International institutions

International financing institutions

International Financing Institutions (IFIs), also called multilateral lending agencies (MLAs), have been created by communities of states to promote development and fight against poverty.

Although, historically, they provide direct assistance to governments for the procurement of roads through public loans and grants, they have more recently designed specific instruments to promote PPPs in developing countries. Their main aim is to stimulate private firms and organizations to embark on projects, as the participation of an IFI has:

- a **psychological effect:** the participation of an IFI shows that the Government of the country shares some internationally recognized business practices. Usually, the same government benefits from the assistance of an IFI in other ways as well as for the project (public loans, structural adjustment facilities) that will both facilitate its general economic wealth and impose sound economic and financial practices.
- an **umbrella effect.** When IFIs directly participate in a project, private firms think that the government will have more incentive to fulfill its commitments.

The main international financing institutions are listed below.

ADB: Asian Development Bank **http://www.adb.org/**

Established in 1966, ADB is a multilateral development finance institution owned and financed by its 67 members, of which 48 are from the region and 19 are from other parts of the globe.

ADB's main instruments comprise loans, technical assistance, grants, advice, and knowledge, which it provides to governments for specific projects and programs. ADB's lending volume in 2007 was USD 10.1 billion. An additional USD 672 million was provided in grants, of which USD 243 million in technical assistance grants for preparing and executing projects and supporting advisory activities. Private sector assistance in 2007 amounted to USD 1.75 billion.

BRD: European Bank for Reconstruction and Development **http://www.ebrd.org/**

The European Bank for Reconstruction and Development (EBRD) was established in 1991. It exists to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in Central and Eastern Europe countries and the Commonwealth of Independent States (CIS) committed to and applying the principles of multiparty democracy, pluralism and market economics.

The EBRD seeks to help its 30 countries of operation to implement structural and sectoral economic reforms, promoting competition, privatization and entrepreneurship, taking into account the particular needs of countries at different stages of transition.

It provides project financing for banks, industries and businesses, both new ventures and investments in existing companies. It also works with publicly owned companies, to support privatization, restructuring state-owned firms and improvement of municipal services. The Bank uses its close relationship with governments in the region to promote policies that will bolster the business environment.

EIB: European Investment Bank **http://www.eib.org/index.htm**

The EIB is the European Union's long-term lending institution and largest member of the EIB Group, with a total of EUR 43 billion of loan disbursements in 2007. Its task, as, the European Union's financing institution, is to contribute to the integration, balanced development and economic and social cohesion of EU Member States. To this end, it raises substantial volumes of funds on the capital markets, which it lends on favorable terms to projects furthering EU policy directives.

EIF: European Investment Fund **http://www.eif.org/**

Part of the EIB Group, the European Investment Fund (EIF) is the European Union's specialized financial institution for small businesses (small or medium-sized enterprises, known as SMEs) and provides venture capital investments and guarantee instruments to facilitate SME access to debt finance, totalling EUR 2 billion in 2007.

IADB: Inter-American Development Bank **http://www.iadb.org/**

The IADB makes an annual USD 10 billion of grants and loans to 26 countries of the Latin American and Caribbean for development purposes.

The IDB Group is composed of the Inter-American Development Bank, the Inter-American Investment Corporation (IIC) and the Multilateral Investment Fund (MIF). The IIC focuses on support for small and medium-sized businesses, while the MIF promotes private sector growth through grants and investments, with an emphasis on microenterprise.

The World Bank Group **http://www.worldbank.org/**

The World Bank is the world's largest source of financial and technical assistance to developing countries, providing nearly USD 25 billion annually in loans to its client countries. The World bank is composed of two unique development institutions owned by 185 member countries—the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) which both play a different but collaborative role to advance the vision of an inclusive and sustainable globalization.

The World Bank uses its financial resources, highly trained staff, and extensive knowledge base to help each developing country onto a path of stable, sustainable, and equitable growth in the fight against poverty. Its institutions provide low-interest loans, interest-free credits and grants to developing countries for a wide array of purposes that include investments in education, health, public administration, infrastructure, financial and private sector development, agriculture, and environmental and natural resource management.

Within the World Bank Group, the IFC and MIGA are the preferred sources of support to the private sector. As such, when private sector projects are brought to the Bank for possible guarantee support, Bank staff consult with IFC and MIGA as soon as possible as to their potential interest in financing the project. IFC supports private sector projects in several ways: through equity and debt financing, the syndicated B-Loan program, security placement and underwriting, and advisory services. MIGA provides political risk insurance primarily for equity but it can also cover debt financing.

Outside the World Bank Group other multilateral agencies which offer guarantees similar to the World Bank's include: the Inter-American Development Bank; the Asian Development Bank; and the European Bank for Reconstruction and Development. Some bilateral agencies also provide guarantees similar to the World Bank's such as the Export Import Bank. The World Bank can make guarantees jointly with these agencies. In these instances, World Bank staff ensure close cooperation in all aspects of the operation, both vis-à-vis the private sponsor and lenders and also with respect to the host government which may be obliged to provide each institution with a counter-guarantee, if required by the relevant institution.

IBRD: International Bank for Reconstruction and Development (World Bank Group) **http://www.worldbank.org/ibrd/**

The IBRD provides loans and development assistance to middle-income countries and creditworthy poorer countries. Established in 1944 as the original institution of the World Bank Group, IBRD is structured like a cooperative that is owned and operated for the benefit of its 185 member countries.

IBRD raises most of its funds on the world's financial markets and has become one of the most established borrowers since issuing its first bond in 1947. The income that IBRD has generated over the years has allowed it to fund development activities and to ensure its financial strength, which enables it to borrow at low cost and offer clients good borrowing terms.

To meet the increasingly sophisticated demands of middle-income countries, IBRD is overhauling financial and risk management products, broadening the provision of free-standing knowledge services and making it easier for clients to deal with the Bank.

IDA: International Development Association (World Bank Group) **http://www.worldbank.org/ida/**

The International Development Association (IDA) is the part of the World Bank that helps the world's poorest countries. Established in 1960, IDA aims to reduce poverty by providing interest-free credits and grants for programs that boost economic growth, reduce inequalities and improve people's living conditions.

IDA is one of the largest sources of assistance for the world's 78 poorest countries, 39 of which are in Africa. It is the single largest source of donor funds for basic social services in the poorest countries.

IDA lends money (known as credits) on concessional terms. This means that IDA credits have no interest charge and repayments are stretched over 35 to 40 years, including a 10-year grace period. IDA also provides grants to countries at risk of debt distress. Since its inception, IDA credits and grants have totalled USD 193 billion, averaging USD 10 billion a year in recent years and directing the largest share, about 50 percent, to Africa.

IFC: International Finance Corporation (World Bank Group) http://www.ifc.org/

IFC is the largest multilateral source of loan and equity financing for private sector projects in the developing world. The IFC finances and provides advice for private sector ventures and projects in developing countries in partnership with private investors and, through its advisory work, helps governments create conditions that stimulate the flow of both domestic and foreign private savings and investment.

IFC offers an array of financial products and services to its clients and continues to develop new financial tools that enable companies to manage risk and broaden their access to foreign and domestic capital markets.

In 2008, the IFC has cumulated investments of USD 32 billion, of which 16% in infrastructure, mainly highways and provided advisory services of more than USD 150 million annually in 97 countries.

MIGA: Multilateral Insurance Guarantee Agency (World Bank Group) http://www.miga.org/

MIGA was designed to encourage foreign investment by providing viable alternatives in investment insurance against non-commercial risks in developing countries. The Agency provides investment guarantees against certain non-commercial risks (i.e., political risk insurance) to foreign investors in developing member countries.

MIGA specializes in facilitating investments in high-risk, low-income countries — such as in Africa and conflict-affected areas. By partnering with the World Bank and others, MIGA is able to leverage finance for guarantee trust funds in these difficult or frontier markets. The agency also focuses on supporting complex infrastructure projects and promoting investments between developing countries.

Since its inception in 1988, MIGA has issued nearly 900 guarantees worth more than USD 17.4 billion for projects in 96 developing countries.

In addition, MIGA's technical assistance services also play an integral role in catalyzing foreign direct investment by helping developing countries define and implement strategies to promote investment. The agency uses its legal services to further smooth possible impediments to investment. Through its dispute mediation program, MIGA helps governments and investors resolve their differences, and ultimately improve the country's investment climate.

OPIC: Overseas Private Investment Corporation **http://www.opic.gov/**

OPIC is a US government agency assisting American investors through three principal activities:

- Financing of businesses through loans and loan guarantees
- Insuring investments against a broad range of political risks; and
- Providing a variety of investor services

OPIC assistance is available for new investments, privatizations and for expansions and modernization of plants sponsored by US investors. Acquisitions of existing operations are eligible if the investor contributes additional capital for modernization and/or expansion. In the case of a project with foreign ownership, only the portion relating to the US investor will be supported by OPIC. Support is not available if a project can attract adequate finance from commercial sources.

Political risk insurance is the main component of its business. The agency also sponsors 20 investment funds, geographically designated, which make equity investments on the premise that the investor will realize a profit in a 3 to 7 year investment period. OPIC itself does not invest directly in these funds, but acts as an adviser and a guarantor for up to 75% of the fund's capital.

PPIAF: Public-Private Infrastructure Advisory Facility **http://www.ppiaf.org/**

PPIAF is a multi-donor-funded organization that assists public entities in creating and supporting public-private partnerships in infrastructure through technical assistance on strategies and measures to develop PPP in infrastructure and by identifying, disseminating, and sharing best practice.

Technical assistance, provided through PPIAF-funded grants provide support to governments to:

- Frame infrastructure development strategies to assess the needs of the country and the potential for private involvement
- Create outreach and communication programs to engage stakeholders and ensure transparency and accountability
- Design and implement policy, regulatory, and institutional reforms.
- Design and implement pioneering projects and transactions
- Build creditworthiness to access financing without sovereign guarantees

PPIAF's new Sub-National Technical Assistance Program works with sub-national entities (municipal, state, provincial, other local and regional governments as well as local and regional public utilities, boards, funds, agencies, and authorities) to improve their creditworthiness for accessing market-based financing and thus help mobilize local capital for improvements in infrastructure services and promote the development of local financial markets.

UNDP: United Nations Development Programme	**http://www.undp.org/**

UNDP is the UN's global development network which helps developing countries attract and use aid effectively. Present in 166 countries, it provides support for development of local capacity and developing local solutions to global and national development challenges and within the objectives of the Millennium Development Goals, including the overarching goal of cutting poverty in half by 2015.

UNDP provides a capacity development program in four focus areas

- poverty reduction and achievement of the MDGs;
- democratic governance;
- crisis prevention and recovery; and
- environment and sustainable development.

Total program expenditures in 2007 totalled USD 3.2 billion.

Export credit agencies

ECAs have been set up in most developed economies to assist countries' exports of goods, services and investments in low- and middle-income countries. They provide instruments such as political risk insurance, supplier credits, imported credits direct lending to private firms of their country embarking on projects in developing countries.

Each ECA has its own criteria concerning the conditions of participation. Typically, they require that a substantial share of the imported goods or equipment originate from their country. Financial conditions regulating financial instruments made available by ECAs are fixed by OECD guidelines (Berne Union agreement).

In PPPs involving private finance, they closely work with lenders and sponsors in setting up the project financing structure.

Approach to risk

Besides the usual project and risk management structure of any project financing, ECAs will typically assess the project focusing on:

- Commercial risk (payment default),
- Political risk that can be partially or fully covered through PRI products developed by some ECAs.

The main Export Credit Agencies are presented below.

COFACE: Compagnie Française d'Assurance pour le Commerce Extérieur http://www.coface.com/

COFACE is the trade finance agency for France.

Around the world, the Coface Group facilitates the development of trade by providing companies with a full range of services and guarantees. It offers some 120,000 clients in 65 countries solutions that combine its expertise in domestic and international credit insurance, investment insurance, prospecting and credit information, and management of trade receivables. The Group also offers access to two global networks, Credit Alliance and Info Alliance, which are structured around the shared management of credit risks (the Shared Risk System) and common products.

Rated AA by Fitch IBCA, the Coface Group is the world leader in export credit insurance, France's leading source of credit information and the manager of French government export guarantees.

COFACE. Extract from the Handbook of Country Risk (USA), 2008

ECGD: Export Credit Guarantee Department http://www.ecgd.gov.uk/

ECGD, the Export Credit Guarantee Department, is the UK's official export credit agency and is a separate Government Department reporting to the Secretary of State for Trade and Industry.

ECGD's role is to help UK manufacturers and investors trade overseas by providing them with financial insurance and/or backing to protect against non-payment.

ECICS: Export Credit Insurance Corporation of Singapore http://www.ecics.com.sg/

ECICS Credit Insurance Ltd. is a subsidiary of ECICS Holdings Ltd. (formerly known as the Export Credit Insurance Corporation of Singapore). Founded in 1991 to take over the credit insurance portfolio of the parent company, ECICS Credit Insurance is 82% owned by ECICS Holdings and 18% by Coface.

EDC: Export Development Corporation http://www.edc.ca/

EDC is the trade finance agency for Canada.

EDC provides trade finance and risk management services to Canadian exporters and investors in up to 200 markets. Founded in 1944, EDC is a Crown corporation that operates as a commercial financial institution. Through insurance and finance solutions, it can help exporters compete in more than 200 countries, including higher-risk and emerging markets.

EFIC: Export and Finance Insurance Corporation **http://www.efic.gov.au/**

EFIC is the trade finance agency for Australia.

Eximbank: Export-Import Bank of the United States **http://www.exim.gov/**

Eximbank is an independent, self-sustaining and wholly-owned agency of the US government that aids in financing and facilitating US exports. The Eximbank supplements and encourages, but does not compete with private capital. Its assistance falls into four categories: a medium-term guarantee program, a direct loan and financing guarantee program, a discount loan program and a cooperative financing facility program. The Eximbank guarantees commercial banks and reinsures the Foreign Credit Insurance Association against all political risks and substantial parts of commercial risks taken on both insurance programs and commercial bank guarantee programs.

HERMES: Kreditversicherungs AG **http://www.hermes-kredit.com/en/**

HERMES is the largest credit insurer in Germany and has a world-wide network of subsidiaries and associated companies. A member of Allianz, the Euler Hermes Group has a 36% share of the world credit insurance market.

HKECIC: Hong Kong Export Credit Insurance Corporation
http://www.hkecic.com/

HKECIC provides a range of insurance cover for HK exporters against non-payment risks and offers comprehensive information and assessment on the creditworthiness of overseas buyers and the latest development of market trends.

OKB: Oesterreichische Kontrollbank AD **http://www.oekb.at/en/**

Oesterreichische Kontrollbank Aktiengesellschaft (OeKB) is Austria's main financial and information service provider for the export industry and the capital market. OeKB was founded in 1946 as a specialized banking institution whose shareholders are mainly domestic commercial banks. Its wide range of services is available to companies and financial institutions as well as agencies of the Republic of Austria.

OPIC: Overseas Private Investment Corporation **http://www.opic.gov/**

OPIC is a self-supporting US government corporation providing insurance and, in some cases, partial financing to US private investment in developing countries. In eligible countries, its insurance services provide political risk insurance to US investors for new capital investment and its financial services provide direct loans to new US investment projects. Medium-term and long-term loan guarantees are provided for the same projects. Financing criteria state that the project must have at least 51% private ownership and 25% US ownership.