



ENABLING IPTs  
& TRANSMISSION  
PPPs IN KENYA

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**THE WORLD BANK**  
IBRD • IDA | WORLD BANK GROUP

Kenya  
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# OVERVIEW OF RISK MITIGATION IN PPPs IN TRANSMISSION

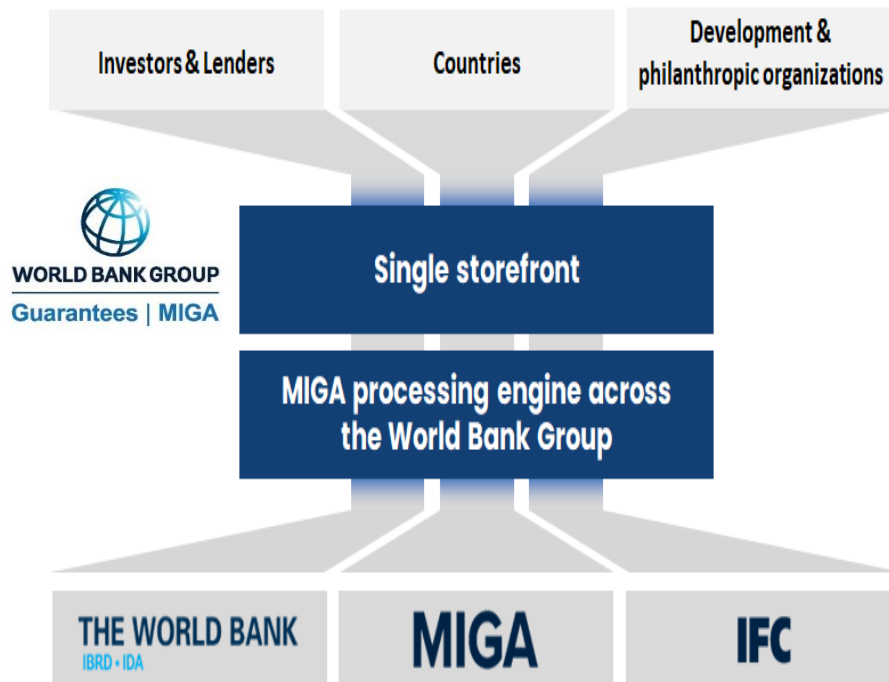


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# WBG UNIFIED GUARANTEE PLATFORM (MIGA)

BRINGS TOGETHER THE STRENGTHS AND EXPERIENCE OF ALL WBG INSTITUTIONS,  
ENHANCING GUARANTEES DELIVERY AND OPPORTUNITIES FOR INNOVATION



**1 Single storefront and point of contact for all investors and lenders, countries and partners**

Providing simplified access to all guarantee products to help: (a) investors to find the best available coverage for their investments, (b) countries to utilize guarantees to attract and enable increased investment, and (c) partners to understand collaboration opportunities

**2 Integrated menu of products leveraging the balance sheets and capabilities of the three WBG institutions**

Fostering innovative de-risking solutions that empower private sector solutions to development challenges  
Combining financial strengths to provide broader range of non-commercial and commercial risk solutions

**3 Integrated and expanded team of guarantee professionals**

Investing in a more accessible client experience by growing the guarantees team, concentrating experts at the Platform/MIGA, and training staff worldwide  
Joint structuring of transactions and co-creation of innovative solutions tailored to our clients' needs

**4 Streamlined processing and operations powered by MIGA**

Achieving greater scale and efficiency through the aggregation of high-impact projects under portfolio coverage  
Streamlining the approach to due diligence and project evaluation to remove redundant processes wherever possible

# FOCUS








## Derisking and credit enhancement products:

## Public sector perspectives

### Non-Commercial Risk Guarantees

#### Private Sector









- Protects against non-commercial risks (e.g., civil war, expropriation).
- Mitigates non-payment of offtake obligations and credit risk.

-  Currency Inconvertibility and Transfer Restriction
-  Expropriation
-  War and Civil Disturbance
-  Breach of Contract
-  Capital Optimization
-  Project-Based Payment Guarantee
-  Project-Based Loan Guarantee for Private Sector Projects

### Credit and Payment Guarantees



#### Public & Private Sectors

- Mitigates credit risk for lenders

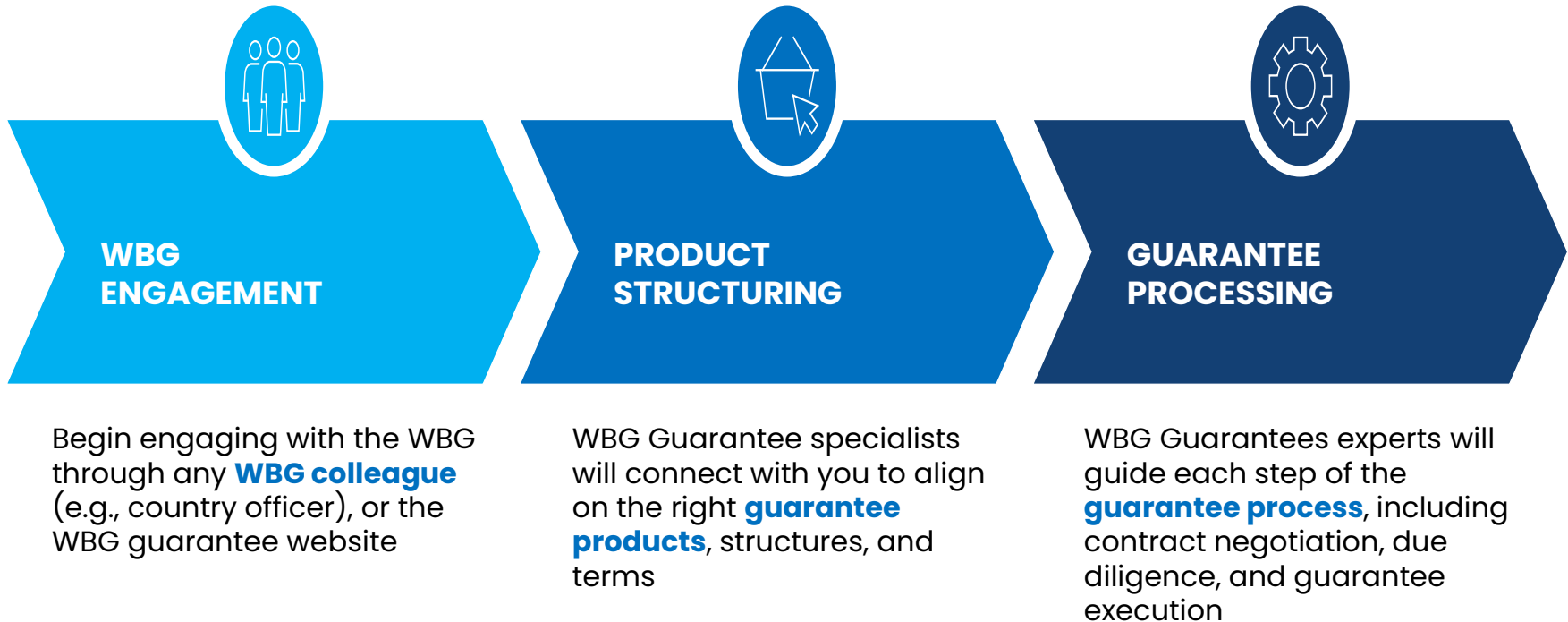
-  Non-Honoring of Public Debt
-  Policy-Based Guarantee
-  Project-Based Loan Guarantee for Public Sector Projects
-  Partial/Full Credit Guarantee for Loans
-  Partial Credit Guarantee for Bonds
-  Unfunded Risk Participation
-  Risk-Sharing Facilities
-  Significant Risk Transfer

### Trade Finance Guarantees For Public Sector Risk

- Guards against non-payment by a sovereign or state-owned entity of its obligations relating to cross-border trade finance

-  Trade Loan Guarantees
-  Letter of Credit Confirmation Guarantees

# How to engage with the WBG Guarantee Platform



# KEY PPP PERSPECTIVES

- **Purpose:** IPT is a procurement alternative to be considered by the public sector
- **Tenure:** IPT projects denote a long-term contracts between a public party and a private party for delivery of a transmission line or portfolio thereof.
- **Risk allocation:** Through a process of negotiation, ideally, according to ability to assess, control, mitigate and manage.
- **Financing:** Private sector provides a significant proportion of the financing at its own risk.
- **Payment:** Remuneration is linked to contractual performance indicators.
- **Roles:**
  - Private sector: Final technical studies and design, final E&S processes and documents, financing, construction, O&M for the project.
  - Public sector: Preparation, procurement, permitting, monitoring compliance with objectives.
- **Key risk allocation:**
  - Private sector: Cost overruns, technical defects, financing risks, delivery of quality standards.
  - Public sector: Demand, right of way, political FM, surface and sub-terrain risks.

# ROLE OF WB IN TRANSACTION STRUCTURING

- **Transaction Advisor** procurement support and engagement to deliver long-term value for money based on acceptable risk transfer.
- **Appropriate risk allocation** between public and private sector, which minimizes risk of direct fiscal risks materializing (such as termination payments which are typically contingent and low risk becoming due).
- **Financial structuring/documentation review/engagement** support to government clients.
- **Value for Money and Fiscal Commitment and Contingent Liability** calculation and documentation support.
- **WB processing and clearance process lock-step** for meeting of all World Bank fiduciary and safeguard requirements timely approval and Board.
- **Coordination among agencies and ensuring appropriate roles** – PPPD (financial structuring), technical user departments, govt. ministries, etc.
- The World Bank plays the “**honest broker**” role that helps all parties progress projects when bottlenecks are faced.



# IPT DERISKING

## WHY IBRD/IDA CREDIT ENHANCEMENT?



### Mitigate risks to support the mobilization of private capital

- ✓ Enable projects by enhancing the credit worthiness of borrowers/offtakers
- ✓ Improve risk profile and transaction structuring

Examples of backstopped obligations: Power Purchase Agreements, Gas Sales Agreement, Commercial Loans, Bonds

- ✓ Better financing terms (pricing, tenure)

### Leverage World Bank resources to mobilize capital for development

- ✓ Guarantees enable member countries to raise larger amounts of capital than through straight loans
- ✓ More efficient use of the World Bank balance sheet

Examples: \$210m loan guarantee allowed Pakistan to raise \$350m, \$500m payment guarantee made possible an \$8bn gas project in Ghana, \$500M guarantee in Angola raised USD 910M in commercial debt.



### Competitive terms

- ✓ Same pricing for all IDA concessional guarantees: 75bps p.a.
- ✓ Pricing of IBRD guarantees and IDA non-concessional guarantees depends on tenor of guarantee and country classification: 50 to 165bps p.a.

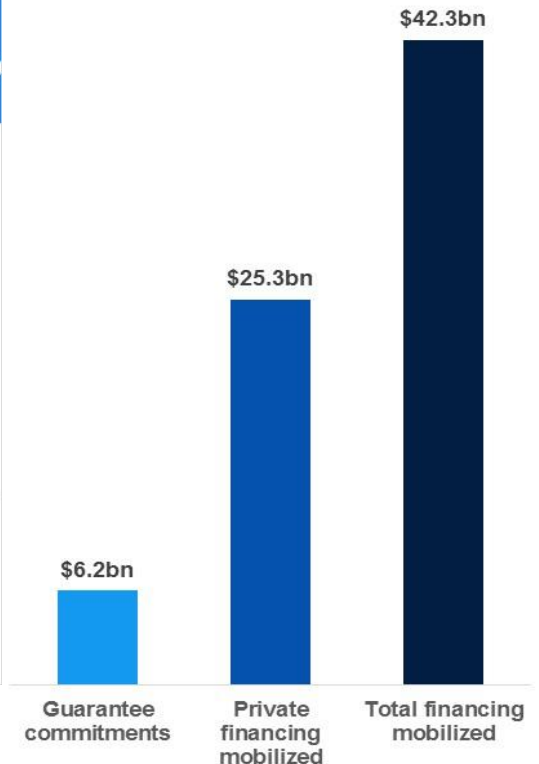


# DEMONSTRATED SUCCESS IN DEPLOYING GUARANTEES GLOBALLY

Map of World Bank Guarantee operations



Financing mobilized with guarantees



✓ \$6.2 billion of guarantees issued    ✓ 68 operations    ✓ 42 countries

# WB GUARANTEES

## WHERE AND HOW THEY CAN MOBILIZE PRIVATE CAPITAL

IBRD/IDA guarantees are suitable for range of interventions:



**Public projects : SOE/public  
program financing platforms**  
*Corporate or Structured  
finance*

- Alongside reforms, helps provide access to new financing sources for SOEs and public programs
- Covers a certain percentage of debt raised to provide capital relief to lenders



**Private Sector  
Mobilization**  
*Limited-recourse project  
finance*

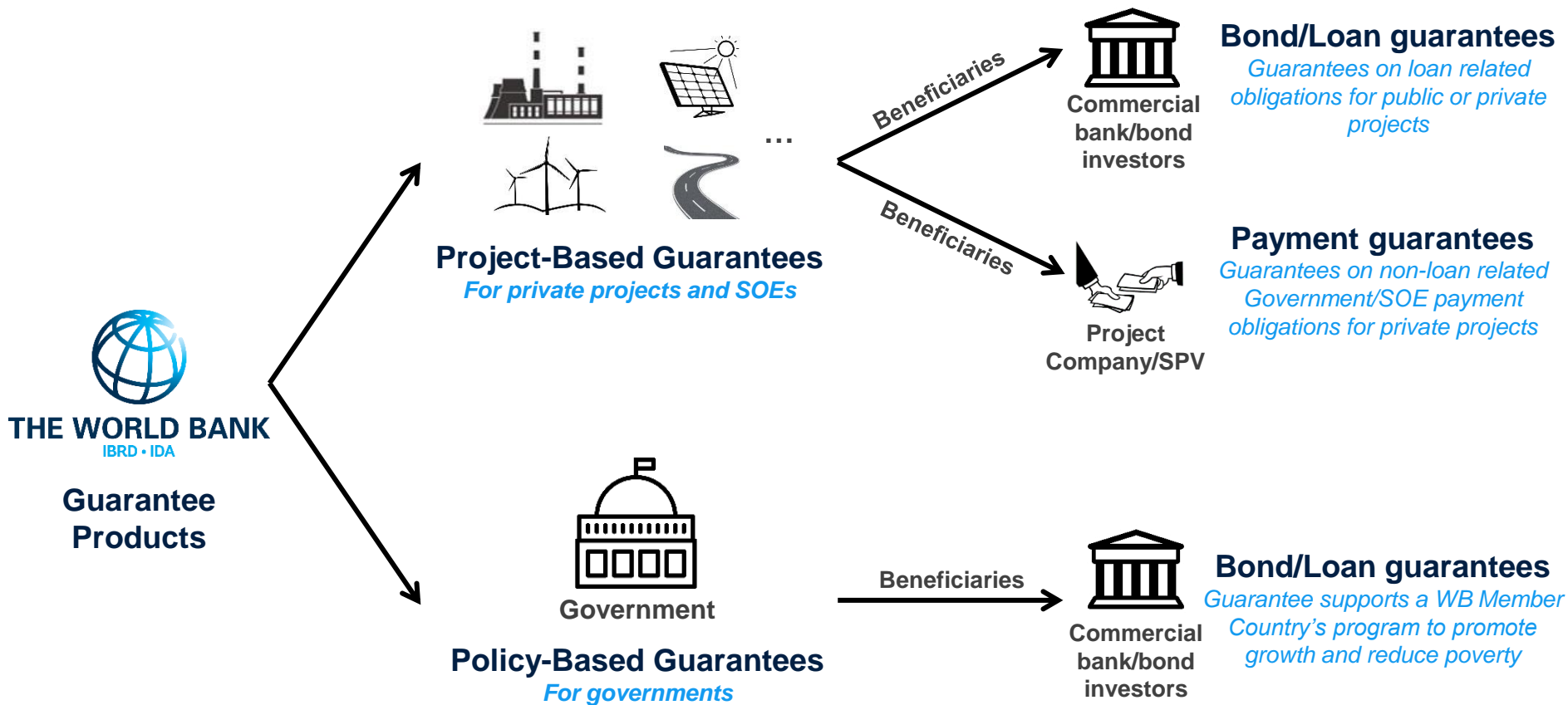
- Caters to large transformational infrastructure projects that are critical for the country
- Attracts large scale FDI into the country and promotes investment climate



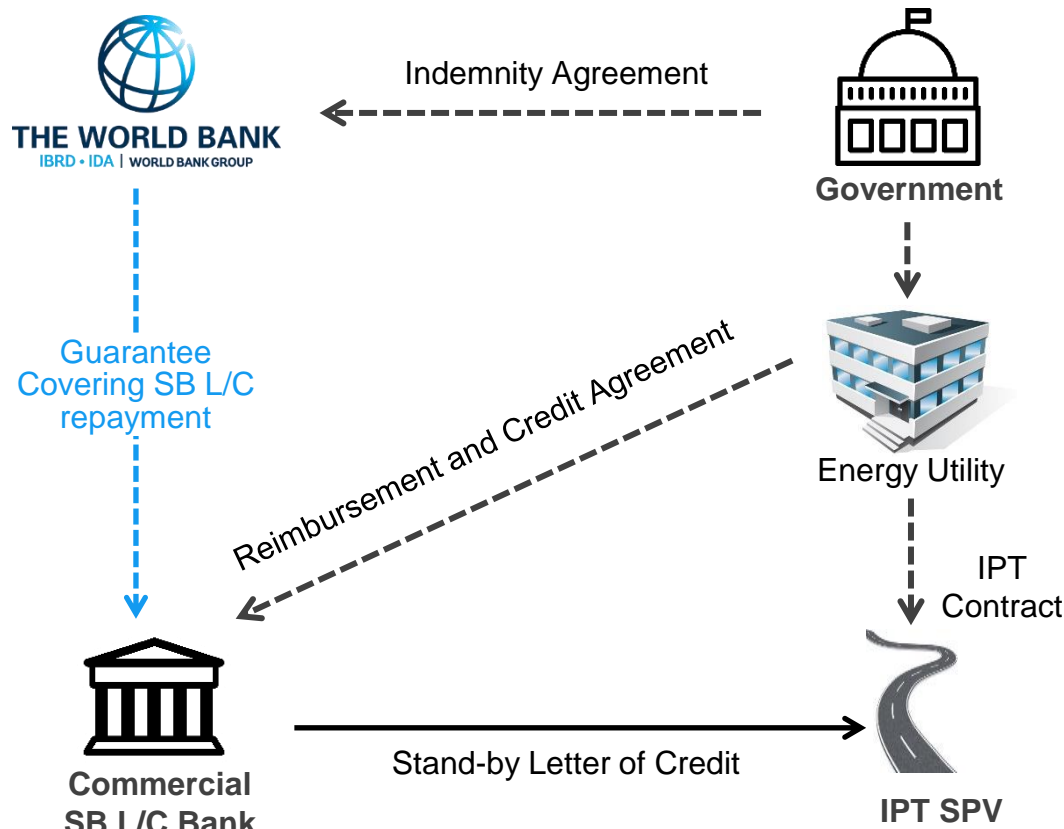
**Risk mitigation and/or sharing  
facilities**  
*Financial Intermediaries*

- Serves investment needs at the national level, supporting small investments through domestic financial intermediaries
- Builds local currency financing ecosystems
- Provides contingent backstop capital (second loss) for lending to nascent markets

# WORLD BANK GUARANTEE PRODUCTS



# CONTRACTUAL STRUCTURE OF PAYMENT GUARANTEE WITH A STAND-BY LETTER OF CREDIT (L/C)

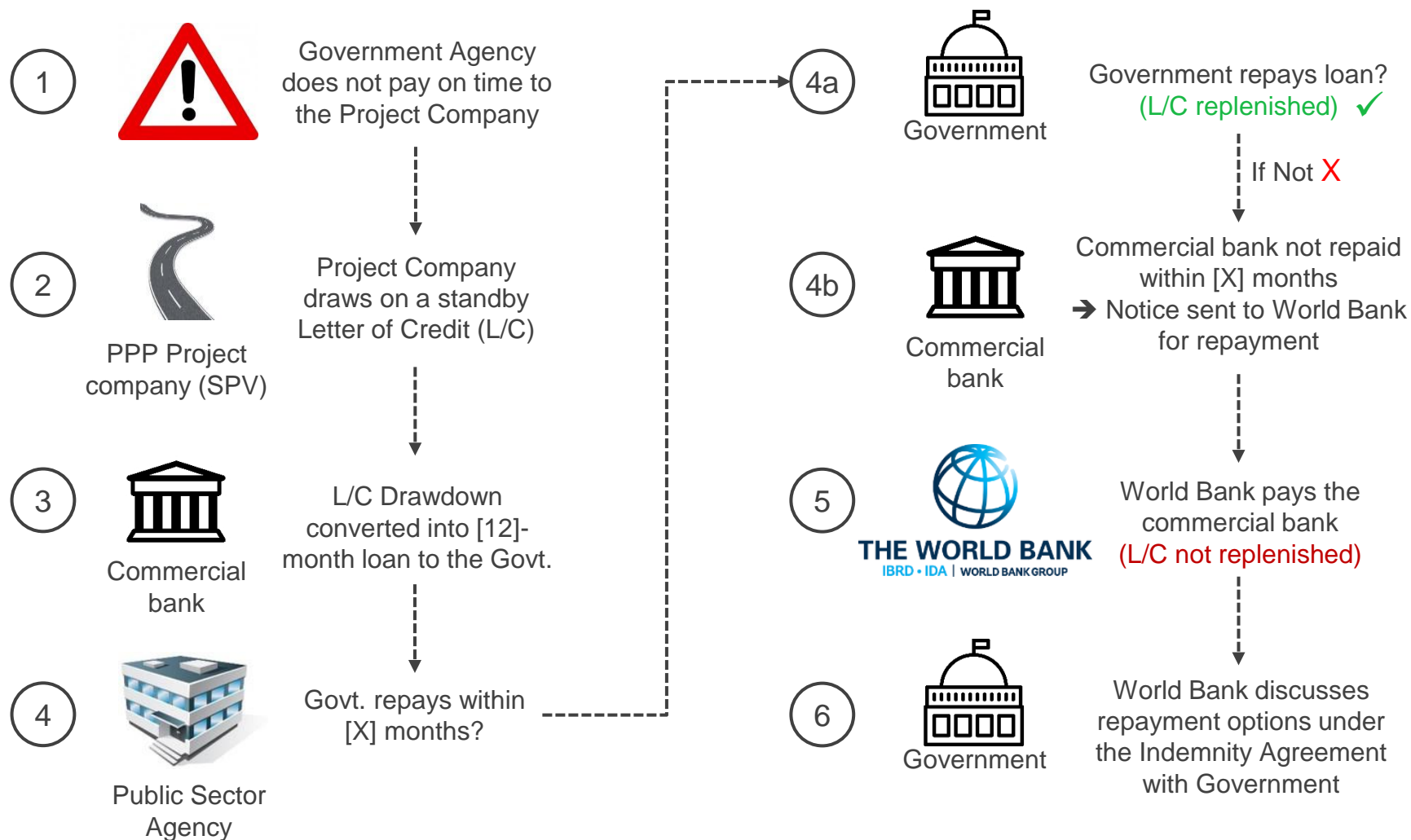


## Key takeaways

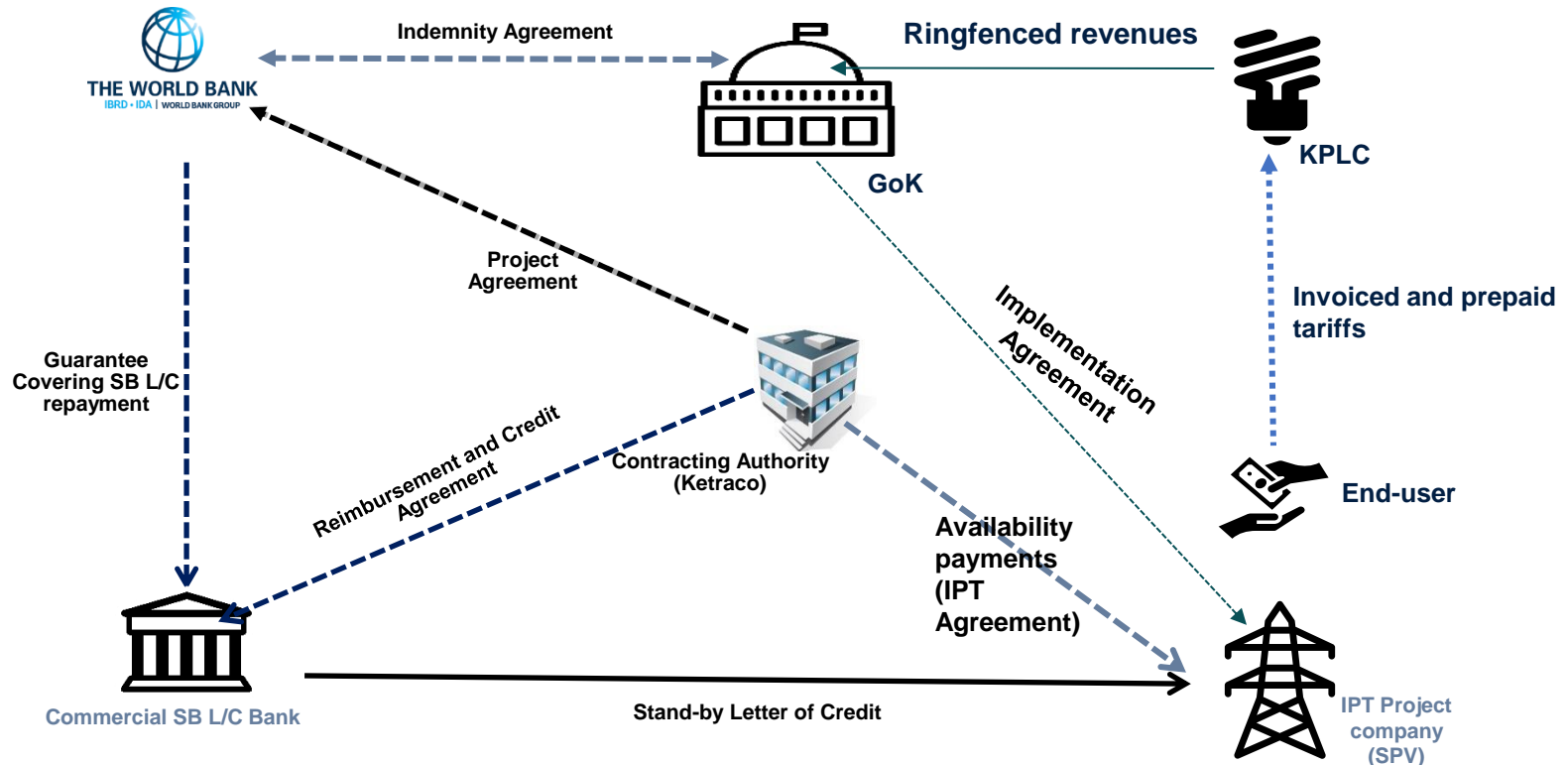
- ✓ Guarantee covers Letter of Credit (L/C) providing backstop to mitigate the contractual payment risk. (liquidity buffer vs source)
- ✓ Each drawdown on the L/C is converted into a [12]-month loan to the contracting authority and/ Government.
- ✓ Upon drawdown on the L/C by SPV, Government has an ultimate obligation to repay the L/C Bank.
- ✓ If the Government fails to repay the L/C Bank, the World Bank steps in and reimburses the L/C Bank.

By mitigating payment risks, WB Guarantees enhances investor confidence and improves affordability.

# MECHANICS OF A WORLD BANK PAYMENT GUARANTEE WITH A LETTER OF CREDIT STRUCTURE



# HOW COULD AN IPT CAPACITY PAYMENT GUARANTEE STRUCTURE LOOK LIKE?



Layers of payment obligation: (A) KPLC ringfenced account which collects prioritized Ketraco payments before any distributions, which is (B) backstopped by SBLC which is (C) backstopped by WB (indemnified by GoK).

# SUMMARY - What WB Guarantee is...

1. Irrevocable and timely AAA-rated guarantee.
2. Primarily mitigates government or its agencies' obligations.
3. Supports interventions covered under the Country Partnership Framework.
4. Sector, institutional and project sustainability are critical to guarantee application.
5. Partial coverage is related to covered risks, while incentivizes risk sharing.
6. Creates contractual discipline amongst key project participants.
7. Indemnity Agreement with sovereign government (MoF).

Each project undergoes detailed due diligence process in technical, financial, environmental & social, legal aspects – **provides additional comfort to lenders and investors !**



# KEY POINTS TO NOTE

1. Not an insurance product – **therefore, no claims process.**
2. Known pricing of guarantee product that is not necessarily linked to project-based risks.
3. For certain guarantees (mostly loan), some room to cover local currency financing (at hard currency cap).
4. Mitigates financial risks for shareholder loans, commercial bank loans, NBFIs and capital market transactions.
5. Indemnity does not add contingent liability, **WB backstops government obligations.**

The WB works closely with the Government across the project life to resolve disputes – **building a track record for the Government is an important development outcome.**

# CERTAIN CRITERIA TO CONSIDER FOR A GUARANTEE

- **Positive sector trajectory** and record of consistent and satisfactory level of dialogue with government counterparts.
- Sufficient **creditworthiness of the offtaker**, or assessment that creditworthiness will be achieved within the short- to medium-term (e.g., tariff is cost reflective, expectation that it will remain so in the medium term; if the tariff is not cost reflective, an effective compensation mechanism is in place with a good track record).
- Comfort that the **government is able to deliver on its related investments / undertakings** (e.g., deliver transmission line on time, etc.) to ensure viability of asset and ensure asset does not become practically stranded. **Project fits with least cost plan** if available, or if one is not available, reasonable expectation that the output from the project can be absorbed.
- LC-backed payment guarantee applicant must be a stand-alone SOE that has the **capacity to borrow** under the law.

# REQUIRED DOCUMENTATION FOR GUARANTEES

## **Guarantee Agreement**

Guarantee Agreement between the WB and the guarantee beneficiaries (i.e. L/C Bank) outlining the terms of the guarantee offering.

## **Project Agreements**

Project Agreement between IBRD and the project company and the utility with standard undertakings to WB such as compliance with World Bank safeguard policies, etc.

## **Credit and Reimbursement Agreement**

Guarantee Support Agreement between government, sovereign/sub-sovereign and L/C Bank whereby the Government undertakes to reimburse the L/C Bank, in the event the utility fails to make repayments once due

## **Indemnity Agreement**

Indemnity Agreement between a member country (the sovereign government) and IDA or IBRD, whereby the government will indemnify the WB in the event the WB makes payments under the guarantee

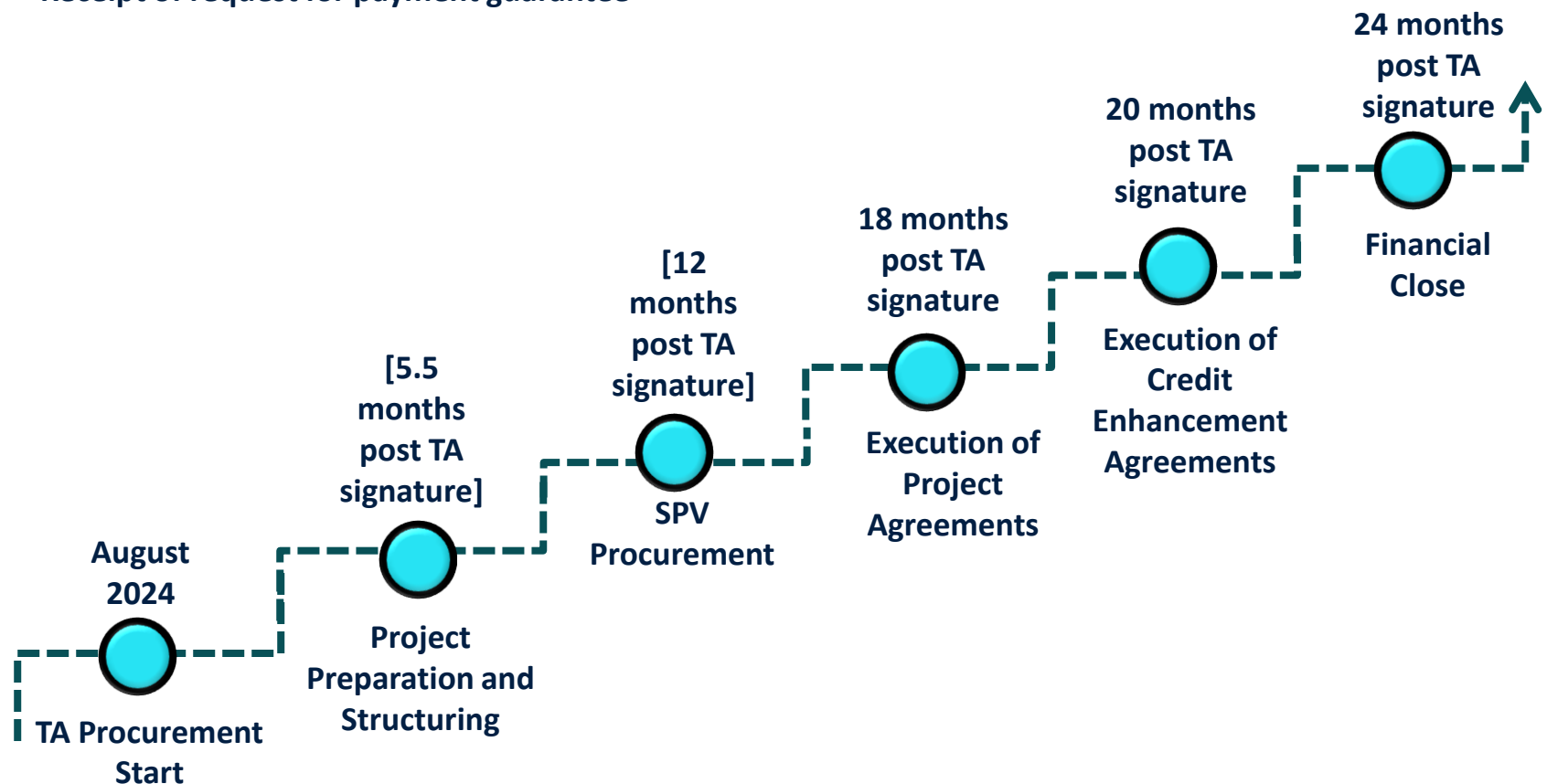
# IDA & IBRD Process Considerations

	<b>Official Request</b>	<ul style="list-style-type: none"> <li>▪ The World Bank processes are officially launched by a formal request from the WB's shareholder, through its national government, via WB country office ('CMU'), taking into account available envelope/allocation.</li> </ul>
	<b>Process</b>	<ul style="list-style-type: none"> <li>▪ Process is policy-driven and similar to that of an 'equivalent' WB loan operation, whether IPF or DPF.</li> </ul>
	<b>Macro-Economic and Sector Sustainability</b>	<ul style="list-style-type: none"> <li>▪ For policy-based guarantee, the country must not be at high risk of debt distress and have an adequate macro-economic framework.</li> <li>▪ Prior actions need to be completed before Board submission.</li> <li>▪ For project-based guarantees, there must be an underlying WB support programme for sector sustainability.</li> </ul>
	<b>Due diligence on Project</b>	<ul style="list-style-type: none"> <li>▪ Contractual structure and bankability including procurement, E &amp; S, development outcomes, FCCL, financial sustainability, affordability, risk allocation, technical sustainability, legal compliance, public participation, integrity.</li> <li>▪ Multi-stakeholder engagement is key for the WB including with concessioning authority, line Ministry, Finance Ministry, PPP Unit, co-lenders and other MDBs.</li> </ul>

# PRIVATELY-FINANCED TRANSMISSION LINE ROADMAP

## Pre-requisites:

1. Amendment of the law to allow clear private sector participation in transmission, if any
2. Alignment on key bankability factors: currency indexing, convertibility and transferability, ringfencing of revenues, arbitration, etc.
3. Receipt of request for payment guarantee



## A POTENTIAL TRAMPOLINE TO CREDIBILITY

**Think of a World Bank payment guarantee as the financial equivalent of a trusted chaperone at a high-stakes dance—it could turn an otherwise risky invitation into a ‘yes’ from even the most skeptical financier!**

