



Case Study:

Guarantee Program for the IIRSA Northern Amazon Hub

IDB Guarantee:
Innovative financing to promote PPPs



Presentation Outline

1. The Project
2. Guaranteed Payment Obligations
3. Contractual Structure
4. The Guarantee
5. Challenges
6. Impact
7. Lessons Learned



1. The Project

- ➔ Rehabilitation of a 960 km. network of federal toll roads in Northern Peru
- ➔ Works to be executed under a 25-year concession
- ➔ Concession contract was awarded through a competitive process to Concesionaria IIRSA Norte S.A.
- ➔ Operation is structured as a Private Public Partnership (PPP)
- ➔ Rehabilitation: build, operate, and maintain
- ➔ Road network is not expected to generate sufficient revenues to cover the construction/rehabilitation costs

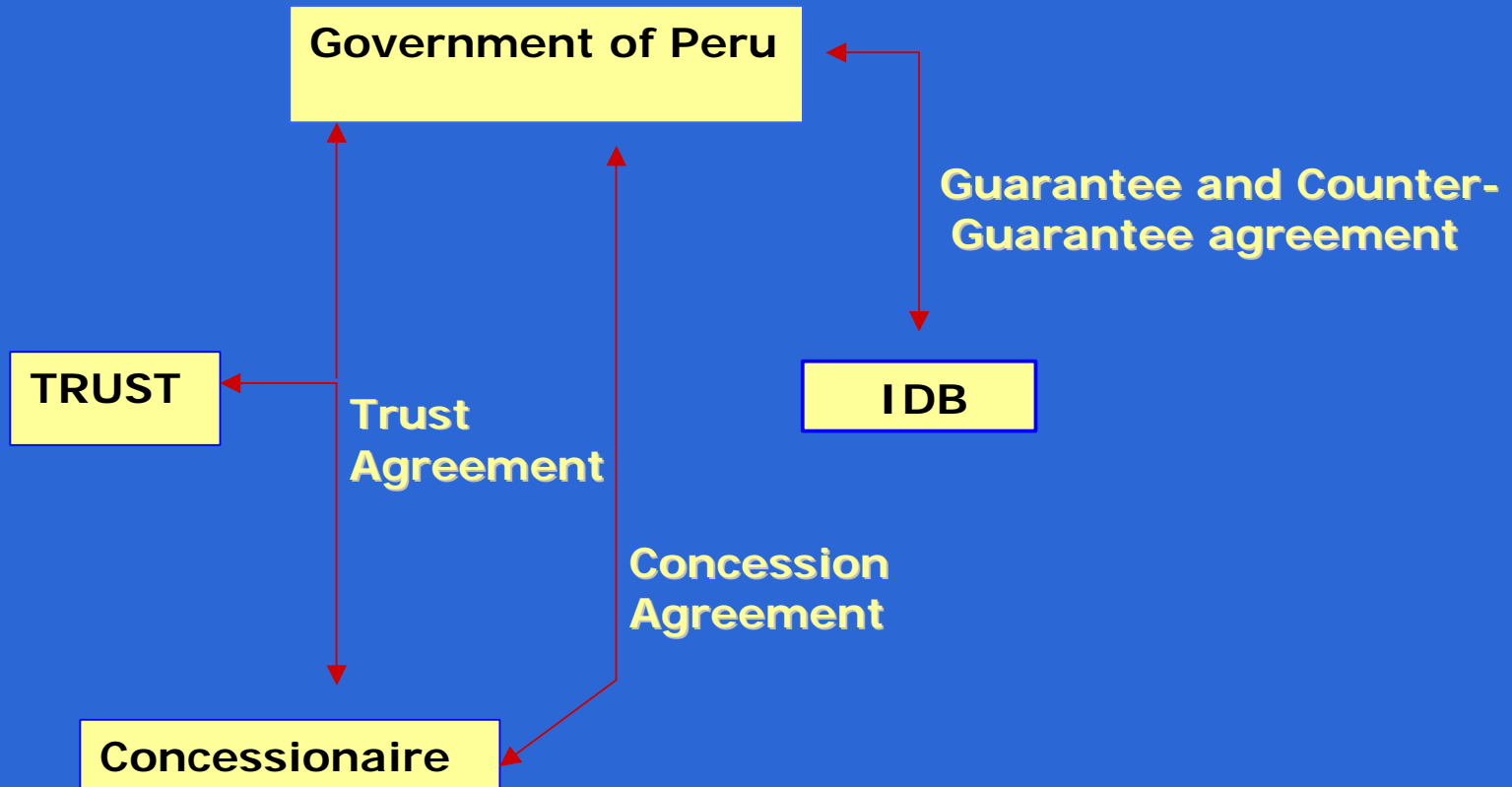


2. Guaranteed Payment Obligations

- Financial structure of concession includes deferred payment obligations by the Government of Peru (GOP) to the concessionaire based upon progress of the construction works. Deferred payments are known as PAOs (“Pago Anual de Obras”)
- GOP will present the Concessionaire with CRPAOs (“Certificado de Reconocimiento de Pago Anual de Obras”) as defined construction milestones are achieved
- CRPAOs: Direct, irrevocable, unconditional, unsubordinated and unsecured obligations of GOP
- Neither CRPAOs nor PAO legally constitute public debt of GOP
- CRPAOs are freely transferable in total or in part from the holder to a third party
- Payment obligations associated with the CRPAOs are allocated to the Ministry of Transportation and Communication (MTC) in the annual budget. Funds associated with CRPAOs may not be redirected.



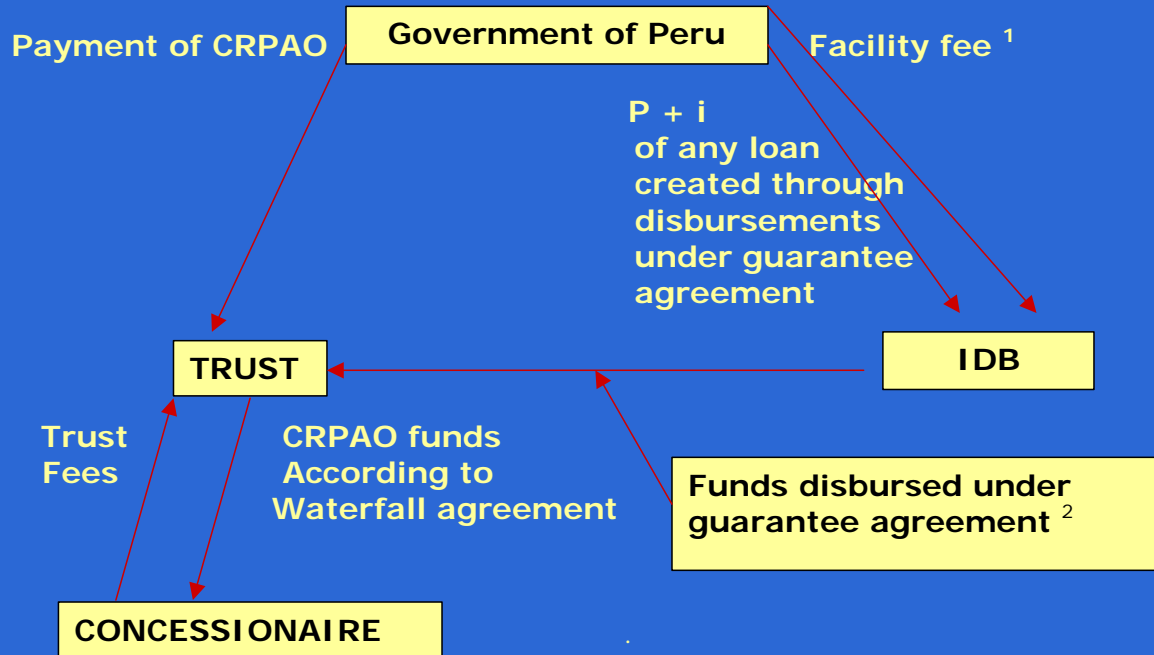
3. Contractual Structure





3. Contractual Structure (cont.)

Cash Flow Structure



¹ Legal obligation to pay facility fee resides with GOP but the Concessionaire agreed to pay the fee to the trustee for distribution to IDB.

² Funds are disbursed to trustee as per irrevocable instruction of GOP. Such disbursement results in the creation of a loan between GOP and IDB.



4. The Guarantee

- ➔ Guarantee and Counter-guarantee contract is between IDB and GOP
- ➔ US\$60 million first-loss guarantee on cash flow associated with payment of CRPAO obligations
- ➔ Trust agreement: Cash flow structure and notifications
- ➔ Limited reinstatability feature
- ➔ Guarantee: 20 years
- ➔ Counter-Guarantee

}	1 st \$15 Million - 15 years
	2 nd \$15 Million - 10 years
	3 rd \$30 Million - 5 years
- ➔ Payment by IDB of amounts due under guarantee agreement within ten (10) business days of receipt of notification from Trustee



5. Challenges

- ➔ Tailor made
- ➔ More than a public sector guarantee
 - ➔ Induced market interest in transaction prior to submission of bids thereby creating competitive conditions
 - ➔ Alignment of incentives – stepped amortization schedule of loan reflects this alignment
- ➔ Effectiveness: Once triggered, the guarantee pays up to US\$60 million
Payment is automatic
- ➔ Guarantee is not subject to cross-default; **however**, loans created through disbursements under guarantee are subject to cross-default

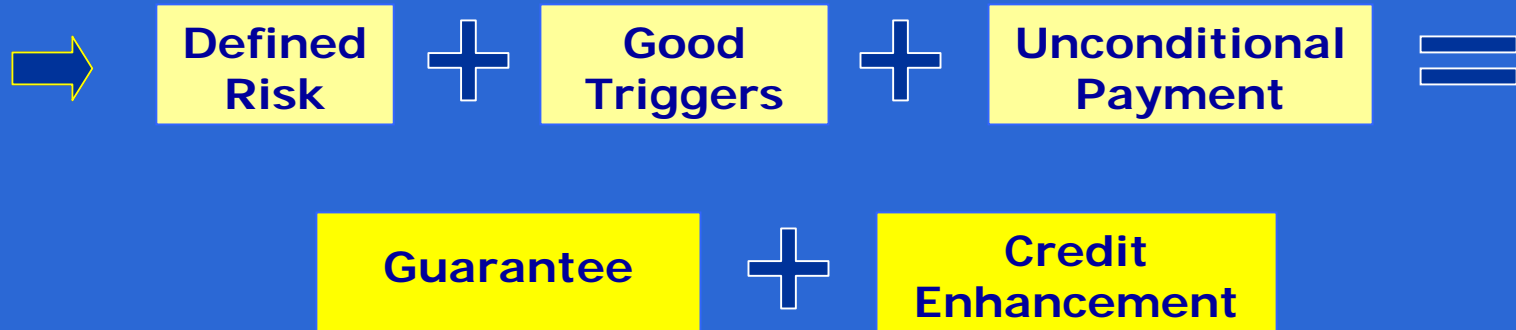


6. Impact of Guarantee

- ➔ Effective credit enhancement to a complex structure of Credit Linked Notes. Project was awarded “Deal of the Year – Latin American Project Bond Issue” by Project Finance International
- ➔ August 2006: US\$213 million placed in 144 A Market
- ➔ Contributed to upgrade of notes offered by Concessionaire



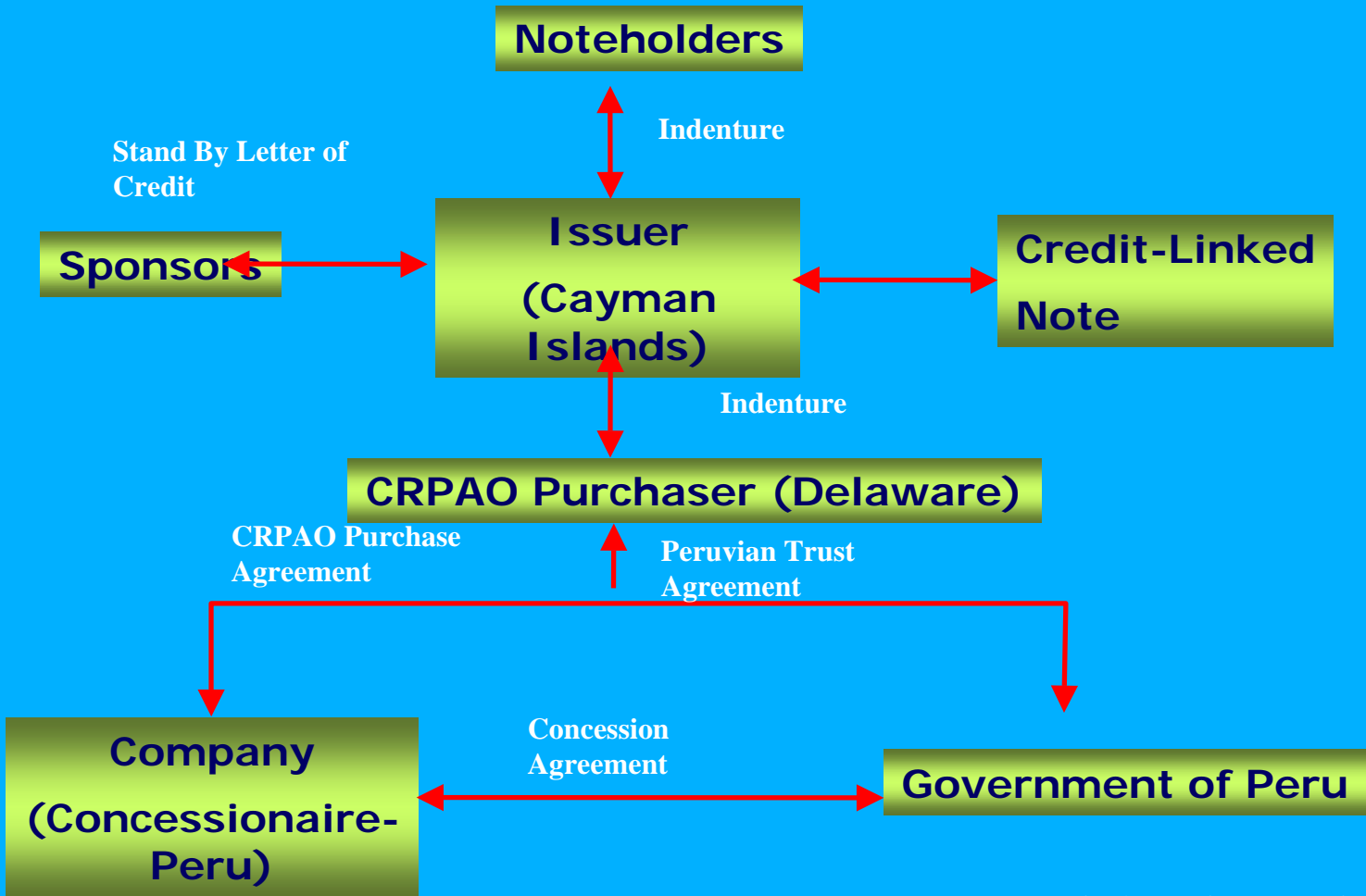
7. Lessons Learned



⇒ Public – Private synergy (win – win)

⇒ Replicable

Contractual Agreements



Source: Fitch Rating Service.



More Information

➔ Project: PE-L1010 – www.iadb.org/projects

➔ Guarantee and Financial Issues: Margaret Walsh
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Thank you