



Transport Day 2014 – Lima | December 7, 2014

# Experiences in Accessing & Leveraging Climate Finance

Lynée Bradley, Director, Citi Export & Agency Finance

# Citi – Who We Are

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Citi is committed to helping our clients find strategies that can drive their financial success in today's global economy.

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Citi, a leading global bank, has approximately 200 million customer accounts and does business in more than 160 countries and jurisdictions. Citi provides consumers, corporations, governments and institutions with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, transaction services and wealth management.

## 200 Year Heritage

- Since 1812, Citi's central mission has been to support **economic progress**. For two centuries, we have applied our passion for **innovation** to help our clients advance from ambition to achievement
  - We started as a trade finance bank, enabling commerce between New York and Liverpool. Since then, we have literally been connecting the world
  - Over the decades, we have helped finance some of the world's most transformative projects, from the transatlantic cable to the Panama Canal to the jumbo jet
- We draw inspiration from our past, but we believe our future is even more exciting. The **bank's core strengths** – facilitating international trade and capital flows, helping consumers pursue opportunities in the world's top 150 cities and helping companies build their businesses throughout the developed world and in the high-growth emerging markets – all are **aligned with the trends that are redefining the global economy**

**The world may be diverging in many ways, but our role is to create convergence – to connect the world for our clients and to connect our clients to the world.**



# Citi Environmental Sustainability

In alignment with our corporate strategy and the business context in which we operate, Citi's sustainability strategy focuses on three strategic priorities.

## Environmental Finance

Directing financing to industry-leading and innovative environmental investments

**CLEAN ENERGY INVESTMENTS**  
In 2013 we surpassed our \$50B 2016 investment target by \$3.9 billion.

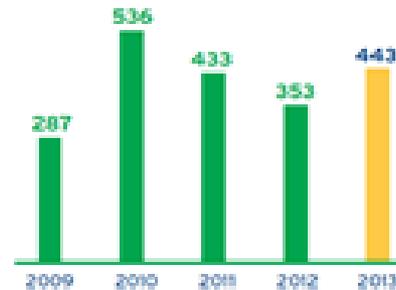


**Highlight:** In 2013, Citi directed the final \$8.78 billion towards our ten-year, \$50 Billion Climate Change Initiative, hitting our goal three years early.

## Environmental & Social Risk

Partnering with our clients to manage environmental and social risks

**ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT TRANSACTION REVIEWS**

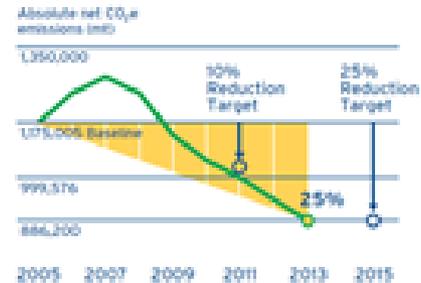


**Highlight:** Citi reviewed and advised clients on environmental and social risks in 443 transactions in 2013.

## Operations & Supply Chain

Managing our 12,000 facilities and global supply chain to reflect best practices

**GREENHOUSE GASES**  
We reached our GHG goal two years early.



**Highlight:** In 2013, Citi has reduced its emissions by 294,759 metric tons from baseline year 2005, which represents a 25% absolute reduction.

### Citi has over 15 years of experience and leadership on environmental issues.

- We have been a leader in the industry in developing collaborative environmental and social frameworks, such as the Equator Principles, which have now been adopted by 80 financial institutions, and the Green Bonds Principles for capital markets.
- Citi has reduced greenhouse gas emissions from its own operations by 25% from 2005 levels, meeting our goal for a 25% GHG reduction by 2015 two years early.

# Citi Export and Agency Finance Overview

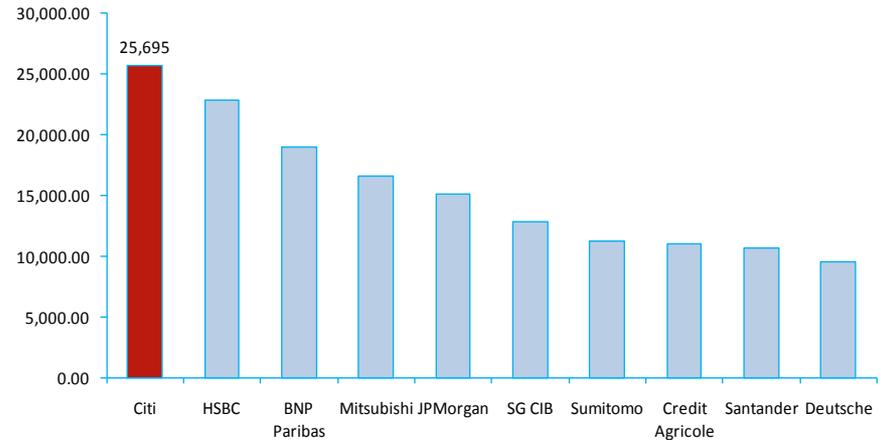
Citi's EAF team has significant experience with a wide range of key Official Agencies globally. EAF consistently leads the league tables for Export Credit Agency (ECA) supported financing and receives market recognition for its focus on innovation in export and agency finance.

## Key Facts about Citi Export and Agency Finance

- Long standing relationships with over 65 agencies globally
- 60+ professionals who focus on seamless transaction execution through direct engagement with agencies and clients in native language and through local presence
- Portfolio includes transactions supported by export credit agencies (ECAs), development finance institutions (DFIs) and multilateral agencies (MLAs)
- Our approach is unique insofar as:
  - Citi's portfolio includes transactions supported by ECAs, DFIs and Multilateral Agencies
  - Transactions are not limited to standalone financings, but often incorporate larger syndications and embedded structured derivatives
  - Citi's portfolio is not biased towards any particular agency given its global approach
- Broad industry experience: Aviation, Shipping & Transportation, Power, Oil & Gas, Metals & Mining, Telecom, Infrastructure, Financial Institutions and Others

## Rankings for ECA Supported Loans (2010-2013)

2010 - 2013  
(in USD MM)



## Recent Highlights

- In 2013, Citi's EAF business arranged more than US\$10 billion in Official Agency-supported transactions across 37 countries
- Transactions executed by Citi in 2013 won 12 Deal of the Year Awards

# Exploring Official Agency Eligibility Criteria

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Official Agencies will hinge their support on the satisfaction of various types of eligibility criteria.

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## Promotion of Exports

- Export Credit Agencies (ECAs) are Official Agencies with a primary mission to support their country's exports:
  - Support will depend on exports / procurement from their home country
  - The ECAs of OECD countries follow OECD Consensus Arrangement on Export Credits

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## National Strategic Interest

- Some ECAs have broadened their support to cover other national strategic interests beyond exports:
  - Overseas investments of companies from their home country
  - Strategic natural resource/commodities off-take by their home country
  - Other “strategic national interests” (e.g. food and energy security)

## Public Sector vs. Private Sector

- Some Official Agencies (e.g. DFIs) have strict rules prohibiting them from supporting public sector obligors / Projects, e.g. IFC
- Other Official Agencies have a separate “Public Sector Departments” or “Sovereign Non-Honoring Programs” for public sector obligors / projects, e.g. ADB, OPIC and MIGA

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## Developmental Benefits

- Some Official Agencies (in particular the DFIs) will support projects purely based on their developmental benefits:
  - Poverty alleviation and rural development
  - Infrastructure
  - Development of emerging market financial markets / instruments
  - Environmental sustainability

# Export Credit Agencies, Bilateral Institutions and Multilaterals

Official Agencies can be divided into two categories depending on whether their support is “tied” (Export Credit Agencies) or “untied” (Multilateral and Bilateral Agencies) to exports.

Agency Type	Description / Characteristics of Financing	Advantages / Limitations
<p><b>Export Credit Agencies</b></p> 	<ul style="list-style-type: none"> <li>▶ Government institution that supports trade and investment from home country abroad</li> <li>▶ ECAs must adhere to an established set of guidelines called the OECD consensus</li> <li>▶ Financing is linked to procurement of goods and / or services</li> <li>▶ Provides comprehensive guaranteed loans for up to 85% of the contract value</li> <li>▶ Guarantee and / or insurance would cover from 75% to 100% of the financing, depending on the Agency</li> </ul>	<ul style="list-style-type: none"> <li>▲ Low subsidized pricing</li> <li>▲ Very predictable terms and conditions</li> <li>▲ Comprehensive guarantees increase financing appetite from financial institutions and frees up traditional funding sources (bank financing, capital markets)</li> <li>▲ Withholding tax exemption</li> <li>▼ Rigid eligibility criteria</li> <li>▼ Strict funding requirements</li> </ul>
<p><b>Multilateral</b></p> 	<ul style="list-style-type: none"> <li>▶ Institution owned by more than one country</li> <li>▶ Supports social and economic progress in their member countries</li> <li>▶ Focus on financing developmental projects</li> <li>▶ Financing is <u>not</u> linked to procurement of goods and / or services</li> <li>▶ Solutions include guarantees and insurance, as well as direct lending</li> </ul>	<ul style="list-style-type: none"> <li>▲ Important source of long term capital in highly volatile environments</li> <li>▲ Relatively flexible eligibility requirements (untied)</li> <li>▲ Withholding tax exemption</li> <li>▲ Open for refinancing solutions in certain cases</li> <li>▼ Needs to adhere to certain statutory requirements such as environmental, social and workers' rights</li> <li>▼ Fairly lengthy execution timeframe</li> </ul>
<p><b>Bilateral</b></p> 	<ul style="list-style-type: none"> <li>▶ Government institution that supports overseas investments into the emerging markets</li> <li>▶ Financing is <u>not</u> linked to procurement of goods and / or services</li> <li>▶ Focus on financing of developmental projects related to own government objectives</li> <li>▶ Solutions include rating enhancement, political guarantees, partial guarantees and direct loans</li> </ul>	<ul style="list-style-type: none"> <li>▲ Important source of long term capital in highly volatile environments</li> <li>▲ Relatively flexible eligibility requirements (untied)</li> <li>▲ Withholding tax exemption</li> <li>▲ Open for refinancing solutions in certain cases</li> <li>▲ Continuous innovative solutions</li> <li>▼ Needs to adhere to certain statutory requirements such as environmental, social and workers rights</li> </ul>

# Key Themes for Public Sector Infrastructure Development

Balancing fiscal austerity and infrastructure capital needs remains a critical theme.

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## Themes that need to be accounted for in order to catalyze infrastructure development:

- Predictability, consistency and transparency in concession bidding process
- Appropriate risk allocation between public sector, contractors, equity holders and debt holders
- “Double-digit money” looking for a home that should be paired with a patient equity proposition
- USD remains the deepest and broadest market to fund the infrastructure asset class
- Governments remain sensitive to their quantum of external indebtedness as defined

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## Inherent challenges associated with infrastructure development:

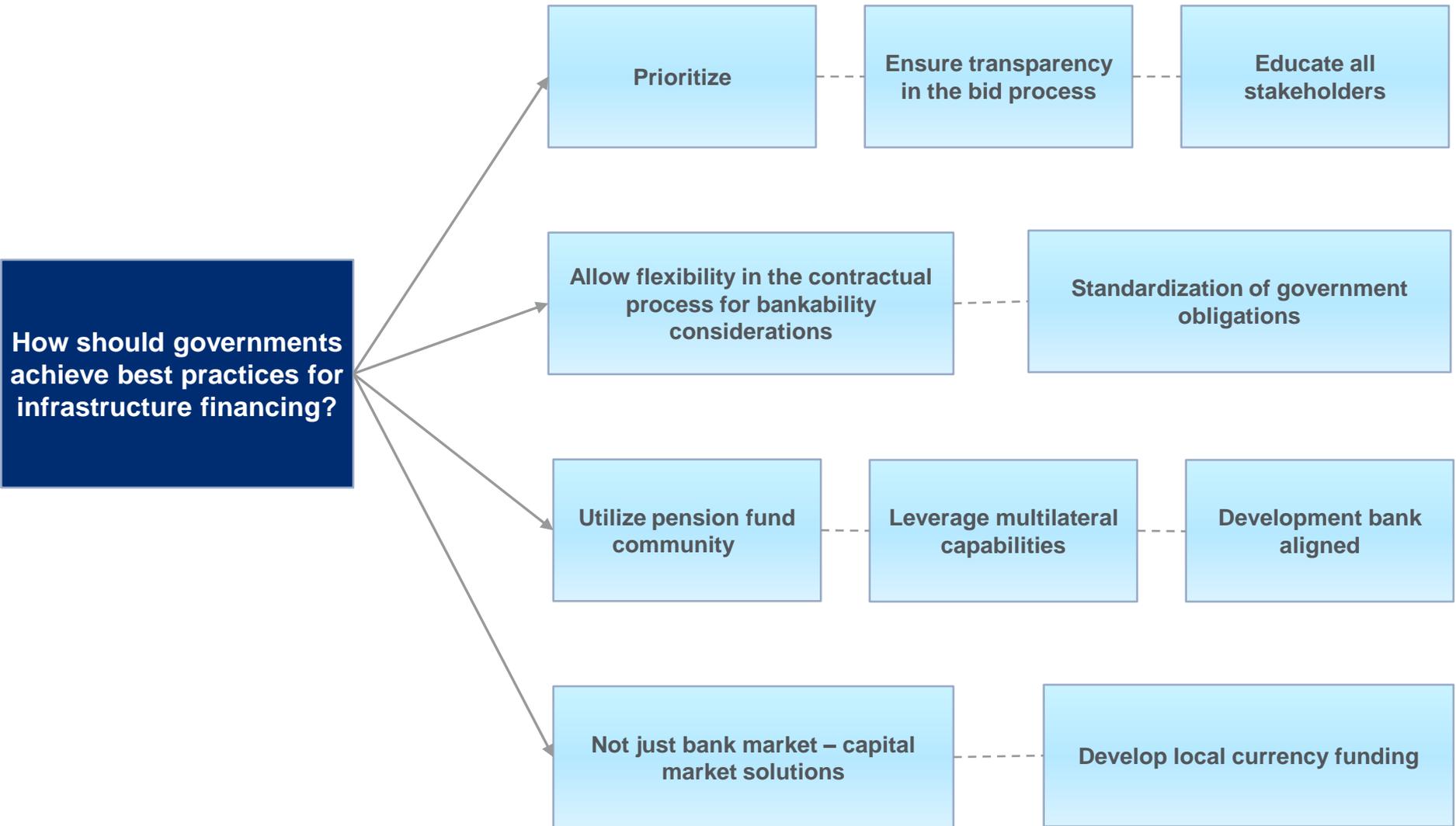
- Significant upfront costs involved in infrastructure projects
- Long tenor to completion
- Construction risks and delays
- Reliance on future cash flows to meet financial obligations
- Exposure to sub-sovereign risk as governments decentralize control from national to municipal authorities
- Uncertainty from macroeconomic and regulatory factors in some emerging markets

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## Key best practices of successful infrastructure development models:

- Concessions awarded on the basis of lowest contract price anchored by strict adherence to technical qualifications
- Installment-based contingent government support systems
- Construction risk mitigated via issuance of payment obligations based on achieved construction milestones
- Government provides any shortfall in user pay revenue needed to repay amounts raised to finance the project
- Financing via duration issuance in the US capital markets, or promoting legislation to foster the creation of domestic appetite from long term local currency investor such as insurance companies or pension funds

# Infrastructure Financing Best Practices



# Making History: How Citi Financed Panama's First Metro System

Citi raised \$862 million as the Sole Global Official Agency Coordinator for Metro de Panama to finance Panama's first-ever metro system.



- **Context** – Panama's per capita GDP has more than doubled over the past decade, with most of this growth concentrated in Panama City. This was at the cost of tremendous urban congestion. To solve this problem, Panama prioritized building a mass transit system worth \$1.9 billion
- **Breakthrough Approach** – Leveraging our historical presence in the country from the funding of the Panama Canal, Citi worked with government leaders on a financing solution for the Panama Metro project. The solution delivered by Citi consisted of a comprehensive 3-step Export & Agency Finance solution totaling \$862 million.
- **Impact** – The new metro reduced commute time to the city centre to only 23 minutes (down from over 2 hours). Since its inauguration in April 2013, it has transported some 30,000 commuters per hour.
- **Lessons Learned** - The transaction enabled Citi and Metro de Panama to understand how to deliver the financing of large-scale urban mass transportation projects in emerging countries. This expertise is critical in executing our Citi-for-Cities strategy.
- **Originality** – No other bank was able to provide such a large financing amount featuring support from the number of different Official Agencies involved in the project.
- **Thought Leadership** – This transaction won “*Deal of Year*” award from *Euromoney-Trade Finance* in 2013. Citi's approach meant we not only supported by the Metro de Panama but also a consortium of contractors and exporters from France, Spain and Brazil.

## Panama's Metro Line #1 ...

Saves commute time to central business district by:  **97** minutes

Transports a steadily growing number of commuters:  **30,000** per hour (currently)

## Replicated ...

... by other metro systems



... for other MIGA financing structures



# Making History: How Citi Financed Panama's First Metro System

## Context – Making History Through Infrastructure

- After years of chaotic urban growth, the Government of Panama decided in 2009 to build Panama City's first subway system
- This Line #1 of the metro would integrate the expansion of the Panama Canal and the new airport also under construction to consolidate Panama City into a regional logistic and business hub for Central America
- **Business Opportunity** – Citi's Export & Agency Finance team saw the opportunity to arrange Official Agency financing support to ensure long-term, attractive and stable debt funding for public infrastructure
- **Challenge** - Execute an attractively priced, extremely large debt financing to fund the project, within the timeline required by the construction schedule, while ensuring compliance with the IFC Equator Principles regarding social and environmental impact

## Approach – Leveraging Citi's Global Franchise

- With a long-lasting presence in the country, dating back to the funding of the Panama Canal, Citi worked with government leaders on a comprehensive 3-step Export & Agency Finance solution totaling \$862 million with credit support from:
  - **MIGA**, of the World Bank Group
  - **COFACE**, the export credit agency of France
  - **CESCE**, the export credit agency of Spain
- Citi harnessed our **in-house social and environmental expertise** ensure the transaction was in full compliance with the IFC Equator Principles
- Exemplifying the **originate to distribute strategy**, Citi leveraged its global Trade distribution platform to syndicate the facilities across 6 lenders, retained only 36% of the total debt and maintaining a very competitive all-in cost below 4.5% p.a. after executing parallel interest rate **swaps** to hedge its interest rate risk exposure

## Metrics – For Metro de Panama:

	<b>USD862 million</b> total debt raised by Citi
	Reduces commute time by <b>97 minutes</b>
	Total length of <b>13.7km</b> , featuring <b>15 stations</b> from San Isidro (north) to Albrook (south)
	<b>30,000</b> commuters transported per hour

# Making History: How Citi Financed Panama's First Metro System

## Best Practices ...

### Proven capability to replicate for other infrastructure projects globally

- Replicate so as to incorporate **other Official Agencies**
- In both **emerging markets** countries as well as in **developed markets**
- **Greenfield** infrastructure projects as well as to **expand** existing ones
- For **different infrastructure types**: metro, roads, power stations, transmission lines



## ... and Lessons ...

### Proven capability to replicate for other infrastructure projects globally

- Ensuring infrastructure projects are fully compliant with international standards, including the IFC Performance Standards and Environmental, Health and Safety Guidelines, helps streamline Agency financing and syndication
- Citi EAF and Citi Environmental and Social Risk Management teams work hand-in-hand with the client to mitigate local environmental and social impacts of the project in compliance with international standards, including economic resettlement and compensation of local businesses affected by it
- When dealing with governments projects with economic displacement, Citi ESRM can help them enhance existing social programs to meet international standards

## ... Learned

### Next steps for supporting Citi for Cities strategy:

- Support upcoming metro projects in Chile, Mexico, Colombia, Ecuador and Peru
- Support other public infrastructure in other emerging markets, including the construction of transmission lines in Guatemala
- Support financial institutions critical to emerging market infrastructure and economic development, including in Costa Rica and Turkey



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