APPRAoch PAPER

Mobilisation

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1. Introduction

1.1 Objectives and Scope

The Executive Board approved a thematic assessment of the mobilisation of third party funds by European Bank for Reconstruction and Development (EBRD) in the Evaluation Department's (EVD) work programme for 2019. The core objective of the study will be to contribute to Board and Management-level strategic thinking and operational decision-making about the Bank’s future efforts to mobilise additional private capital to support transition. The study will assess EBRD’s objectives and approach to mobilization, experience to date, and critical factors underpinning performance. It will develop a picture of mobilisation through different channels, and examine internal mechanisms to deliver finance from direct and indirect sources. It will analyse issues such as crowding in versus crowding out private sector finance, and the co-finanoter vs competitor relationship with other Multilateral Development Banks (MDB). The review will encompass practices in comparable institutions, the overall management of mobilisation, and the quality and accessibility of data. To ensure the findings are relevant to current decision making, the period of analysis will be 2014-2018.

1.2 Rationale

Mobilisation has always been a primary objective of EBRD, as defined by Article 2 of the Agreement Establishing the Bank, which enjoins it ‘…to help [the economies of countries of operation (COOs)] become fully integrated into the international economy…’ including by ‘…mobilising domestic and foreign capital…’.

EBRD’s mobilisation objective was given further impetus by the United Nation’s (UN) Sustainable Development Goals (SDG) approved in 2015 in the context of the Addis Ababa Action Agenda, which stated that private sector mobilisation is central to the achievement of the SDGs. In 2017, the MDB’s issued a Joint Statement for Crowding in Private Finance during the G20 Summit in Hamburg committing to increase private sector mobilisation by 25-35% by 2020. The MDBs would develop incentives for staff to mobilise more private finance and report jointly on results. These objectives were reinforced by the G20 Eminent Persons Group report on Global Financial Governance (the Tharman Review) issued in 2018. The G20 report stressed the critical role of MDBs mobilizing private finance and endorsed their target.

The Board-approved Strategy Implementation Plan (SIP) for 2019-2021 stressed the importance of mobilisation of private sector finance. EBRD’s traditional co-financing instruments are focused on debt, through B loans and parallel financing. The SIP flagged EBRD’s intention to complement these instruments with the secondary sale of A loans and the sale of unfunded risk participations (URPs) to third party financiers. Donor fund raising would be scaled up to allow blended finance, risk sharing and guarantee products to support increased levels of co-financing. Management reports to the Financial and Operations Policies Committee (FOPC) in July and December 2018 elaborated on mobilization, and provided the basis for the SIP. Management indicated EBRD’s ambition to increase Annual Mobilised Investment (AMI) from just over €1.0bn in 2017 to €1.75bn by 2021.
2. Mobilisation

2.1 Overview

EBRD is mandated to seek transition impact (TI), sound banking and additionality. EBRD’s primary objective is TI, and it can be achieved at the project and portfolio level. TI is oriented towards objectives such as developing competitive markets by supporting privately financed firms. In 2017 TI was redefined by introducing qualities such as greenness and inclusiveness so as to be more closely aligned with the SDGs while retaining the Bank’s private sector focus. Sound banking reflects the requirement that project returns are commensurate with the risks. Additionality reinforces the concepts of innovative use of finance and crowding in private sector.

EBRD has pursued these objectives by developing projects with mobilized direct and indirect finance. Direct financing of operations on its own account is an explicit EBRD goal. In comparison, indirectly mobilizing co-finance from third parties has tended to be treated at the project level as an implicit goal. These circumstances are starting to change, and in line with joint MDB initiatives on SDGs and the Addis Ababa Agenda, mobilisation of private co-finance has become an important corporate objective in its own right. Mobilisation targets were introduced in departmental scorecards from 2014 and it was identified as one of four priorities in EBRD’s 2018/2019 Strategic Review.

Box 1: SDG Private Investment Needs and MDB Contributions

<table>
<thead>
<tr>
<th>Financing the SDGs requires additional investment on a huge scale. Investment to support SDGs is estimated to be US$1.4 trillion in 2016. UNCTAD calculated an additional US$2.5 trillion pa in developing countries is required to 2030, of which US$1.0 trillion annually will be in infrastructure. In 2016 total official development assistance amounted to US$143 billion, indicating a requirement for a 10 fold increase in financing. It is envisaged this increase in funding will come from the private sector and MDBs will play a central role in catalysing these funds.</th>
</tr>
</thead>
<tbody>
<tr>
<td>MDBs can mobilize funds directly through their own balance sheets, and indirectly by catalysing third party finance. MDBs can directly catalyse private co-financing by reducing political and creditor risk using guarantees and the extension of their preferred creditor status, or by reducing information asymmetries by allowing private parties to rely on MDB’s country, sector and project structuring knowledge. Alternatively, MDBs can indirectly mobilise private finance by improving the investment climate by influencing government decisions, or through signalling or demonstrating financial opportunities to third private parties.</td>
</tr>
<tr>
<td>These MDB mobilisation efforts can have positive and negative outcomes. There are risks MDBs may act as a substitute rather than a complement for the private sector, leading to crowding out. MDBs may displace investments that would have otherwise have occurred, or create risks of moral hazard by encouraging governments to invest in projects with low returns, delay reforms, or use lending to repay old debts. MDBs have high governance, social and environmental standards and monitoring requirements that create large transaction costs relative to private firms. Evidence on the levels of MDB mobilisation from formal economic studies is mixed. The findings indicate MDB mobilisation is more effective in high income countries with better credit ratings.</td>
</tr>
</tbody>
</table>

The type of EBRD financing instruments provided to projects has an impact on TI, sound banking additionality, and mobilization. Financing is usually structured as debt or equity and it may be retained on EBRD’s balance sheet (eg A Loans), or intermediated to third parties (eg B Loans). In some cases, EBRD will provide standby liquidity or guarantees to investors. Apart from its trade finance program  

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1 The three other priorities are: (i) enhancing the level and impact of equity, (ii) rebalancing the portfolio by increasing non-sovereign and reducing sovereign transactions, and (iii) maintaining the high share of small projects in its operations

2 Mobilisation effects of Multilateral Development Banks, IDB, 2018
(TFP), and a small donor funded Risk Sharing Facility (RSF) under the Small Business Initiative (SBI), this form of contingent unfunded operation is not common.

**Direct financing instruments retained on EBRD’s balance sheet are funded** using a mix of own capital and capital market instruments managed by Treasury. At the end of 2017 equity accounted for about 16% of investments in EBRD’s portfolio, and capital utilization was 70%. This low level of capital utilization indicates **EBRD is not constrained in its ability to support mobilization through either direct financing from its own balance sheet, or indirect financing mobilised from third parties in the private sector.** Traditionally, when given the choice between direct or indirect financing, EBRD has chosen direct financing as it provides a much greater level of control over outputs and outcomes that is reflected in higher TI scores for projects and it generates revenue.

### 2.2 Why is Private Mobilization Important?

Private mobilization is seen as a critical means for MDBs to “bridge the gap between the supply of finance seeking market rates of risk-adjusted return and the risk and return characteristics of infrastructure and other investments with important development impact”\(^4\). MDBs’ balance sheets do not have sufficient capacity to enable them to directly mobilise the volumes of finance required to achieve the SDGs, nor would this be a shareholder objective. MDBs have been requested by the G20 to develop more innovative ways of leveraging finance in transition economies by **increasing allocations** of financial resources from non-traditional sources and **strengthening financial effectiveness of instruments.**

MDB’s can potentially increase the allocation of private finance to SDGs by tapping into larger sources of capital such as pension funds, sovereign wealth funds (SWF), and insurance companies to create dedicated pools of capital that can be channelled towards the achievement of SDGs. These types of funds have the potential to provide significant benefits by supporting better risk management based on portfolio diversification and achievement of economies of scale. There are opportunities to establish Public-Private Development Banks, where private sector agents manage public and private sources of funds to achieve development objectives (eg SDGs), or alternatively, public sector banks that mobilise and manage public and private finance.

**MDB’s can improve financial effectiveness** by using instruments such as blended finance and guarantees to alter project risk return profiles of investment opportunities so they are more attractive to private sector financiers. To date, MDBs have made limited use of guarantees. From 2001-2013, project (non-trade) guarantees, for both public and private entities, totalled only 4.2% of MDB lending.\(^5\) In comparison, it was estimated guarantees accounted for about 45% of private finance mobilised.\(^6\)

**Scaling up MDB use of guarantees due has been impeded** by issues such as risk aversion, and incentives for MDB staff to maximise volumes of direct financing approvals, rather than mobilization of co-finance. However since the Addis Abba Agreement, the MDBs have been exploring opportunities to scale up mobilization.

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\(^3\) Strategic Review Conclusions, February 2019  
\(^4\) Billions to Trillions? Issues on the Role of Development Banks in Mobilizing Private Finance, N Lee, CGD, 2017  
\(^5\) Billions to Trillions? Issues on the Role of Development Banks in Mobilizing Private Finance, N Lee, CGD, 2017  
\(^6\) More Mobilization and Impact: Adapting MDB Private Finance Models, N Lee, CGD, 2018
2.3 Examples of Initiatives in Other MDBs

The World Bank Group (WBG) Maximizing Finance for Development (MFD) program approved in 2017 provides a comprehensive framework to systemize and mainstream private mobilization. The MFD shows how private mobilization can potentially be scaled by establishing special purpose private funds and making innovative use of new instruments.

The MFD acknowledges that financing alone will not be sufficient to achieve the SDGs and reforms are needed within COOs to improve the investment climate, and create new investment and financing opportunities. The MFD highlights the importance of the Hamburg Principles\(^7\) which stress the centrality of government actions to improve the investment climate, strengthen domestic financial markets, promote sound financing practices for debt sustainability, improve governance and strengthen project pipelines, based on robust public investment planning to accommodate expanded financial resources. Public finance may be required initially to develop policy, regulatory and institutional reforms to remove constraints and mitigate risks that limit private sector participation.

Under the MFD, the WBG introduced a “Cascade Approach” to prioritize its efforts to leverage the private sector for growth and sustainable development.\(^8\) The MFD incentivises staff to use private finance for investment before drawing down public direct finance from WBG’s balance sheet. If these reforms are not sufficient, then the WBG may consider public sector finance, initially on a blended basis, before looking at fully funded public sector financing solutions.

In line with the cascade, IFC has established a series of privately co-financed funds that can potentially draw upon blended public sector funds and guarantees to leverage its capital:

- IFC established a Private Sector Window (PSW) under IDA18 that uses blended public finance to enhance risk return profiles of privately financed projects. The PSW has four separate windows: (i) a blended financing facility (BFF) using debt, equity, and guarantees to mobilize private finance for SMEs ($600 million); (ii) a local currency facility (LCF) to share currency risk ($400 million); (iii) a MIGA guarantee facility (MGF) to enable greater political risk coverage in IDA countries ($500 million); and (iv) a risk mitigation facility (RMF) providing project-based guarantees to crowd in private finance for infrastructure projects ($1 billion).

- IFC has attracted new sources of private equity through its Asset Management Company (AMC). AMC was established in 2009 and it has mobilised total external capital of approximately US$7.5 billion, which is invested in 13 AMC-managed funds and one single asset co-investment.

- IFC has raised private debt through its Managed Co-Lending Portfolio Programme (MCPP) that is using URPs to crowd in institutional investors. The MCPP typically builds a loan portfolio for an investor that mirrors the portfolio IFC is creating for its own account—similar to an index fund. MCPP investors and IFC sign upfront administration agreements determining the makeup of the portfolio based on agreed eligibility criteria. Investors pledge capital upfront and then as IFC identifies eligible deals, investor exposure is allocated alongside IFC’s own participation in line with the terms of the agreement:
  - MCPP-Partners tracker investment vehicles mobilised sovereign funds from China using an index portfolio and trust fund structure;


\(^8\) See Appendix 1 for further details on the MFD
- **MCPP-Infrastructure** mobilised insurance companies as investors in B loans by providing an index portfolio fund with credit enhancement such as first-loss coverage where IFC takes a junior tranche so that investors can take investment-grade exposure in a senior tranche; and

- **MCPP-Finance** mobilised insurance companies as URP providers on a pre-qualifying portfolio to attract third party co-financiers; and

- IFC has recently created the **Green Cornerstone Bond Fund (GCBF)**, which provides a platform to channel funds from global institutional investors to climate bank financing in the developing world.

The effectiveness of these facilities is not clear, and at the end of 2018, only $185 million of the total PSW had been committed, in part because of problems finding projects ready for finance. Where projects were implemented, the leverage ratio was roughly US$1 of public funding mobilizing US$1 of private funding. More broadly, IFC and the regional development banks commit roughly US$40 billion per year in finance for the private sector, and catalyse about US$60 billion in private finance. US$100 billion is less than 10% of the annual SDG financing gap.

### 2.4 EBRD’s Definitions of Mobilization

**Annual Bank Investment (ABI)** is the primary measure of the level of EBRD’s direct financing operations and it was introduced in 2014. ABI is defined as the volume of commitments made by EBRD during the year. ABI includes new commitments (less any amount cancelled or syndicated within the year), restructured commitments and trade finance amounts issued during the year and outstanding at year-end. ABI is linked to TI and it is the main measure on departmental scorecards to incentivise staff.

The **Annual Mobilised Investment** concept was also introduced in 2014 and it is EBRD’s primary measure of indirect co-financing from both private and public sources. AMI is defined as the volume of commitments from entities other than EBRD made available to the client due to its direct involvement in mobilising external financing during the year. AMI included in the measure is defined as external financing which, as a direct result of EBRD’s involvement, has materially:

- resulted in a longer maturity than would have been possible without the involvement of the EBRD; or
- resulted in an improved credit rating or risk rating; or
- represents additional risk takers being brought into the transaction for the client.

Financing is classified as AMI when EBRD has a mandate letter (or similar) and it receives a fee. AMI is not directly linked with TI, but it has been an important component of EBRD’s corporate and departmental scorecards used to incentivise staff since 2014. The SIP for 2019 set a floor target in EBRD’s Corporate Score Card for AMI of €1.0 billion pa, or about 10% of ABI.

**An MDB task force published a common definition of Mobilisation in 2017.** The task force differentiated between public and private sources of co-finance, and it focused on private mobilization. Public sector funding is not considered under the MDB Mobilization framework. The MDB definition of private co-finance is the investment made by a private entity, which is defined as a legal entity that is: (i) carrying out or established for business purposes; and (ii) is financially and managerially

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11. EBRD Data Governance Navigator
12. EBRD Data Governance Navigator
13. EBRD Management does report on Public Sector Funds in its Quarterly Performance Reports.
autonomous from national or local government. Some public entities that are organized with financial and managerial autonomy are counted as private entities.

Within this context, the MDB's definition of private mobilisation\(^\text{14}\) consists of two components:

- **Private Direct Mobilisation (PDM)** is characterised by clear material evidence, such as a mandate letter or fee, demonstrating the MDB’s active involvement in the mobilisation of finance through its financial instruments and operations; and

- **Private Indirect Mobilisation (PIM)** is private sector financing which is provided to a project financed by the MDB, but where there is no material evidence of direct involvement of the MDB in raising such financing.

EBRD reports against these metrics in an annual joint MDB report on private sector mobilisation, and the first report was issued in 2017. No other reports are prepared by EBRD on mobilisation, as defined by MDBs. Private mobilisation does not form part of EBRD scorecards used to incentivise staff.

The relationship between these different measures of mobilization is presented in Figure 1.

**Figure 1: EBRD Definitions of Mobilisation**

![Diagram of EBRD definitions of mobilisation](image)

Source: FOPC on Enhancing Delivery – Mobilisation, July 2018

The MDBs note that in addition to PDM and PIM, they catalyze private investment independent of actual financing, but this metric is not currently measured or reported. Catalyzation could be potentially large, as MDBs mobilise private finance through technical advice, support for policy reform, capacity building, demonstration effects, and other activities which open new opportunities for private investment, or trigger an investment response from private investors.

### 2.5 TI Demands in COOs for Investment and Finance

The achievement of TI/SDG goals is closely linked to sustained high rates of growth in GDP driven by investment, supported by improved access to domestic and foreign capital. Growth in EBRD's COOs slowed significantly since the global financial crisis (GFC) in 2009 (Figure 2). The Transition Report 2015-16 showed that in most EBRD COOs over the long term investment as a percentage of GDP was significantly below levels in comparable emerging markets (EMs).

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\(^{14}\) Mobilisation of Private Finance by Multilateral Development Banks and Development Finance Institutions, 2017
The Transition Report 2017-18 concluded growth in many COOs was slowing and lagging other comparable middle income countries due in part to low levels of productivity. COOs need to build growth on innovation and investments that improve productivity and provide access to new technologies and markets. Climate change is adding further demands for investment to support sustainable growth.

The Report estimated that infrastructure accounted for about 40% of investment needs and over the next 5 years COOs would require about €1.9 trillion to support growth, and meet the challenges of climate change. The COOs with the greatest infrastructure investment needs by region were located in CAS and SEMED, mainly to catch-up more advanced economies (Figure 3).

A critical issue is how these investment needs will be financed. Flows of foreign capital to COOs are an important component of domestic finance; while levels compare favourably with other EMs they are still small and remain volatile. The levels of non-financial sector debt in COOs have increased markedly over

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15 CAS = Central Asia; CEB = Central Europe & Baltics; EEC = East. Europe & Caucasus; SEE = South East. Europe; SEMED = Southern & Eastern Mediterranean

16 Regional Economic Prospects in the EBRD Regions, November 2018
the last decade, from 42% of GDP in 2007 to 61% in 2010. Corporate debt in COOs relative to GDP is comparable with countries such as Germany or the United States (US). However, tenors tend to be short and FCY-denominated, creating large depreciation exposure.

These factors indicate a need for additional investment in COOs, particularly in infrastructure. At the same time, there are high levels of liquidity in local financial markets, raising questions about: (i) how to mobilize additional finance to increase investment in COOs?; and (ii) what is the best way to do so? It seems likely the required finance will need to be pursued in tandem with initiatives to strengthen project pipelines, particularly infrastructure, and the finance will need to be long term, and denominated in LCY.

3. EBRD Financing

3.1 Overview

EBRD can directly finance projects using A loans, which are recorded as ABI and funded off its own balance sheet. Private co-financing can be directly mobilised by EBRD for a fee (in most cases through re-intermediation of B loans), or indirectly mobilised without generating a fee for EBRD (in most cases through sponsor or parallel finance). AMI is the primary measure of co-financing and it covers both private and public sources of funds directly managed by EBRD for a fee.

Typically, ABI, AMI and PDM rely upon public sector blended instruments such as: (i) TC for policy advice and institutional capacity building, (ii) TC for project preparation and structuring; (iii) Non TC for incentivising project sponsors; and (iv) guarantees for financiers to reduce project risks. These public sector sources of funds may be directly mobilised by EBRD, or indirectly mobilised by another MDB or government agency.

EBRD has been developing new unfunded or partially funded instruments on a commercial basis to support catalyzation. These instruments include advisory services for Public Private Partnerships (PPP), and the issuance of guarantees to Participating Financial Institutions (PFIs) under its SBI Risk Sharing Facility. To date, these two activities are small scale, and they are not viewed as mobilization.

Box 2: Private Sector Engagement and Resource Mobilisation in the Transport Sector

64% of the Bank’s transport projects were private sector or commercially-oriented, with some generating AMI and others mobilising substantial parallel financing e.g. through commercial lending clubs for large PPPs. While private sector engagement is a strategic priority, state ownership dominates in the transport sector and public sector engagement is needed to provide the platform for promoting private sector participation through policy dialogue and covenancing of sector reforms. Mobilisation of private funding in the transport sector is significant but it is typically parallel financing, which is not captured in the Bank’s reported AMI.

EBRD’s recently established Sustainable Infrastructure Advisory (SIA) is expected to provide an important source of funding for institutional capacity building and project preparation support for PPP pipeline development, which will help facilitate private mobilization. Coordinated efforts are needed across MDBs to develop credit enhancement mechanisms to reduce risk and deepen market appetite for PPPs in many of the Bank’s COOs, both in the government on the demand side, and private firms on the supply side.

3.2 Annual Bank Investment

Growth in ABI has been flat in recent years, and there has been a fall in the level of operating assets. There have been high levels of prepayments and cancellations prompted by highly liquid financial markets, especially in CEB, and delays in the disbursement of signed projects, particularly in the public

17 Regional Economic Prospects in the EBRD Regions, November 2018
18 Transport Sector Strategy, Draft, 18 May 2019
These developments have left EBRD with excess capital to support growth in direct financing. Debt relative to equity accounted for an increasing proportion of ABI over time (Figure 5). Financial Institutions (FI) accounts for about 30% of ABI, followed by transport (TRP), Power and Energy (P&E), Natural Resources (NR), Municipal and Environmental Infrastructure (MEI) and Manufacturing and Services (MS) - each accounting for about 10% of the portfolio (Figure 6).

**Figure 5: ABI by Instrument**

**Figure 6: ABI by Sector**

Source: DTM

3.3 Annual Mobilised Investment

3.3.1 Overview

Slow growth in ABI and direct financing has prompted EBRD management to look at alternative ways to mobilize finance. AMI averaged 18% of ABI over 2014-2018. AMI is comprised of: (i) debt mobilization instruments such as syndicated B loans, non-EBRD finance (eg parallel loans that pay a fee to EBRD), and URPs from 2019 onwards; and (ii) donor funds managed by EBRD for a fee.

AMI is dominated by B loans (Figure 7). B loan volumes are typically driven by a small number of large infrastructure or industrial projects that arise from time to time. Most B loans are denominated in € and US$, as LCY is not usually available to B loan investors for the tenors required by the underlying projects. Despite several large transactions in recent years, there has been a gradual contraction in EBRD’s B loan volumes, both relative to ABI and in absolute terms. Two Chinese banks have partially offset this trend, and they have been increasing their participation in EBRD-structured transactions. Since 2015, these Chinese banks provided almost €550 million in co-financing – €350 million in B loan participations and an additional €200 million in parallel loans. In 2018 Bank of China was the main B lender providing about €100 million in commitments.

**Figure 7: Annual Mobilised Investment**

Source: Loan Syndications Report for 2018

While private co-finance is declining, public sector donor funding started to grow from 2016. This growth is primarily driven by funds sourced from the European Union (EU) and Green Climate Fund (GCF), mainly for climate change.

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19 Strategic Review, 22 March 2019.
URPs started to increase in volume from 2014, from a low base of €225-250 million. URPs encompass instruments such as guarantees and insurance. These instruments improve the attractiveness of projects’ risk return profiles by protecting EBRD from a borrower's failure to repay. **URPs are mainly used to restructure risk return profiles of EBRD’s existing assets for portfolio management purposes, although they are being used on occasion to improve attractiveness of new investments.**

Due to relatively flat ABI and declining AMI, management has focused increasingly in recent years on identifying ways to tap new sources of external funding such as institutional investors. These investors can be differentiated between asset managers and pension funds, which provide funded commitments, and insurance companies which provide unfunded cover that can be used to de-risk EBRD financing, and potentially, third party co-financing.

### 3.3.2 Debt Mobilisation

The 3 main types of debt co-financing instruments included in EBRD’s AMI are:

- **A/B (syndicated) loan programme**: EBRD accounts for about 22% of all B loans arranged by MDBs, and they are mainly signed by commercial banks, and in some cases debt funds;

- **Parallel co-financing**: Financing is normally sourced from commercial banks, and in some cases Development Finance Institutions (DFIs); and

- **Unfunded Risk Participations**: EBRD works with insurers and re-insurers to obtain URPs to provide cover for part of its portfolio, normally on an asset-by-asset basis.

**Box 3: Debt Co-financing Instruments**

**A/B Loans**: EBRD attracts banks and non-bank financial institutions as co-financiers through its A/B loan program, and they jointly finance common use of proceeds required for a project in agreed-upon proportions, and the facility does not rely on a sovereign guarantee. EBRD finances the A portion of the loan from its own resources. EBRD partners with other financial institutions to provide the fully funded B loan through syndication. The B Loan structure offers benefits for both the borrowers and the financial institutions partnering with EBRD. As an MDB, EBRD has a special relationship with its borrowing governments: de jure immunity from taxation and **preferred creditor status** (PCS). As a result, no withholding taxes apply to debt service payments on EBRD loans and financial institutions participating as B Lenders benefit from the same status.

**Parallel co-financing**: Under this structure, a project is divided into specific, identifiable components or contract packages, each of which is separately financed by EBRD and its financing partners. The financing partners can then each use their own methods of procurement. Parallel loans are commonly used by EBRD when working with other MDBs and Export Credit Agencies (ECAs). Parallel financing is only recorded as AMI if EBRD receives a mandate for mobilising these funds, and this occurrence is rare.

**Unfunded Risk Participations**: URPs consist of risk-sharing instruments such as insurance, guarantee, or a first or second loss position that are used to enhance the risk return profile (the investment rating) of projects to stimulate private-sector investment and financing. URPs differ from B Loans as they transfer the risk to a third party on a contingent unfunded basis.
3.3.3 Donor Fund Mobilization

EBRD is an active manager of donor funds and it works with about 50 donors, primarily governments and multilaterals. EBRD’s use of donor funds increased significantly following the GFC and these funds are being used in COOs to help strengthen the policy, regulatory and institutional environment, prepare projects, and provide incentives (blended finance) to leverage private finance. In 2018, donor contributions were €583 million, 3-5% of ABI by volume, and they were held in 218 funds. About 43% of operations (by number) in EBRD’s active portfolio utilised these funds. Funds were mainly sourced from multilaterals, and about 71% was non reimbursable grants, mainly from the EU, and 21% was reimbursable concessional financing sourced predominantly from the GCF. Donor funds were committed across the following instruments in 2018:

- Technical cooperation (TC) grants (39%);
- Concessional/parallel lending (27%);
- Capital expenditure grants (26%);
- Incentive payment grants (5%);
- Risk mitigation instruments, comprised of First-Loss Risk Cover (FLRC) and Portfolio Guarantees (3%); and
- Equity.

Donor funds are used to address affordability constraints, improve market outcomes in the presence of externalities, and incentivise investments that contribute to improved sustainability and TI across COOs.

3.4 Private Mobilisation

The MDB’s private mobilisation methodology distinguishes between short and long term finance, countries by region and income level, and infrastructure and non-infrastructure sectors. Impacts are measured on the basis of financial flows, rather than development. Attribution rules have been developed so that where more than one MDB is involved in a transaction double counting is avoided.

Based on 2017 commitment data, it was estimated the total amount of long-term co-financing mobilized by the MDBs from private investors and other institutional investors was US$163.5 billion, of which PDM accounted for US$59.4 billion (32%). EBRD was ranked second after IFC in terms of Total Private Investment Mobilisation.

The joint MDB report indicated that total long term co-financing for infrastructure accounted for US$73.3 billion, 45% of all private co-financing. Within this total, 12% was PDM, and 88% was PIM, indicating a much lower level of PDM for infrastructure than total private co-financing. By sector, 92% of private infrastructure mobilisation occurred in economic infrastructure (power, transport, telecoms, water), compared to 8% in social infrastructure (schools and hospitals). Proportions for infrastructure financing were relatively constant across country income groups.

EBRD’s ratio of PIM: PDM was high, relative to other MDBs/DFIs for both long term private finance (Figure 8), and infrastructure private finance (Figure 9). EBRD’s PDM was concentrated in TKY, followed

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20 ADB Asian Development Bank; AfDB African Development Bank; AIIB Asian Infrastructure Investment Bank; EBRD European Bank for Reconstruction and Development; EDFI European Development Finance Institutions; EIB European Investment Bank; IDB Inter-American Development Bank; IsDB Islamic Development Bank; IFC International Finance Corporation; MIGA Multilateral Investment Guarantee Agency; WB World Bank; WBG World Bank Group
by the Oyu Tolgoi mining project in Mongolia signed in 2015, and KAZ. EBRD’s PIM was located in Poland, TKY, Greece and Romania.

**Figure 8: Long Term Private Finance**

**Figure 9: Infrastructure Private Finance**

Source: Mobilisation of Private Finance by MDBs and DFIs, 2017, EIB figures excluded

3.5 Future Directions of Mobilisation

3.5.1 Overview

MDBs have agreed to focus efforts to increase private mobilisation in three main areas:

- Strengthening investment capacity and policy frameworks at national and sub-national levels (i.e. catalyzation);
- Enhancing the catalytic role of MDBs themselves (i.e PDM); and
- Enhancing private sector involvement and prioritizing commercial sources of financing (i.e PIM).

MDBs agreed to work within these principles, while acknowledging the demand driven nature of their work within COOs and the opportunities they were presented, and their own mandates and structures.

3.5.2 COO Investment Capacity and Catalyzation

MDBs’ mobilization framework does not consider investment climate, or project pipelines, and take these parameters as a given. In practice, Public Direct Mobilization (Donor Fund Mobilization) will be the main measure of this activity, but it is not captured in the MDB’s Mobilization framework, which only reviews private finance mobilised. In recent years, increasing volumes of TC sourced from public donors has been used to support policy advice and institutional capacity building, particularly for climate change investments such as energy efficiency and renewable energy. In many cases, these activities will lead to private investment in projects where EBRD is not a financier.

3.5.3 Private Direct Mobilisation

(i) Overview

As presented in EBRD’s Strategic Review documents for 2018/19, the primary focus of mobilisation moving forward is increasing the level of PDM from its current low level of about 10% of Total Private Finance. The Strategic Review targeted AMI of about 15% of ABI and 20% of non-sovereign debt, yielding AMI of €1.75 billion by 2021, compared to an average of €1.0 billion over the last five years. Management indicated that, subject to various provisos, it intended to achieve this goal by selling assets and leveraging new business.
(ii) Selling the Existing Portfolio

Opportunities to sell existing A loans appear to be relatively limited. Apart from circumstances where EBRD wants to reduce country, sector or obligor limits, this strategy is not particularly attractive as it requires a sale of assets when there is no shortage of EBRD capital and it is expensive to replace them with high quality assets sourced from the market. There are also technical constraints selling A loans, as they are not particularly homogenous, and co-financiers have no ability to restructure the loans to meet their needs. EBRD has been exploring a Synthetic (unfunded) Securitisation of its Portfolio, where it would pool assets in a special purpose vehicle and then transfer risks in that entity to third parties through instruments such as guarantees. Under this structure, EBRD would not have to sell its underlying interest in the loans and it could use a mix of first loss donor funded insurance, and EBRD second loss insurance to hedge against risk inherent in the SME loan portfolio managed by PFIs.

(iii) Leveraging New Business

Availability of suitable projects is a critical factor influencing demand for B Loans, and it appears to be a significant constraint in COOs. EBRD established the Sustainable Infrastructure Policy and Project Preparation (SISP) team in SIA in January 2019 to develop PPPs on a fee for service basis, and this initiative should help mitigate this constraint in the medium term.

Other factors constraining mobilization of new business include declining numbers of European commercial banks that participate in B loans due to consolidation or restructuring. Other banks have reduced demand for transactions in EBRD’s COOs due to regulatory capital constraints, and a preference to have a direct contractual relationship with borrowers. Co-financiers’ lending to countries within the EU, are reported to not value EBRD’s PCS, and in countries such as Poland they would rather participate in projects through parallel loans.

As a consequence of these developments, EBRD is pursuing opportunities to tap into non-traditional sources of finance such as institutional investors. The main constraints on attracting asset managers and pension funds are:

- Their inability to monitor individual projects;
- Their appetite for EM instruments is limited to liquid / capital market-type assets denominated in hard FCY;
- Lack of appetite for construction risk or unrated instruments; and
- The need for stable regulatory environments and risk/return thresholds.

EBRD has been investigating the feasibility of establishing similar types of facilities as IFC’s PSW and MCPP. Similar to IFC, it may be necessary to enhance asset quality using first loss instruments (ie URPs), or subsidies (ie blended donor finance) to make them attractive to external co-financiers.

EBRD has been exploring the potential creation of dedicated B Loan Funds, and developing with others an impact investment fund that would invest in B loans, similar to the Cardano Fund, which has established the ILX Fund. This fund will invest in a diversified portfolio of loan participations originated and structured by bilateral and multilateral financial institutions. ILX Fund will invest in medium term hard currency loans that support social and environmental impacts.

There is an intention to scale up the use of blended finance from donors such as the EU so EBRD can pursue riskier opportunities with high TI that are attractive to institutional investors. The EU is developing credit support solutions in the context of the Multiannual Financial Framework (MFF), the
External Investment Plan and InvestEU. EBRD is preparing frameworks with EU recipient countries to use European Structural and Investment Funds. Several bilateral donors – including Sweden, Italy and Canada – have approached EBRD about establishing funds to provide guarantees or other financial instruments.

**EBRD intends to scale up the use of URPs.** EBRD’s banking teams receive internal credit for using URPs to scale up AMI from 2019. Management is investigating first loss / guarantee structures provided by EU, Swedish International Development Cooperation Agency (SIDA) and Government of Israel. These instruments would be available for both portfolio management initiatives and new transactions, and may have potential to enhance investments in Greenfield infrastructure. There may be opportunities to develop co-financing structures that use both URPs and concessional finance.

### 3.5.4 Private Indirect Mobilisation

EBRD’s Strategic Review in 2018/19 did not consider PIM under the heading of Mobilisation, although it can be argued most of its operations are directed towards catalysing PIM through actions such as demonstration effects. PIM is not closely monitored by EBRD as it cannot be directly attributed to EBRD actions, and it does not generate fees for EBRD. PIM accounts for about 90% of Total Private Finance mobilised by EBRD, and it reflects high levels of parallel finance. EBRD’s PIM figure is high compared to other MDBs (excluding EIB), where the average is about 75% (see Figure 8). It is not clear whether EBRD is ineffective at mobilizing PDM, or it extremely efficient at mobilising PIM.

### 3.6 Organization Structure and Resources

The organization structure within EBRD for AMI co-financing consists of two main components:

- **Loan Syndications (LS)** team is responsible for originating the A/B loan portfolio and URPs, seeking new co-financing partners, and it is taking the lead on the scaling up of mobilisation of private AMI; and

- **Donor Co-financing (DCF)** is responsible for originating and managing the public sector special funds such as GCF, often in tandem with departments such as Energy Efficiency and Climate Change (E2C2).

The numbers of staff directly involved in mobilisation of AMI as a proportion of total Bank staff is small. LS have a team of 7 staff, and DCF 32 staff.

### 4. Monitoring and evaluation

#### 4.1 Monitoring reports

The LS team prepares an annual Loan Syndications Report for the Board which provides an update on the loan markets and EBRD’s syndications activities. DCF prepares an annual Grant Co-Financing Report that provides information on donor contributions, use of donor funds, EBRD’s Shareholder Special Fund (SSF), and the management of the grant funds. Performance of the AMI and DCF portfolios is measured by changes in financing volumes.

#### 4.2 Transition and Other Impact Monitoring

AMI, PDM and PIM are not part of EBRD’s TI rating system.
4.3 Operations Performance Assessment and Validation

The only operational evaluation of AMI relates to TC, which falls under the heading of Public Direct Mobilization. In theory, donor funds for TC are not directly relevant to an evaluation of mobilization, although in practice these public sector resources are used to catalyse total private mobilization. Unfortunately, information systems for TC are very weak. EVD prepared an evaluation of TC funds in 2012 (SP No: PE11-538) and found weaknesses in project formulation such as a regular lack of demonstrated relevance and insufficient clarity on the problems being addressed and expected results. The study recommended EBRD adopt a results management framework to manage TC.

4.4 Other Relevant Analyses and Evaluation Work

There has been a large amount of work undertaken by various agencies such as McKinsey, OECD, and the MDBs on how to implement the Addis Abba Agenda of moving from mobilizing billions to trillions of dollars of private finance to meet the SDGs. The findings of various studies are presented in Appendix 2; main points are summarised below.

- There is a need to scale up project pipelines, particularly for infrastructure, improve the investment climate, and develop institutional capacity in governments to prepare projects and manage contingent liabilities;
- Increase the use of guarantees to improve the risk return profiles of investments;
- Increase the level of syndication of assets, and securitization of pools of assets;
- Make greater use of innovative financial instruments such as land value capture, green bonds and standby liquidity;
- Increase the use of blended public finance to mobilise private finance, and develop effective procedures to ensure concessional funds are allocated competitively, and can be properly monitored and evaluated;
- Strengthen capital markets;
- Better target support to those countries with greatest need and greatest capacity to absorb resources;
- Increase MDB capital bases by retaining profits, capitalising concessional funds, relaxing lending and portfolio constraints, reducing capital provisions for guarantees, and establishing special purpose vehicles (SPVs) jointly financed by MDBs and private investors; and
- Extend coverage of guarantees to encompass both equity and debt, and FCY and LCY; and
- Strengthen staff incentives to use guarantees, by integrating them in country strategies and operations, rewarding staff for mobilising private finance, establishing special purpose guarantee departments separately staffed and funded from lending.

5. Methodology

5.1 Overview

The evaluation will identify the expected results of the mobilization objectives and the cause and effect relationships underpinning performance using the following results framework:
### Table 1: Evaluation Results Framework

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impacts</td>
<td>Changes in Transition and SDG trajectories in EBRD's COOs due to increased private mobilisation</td>
</tr>
<tr>
<td>Outcomes</td>
<td>Effectiveness of EBRD's mobilisation outputs achieving PDM and PIM</td>
</tr>
<tr>
<td>Outputs</td>
<td>Changes in scale, scope, and quality of EBRD mobilisation outputs</td>
</tr>
<tr>
<td>Inputs</td>
<td>Levels of Policy Dialogue, TC, staff, and internal and external capital</td>
</tr>
</tbody>
</table>

### 5.2 Scope

#### 5.2.1 Overview

The scope of the study will be focused on total private mobilization, and how its components PDM and PIM are affected by EBRD instruments:

#### Table 2: Scope of the Study

<table>
<thead>
<tr>
<th>Outputs/ Purpose</th>
<th>Private Direct Mobilization</th>
<th>Private Indirect Mobilization &amp; Catalyzation</th>
</tr>
</thead>
<tbody>
<tr>
<td>TC &amp; Advisory services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guarantees/URPs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt (B loans)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The purpose of the evaluation will be to profile the use of these instruments and identify opportunities to improve their performance to achieve EBRD’s mobilization goals.

#### 5.2.2 Case Studies and Sample Selection

The study will prepare a literature review to provide an understanding of international practices, and EBRD case studies to identify performance of projects contributing to private indirect mobilization and private direct mobilization.

(i) **International Good Practices**

The WBG’s IDA18 PSW (blended finance), MCPP (debt and guarantees), Green Cornerstone Bond Funds (bonds) and the AMC (equity) will be profiled to gain an understanding of how these facilities were structured and operated, the results achieved to date, and key drivers of performance.

(ii) **Private Mobilization**

EBRD’s country strategies will be reviewed for Albania, Egypt, Greece and Turkey, to gain an understanding of how EBRD intended to promote Private Direct Mobilization and Private Indirect Mobilization and Catalyzation. EBRD’s Quarterly Performance Reports and MDB Reports on Mobilization will be reviewed to obtain ex post data on trends in PDM and PIM.
(iii) Private Direct Mobilization

A purposeful sample of EBRD case studies (Table 3) will be prepared for EBRD projects that promoted PDM through the use of B Loans, and/or purchased commercial URPs to reduce EBRD portfolio concentrations, or sold URPs to support SBI’s RSF.

Table 3: EBRD Study Sample – Private Direct Mobilization

<table>
<thead>
<tr>
<th>Country</th>
<th>Instrument</th>
<th>Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>RSF</td>
<td>Intesa Sanpaolo Bank Albania</td>
</tr>
<tr>
<td></td>
<td>RSF</td>
<td>AASF-Procredit Bank Albania</td>
</tr>
<tr>
<td>Egypt</td>
<td>URP</td>
<td>FI (TBD)</td>
</tr>
<tr>
<td>Greece</td>
<td>B loan</td>
<td>Cosmote Mobile Telecommunications S.A.</td>
</tr>
<tr>
<td>Turkey</td>
<td>RSF</td>
<td>Turkey TSKB</td>
</tr>
<tr>
<td></td>
<td>B Loan</td>
<td>Bursa Hospital PPP</td>
</tr>
<tr>
<td></td>
<td>B Loan</td>
<td>Turkish Peyman</td>
</tr>
<tr>
<td></td>
<td>URP</td>
<td>FI (TBD)</td>
</tr>
</tbody>
</table>

Summaries of selected project case studies are presented in Appendix 3.

5.2.3 Stakeholder Consultation

The study will hold discussions with critical stakeholders including members of EBRD’s Board, management, sovereign and non-sovereign co-financiers, and other MDBs. The evaluation will review the parameters of the mobilisation instruments such as syndications, securitizations, debt and URPs from the perspective of:

Demand for Mobilised Finance:

- Project sponsors and PFIs in Armenia, Egypt, Greece, and Turkey;
- PPP Units, Ministries Energy and Transport;

Supply of Mobilised Finance:

- Other MDBs such as WBG and IADB;
- Selected Bilateral DFIs such as CDC, OPIC, DEG/KfW, Proparco;
- Commercial sources of URPs such as insurance companies;
- Non-commercial sources of URPs such as EU, SIDA, Government of Israel and the Climate Funds.
- Banks and asset managers such as pension funds, and SWFs;
- Specialist impact investment firms such as Cardano Development;

The evaluation will consider opportunities to leverage private mobilisation through EBRD’s balance sheet by holding discussions with:

- Board members;
• Corporate Strategy
• Country Strategy Coordination and Results Management
• LS, EF, and DCF teams;
• SI3P, Infra TMEA, FI;
• Financial Strategy and Budget;
• Risk Management;
• Treasury;
• Data Management.

5.2.4 Evaluation questions

The following questions will be used to guide the evaluation:

– How is mobilisation understood in EBRD? Are mobilisation objectives clearly identified and are they relevant and well-suited to COO circumstances and the institutional context of EBRD?
– Is mobilisation being implemented effectively and efficiently?
– What have been the results of mobilisation initiatives to date?
– Does experience suggest ways the effectiveness, efficiency and sustainability of the mobilisation initiatives can be improved?

While investigating these questions the evaluation will keep the following important related and contributing issues in frame:

a. Objectives
– How has EBRD’s approach to mobilisation evolved over time?
– Did the mobilisation program reflect countries’ TI and SDG objectives?
– Are the mobilisation initiatives aligned with EBRD’s corporate, country, and sector strategies, and activities of other MDBs within COOs?
– How was Additionality expected to be achieved?

b. Organization and Resources
– To what extent does the organization structure for mobilisation within EBRD reflect international good practices implementing these types of initiatives?
– What was the purpose and level of resources allocated to mobilisation over the evaluation period in terms of objectives, instruments, countries, and sectors and was it adequate to achieve expected TI and sustainability targets?
– Are the organisational arrangements within EBRD sufficient to execute the mobilisation initiatives in areas such as staff resources (management, staffing, MIS, budgeting, procurement, monitoring, reporting and validating arrangements)?
– Were subsidies such as TC grants and donor URPs used to facilitate mobilisation?
c. **Implementation**

- To what extent did the mobilisation initiatives catalyse additional third party funding to finance projects?
- To what extent does EBRD collaborate with other MDBs to design and implement its mobilisation Initiatives?
- To what extent are the mobilisation initiatives evaluable, focussing on adequacy of definitions of outputs, outcomes, and impacts; availability of baselines and targets; and data collection, measurement, reporting and validation arrangements?

d. **Results**

- What were the linkages between mobilisation and TI, country and sector strategies, policy dialogue and project delivery?
- What were the TIs and SDGs arising from mobilisation of third party co-finance?
- How did mobilisation vary across countries, sectors, clients and instruments?
- What was the financial performance of the co-financiers and EBRD?

e. **Are there opportunities to improve EBRD performance?**

- Is there a need to revise the scope or scale of the mobilisation initiatives to better reflect objectives of COOs and EBRD?
- Is there potential to strengthen EBRD’s overarching policy and strategic framework to guide the development of mobilisation initiatives at the country, sector and project level?
- Is there potential to strengthen the mobilisation organization structure, resourcing, processes, monitoring, reporting and validating arrangements?
- Are there opportunities to increase the transition impact of mobilisation?
- Is there potential to strengthen arrangements to mobilise greater amounts of private finance?
- Are there opportunities for greater collaboration with third party co-financiers moving forward?

### 5.3 Methods

A literature review, followed by a document and data review, will be conducted to prepare background chapters on issues such as the evolution of mobilisation of third party funds within MDBs, with particular reference to EBRD and its COOs. Meetings will be held with other MDBs such as the WBG to gain an overview of international best practices and the nature of EBRD’s interactions with these agencies. Interviews will be conducted with representatives of the Board and Management to gain an understanding of the strategic priorities for mobilization and how it was operationalised. Interviews will be held with representatives of COOs at the country and project level to gain an understanding of their priorities and concerns.

### 5.4 Deliverables

This information will be collated, analysed and used to answer the evaluation questions on expected and actual results from 2014 to 2018 (the evaluation period). The evaluation will identify critical issues, and draw lessons that can be used to help guide the future structure and operations of the mobilisation
program. The output of the evaluation will be a Special Evaluation Study of approximately 35 pages, plus appendices providing further details on the case studies and summaries of other relevant analyses.

5.5 Potential problems and limitations of the study

It is expected there will be sufficient data to perform the evaluation, and many of the areas related to relevance, organizational arrangements, and implementation of existing operations are ready for evaluation. To the extent possible EvD will draw upon the experience of other MDBs to help identify international best practices and draw conclusions on likely issues impacting on the performance of the mobilisation program.

6. Administrative arrangements

6.1 EvD team

The evaluation will be prepared by Bob Finlayson, Associate Director/Senior Manager. An external panel member (to be identified) may be requested to review the draft report.

6.2 Timetable

<table>
<thead>
<tr>
<th>Milestone</th>
<th>Date (by week)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Study starts</td>
<td>February 2019</td>
</tr>
<tr>
<td>Approach paper approved</td>
<td>June 2019</td>
</tr>
<tr>
<td>Internal data collection and internal reviews</td>
<td>May – July 2019</td>
</tr>
<tr>
<td>Field visit complete</td>
<td>September 2019</td>
</tr>
<tr>
<td>Draft with executive summary circulated to internal peer reviewers</td>
<td>November 2019</td>
</tr>
<tr>
<td>Draft with executive summary cleared by CE for circulation to external peer reviewers</td>
<td>December 2019</td>
</tr>
<tr>
<td>Draft with executive summary cleared by CE for Management Comments</td>
<td>January 2020</td>
</tr>
<tr>
<td>Final approved by Chief Evaluator</td>
<td>March 2020</td>
</tr>
<tr>
<td>Final distribution within the EBRD and to Board</td>
<td>April 2020</td>
</tr>
</tbody>
</table>

6.3 Budget

The travel budget is estimated to be £20,000, and a consultant budget of £25,000. These figures are provisional and may be subject to change.
Appendix 1: Maximizing Finance for Development

1. Overview

The Maximizing Finance for Development (MFD) initiative stresses the centrality of government actions to improve the investment climate, strengthen domestic financial markets, promote sound and sustainable financing practices, improve governance and strengthen project pipelines, based on robust public investment planning to accommodate expanded financial resources. Private participation will be promoted where it is economically viable, fiscally and commercially sustainable, the allocation of risks is transparent, provide value for money (VFM), and ensure environmental and social sustainability (ESS).

The World Bank Group (WBG) has put in place measures to strengthen internal incentives and help change behaviour by including private sector metrics in its corporate scorecard that were prepared in accordance with the MDB definitions of PIM and PDM. A second work stream is focused on equipping staff across the WBG with guidance, training, and resources needed to implement MFD. Progress on MFD is monitored by tracking both actions and results. The following activities were tracked in 2018:

- **Activities that address binding constraints** at the country, market, or sector level in a way that is expected to unlock private solutions within a short timeframe (three years’ post-completion). These activities could include, for example, investment in transmission lines that enable subsequent private sector response in power generation; or a Development Policy Loan that removes regulatory constraints for private financing in a priority sector.

- **Activities that are expected to introduce sustainable private solutions** for development projects that limit public liabilities. These could include, for example, transaction advisory support for a hospital PPP, or a guarantee or insurance product that backstops government obligations for a privately-financed toll road concession.

The WBG Corporate Scorecard tracks private finance mobilized directly and indirectly in compliance with the MDB-agreed methodology. Metrics will be developed as part of the work program implementing MFD to track outcomes and results.

An initial set of nine pilot countries were identified in the MFD, and country programs were focused predominantly on infrastructure sectors. These countries included Egypt and Jordan in the SEMED region. In some cases it was expected the Infrastructure Sector Assessment Programme (InfraSAP) would provide a roadmap for MFD. InfraSAPs consist of diagnostic and planning assessments aimed at informing a country how it can improve infrastructure access and performance. These MFD efforts will build on work in these countries to develop domestic capital markets. Activities at the country level will be complemented by cross-country and regional initiatives to promote private sector participation. Initiatives could include regional interconnections to support investments in large projects, or standardizing processes and frameworks across countries to reduce transaction costs for investors in smaller markets.

2. MDB Cooperation

The MDBs are coordinating at various levels such as the preparation of the joint reports on climate finance and private finance, and co-financing of projects is common. There is coordination within countries to

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21 This section draws upon material presented in the document: Maximizing Finance for Development: Leveraging the Private sector for Growth and Sustainable Development, World Bank, Group September 2017
implement mobilisation programs, as demonstrated by the work of EBRD and other MDBs such as AfDB and WBG on the Egyptian Renewable Energy Program and the Turkish Hospital PPP Program.

**Egypt Power**

WBG’s public sector arm, International Bank for Reconstruction and Development (IBRD) and AfDB provided policy based loans to support actions such as adjustment of electricity tariffs; phased elimination of fuel subsidies; revision of the feed-in-tariff (FIT) policy; and introduction of a renewable energy law and a regulatory framework for competitive bidding mechanisms for independent power producers (IPPs).

IFC provided financing of up to US$200 million in senior debt, potentially mobilizing up to US$400 million in B-loans and parallel loans. MIGA provided political risk insurance of up to US$400 million for solar projects and EBRD approved 16 projects to deliver 750 MW of solar photovoltaic capacity.

EBRD, Agence Française de Développement (AFD), EIB and the EU launched a €140 million Green Economy Financing Facility for Egypt to provide loans for small-scale renewable energy investments by private companies through a group of participating banks.

**Turkish Hospitals**

Turkey implemented a healthcare PPP program in 2014, consisting of 50 projects with an estimated investment value of US$24 billion.

IBRD provided programmatic support to the Ministry of Health (MoH) in the form of policy loans and technical assistance to strengthen capacity to procure and manage PPP contracts.

IFC worked with MoH to design the contractual structures and invested US$163 million in senior debt and mobilized an additional US$430 million from other lenders for three first-mover projects. MIGA provided political risk insurance for six projects, with a total value of US$848 million.

MIGA worked with EBRD to provide risk mitigation for the first healthcare PPP project to be financed through a Greenfield project bond. EBRD provided €89 million of back up liquidity facilities to mitigate the risks of construction and operation; MIGA provided political risk insurance for the bond and the project’s equity investment. IFC undertook the anchor investor role by investing €80 million on a parallel basis in an unenhanced tranche of the bond. This structure enhanced the Moody’s rating for the bond issuance to Baa2, two notches above Turkey’s sovereign rating.
Appendix 2: Other Relevant Studies:

McKinsey prepared an analysis in 2016 on how to mobilise private sector financing for sustainable infrastructure. The report identified six initiatives with high impact that were feasible, and they all relied upon MDB support.

- **Scale up investment in project preparation and pipeline development.** MDBs can move upstream and help governments to set priorities and create a realistic pipeline, and prepare feasibility studies for project financing structures that are attractive to investors such as institutions. Establish common legal and design standards, and project preparation and procurement documentation to reduce transaction costs. MDBs can take minority equity positions along the lines of IFC’s InfraVentures unit and DIFID’s publicly funded but privately managed InfraCo. IFC has established a PPP Advisory Unit that is funded by donors and works closely with national PPP Units;

- **Use development capital to finance sustainability premiums.** Use development capital to pilot the business case for sustainable-infrastructure investment, especially in middle income countries, and demonstrate to the private sector there are profitable opportunities. For example, India successfully developed an energy efficiency trading scheme with MDB support.

- **Improve the capital markets for sustainable infrastructure by encouraging the use of guarantees.** These instruments are underused for sustainable-infrastructure finance. In 2014, only 5% of climate finance from MDBs went to guarantees, with the rest being distributed through loans, grants, equity, and other instruments. Guarantees are well suited to crowd in and leverage sustainable infrastructure investment as they can be precisely targeted and adapted to policy and regulatory risks in areas such as FiTs for renewables. Guarantees can reduce total project costs by reducing the cost of capital, relative to the cost of the insurance fees;

- **Encourage the use of sustainability criteria in procurement.** Look at whole of life costs, and measures such as GHG emissions and water use, rather than least cost construction costs when evaluating bids.

- **Increase syndication of loans that finance sustainable-infrastructure projects.** Syndications can help MDBs to reduce balance sheet exposures and recycle capital for new investments. Syndication can be increased by raising the amount of infrastructure finance for projects. Alternatively, MDBs can pool a portfolio of assets and offer a more diversified exposure. EBRD has the highest percentage amongst MDBs of its portfolio dedicated to sustainable infrastructure at 14%. IFC has the highest syndication ratio at 41%.

- **Adapt financial instruments to channel investment to sustainable infrastructure and enhance liquidity.** Effective use of financial instruments can reduce transaction costs or due-diligence requirements, mitigate risks to provide more certain cash flows, and provide additional liquidity that makes it easier for financiers to get in and out of investments. Land value capture models used to develop transport infrastructure can be adapted for use in non-traditional sectors such as healthcare. Green bonds where issuers guarantee payments, and tax credits, can be useful mechanisms to reduce transaction costs and change risk return profiles for projects.

OECD prepared an analysis in 2016 of how countries could mobilise US$100 billion pa of climate finance by 2020\(^{22}\). OECD had prepared a preliminary aggregate estimate of public and mobilised private

\(^{22}\) 2020 Projections of Climate Finance Towards the USD 100 Billion Goal, OECD, 2016
climate finance flows in 2013-14. Public and private finance mobilised by developed countries for climate action in developing countries reached US$62 billion in 2014 compared to US$52 billion in 2013. The analysis concluded the US$100 billion pa target depends on three key factors: (i) the level of public finance in 2020; (ii) the way in which it is allocated between projects aimed at mobilising private climate finance and those which do not; and (iii) the private-public ratio with which public finance is able to mobilise private climate finance.

- OECD estimated that levels of public climate finance – bilateral and multilateral – would be close to US$67 billion by 2020. These funds would be channelled through MDBs, climate funds and UN special bodies. ECAs were expected to further contribute to mobilisation of public funds. It was expected larger shares of climate-related finance would emerge over time in development finance portfolios, particularly in climate-sensitive sectors such as energy, transport, agriculture and water. These investments would have important co-benefits for other SDGs.

- Allocation of funds to private projects. The ability of public finance and policy interventions to effectively mobilise and catalyse private investment is dependent on country and market conditions (or “enabling conditions”) that influence levels of investment flows in general. Within this setting, governments have a range of public finance and policy intervention options to increase private sector investments in climate-relevant activities in developing countries. Public interventions might mobilise private finance directly (mainly the case of public finance at the project- or fund-levels), or have a more catalytic effect over time (through capacity building and climate policies). There is a need to direct resources to those countries where they are most likely to be effective (ie those in need), as well as those countries that have capacity to absorb resources (ie efficient use of public resources).

- The ratio of public to private finance mobilised is a critical determinant of amounts of climate finance mobilised. MDBs have pledged to increase this ratio over time. Factors that would increase the private: public ratio include a focus on climate mitigation rather than adaptation using established technologies, instruments that reduce private investor risk profiles (equity, guarantees, blending and loan syndications), countries with low sovereign risk and conducive enabling environments. Private: public ratios are likely to be lower in countries where public funds are allocated to non-income generating capacity development and policy development, reliance on grants and concessional loans, and politically unstable countries with under developed private financial sectors and capital markets.

In 2017 UNCTAD prepared an analysis of opportunities to scale up finance for SDGs. MDBs were expected to play a central role in mobilising private finance, but a limiting factor was their conservative financing approach and narrow equity capital base. As shareholders were unwilling to scale up capital, MDBs needed to explore new ways of enhancing their lending capacity and tapping into new sources of finance such as institutional investors.

The report noted that for the seven largest pension funds in the world, 76% of the total portfolio was in liquid assets, and less than 3% in infrastructure. Central Banks and SWFs also invest primarily in low-yield short term liquid assets. Infrastructure has a long maturity that increases perceptions of risk, and there are often complex regulatory issues that increase screening and monitoring costs. Institutional investors face fiduciary rules according to which they cannot invest in projects that are below investment grade, which is the case for most developing country projects. Basle III regulatory requirements have similarly constrained banks to lend in short term liquid assets.
MDBs are seen as providing a mechanism to address these issues, but at present their funding capacity is limited. In total the WBG and the 3 main regional MDBs lent in aggregate US$77 billion in 2016, compared to the $64 billion lent by EIB. In addition to direct lending MDBs can indirectly mobilise private finance by creating markets and providing financing instruments that better share risks between creditors and borrowers, and over time. They can also help mitigate informational deficiencies facing the private sector by assisting governments to screen and prepare projects.

A number of proposals have been developed to scale up MDB operations. The report of the Inter-agency Task Force on Financing for Development 2017 highlights two channels: (i) access international capital markets; and (ii) attract private capital as co-investors in development-oriented projects, by providing guarantees and other instruments to cover different sorts of risk, technical assistance, and best practices, to ensure alignment with broader developmental goals. The main constraint on MDBs accessing capital markets is their narrow equity base. MDBs can increase equity through new capital contributions or increasing levels of retained earnings. In recent years, MDB shareholders have been using profits to replenish concessional finance reserves and trust funds that are used as a source of blended finance.

An alternative to raising capital might be to relax MDB capital requirements to increase leverage. ADB and IADB merged their balance sheets for concessional and non-concessional finance to increase equity capital. WBG’s concessional Internal Development Association (IDA) fund obtained its own rating, which was then used to raise additional resources in capital markets. IADB implemented loan swaps with other MDBs to reduce portfolio concentrations in high risk assets. MDB loans can be sold to private investors, or they can design, implement and supervise projects, but not actually own the underlying loans. A growing trend has been the establishment of joint investment platforms in which MDBs and private financiers are partners in investment projects. In this partnership, the MDBs provide resources such as technical expertise (for project design, preparation and monitoring), guarantees and insurance, while the private sector contributes financial resources to the project. Examples of joint platforms are EIB’s Joint Assistance to Support Projects in European Regions (JASPERS); the WBGs Global Infrastructure Facility (GIF), in which the bank co-invests by providing technical expertise and facilities; and EBRD’s Equity Participation Fund (EPF).

Other initiatives involve the creation and/or management of special funds with multi- or single donor support focused on infrastructure development, and the aim of attracting private investors:

- **IADB’s Infrastructure Fund (InfraFund)** to facilitate investment through identification and preparation of bankable projects, and the Regional Infrastructure Integration Fund, in which IADB provides technical assistance for the development of integration projects in the Latin America and the Caribbean region;
- **ADB’s Leading Asia’s Private Sector Infrastructure Fund (LEAP)**, which provides co-financing to non-sovereign infrastructure projects and seeks private sector participation through different modalities, including PPPs, joint ventures and private finance initiatives;
- **Africa 50** with strong sponsorship of AfDB, aimed at developing bankable projects and attracting private capital from long-term institutional investors; and
- **New Partnership for Africa’s Development (NEPAD) Infrastructure Project Preparation Facility (NEPAD-IPPF)** which has AfDB as a trustee serving as legal owner, holder and manager of the fund

UNCTAD noted the MDBs had prepared an analysis of PDM and PIM in 2016 which indicated that for each dollar of their direct financing, there was another dollar of indirect private co-financing.
Within this total, leverage ratios varied substantially across MDBs, with EIB having a ratio of 1.4 for indirect private co-financing to direct bank disbursements, whereas IADB and AfDB had ratios 0.2-0.3. This difference was attributed to easier lending conditions in Europe. It was noted that leverage ratios could be increased substantially through the use of risk mitigation instruments. Less than 5% of MDB financed infrastructure projects benefited from the use of these instruments. A review of DFI financing policies indicates there are opportunities for MDBs to increase their own debt: equity ratios, and still preserve their “AAA” ratings.

Asian Infrastructure Investment Bank (AIIB) has established provisions in its articles where it can establish special funds that provide non-concessional funds that can be leveraged at higher levels than the parent’s balance sheet, providing a means of scaling up infrastructure investment. These funds will have the ability to adopt at least a 15 year time horizon for equity investments, compared to the 7-8 years of most private equity firms and MDBs. The funds do not seek controlling or majority stakes, and financing can take the form of direct equity investment (in ordinary shares of a firm or project); quasi-equity investment (preference shares, convertible bonds, other hybrid instruments) and fund investment (fund-of-funds). It is envisaged these funds could help act as “first-mover” or “cornerstone” investors to mobilize additional financing from other (international and domestic) public and private sector sources. In principle, funds can be sourced from both AIIB and one of its special funds to support the same project.

Independent Evaluation Group (IEG) at the WBG provided a series of lessons learned in response to the MFD program in 2017.23 The review noted WBG had a long history of trying to leverage private finance. The main development that was new under MFD was an explicit commitment toward a more structured approach to considering private sector options and the level of ambition in the attempt to mobilize private sector capital — moving from billions to trillions. IEG had prepared a range of evaluations on issues such as PPPs, competitiveness and jobs, capital markets, SMEs, and reform of business regulations to improve investment climate. A common finding of private sector involvement is that it is not a “silver bullet”. Engaging with the private sector requires improving upstream conditions for investment to take place. Countries need to have clear objectives on where they want to involve the private sector and skills to identify and prepare projects. Other prerequisites for tapping the private sector are access to finance (including functioning capital markets), the rule of law, and macro stability.

Dedicated units within government are often critical for engaging with the private sector, and maintaining momentum, but in many countries there are capacity gaps to perform this function. There is a need for stable policies and sector reforms that provide predictable taxation, business regulations, and tariffs. Sector programs can often run into political resistance that slow down reform. It is necessary to get early and comprehensive stakeholder commitment from both the government and the public. There is a need for innovation to overcome high transaction costs.

Policy reforms to make a more predictable investment climate can be coupled with de-risking instruments provided by third parties to provide project returns that meet the investment requirements of institutional investors. IFC and SIDA launched the MCPP-2 (MCPP Infrastructure) in 2016 as a platform to mobilize private funds for infrastructure investments in emerging markets, with limited success so far in terms of deployments.

ADB’s Independent Evaluation Department (IED) prepared an analysis in 2017 of opportunities to boost its mobilisation capacity and the role of credit enhancement products. The study found ADB was primarily a lender of development loans, particularly to sovereign borrowers. The utilization of guarantees, A/B loans, and risk transfer operations by ADB had been very modest over the past 30 years.

23 Opinion: The World Bank has engaged the private sector for a long time. Here’s what we’ve learned. Caroline Heider, 24 October 2017
About half of the approved guarantees were fully or partially cancelled. Most guarantees covered sovereign, sub sovereign or corporate loans and they were used to develop the financial sector (SME loans) and support climate related financing. Project finance guarantees for PPPs were less common. The reasons for cancellations included replacement by other guarantee providers that offered comprehensive cover (ADB offered only partial guarantees), the inability of ADB to participate in the MIGA cover for equity investments in a high-risk market, and a failed privatization

**ADB had achieved limited success in deploying its non-sovereign A/B loan product.** and many of the loans approved were subsequently cancelled. Of all ADB's credit enhancement products (CEPs), partial credit guarantees (PCG) were the most effective in mobilizing third-party financing. The demand for “classical” political risk guarantees (PRG) for medium and long-term debt financing had been quite low. Extended political risk cover, including breach of contract, is mainly used in project finance transactions, but preference is given to comprehensive guarantees, except in high-risk and fragile countries where there is potential demand for political risk coverage. The deployment of ADB risk transfer operations that provided insurance over ADB loan exposure to non-sovereign borrowers was more successful, mainly because this product did not compete with ADB lending.

**IED identified potential gaps in the CEP market.** Market respondents perceived comprehensive guarantees to be the most important product in the global CEP market and the one with the highest mobilisation impact for projects with medium to long term financing requirements. PCGs are needed for: (i) financing in LCY; (ii) payment risks for sovereign borrowers in relatively high-risk markets; and (iii) payment risks for sub-sovereign borrowers, state-owned enterprises, and private sector borrowers (including commercial payment risks in project finance transactions). ADB could play an important complementary role in all these areas. A special focus area could be trade and investments between developing nations and cover for international or domestic capital market transactions. These reforms needed to be carefully sequenced and properly resourced in country strategies and programs.

**A wide range of issues had inhibited the use of CEPs.** There were several external factors such as the lack of market familiarity with ADB guarantees, and the limited market value for the risk mitigation effects of A/B loans. Within ADB there was a lack of bankable projects, and while PPPs were important, for the foreseeable future most transport and water sector projects were likely to continue to be funded with sovereign loans. ADB had no clear targets for the utilization of guarantees, A/B loans, and risk transfer instruments. CEPs were not well integrated into ADB’s country strategy and operations. ADB’s system of measuring mobilisation leads to the reporting of unrealistically high mobilisation figures. The incentive system did not encourage the utilization of ADB products that would have optimal mobilisation and developmental impact for its member countries. Participation requirements in ADB’s CEPs were inflexible, political risk cover did not encompass equity, there was a limited number of staff involved in guarantees and syndications, and IT systems were inadequate to manage CEP operations.

**IED recommended** that ADB’s guarantee operations be separated from lending operations and cover sovereign and non-sovereign operations. Consideration should be given to extending guarantee coverage to equity and establishing a dedicated guarantee pool or fund. The mobilisation measurement framework should distinguish between co-financing (financing contributed by all third parties) and mobilisation (financing catalysed by ADB). There should be a program of internal and external capacity building to raise awareness of benefits of guarantees. Country strategies should discuss opportunities to mobilise non-traditional sources of finance using CEPs, develop capacity within governments to manage contingent liabilities, and improve access to LCY. IT systems should be developed within ADB to support the use of CEPs.
World Research Institute (WRI) prepared a review of MDB guarantees in 2017 and concluded the use of URPs by MDBs has been extremely limited for the following reasons:

- Accounting rules require the full loan amount guaranteed to be retained on the balance sheet, which locks in capital that could otherwise be given out in loans;
- Complexity of adding guarantees to the finance mix leads to longer processing times; and
- Lack of in-house knowledge and human resources.

OECD prepared an analysis of requirements to evaluate Blended Finance in 2019 and how it could be used to leverage private finance to meet the SDGs. Blending can combine financing from varied public and private sources through a mixture of financial instruments.

Blended finance pursues both development and commercial objectives, underlining its hybrid character, operating between public and private spheres. Blending may be justified as a response to different types of problems. For example, it may be used as a means of addressing market failures and to improve the risk-return relationship of investment projects. This hybrid character of blended finance creates difficulties measuring effectiveness and value added.

Because different development agencies have different mandates, blended finance is used in different ways by these organizations. MDBs are banks that incentivise staff to approve and disburse money. These incentives can create competitions between MDBs to approve allocated funding, which can contribute to inadequate project pipelines across MDBs. As managers’ performance within MDBs is assessed on the basis of approved funds, they are less motivated to conduct ex ante evaluations of project proposals and assess ex post development outcomes. As a result, the objectives and incentives of the MDBs will be very different to the objectives of donors of blended finance.

In many cases there is a low level of transparency of the use of public funds, relative to direct public sector oversight, creating risks of misallocation, or corruption in procurement. Financial information on blended operations is not systematically disclosed on the grounds of commercial confidentiality. The involvement of intermediaries such as fund managers in the implementation of blended finance presents a further complication in promoting transparency. A completely decentralised monitoring system may increase the risk of fragmentation and poor data quality. These mixed incentives and lack of transparency create special challenges for monitoring and evaluating the outcomes and impact of blended finance.

Blended finance instruments led by multi or bilateral public investors such as MDBs can rely on pre-existing monitoring and evaluation units, whereas private managers are less likely to have such in-house competence. Despite efforts to harmonise monitoring and reporting procedures across MDBs, there continues to be a high level of diversity across organizations in how these functions are applied and how metrics are compiled and reported.

Evaluations will vary across different types of financial instruments as outputs, outcomes and impacts cannot be analysed without considering the inputs used to achieve these outcomes. Ideally, alternative situations should be compared with and without blended finance – both set in the same context. In many cases it will be difficult to establish control groups, and it will be necessary to rely on baselines, benchmarks, case studies, and quantitative and qualitative analysis to identify causal relationships, relevance, additionality and impacts.

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24 INSIDER: Expanding the Toolbox: A Glimpse at a New Generation of MDB De-Risking Approaches, WRI, 2017
Additionality can be difficult to measure and typically it refers to additional finance mobilised and the additional development impact achieved. Financial additionality is not a guarantee for development additionality. Both kinds of additionality are required to justify the use of blended finance. The OECD review referred to the EVD study on additionality (2018) which noted that additionality encompasses financial additionality and impacts such as lower risk or improved quality of outputs. The overlapping of additionality and impact, and the fact that additionality is assessed early in project selection and design, meant its justification tends to rely on a judgement call, rather than hard evidence.

Blended finance should be efficient and not act as a subsidy that leads to unnecessary extra profit for beneficiaries that crowd out other investors. If the aim is to reduce the perceived (high) risks for private investors, it can be achieved by providing information, participating in the management of the project, and providing guarantees, equity, or subordinated loans. Evaluations need to be clear about the problem that is being addressed and the way the selected instrument will address that problem. Projects need to be continuously monitored to determine the level of concessionality required from blended finance over time to continue to meet objectives.

Center for Global Development prepared a paper “More Mobilizing, Less Lending”, in 2018. The paper noted MDBs were essential actors to mobilise private finance for development, but noted that levels of mobilisation were low and fell well short of the Addis Abba undertakings. A 2016 report found that $1.50 of direct and indirect mobilisation occurred for every $1 of MDB private finance, and the ratio for direct mobilisation it was 40c for every dollar of MDB private finance. These ratios reflect current business models and staff incentives that favour profitable lending and maintenance of AAA risk ratings. Capital increases will not change mobilisation ratios required to achieve the SDGs. As a result, a new business model is needed for MDBs which is given scope to assume more risk and improve targeting of its support.

The paper proposes that MDBs establish special purpose vehicles (SPVs) that are designed to target highly catalytic uses—such as early stage finance for SMEs and high-risk project tranches for infrastructure in middle income countries. These SPVs could be capitalized from both public and private sources, and a single SPV could potentially serve multiple MDBs. These SPVs would not require large amounts of capital as they are addressing risks at the margin, and incentives can be designed to specifically reflect mobilisation rather than lending targets. In some cases, the focus of operations could be on guaranteeing portions of portfolios rather than individual projects.
Appendix 3: Project Case Studies:

1. Small Business Initiative – Risk Sharing Facility

1.1 Project Description

In 2003 EBRD approved the Medium Sized Co-Financing Facility (MCFF) to cover Early Transition Countries (ETC), Western Balkans and Ukraine. The MCFF was designed to help local Partner Financial Institutions (PFI) increase lending volumes to SMEs by reducing credit risks through the provision by EBRD of unfunded guarantees. In 2015, the MCFF was renamed the Risk Sharing Framework (RSF) and established as a regional facility. The MCFF was then integrated with the Direct Investment Facility, and the Direct Lending Facility, and the three instruments formed the Small Business Initiative (SBI).

The EBRD RSF guarantee reduces the amount of capital required by PFIs to support sub-loans, and if required, it provides them with access to Technical Cooperation (TC) grants for training PFI staff in credit assessment, and sub-projects with funds for project preparation, and investment grants. The RSF benefits from first loss risk cover from the Special Shareholders’ Funds (SSF) for subprojects in the SEMED and Western Balkans regions.

Risk participations can be up to 65%, although in practice almost all participations have been for 50% of the sub-loan amount. Each sub-loan can be up to €20 million with EBRD’s risk participation limited to €10 million. The tenors of sub loans can be up to 10 years for corporate debt, or 15 years for project finance. Sub loans can be denominated in USD, €, or local currency.

The risk participation is provided to the PFI by EBRD under a RSF Agreement and it can be on either a funded or unfunded basis. The funded facility is similar to a syndicated loan where the EBRD is the B-lender, and the PFI funding is treated as co-financing. The unfunded facility is similar to an unconditional and irrevocable payment obligation by the EBRD, and is treated as Annual Bank Investment (ABI). Sub-borrowers are individually approved by EBRD and the Board has delegated authority to management for exposures less than €20 million. PFIs conclude loan agreements with the sub borrowers and administer and monitor the sub-loans.

The basis of EBRD’s remuneration depends on the type of facility. Under a Funded RSF EBRD pays the PFI an administration fee. Under the Unfunded RSF, EBRD collects a percentage of the net interest margin (difference between the sub-loan interest rate and PFI’s cost of funds on the guaranteed amount).

The Board approved delegated headroom of €100 million for the RSF on 4 May 2017. Utilisation for the year up to June 2018 was € 44.9 million and it was concentrated in SMEs in ETCs.

2. Oyu Tolgoi

2.1 Project Description

In February 2013 the Board approved a loan of US$1.4 billion in favour of Oyu Tolgoi (OT), a company incorporated in Mongolia. Rio Tinto Plc was the majority shareholder, and the Government of Mongolia had a 34% shareholding in OT. The project was expected to be EBRD’s largest syndicated loan to date and pricing was benchmarked by a large group of commercial lenders via Request for Proposals (RFP).

The loan would be used to develop the OT copper and gold deposit in the Gobi region of Mongolia, which is the largest undeveloped deposit of its kind in the world. Commercial production from an open pit was expected to start in the first half of 2013. Development of an underground mine was underway and
production was expected to start in 2016. All production was destined for Chinese smelters and concentrate would be transported by truck to the Chinese border, where the transfer of title would occur. The project was expected to generate revenues equivalent to one third of Mongolia’s GDP and budget revenues, and more than 50% of national exports by 2020. The project was the largest FDI and financing package agreed in Mongolia at that time.

Total project cost was estimated to be US$19.7 billion, and US$13.74 billion would be financed by equity and the balance of US$6.00 billion by debt. By 31 December 2012, US$8.2 billion of equity and shareholder loans had been invested, primarily to complete the open pit mine and a concentrating facility. Capex items that remained to be funded at a cost of US$6.86 billion included the development of the underground mine and supporting infrastructure, and upgrading the concentrator. An uncovered commercial bank tranche of up to US$2.0 billion had been pre-approved at the time EBRD’s Board approved the OT Loan.

The EBRD facility consisted of an A Loan of up to US$400 million for its own account, and a B loan of up to US$1.0 billion for syndication. The A loan had a tenor of 15 years, and the B Loan 12 years, with a 7 year grace period. The EBRD loans are part of a US$4 billion financing package that would include:

- An equivalent A/B loan from International Finance Corporation (IFC);
- Parallel loans from:
  - Export Development Canada (EDC, up to US$750 million),
  - Export Import Bank of the United States (US Exim, up to US$300 million), and
  - Australian Export Finance and Insurance Corporation (EFIC, up to US$100 million);
- Up to US$1 billion from commercial banks benefitting from a political risk cover by Multilateral Investment Guarantee Agency (MIGA).

The indicative maximum amounts of the EBRD and IFC A/B loans would only be required if the MIGA cover was not ultimately available. All of the senior debt ranked pari passu and held a common security package. The loan was limited recourse project finance and it benefited from a debt service undertaking (DSU) from Rio Tinto until project completion targeted for mid 2021. The DSU covered debt service repayments becoming due, and it was subject to a political risk carve out. Rio Tinto had a credit rating of A- (stable) with S&P and Fitch and A3 with Moody’s. The project had a portfolio classification of private, an Environmental rating of A, and transition potential was rated excellent.

Transition impact (TI) potential was derived from, inter alia:

- Private sector development, by supporting the largest FDI transaction in Mongolia to date, resulting in a substantial increase in private sector participation in the mining industry, reaching 60% after the financing;
- Transfer and dispersion of skills from a leading international mining operator, which would introduce new block-cave mining technology, finance the construction and operation of 2 mining schools, train 3,300 people, and Mongolian nationals would account for 60% of the construction work force and 75% of mining operations;
- Market expansion through backward linkages to local suppliers and contractors and by supporting the development of Mongolian SMEs. EBRD intended to partner with OT to implement a 5 year Local Business Development program; and
• Setting standards for corporate governance and business conduct in areas such as environmental and social standards.

Additionality was derived from the terms of the loan, which had a tenor of 12 and 15 years, compared to 5 years for commercial loans in Mongolia at that time. More than 20 commercial banks were considering participation in the project, most of which had no experience or exposures in Mongolia. EBRD participation was important to mitigate political risk. EBRD had undertaken policy dialogue and its ESS standards were required for its participation, setting a new standard in the Mongolian mining industry.

2.2 Current Situation

The development of the underground mine was delayed due to ongoing shareholder discussions. In February 2014 the Board reapproved the facility on a no objection basis, for a further 1 month, as it had been unsigned for 12 months. In April, the project was reapproved for a period of 9 months. In December 2014, the project facility was re-approved for a third time. The project was signed in December 2015, three years after loan approval.

The final EBRD loan structure approved in December 2015 consisted of a US$400 million A loan, and a US$622 million B loan. There were 15 B lenders. The total project cost had increased to US$22.3 billion and the total financing package was US$4.4 billion involving IFC A/B loans, (US$1.2 billion), ECA loans (US$1.3 billion), and commercial bank tranche covered by MIGA (US$0.7 billion). The full commitment of US$4.1 billion occurred in 2016, with a final maturity for the B loans of 2030, and repayments starting in December 2020. The underground mine is expected to be completed and operational in 2022. Financial completion is not expected to occur before 2025.

3. Turkish Hospital Facilities Management PPP Program

3.1 Project Description

In September 2014, the Board approved the Turkey: Hospital Facilities Management Framework. The Framework consisted of up to €600 million debt or equity financing for EBRD’s own account to participate in up to 8 hospital facilities management projects, each with a different concessionaire. EBRD loans under the Framework could comprise an “A Loan” portion for the Bank’s own account and a “B Loan” portion for the account of commercial bank participants, to be determined on a case by case basis.

The Framework supports Turkey’s Ministry of Health (MOH) in preparing and delivering a large scale hospital facilities management PPP programme covering up to 60 facilities across Turkey for total investment costs of €12.0 billion and the delivery of 50,000 beds. This programme was being implemented in stages, and in Phase 1, 16 hospitals, with a value of €6.0 billion investments, had been tendered. EBRD’s Framework was expected to participate in the financing of up to eight of these projects, representing about 10% of Phase 1 capital needs (and ultimately 5% of the entire programme once it had been fully rolled out). The indicative list of sub-projects that would be financed by EBRD consisted of five hospitals in Anatolia.

The hospital facilities management PPPs were structured as PFI contracts, with three years construction and 25 years operations for facilities management only (including hard and soft services). Clinical services remained the sole responsibility of MoH. Post construction, the concessionaire would receive quarterly Availability Payments (APs) from MoH for the hospital building and facilities and monthly Service Payments (SPs) for various support services such as cleaning, catering, laundry, waste, parking, imaging, laboratories and sterilisation. APs accounted for about 75% of the revenues used to service the debt. A
market testing mechanism was included in the agreements to rebalance costs every five years. Foreign exchange (FX) rate risk for the APs was addressed at tender date by specifying the foreign currency rate at that time which became the minimum rate for the APs throughout the term of the concession. APs are adjusted quarterly for FX fluctuations in excess of inflation through a foreign currency adjustment mechanism.

MoH was the grantor of the PPP contracts and it was expected the successful sponsors would establish a special purpose vehicle (SPV) that was financed by EBRD and other commercial banks. The lenders security package would include traditional non-recourse provisions such as pledge of shares, accounts receivable, bank accounts, insurance policies, hedging agreements, subordinated loans, mortgage over land and a negative pledge on buildings and infrastructure. In addition, MOH would provide compensation for early termination, and Funder’s Direct Agreement with the lenders providing step in rights.

MOH was seen as a good credit risk as Turkey was rated BB+/Negative by S&P, the economy was growing, and MOH had a total budget of about €15 billion (€7-8 billion in direct annual budget and about €8.5 billion in a revolving fund). The total APs and SPs for the entire hospital PPP programme (net of costs avoided on obsolete beds that would be closed by MOH once the PPP programme was rolled out in full) would represent, at its peak, no more than 6% of the public sector healthcare budget (with an average of 3.5%). In addition, PPPs were expected to generate significant savings for the government. Under Turkish law, any MOH default would be treated as a default of the Republic of Turkey.

The main transition rationale for the Framework was the creation of critical mass demonstrating how hospital facilities management PPP projects can be commercially financed. Following the implementation of the Framework, subsequent projects within the PPP programme were expected to be financed commercially – without IFI or donor support.

In June 2016 the Framework was extended by €350mn as it was expected the original Framework would be fully utilised by the end of 2016. EBRD would limit its total allowable exposure under the Framework to €800 million. At that time EBRD had provided A and B loans to three PPP hospitals.

- Adana Hospital PPP (OpID: 45707): €215 million A/B loan to ADN PPP Saglik with €115 million A and €100 million B. In addition, €5.6 million credit limit was utilized for an interest rate swap.
- Etilik Hospital PPP (OpID: 44166): €256 million A/B loan to Ankara Etilik Saglik with €125 million A and €131 million B.
- Konya Hospital PPP (OpID: 47083): €148 million A/B loan to ATM Saglik with €68 million A and €80 million B.

The primary purpose of the extension was to diversify funding sources, and attract institutional investors. The first sub-projects under the extension were expected to be the financing of a further three facilities under a green bond issued by the Elazig Hospital PPP, a standard loan to a PPP hospital and an EBRD equity investment that would mobilise infrastructure funds into a vehicle owning three Turkish PPP hospitals. The loans and bonds would have tenors of up to 20 years, unfunded construction loans would have tenors of 2-4 years, and the operating loans tenors of 16-18 years. EBRD expected to exit its equity investments at year 8 through IPO or exercising put options.

### 3.2 Current Situation

In February 2017, Management provided the Board with an update on Turkey’s Hospital PPP Programme. EBRD had financed seven hospital projects (about €510 million), and mobilised €875 million through B loans. The Elazig project bond was successfully issued and was rated Baa2, two notches above Turkey’s
sovereign rating. The bond was issued after the failed coup attempt and a downgrading in Turkey’s sovereign rating to Ba1, which is below investment grade. The bond was issued in three tranches and credit enhancements were applied to the first two tranches, and IFC invested in the unenhanced tranche.

4. Trans Adriatic Pipeline

4.1 Project Description

In June 2018 the Board approved a financing facility in favour of Trans Adriatic Pipeline AG (TAP). The facility consisted of a senior loan of up to €1.2 billion, comprised of an A Loan of up to €400-500 million for the Bank’s account, and a B Loan portion of up to €700-800 million for the account of participants. The loan is a project finance facility with limited credit support from TAP’s sponsors. The facility will be used to finance the construction of 878 km pipeline infrastructure across Greece, Albania and the Adriatic Sea. TAP will connect the Trans-Anatolian Pipeline (TANAP) with the Italian natural gas network of Snam Rete Gas (SRG). TAP is one of the pipelines that form the Southern Gas Corridor (SGC) and it will bring gas from the Shah Deniz field in Azerbaijan to Europe for the first time in 2020. The project had an environmental category rating of A, and while 20,900 plots of land would be affected by the project, there had not been any resettlement requirements. Construction of the project commenced in mid-2015 and the construction phase was expected to be completed in Q4 2019 for receiving first gas in 2020. The Loan will be part of a larger €4.0 billion project finance debt package that will include facilities from the European Investment Bank (EIB) and three ECAs (SACE of Italy, BPI France and Euler Hermes of Germany) and a senior shareholder loan. Société Générale was the financial advisor to TAP and it managed the syndication of the debt package. EBRD’s financial model assumed a Debt-to-Equity ratio of 75:25 and interest rate hedging for 75% of the debt, both pre and post-Financial Completion. The A and B Loans will have a tenor of up to 16.5-year, subject to market testing. The date for first gas will determine the start of the repayment period and it will be between March 2020 and March 2021. Depending on the first gas nomination, the grace period of the Loan can vary between 1.5 and 2.75 years. Repayments will be in quarterly instalments in accordance with a sculpted repayment schedule.

The primary source of collateral will be 25 year Gas Transport Agreements (GTA) where payment will be made on a ship-or-pay basis. The Lenders will benefit from comprehensive debt service guarantees (DSG) from the sponsors during the construction and operating periods if there are trigger events such as non-payment under the GTA. The operation will include a transactional €290,000 TC (funded through 2017 SSF allocation) for capacity building assistance to Albgaz, a state-owned company and the newly established Albanian transmission system operator.

The expected transition impact (TI) of the Project was based on: (i) Resilient and (ii) Integrated with other projects along the SGC. TAP will facilitate integration of regional gas markets, diversification of supply routes, strengthen energy security and introduce flexibility into the markets of South-Eastern Europe (SEE) within a regulatory framework in line with best practices. The Project supports the EU’s Third Energy Package in Greece and Albania, and provides regulatory benefits in SEE, and the Balkans. The Project provides a foundation for Albanian gas market and connect the country to an important infrastructure corridor in Europe. The Project will contribute to the reduction of the carbon intensity and energy mix in the end-user markets, notably in the Greek and Bulgarian power sectors.

Additionality was derived from: (i) Terms: unprecedented long tenor and largest syndication in the SEE region; (ii) Attributes: EBRD prior SGC experience, E&S performance requirements, TC assistance; (iii) Conditionalities: Supplemental Lenders Information Package (SLIP) disclosure, Environmental Social Action Plan (ESAP).