THE WORLD BANK
Treasury

CASE STUDY

Leveraging World Bank Group Balance Sheet to Mobilize Financing for a Transport Project in Brazil

OVERVIEW

A US$300 million IBRD loan combined with US$300 million raised from the private sector supported by a MIGA guarantee helps complete the financing package for the Sao Paulo State Sustainable Transport Project

Background

The State of Sao Paulo is one of Brazil's most advanced states. With a GDP of $500 billion (2009), it accounts for 33% of Brazil's total GDP. Yet insufficient transport and logistics capacity poses important challenges to its development agenda. With an estimated average yearly death toll rate of 7,200, road safety in the State is another major concern. Finally, given the importance of the State and its transport networks for the national economy, improving the efficiency and safety of Sao Paulo's transport sector was seen as critical for the development agenda of the State and the country.

The World Bank's transport specialists worked with the State to design a project — the Sao Paulo State Sustainable Transport Project — that would both improve transport efficiency and safety, and enhance the State's capacity to manage environmental and disaster risk through better planning, policies and enforcement. The project involved rehabilitating and upgrading approximately 750 kilometers of roads and the reconstruction of two bridges for inland waterway transport on the Tiete River.

Objectives

The total financing required for the project was $729 million, of which the State could finance $129 million on its own, leaving a gap of $600 million. Sao Paulo State authorities approached the World Bank, but the Bank's exposure to Brazil, one of its largest middle-income clients, was already high. The challenge for the World Bank was to mobilize the required resources to finance this very important project in a way that would not adversely impact the Bank's lending envelope for Brazil, while keeping the cost of the entire package within acceptable limits.

Financial Solution

The World Bank and Brazil are long-term partners in development, with a rich agenda fostering innovation combined with efforts to improve efficiency. On June 14, 2013 the Executive Directors of the World Bank approved a $300 million loan for the project. The

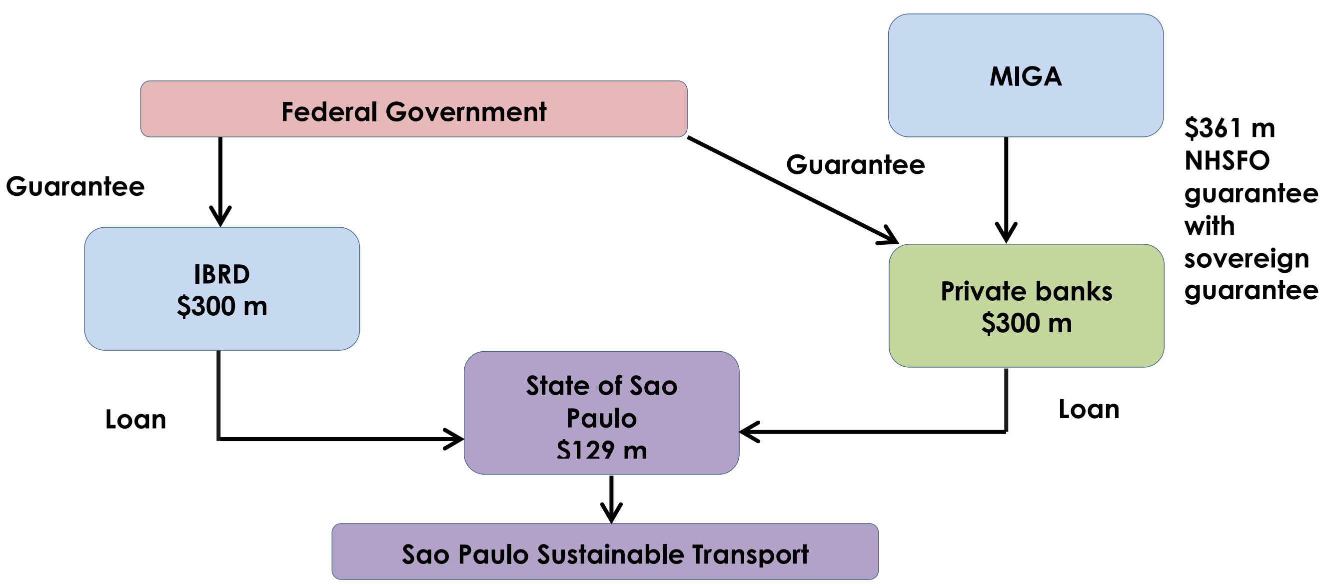
World Bank Treasury facilitated the mobilization of additional financing from international private banks with the help of a MIGA credit guarantee. The guarantee protects the lenders against losses resulting from the government's failure to make a payment when due.

Outcome

IBRD and MIGA, two of the four public and private sector arms of the World Bank Group, operate from different balance sheets. By tapping the individual balance sheets of both entities to a limited extent and partnering with the private sector, this financial solution optimized the client's use of World Bank Group credit lines, diversified its funding sources, and helped it secure the entire financing required for the priority project. The MIGA guarantee, which is Basel II compliant, allowed the private sector banks to extend credit to Brazil. The participation of the World Bank and MIGA also allowed the banks to benefit from the improved risk profile of the project. As a result, the borrower received better terms — longer tenor and more competitive pricing — than it could have achieved on its own.

Terms & Conditions

IBRD loan	$300 million
Maturity	30 years
Private Sector loan	$300 million
Maturity	
MIGA guarantee	$361 million
Guarantee coverage	Non Honoring of Sovereign Financial Obligations
Tenor extended	From 7-8 years to 12 years



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