



CICA met with International Financing Corporation (IFC)
Advisory Services in Public Private Partnerships
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- ***About IFC's Advisory Services in Public-Private Partnerships***

IFC is a diverse organization working in a lot of different sectors and everywhere from financing to advisory work. Much of IFC will be working directly with the private sector, either through their financing or in their advisory capacity helping small-medium enterprises and large corporations. On the contrary, the Advisory Services in Public-Private Partnerships's main role is to work with **public bodies at federal, national or municipal levels**, to find out what their major infrastructure or service challenges are, to look for solutions and partnering with the private sector and then help them structure those transactions. **They are transaction advisors, not project developers.**

Sometimes they have to do some upstream work but they try to be very disciplined in this business. They charge fees to their clients and they tend to be sustainable in the long run. Therefore they are very careful in selecting the right projects, in selecting the right clients. This department has been here for a long time, they started with privatizations and evolved to PPPs.

The main sectors are sectors in which they have a delivered approach: **transport in all forms, energy** and other key sectors in infrastructure (**water, telecoms** etc...). They see now more openings in the **social sector**, especially in Latin America. There are some other sectors in which they also try to open space for private sector participation; for example, irrigation projects.

They assist in due diligence works: they review all the technical work or complement the technical studies that are needed to identify the risk of the projects, do a proper risk assessment and distribution of risk. Once the structure is defined they take it to the government for approval. The government could take from one month to years to approve. Once it is approved they move to the public phase of the project which is the tendering, the promotion, the execution of the transaction.

Typically, they finish their work at the commercial closing, meaning the signing of the concession or PPP contract. Now they are receiving more demands from government clients to stay until financial closing although financial closing is mostly the responsibility of the concessioner or PPP partner. Governments want them to stay in case they are some questions in the end of the financial closing. After they leave, they make sure of the government capacity to implement the project. They don't stay to supervise the contract. They do **offer post-transaction advisory support, usually in a different contract.** They have the initial contract with the government to develop a PPP, to get it to the commercial close but in very special cases when there is a higher development impact for a country (social and/or economic impact), they will sign a subsequent contract for one or two years providing that kind of post-transaction advisory support.

- ***A few things they have done***

- Main roads in Colombia: largest road concession in Latin America at that time, in a market where there was very little international competition. It was done in 2008, the worst time of the financial crisis. But they managed to attract international competition. This opened the door for the next big undertaking in Colombia:
- The 4th generation of road concessions in Colombia, in which they changed their role of typical financial advisors to tackle a massive road program. They were in charge of standardizing processes and contracts and supervised all the financial advisors who were selected to undertake the individual transactions;
- Another road in the Philippines;

They would like to do more in water but they consider it is a difficult sector. They also focus on cities' needs. The combinations are endless, from full hospitals to just laboratories.

They also do **management contracts**, these are very rare and in the cases of very fragile economies, where bringing private sector can be very costly because the risk is too high. Those are new things like parking lots and schools. They start with primary schools in Belo Horizonte and now they have moved to Colombia to do a national program, to do schools at a national level. They have received demands from Mexico, from Peru to do schools (only the infrastructure, the teachers are still public). This is an example of how they can open the market for private sector when this was not possible a few years ago.

Half of the mandates they sign, even if they are very selective, die and the primary reason for this is political. They work in fragile countries and in low income developing countries as well as in middle income countries where maybe the capacity is there but there is still a real development challenge, a global and political experience. They work with governments on a broader programmatic approach to public private partnerships **particularly in Latin America but increasingly in Asia.**

- ***How much does it cost?***

They charge fees, the governments pay retainer fees and winners pay the success fees. For them to be sustainable they have to fit a certain level of success.

In typical transactions they try **to team up with donors from developed countries to mitigate the cost** of a transaction. For example, they have received money from Spain, Canada, the US to mitigate the cost. There are two main costs: the IFC cost and the consultant cost (lawyers, technical advisors...). The donor money is used mainly to finance the technical work, the consultants' work and the client pays the IFC cost. When they reach success, they try to recover all costs so they could be able to recycle the donor funding for the next transaction.

The World Bank sometimes has a credit line approved for a country for specific projects as long as it can demonstrate that there is the need for the financial sustainability of that project. So they can structure the transaction and put together a package for private sector, whoever is selected will have access to those funds. That is already happening. There were some delays in terms of aligning the procurement rules from the World Bank and the IFC to be very careful in potential conflict of interests. That is already solved: there were some new regulations about how to use the World Bank's money in a PPP transaction. Obviously they coordinate with the Bank when they engage in a project.

- ***They have a strong marketing strategy***

They are trying to identify potential investors for a specific transaction. The projects are not only technical projects, they are also political and communicational. In Brazil and in Colombia they have coordinated with other units in the creation of informants for concessioners to be able to finance the transaction attracting pension funds. That is an ongoing discussion.

When they talk with governments about PPPs, one of the first messages is that PPPs are not the solution to all of their problems and they have to be careful how to use it and when to use it. The second main message is that **the project has to be bankable.**

- ***How can CICA contribute to IFC consultations or workshops***

They created a worldwide PPP venue, held every two years. Originally this was created as a venue for government official discussions. They decided to create something for the PPP units of different countries to discuss their problems in a closed environment because they found out that all of them have the same problems. They think it is also time to invite the private sector. They are trying to bring together the public and the private sectors in workshops they organize a few times a year in different countries (Kirgizstan 3 day workshop in April for example). They will keep CICA informed about the upcoming activities.