

FINANCING TRANSPORTATION PROJECTS



JBIC

Presentation at the Fourteenth OSCE Economic Forum,

23rd - 24th January, 2006

Koichiro Tsuchiya

Chief Representative, Representative Office in Frankfurt,

Japan Bank for International Cooperation (JBIC)

CONTENTS

1. Introduction of JBIC
2. JBIC's Recent Contribution to the transportation sector in the region
3. Typical Financial Schemes of JBIC
4. Features and Structures of a Successful Deal and the Role of the Government
5. Role of Public Financial Institutions
6. Conclusion

1. Introduction of JBIC

(1) Status and Purpose

- Japan's governmental financial institution (Oct.1999 ~)
- Merger between Export-Import Bank of Japan (JEXIM) and Overseas Economic Cooperation Fund (OECF).
- In support of Japanese companies' exports, imports of natural resources and overseas investments as well as economic development of developing countries through financial operation

(2) Operations

- International Financial Operations (IFO: OOF)
- Overseas Economic Cooperation Operations (OECO: ODA)

(2) Operations (cont'd.)

- ① International Financial Operations (IFO) (ex-JEXIM's Operations) aims at promotion of Japanese exports and imports, as well as Japanese economic activities overseas, and stabilization of international financial order. Main tools are...
 - (i) Export Credit
 - (ii) Import Credit
 - (iii) Overseas Investment Loan
 - (iv) Untied Loan

- ② Overseas Economic Cooperation Operations (OEEO) (ex-OECF's Operations) aims at assisting developing countries for their economic development and stabilization of their economies through ODA loans to the government of developing countries.
 - (i) Yen Loan

(3) Size (as of March 31, 2005)

- Capital Total: JPY 7,877 billion (USD 73,349 MM)
 - IFO: JPY 986 billion (USD 9,181 MM)
 - OEKO: JPY 6,891 billion (USD 64,168 MM)

- Outstanding Loan and Other Financing Total: JPY 20,899 billion (USD 194,608 MM)
 - IFO: JPY 9,403 billion (USD 87,559 MM)
 - OEKO: JPY 11,496 billion (USD 107,049 MM)

2. JBIC's Recent Contribution to the transportation sector in the region

➤ International Finance Operations

- Untied Loan to National Railway (Czech, 1995)
- Modernisation of Diesel Locomotives (Romania, 2001)
- Blue Stream (Black Sea) Gas Pipeline (Russia/Turkey, 2000)
- BTC (Baku-Tbilisi-Ceyhan) Oil Pipeline (Azerbaijan/Georgia/Turkey, 2004)

2. JBIC's Recent Contribution to the transportation sector in the region (cont'd)

➤ Overseas Economic Cooperation Operations

- Port of Constanza South Development (Romania, 1996)
- Road Improvement (Romania, 1998)
- Port of Burgas Expansion (Bulgaria, 1998)
- Bosphorus Rail Tube Crossing (Turkey, 1999 and 2005)
- Bozuyuk Mekece Road Improvement (Turkey, 1999)
- Railway Rehabilitation Bucharest-Constanza (Romania, 2001)
- Sofia Metro Extension (Bulgaria, 2002)
- Seismic Reinforcement of Istanbul Bridges (Turkey, 2002)

2. JBIC's Recent Contribution to the transportation sector in the region (cont'd)

- Overseas Economic Cooperation Operations (cont'd)
 - At the Ministerial Conference on Peace Consolidation and Economic Development of the Western Balkans in Tokyo in April 2004, the Japanese government expressed to continue to contribute to the enhancement of the regional flow of goods and to consider providing financial assistance for projects that will promote economic revitalization.
 - JBIC has recently conducted a research on the transportation infrastructure needs of that region.
 - The outcome spotlights the needs for enhancement of the roads and railways which are along with or securing access to so-called European Corridor.

3. Typical Financial Schemes of JBIC

- ★ JBIC has been meeting demands for financing transportation projects globally by:
 - Export Credit
 - ⇒ Available for projects with procurement of Japanese goods and/or services
 - ★ Third country portion could be included up to 70% of the foreign portion of procurement.
 - Overseas Investment Loan
 - ⇒ Available for projects with Japanese company's equity participation (joint venture or 100% subsidiary)
 - ★ Up to 60% of debt requirements could be extended from JBIC

3. Typical Financial Schemes of JBIC (cont'd)

...and by:

➤ Untied Loan

⇒ Available for governmental projects with a considerable effect to facilitating Japanese companies' activities in the country

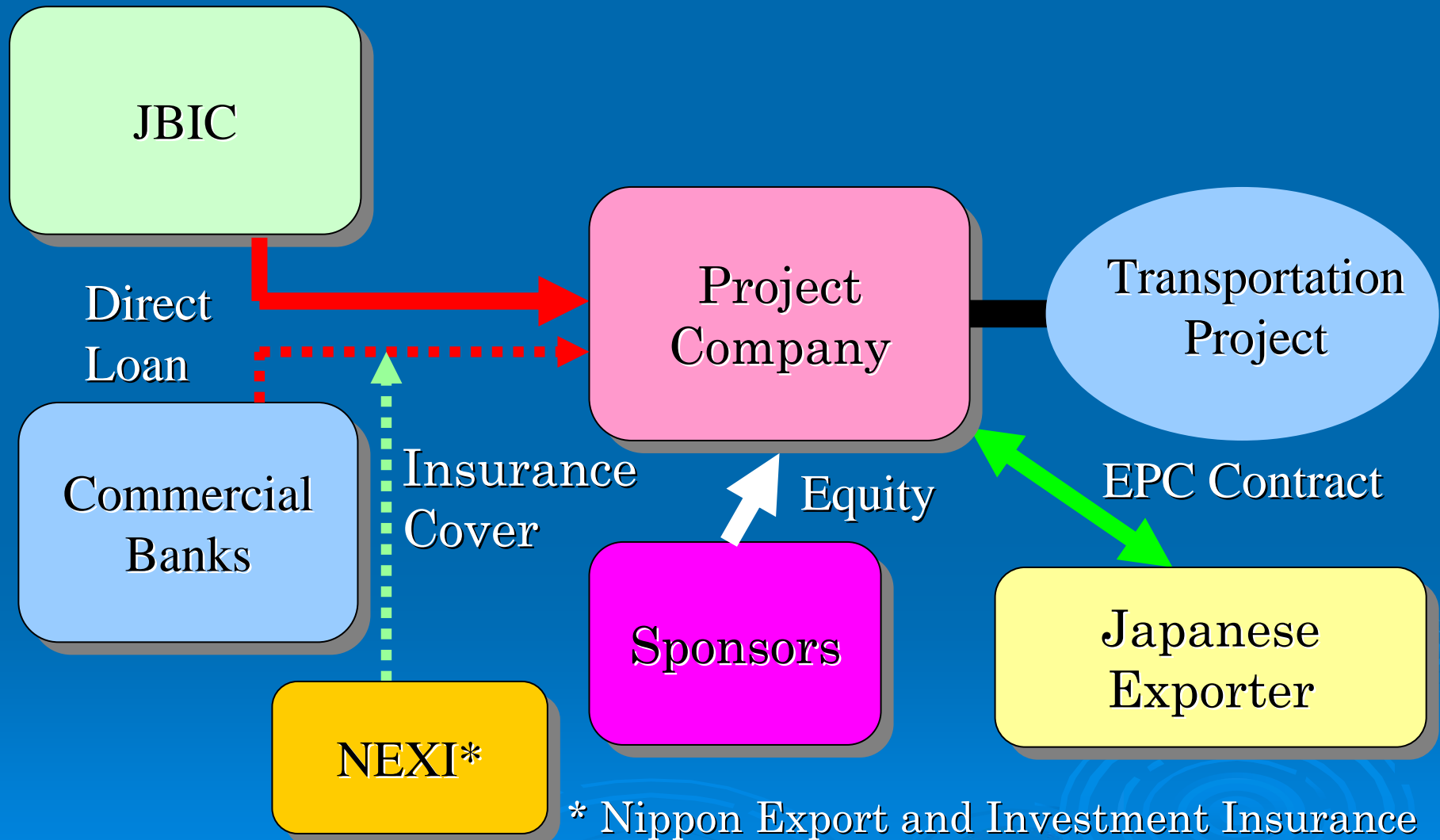
★ No requirement for procurement from Japan.

➤ Yen Loan (Official Development Assistances (ODA))

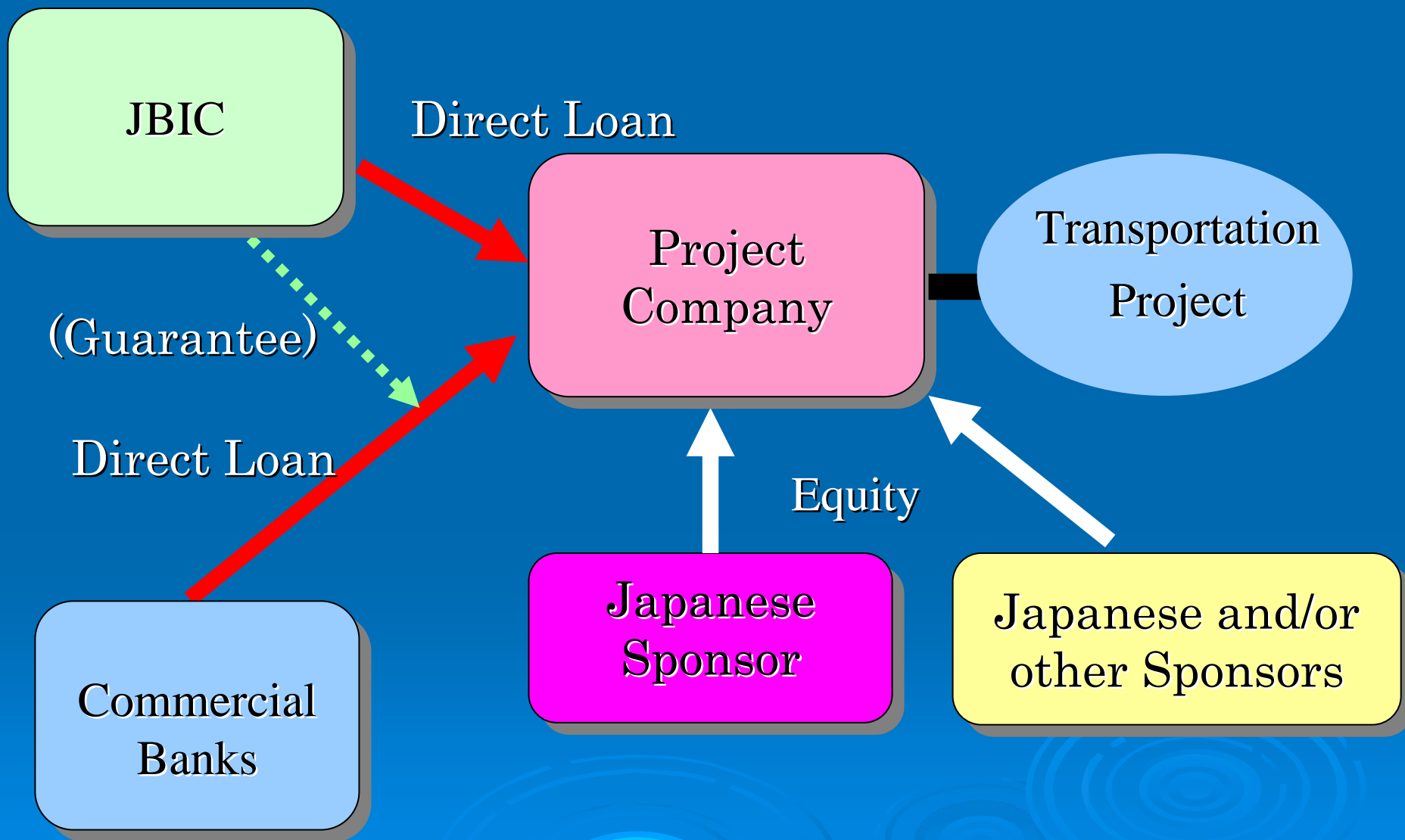
⇒ Part of Japanese government's aid programmes

★ Inter-governmental arrangement is necessary.

Illustrative Scheme of Export Credits



Illustrative Scheme of Overseas Investment Loans



4. Features of a Successful Deal and the Role of the Government

(1) Well-qualified sponsor and operator

- Not only experience, capability and financial affordability....
- But also strong commitments to the project based on their medium and long-term business plan.

(2) Reliable EPC Contractor

- Reliable and well-experienced EPC contractor is essential.
- ⇒ Avoid delays of commercial operation date and technical problems

4. Features of a Successful Deal and the Role of the Government (cont'd)

(3) Sufficient Support by the Host Government

★ Even in case of “project finance,” the host government’s role in the project is still most important.

“Project Finance” herein means a financial structure whose repayment sources are limited to a cash-flow of the project while its collaterals are limited to the project assets, rights, and interests. ⇒ i.e. the government can avoid using its fiscal resources

4. Features of a Successful Deal and the Role of the Government (cont'd)

(3) Sufficient Support by the Host Government (cont'd)

- It could undertake, for example;
 - Minimum traffic/ridership guarantee
 - Long-term assurance that it will honour related contracts
 - Assumption of Forex risk (if applicable)
- ⇒ Alleviation of credit risks of the project
- ⇒ Facilitation of lower interest spread financing
- ⇒ Lower tariff and increased affordability of the services provided

4. Features of a Successful Deal and the Role of the Government (cont'd)

(4) Attractive Investment Climate and Project Background

- “Climate” such as legal system, taxation, accounting system, tariff system, foreign exchange system, foreign investment promotion etc. are all relying upon the government’s initiatives.
 - The government should be responsible for land acquisition and arranging necessary related infrastructure (e.g. access roads).
 - The government’s careful sector reform, responsible sector management and consistent sector development plan is necessary.
- ⇒ Financiers are able to concentrate on the feasibility of the financed project itself.

4. Features of a Successful Deal and the Role of the Government (cont'd)

- ★ In summary, successful projects are led by good sponsors, build by a good contractor, operated by a qualified operator and, most importantly, supported sufficiently by a host government which is fully aware of “What to do” and “What not to do.”

5. Role of Public Financial Institutions

- (1) Political risk mitigation
- (2) Catalyst for private financing
- (3) Enhancement of Investment Climate
- (4) Facilitating the Process
- (5) Lending terms
- (6) Mandate--Promotion of Business Relationship

★ In materialising a large scale infrastructural project, it is often very much advantageous to make most of the above merits of public financial institutions.

Contacts of JBIC

JBIC Representative Office in Frankfurt

Taunustor 2

60331 Frankfurt am Main, Germany

Tel.49-69-2385-770

Fax.49-69-2385-7710

Chief Representative: Koichiro Tsuchiya

(k-tsuchiya@jbic.go.jp)

Representative: Shuhei Kurosawa

(s-kurosawa@jbic.go.jp)