Investment risk mitigation instruments for Deauville Partnership countries

- Reviving Private Investment in the Deauville Partnership Countries -

Cairo, Egypt
8 May 2012
Investors in Deauville Partnership countries are facing important financing challenges

- The financial crisis of 2008/09, the sovereign debt concerns in Europe and the US and political changes in the Middle East and North Africa contributed to a volatile risk environment for investment.

- Lending appetite amongst many commercial banks is diminishing:
  - The IMF estimates that large EU-based banks will shrink their balance sheets by US$ 2.6 trillion between September 2011 and December 2013.
  - Estimated negative impact on credit supply between -1.7% to -4.4% over 2 years.

- Shrinking tenors and a rise in the cost of bank funding is the consequence.

- Projects with high development impact, e.g. infrastructure are especially affected.
A number of investment financing enhancement instruments are already at the disposal of investors.

International Financial Institutions

- Co-financing and Risk participation agreements
- Loan, grants, guarantees, technical assistance
- Export Credit Agency/Investment guarantee Agency
- Financing

Project Bond Guarantee Facility

Credit enhancement

International and local lenders and equity providers

Financing

Debt capital markets

Issues of project bonds

Project Company

Tendering

Multilateral Investment Framework (e.g. IIAs)

Investors

Contracting Authority/Host country

Export
Credit
Agency/Investment
Agency

Guarantees

Country risk evaluation

OECD 50
Deauville Partnership Financial Pillar recommends to expand existing instruments

The Deauville Partnership Finance Ministers’ Meeting Communiqué from 20 April 2012...

“...acknowledges existing financial instruments”:
• loan, grants, budget support
• multilateral investment frameworks
• technical assistance
• bilateral and multilateral guarantee tools and export credit instruments dedicated to the private sector

“...welcomes support to explore new avenues”:
• risk-sharing instruments
• further guarantee mechanisms
• project bonds
• concessional credit loans
• further technical assistance
For example, investment guarantees are increasingly used in Deauville Partnership countries.

Exposure of G8 Investment Guaranty Agencies* / total FDI net inflow all countries, 2010 (USD billion)

Source: OECD  * OPIC, PwC, COFACE, SACE, EDC, ECDG, JBIC
And investor demand for risk mitigation tools is increasing: export credit, investment, and SME credit guarantees

- While only three out of the G8 countries’ Investment guarantee providers covered investments in any of the DP countries in 2010, numbers are increasing in 2011.

- The Capital Market Access Group recommends that ECAs and Investment Guarantee Agencies should not deleverage the region and play a counter-cyclical role stabilising existing and covering new investment.

- The Group has also identified a need to improve access to credit guarantee instruments for SMEs.
But investment risk mitigation needs both: investment guarantees and legal investment security

• The Initiative for Investment Security in the Mediterranean (ISMED) addresses both issues:

ISMED Subgroup I on legal investment protection

ISMED Support Programme
EC-OECD

ISMED Subgroup II on guarantees and insurance schemes investors

ISMED Premium Cost Sharing window
European Commission; Neighbourhood Investment Facility
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For more information about the MENA-OECD Investment Programme and its activities, please refer to:
www.oecd.org/nea/investment