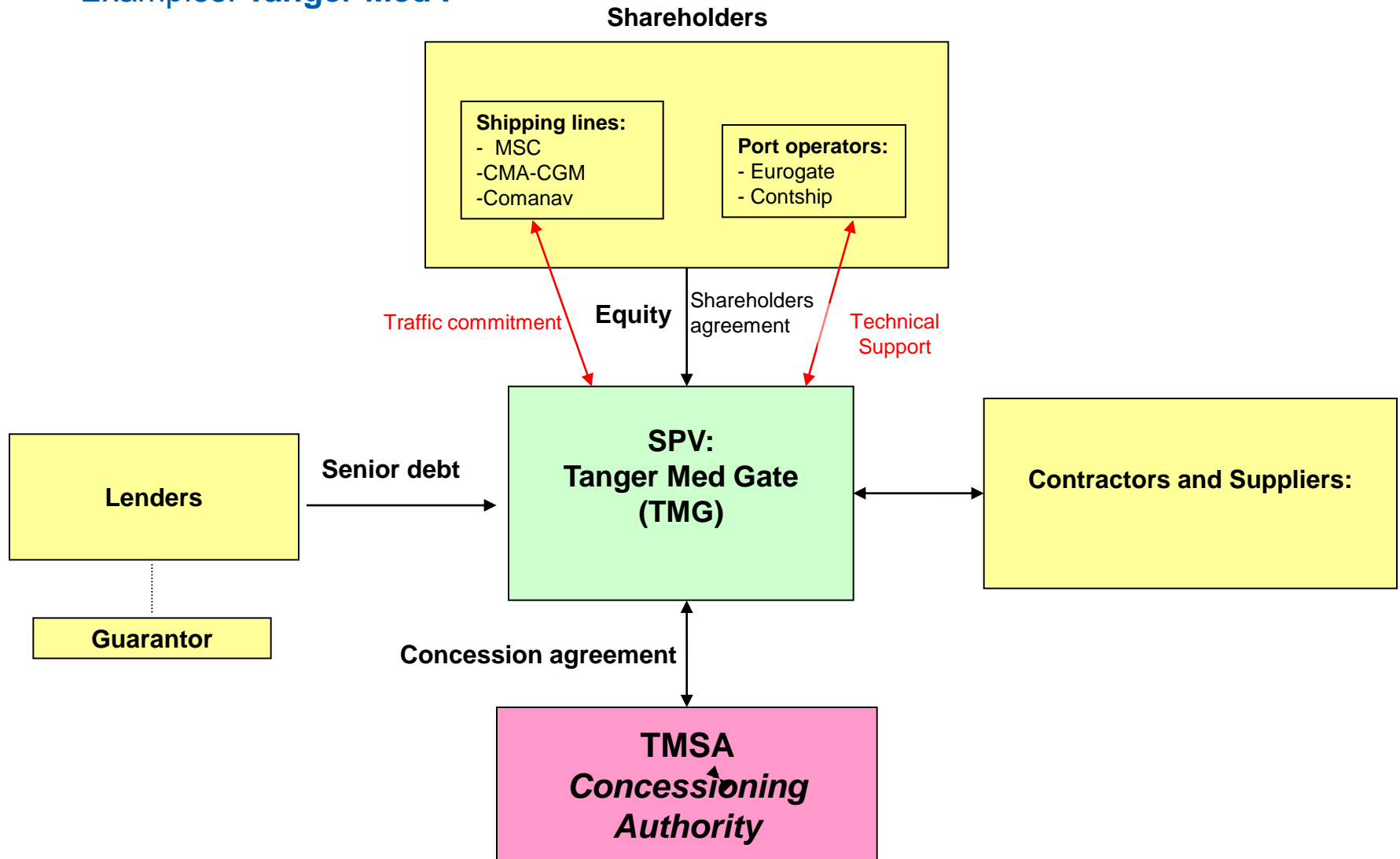
Examples: **Tanger Med I**

- ❖ Design, supervision, and construction of the second container terminal of the new port of Tanger Méditerranée.
- ❖ 30 years BOT (Build Operate Transfer) Concession.
- ❖ EIB Loan (40 mEUR) to the SPV, a joint venture company established by CMA CGM Group (20%), Groupe Comanav (20%), Eurogate Beteiligungs GmbH (40%) and Mediterranean Shipping Company S.A. (20%).
- ❖ Construction risk is partly retained by SPV, although partly transferred to contractors and suppliers through contractual penalties. However, these penalties are capped, so they would not compensate the concessionaire for extreme cases of implementation delays.
- ❖ Concessionaire and Port Authority share traffic risk:
 - ❖ Concessionaire guarantees traffic revenue through guaranteed traffic levels. Part of this risk is transferred to shareholding shipping lines, which have traffic commitments, although with small penalties in case of non-compliance.
 - ❖ Port Authority bears some risk of traffic: port dues from shipping lines



PPPs in EIB-Financed Projects

Examples: **Tanger Med I**





PPPs in EIB-Financed Projects

Key learnings from these examples



- ❖ The Government had to engage in initial infrastructure investments
- ❖ Technical assistance is sometimes required to improve management practices (accounting, financial forecasts) before any DFI financing can take place
- ❖ Cooperation of Port Operators with Shipping Lines is a key factor to manage traffic risk, specially for transshipment hubs.



**Thank you for
your attention**



For more information...



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**Enhanced contacts with
national Authorities, project promoters, EC
Delegations and donors established in the region**



Back-Up Slides

EIB Transport Lending Policy

Project Cycle



EIB project cycle



What is FEMIP?

Institutional and policy framework

- ☐ Operational since October 2002
- ☐ Key instrument of EU policy in the region in the framework the Euro-Mediterranean partnership
- ☐ Stems from the consensus among EC, MS and EIB that lack of private sector development in the Mediterranean is a core impediment to the region's long term economic development
- ☐ Financing granted under mandates conferred to EIB by MS. Financing on EIB own resources with EU guarantee coverage

Objectives and priorities

- ☐ FEMIP brings together the whole range of EIB instruments in the Mediterranean partner countries (MPCs)*
- ☐ Its objective is to support the modernisation and opening-up of MPCs' economies
- ☐ Two priorities:
 - . Private sector support
 - . Creation of an investment-friendly environment

* Algeria, Egypt, Gaza/West Bank, Israel, Jordan, Lebanon, Morocco, Syria and Tunisia

Individual loans

- On Bank's own resources
- Investment cost should exceed EUR 25 m
- Are made directly to private or public promoters of projects
- Guarantee for commercial risk required, political risk covered by the EC
- "SFE" for higher-risk private sector operations

Credit lines

- On Bank's own resources
- Are made for projects with an investment cost below EUR 25m
- Channelled though local financial intermediaries
- Political risk covered by the EC
- "SFE" for higher-risk private sector operations



Tapparura site in Tunisia



INFRASTRUCTURE

EIB: key player in the provision of basic infrastructure

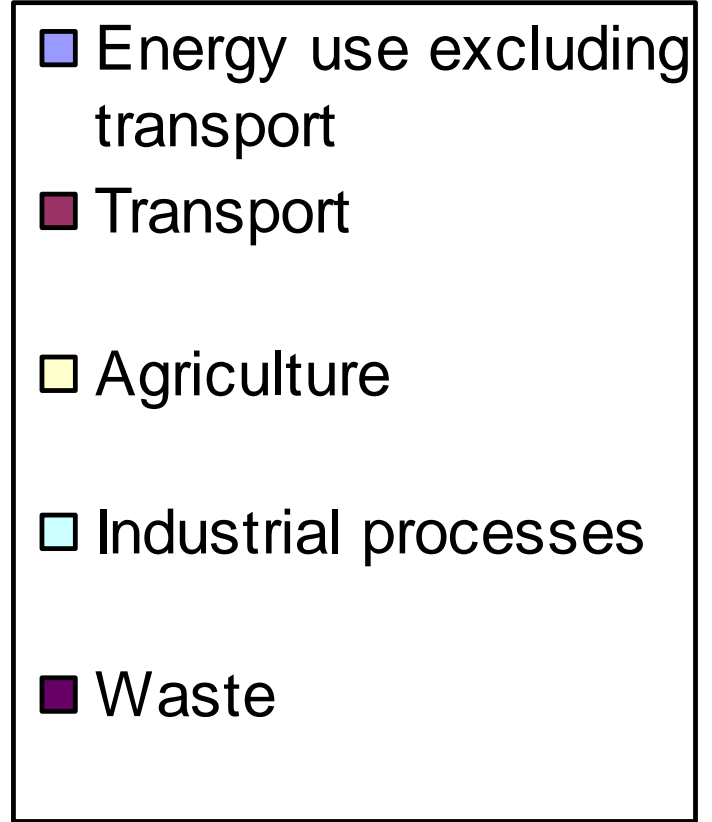
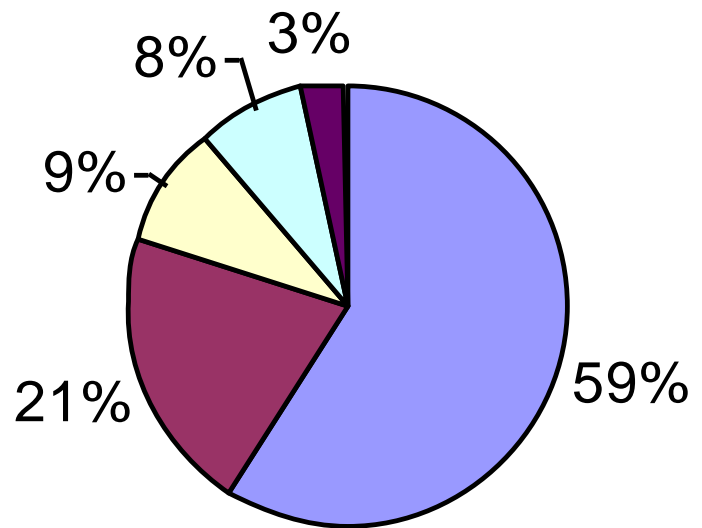
- ✓ **Huge needs: US\$ 75 billion/ p.a over 10 years**
- ✓ **Support the MDGs**

Step-up lending:

- ☺ **Climate change / renewable energy/environment projects**
e.g. water & sanitation, transports, energy
- ☺ **Regional undertakings: energy & transport (Trust Fund)**

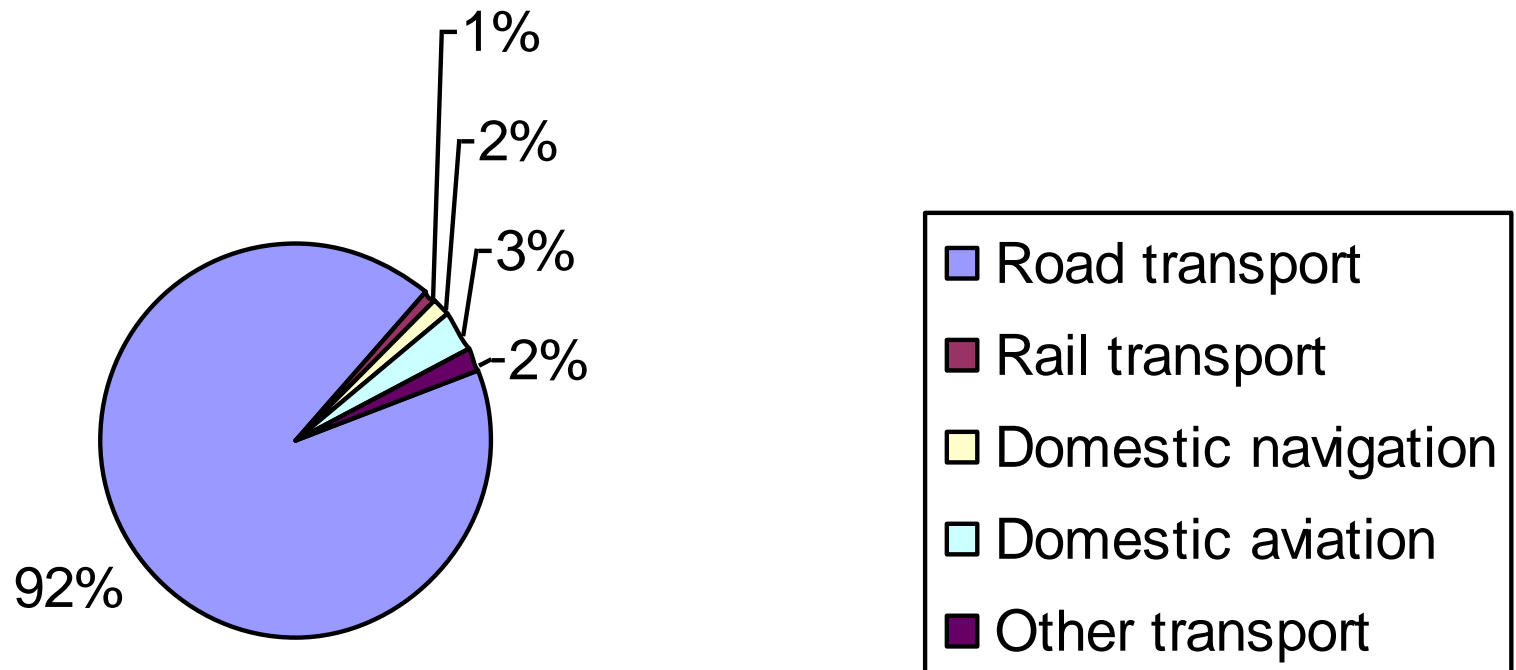


EU-15 greenhouse gas emissions by sector (2004)



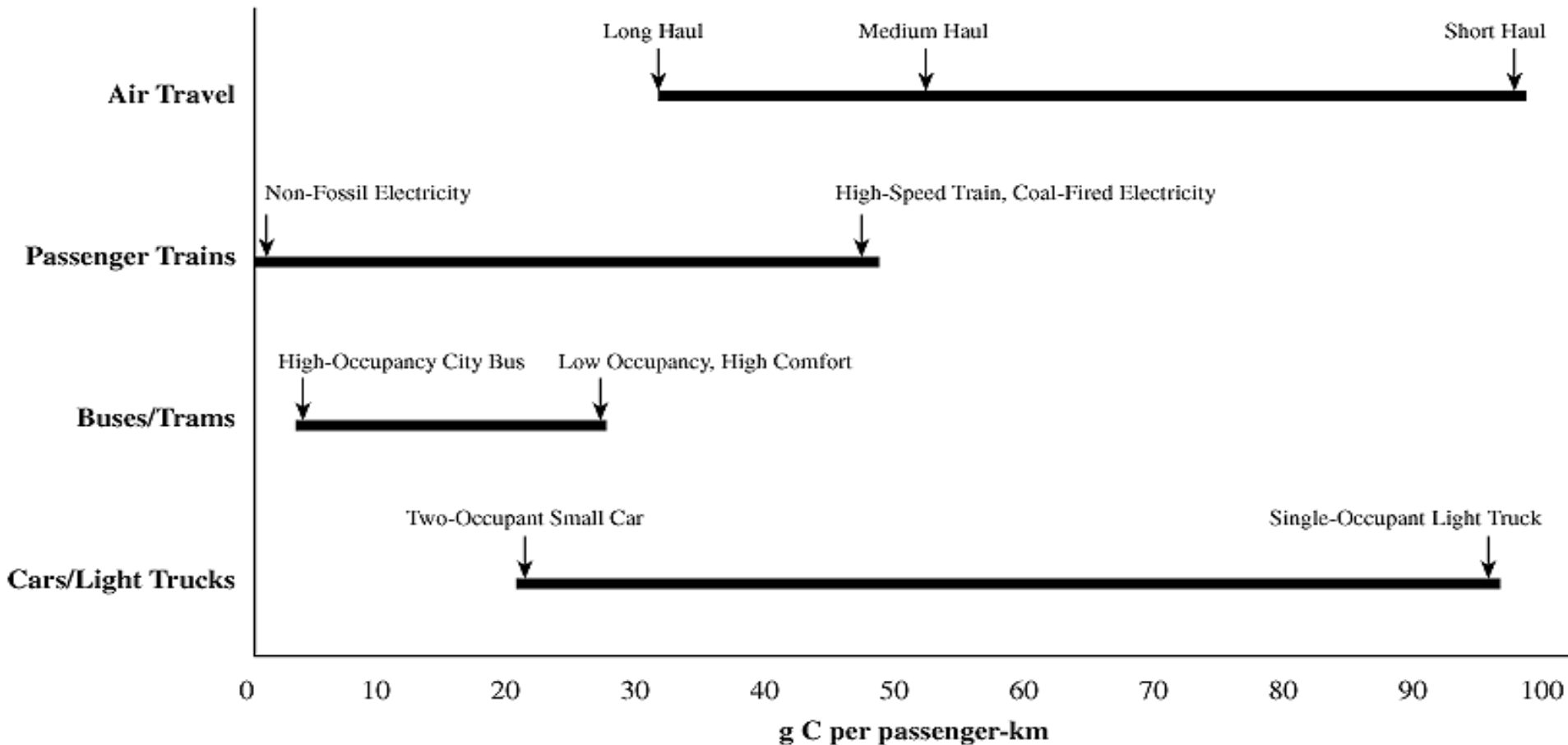


EU-25 greenhouse gas emissions by transport mode
(2001)



EIB Transport Lending Policy

However things are not so simple...





VEHICLES

- **Trains & Ships:** In the rail and shipping sectors, financing the purchase of vehicles is consistent with climate change goals, as is funding the manufacture of rolling stock and ships. RDI in these sectors also merits full support.
- **Airplanes:** Continued support should be given to aircraft manufacturers for RDI focused on improved safety and environmental performance and connections to convergence regions where flight strongly contributes to secure the territorial integrity of the EU.



INFRASTRUCTURE

- Roads: Projects with high economic value (such as rehabilitation of dilapidated roads and new roads in highly-congested settings) should be given priority.
- Railways and Urban Transport, Ports and Inland Waterways: reinforcement of the “environmental sustainability” eligibility of rail and urban transport as well as maritime and inland navigation projects throughout the EU. Lending to sound projects in those sectors, even when they are neither TENs nor located in assisted areas, should be a priority.
- Airports: Projects should be supported when they demonstrate high economic value.



- ❖ Commission communication “A sustainable future for transport: towards an integrated, technology-led and user friendly system”
 - ❖ Analyses trends and challenges
 - ❖ Propose policy objectives and instruments
 - ❖ Outline likely priorities
- ❖ New White Paper end 2010?
- ❖ Review of TEN-T
- ❖ Future changes in Bank’s policy driven by EU policy
 - ❖ Summarized in the “Renewed policy for lending to the transport sector”, published in 2007
 - ❖ Policy review during 2010

EIB lending in 2009 (in EUR billion)

