European Bank
for Reconstruction and Development

Sustainable Urban Transport Financing:

What role for the MDBs?

How to leverage the private sector?

The EBRD experience

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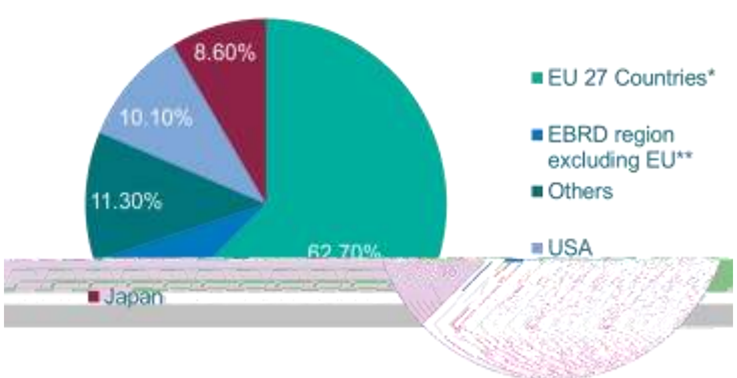
What is the EBRD?

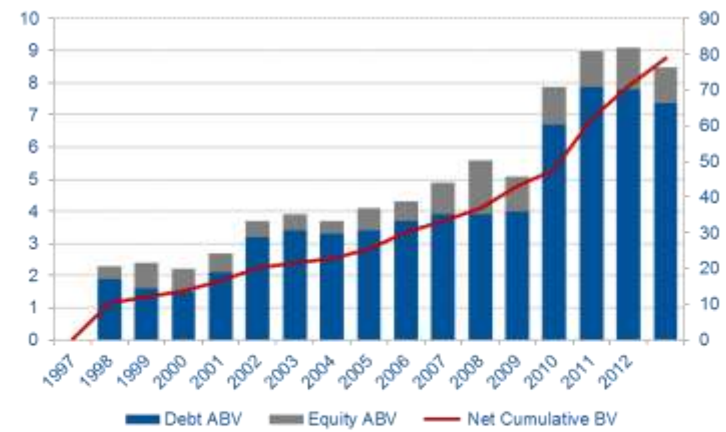
- IFI to promote transition to market economies in 34 countries
- Largest single investor in the region: over € 78.8 bln invested in 3,644 projects since 1991
- Owned by 64 countries and two intergovernmental institutions (AAA/Aaa rated)
- Established in 1991. HQ in London, the Bank has 36 regional offices (half of our bankers are based in the region)
- Equity capital: € 30 bn
- Strong, internationally recognized partner with long term perspective.
- Private sector oriented (80%)

Shareholding Structure

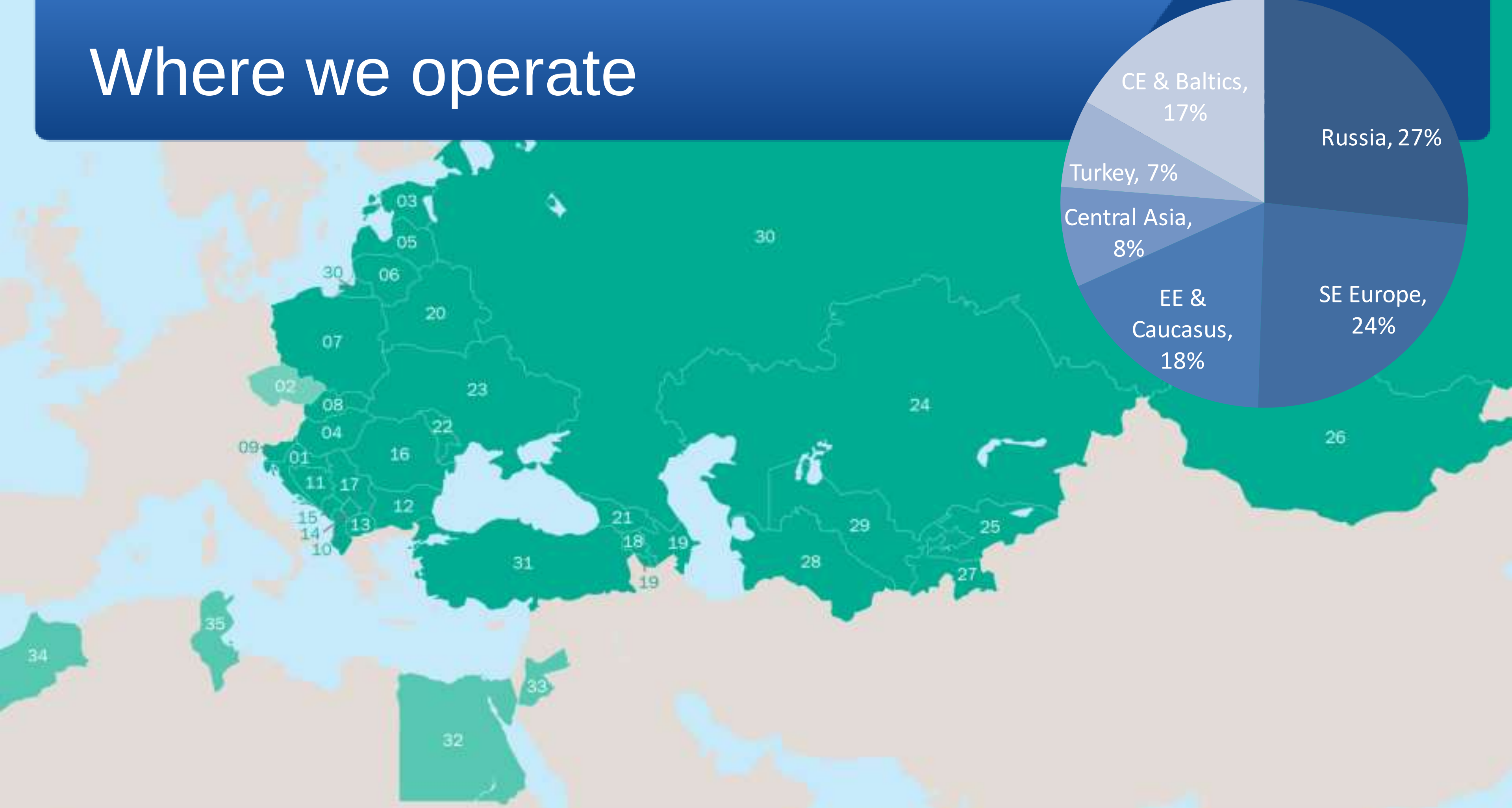


Note: As at 13th July 2012

Annual Business Volume



Where we operate



POTENTIAL RECIPIENT COUNTRIES

Southern and eastern Mediterranean
32 Egypt
33 Jordan
34 Morocco
35 Tunisia

In 2011 the EBRD launched donor-funded activities in the southern and eastern Mediterranean (SEMED) region, in support of the countries which are undergoing important political and economic reforms.

EBRD COUNTRIES OF OPERATIONS

Central Europe and the Baltic states
01 Croatia
02 Czech Republic*
03 Estonia
04 Hungary
05 Latvia
06 Lithuania
07 Poland
08 Slovak Republic
09 Slovenia

South-eastern Europe
10 Albania
11 Bosnia and Herzegovina
12 Bulgaria
13 FYR Macedonia
14 Kosovo
15 Montenegro
16 Romania
17 Serbia

Eastern Europe and the Caucasus
18 Armenia
19 Azerbaijan
20 Belarus
21 Georgia
22 Moldova
23 Ukraine

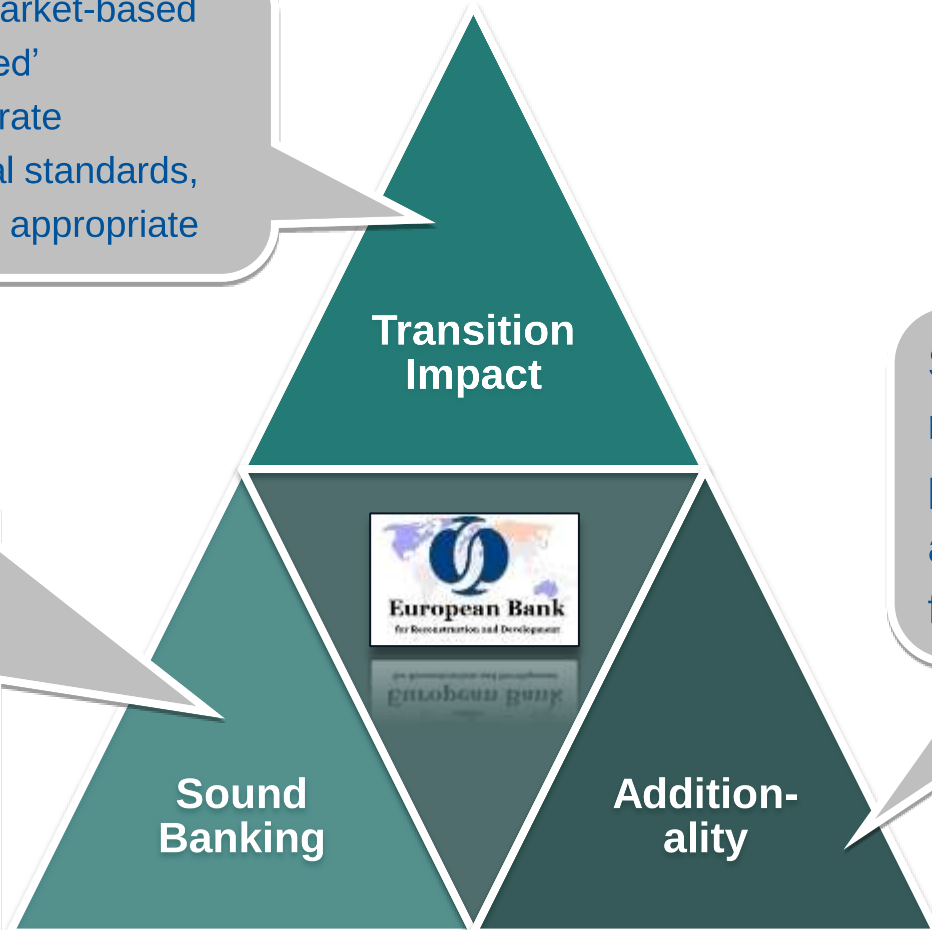
Central Asia
24 Kazakhstan
25 Kyrgyz Republic
26 Mongolia
27 Tajikistan
28 Turkmenistan
29 Uzbekistan

30 Russia
31 Turkey

*as of the end of 2007, the EBRD no longer makes investments in the Czech Republic.

Our principles of lending

Promotes transition to market-based solutions, ‘commercialized’ approaches, good corporate governance, international standards, private ownership where appropriate



Invests in financially viable projects, prefer revenue generating projects, co-financing with private sector (banks/sponsors)

Supports, but does not replace/underprice private investment and/or commercial finance

Typical Project Characteristics

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Operations to comply with both national <u>and</u> EU standards where feasible

Financially self-supporting project (debt repaid from cash flows with adequate coverage ratios)

Objective of operational improvements supported by pre-defined investments

- Energy and other efficiencies
- Commercialisation and management overhaul

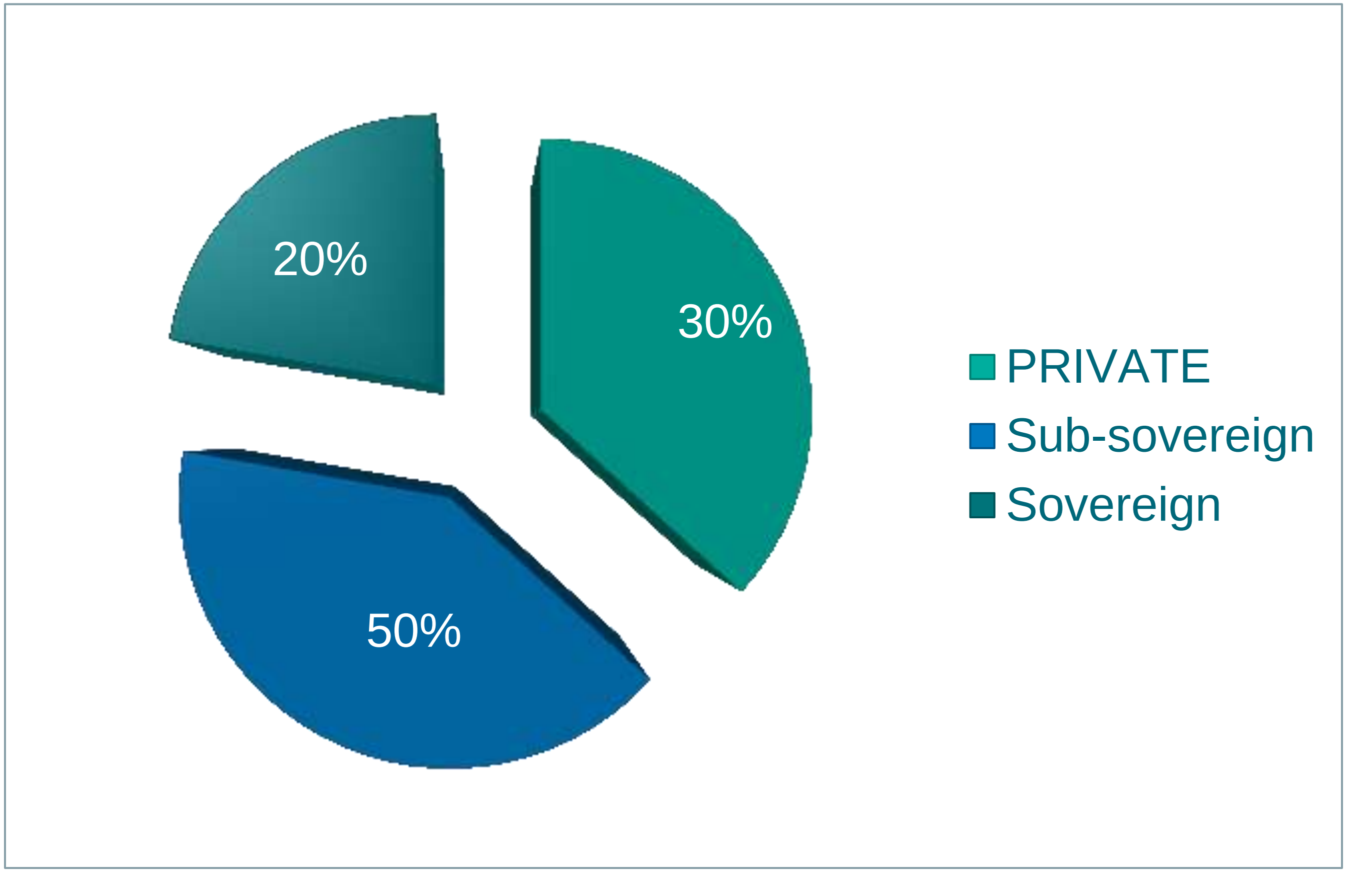
Objective of support to reform

- Demonstration effect
- Tariff and collection reform

EBRD's balanced project delivery across the transport sector

			ABV in € bln	Proj-ects	ABV Share	Share of total projects
	**Road**	Road rehabilitation and construction, toll-roads construction and operation, commercial principles, PPPs	4.9	72	43%	25%
	**Rail**	Bringing infrastructure to modern standards, strategic corridors, PPPs, renewal rolling stock, rail reform	3.5	65	31%	23%
	**Ports & Shipping**	Greenfield port infrastructure, equipment, removal of bottlenecks, fleet modernization, inland waterways, and vessels	0.7	47	6%	16%
	**Logistics & Intermodal**	Intermodal nodes, Logistic centres, fleet of intermodal operators	0.3	5	3%	2%
	**Aviation**	Airport infrastructure, air navigation services	0.7	32	6%	11%
	**Urban Transport**	Public transport (bus/tram fleet renewal, LRT, metro), PT infra, ticketing, urban roads, ITS, PPPs	1.3	65	11%	23%

Diversified funding structures



EBRD's Structuring Approach to Urban Transport

Matching Client Capacity:
Supporting clients on pathway to excellence

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EBRD's 'bread and butter' How is this done?

Sovereign-backed loans

Cheap but can become politicised

Municipality loans

Self-financing independence for cities
Higher cost and burden on city debt book

Utility loans supported by cities

Off-balance sheet borrowing for the city
Need to be backed by Public Service Contract + Municipal Support Agreements

Utility corporate loans or bonds

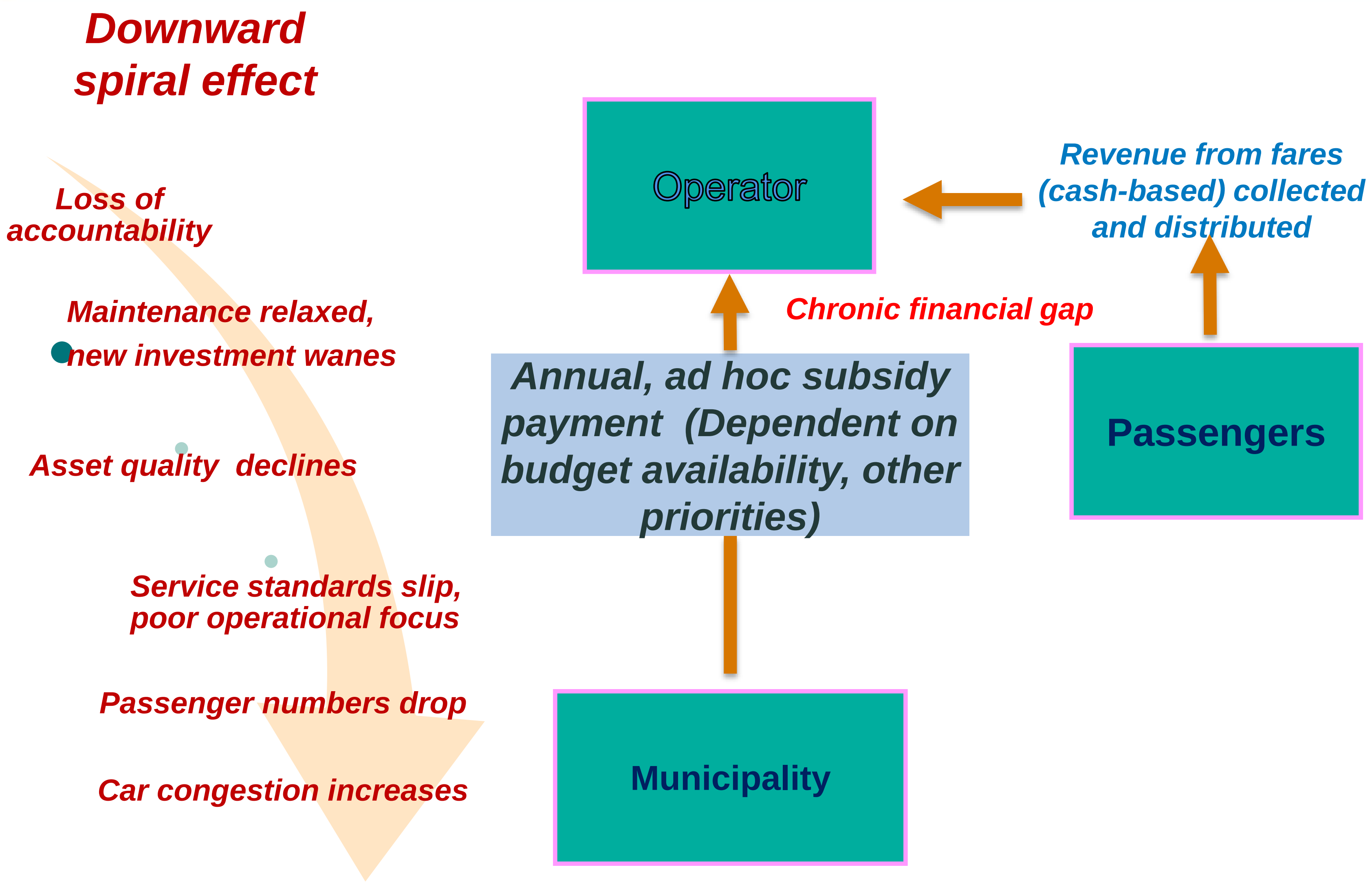
Self-financing independence for utilities
Entirely based on company creditworthiness / PSC

PPP/con-cessionaire loans to private companies

Private sector indebtedness

EBRD is flexible and has risk appetite-- we structure projects across the whole spectrum

Typical Arrangement for Public Transport Companies prior to EBRD involvement



Needed Foundations for Lasting Improvement in Urban Transport

- Create a stable revenue and define revenue sources for public transport – key for creditworthiness
- Focus on operating cost and service quality for users
- Invest in new rolling stock & infrastructure
- Give citizens real alternative to private transport
- Strengthen regulation

HOW?

- Public Service Contracting (PSC) between public owner and public transport operator
- Can be used for either municipal or private operators

Lending structure: EBRD corporate loan to Muni or Private Operator backed by PSC, off-balance for City

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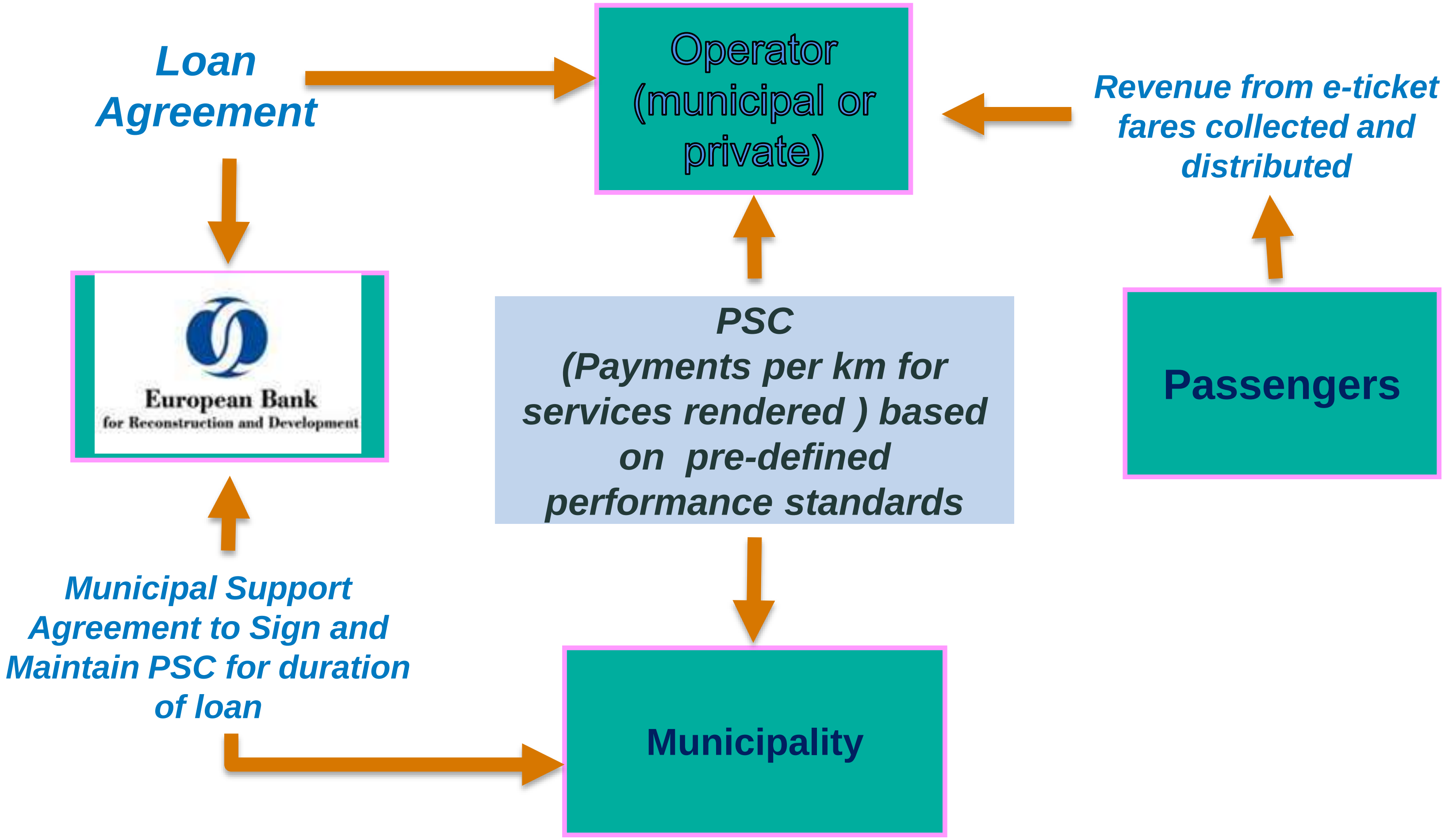

Roles and Responsibilities within PSC

- Municipality as the *Client*:
  - Defines network, policy, service standards, tariffs
  - Sets & enforces regulatory framework
  - Formally agrees to amount and quality of services
  - Makes support payments to cover difference between tariff revenues and full operational costs, due to social nature of services
- Operator as *Service Provider*:
  - Takes on operational and managerial risks
  - Provides services according to key PSC performance levels (reliability, punctuality, safety, cleanliness, customer satisfaction);
  - Operates & maintains new and improved rolling stock

Many UT Sub-sectors are amenable to private sector financing

- Public Transport Operations (bus, tram/LRT/metro/ferry):
  - As Operational concessions
  - As full infra + operations PPPs
- AFC (“e-ticketing”) as multi-year BOT concessions
- Parking – on-street management and off-street garages as DBOM or DBFOM
- Bike-share, car-share
- ‘Joint-development’ around PT stations/terminals

Public Transport’s key risk: Demand/Revenue

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- Desire on part of public sector to share in upside potential, given long contract duration
- However, demand uncertain (especially for greenfield projects; tariff increases will be regulated, so some political risk inherent.
- **Balanced risk allocation:** Need to limit downside risk, by compensating concessionaire if demand/revenues fail to keep pace with revenue projections. Shared upside (e.g., 50-50 split of all ‘excess’ demand)

One possible approach to Demand/Revenue Risk Sharing

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- Baseline All-In Cost Set At Time of Tender
  - Indexed for entire 30 year contract duration
- Operational Years 1-7 (approx):
  - 100% Availability Payment Paid to SPV during Ramp-up period
- Years 8-30
  - 90% Minimum Revenue Guarantee (MRG) coverage of Baseline All-In Cost, with 80% covered for revenue shortfall below MRG Baseline level
  - Top 10% At-Risk Slice for SPV: 10% of Baseline All-In Cost
  - Upside Profit Sharing: >105% of Baseline All-In Cost Level (50-50 split)

Provides certainty to SPV and public sector for full contract period

Needed due to lack of established precedents, traffic uncertainty during ramp-up, political/regulatory risks

Provides both downside and upside risk protection, while incentivising ridership to SPV

SELECTED URBAN TRANSPORT PROJECT

CASE STUDIES

POLAND: Warsaw Metro Wagons

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Borrower – municipally-owned Warsaw Metro Company, an internal operator of the Warsaw underground system

Project – Approved in 2011, financing part of the investment programme for acquisition of 35 metro trains (210 individual wagons). 18 year PSC + MSA Off-Balance Sheet Structure

TC - The Bank provided technical assistance, funded by Austria, aimed at monetising the Project’s anticipated emission reductions as carbon credits under the Kyoto Protocol’s Joint-Implementation (“JI”) Mechanism to assist with the monetisation of the resulting carbon credits

Total Investments – PLN 1.1 billion (equivalent to €273 million)

EBRD Loan – PLN 322.6m (equiv €80 million) under A/B structure

Co-financing – with EIB and EU

Status and Timing – Wagons to be delivered in 2012/13, on-schedule

TURKEY: Bursa LRT (Phase II) : clean and modern urban transport

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- Borrower – Bursa Municipality
- Project - extension of Bursa LRT system (9 km, 8 new stations), purchase rolling stock (30 new vehicles), other investments. Long-term PSC structure.
- Total Investments– EUR 219 mln
- EBRD Loan – EUR 50 mln
  - Tenor – 15 years, including a 3 year grace period
  - Pledge of selected assets
- Co-financing - with EIB

…to serve the mobility needs for the continued growth of the economy

- City – 2 million people
- Carbon Monetisation of Clean Urban Transport -- The LRT Project has significant carbon emission reduction effects
- Corporate Development of Burulas -- the municipal transport company: Burulas will be assisted to deepen its managerial and operational capabilities, in line with the growth of its LRT network and fleet

TURKEY: Istanbul Ferries Privatisation, Istanbul

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- Client: TASS, a special purpose company, established by three Turkish companies (Tepe, Akfen, Sera) and the UK's Souter Investments to acquire IDO, the world largest municipal ferry operator, transporting 50 million passengers p.a.
- EBRD finance: USD 150 million
- Type of finance: Limited recourse; mandatory cash sweep;
  USD 100 million - long term senior loan, sculptured repayments
  USD 50 million - mid-term junior loan, bullet repayment
- Total Project cost: USD 860 million
- Year: 2011
- Project description: Financing acquisition of IDO by TASS. 30 year usufruct agreement with Istanbul Municipality for exclusive use of ferry piers.
- Impact
  - Demonstration effect of the private sector value-added: introduction of new demand-driven ticket tariffs, creation of new routes and intermodal passenger transportation services
  - Flexible financing structure with a sufficient grace period which allowed the sponsors to introduce measures to turnaround the company
  - Introduction of a gender action plan as a tool for inclusiveness

THANK YOU

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