The Geopolitics of Natural Gas

Political and Institutional Consequences of Major Gas Investment

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The World Bank Group
Five Agencies—One Group

International Bank for Reconstruction and Development

- **IBRD Provides loans and development assistance to middle-income countries**
- **Sells bonds in international capital markets to fund Loans**
- **IBRD Partial Risk Guarantee Program enhances government credit for private sector projects**
  - **Risk coverage of Government contractual obligations**
  - **Investment coverage of Debt only (principal and/or interest payments)**
  - **Terms can be of 15-20 years**

Five Agencies—One Group

International Development Association

- **Provides interest-free loans and grants to poorest Countries**
- **Replenishment contributions from wealthier WBG member countries**

Five Agencies—One Group

International Finance Corporation

- Encourages foreign and domestic private investment in LDCs
- Supports and promotes:
- Viable private sector ventures of benefit to host country's economy
- High HSE standards and project of strong demonstration effect
- Long-term financing, capital mobilization and advisory services

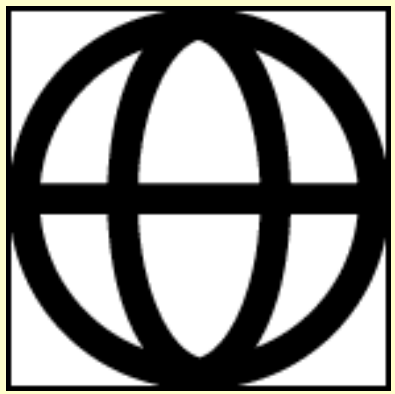
Five Agencies—One Group

Multilateral Investment Guarantee Agency Provides

- **Guarantees against non commercial risk losses**
- **Technical assistance to help promote investment opportunities**
- **Legal services to smooth possible impediments to- and encourages direct investments in- developing countries**

Five Agencies—One Group

International Centre for the Settlement of Investment Disputes



ICSID

- **Provides facilities for settlement of investment disputes between foreign investors and their host countries**

World Bank Policy-Oriented and IFC Transaction-Oriented Departments Merge to one Global Product Group (GPG)

- **GPG achieved a critical mass of a world-class, Oil, Gas, and Chemicals-related skills**
- **One Stop-Shop provides Seamless transition from Policy to Transactions**
- **Early project identification and synergy in integrated sector approach**
  - **Increasing private sector OGC investments**
  - **Advisory restructuring services to Governments & private sector**

GPG Offers Policy Advice to the Public Sector toward Creating an Attractive Environment for Private Investment in Oil, Gas, and Chemicals

On the Policy side, GPG offers advice on:

- **Hydrocarbon Sector Reform**
- **Market deregulation and privatization to enable gas penetration and development**
- **Access to environmentally friendly fuels, especially gas in lieu of biomass or petroleum products**
- **Regional studies to facilitate gas trade**
- **Environmental / social impact of gas development**

World Bank Group Geared to:

- **Attract capital, technology and management**
- **Maintain transparent Government revenues**
- **Strengthen State's policy and regulatory role**
- **Redefine State role in productive sectors**
- **Provide LDCs with access to Capital Markets**
- **Increase production and services efficiency**
- **Provide competitive investment framework**
- **Promote private sector's participation**
- **Increase benefits to people at large**

WBG Involvement Prompted by:

- **Government and private sector request**
- **Private sector often needs IFC's umbrella to reduce risk perception**
- **More visibility for difficult projects.**
- **Introduce new technologies to LDC's**
- **Create employment, bring management, and expertise while increasing transparency**
- **Generate business opportunities downstream**

Establishing an Appropriate Business Framework

Establish the appropriate Institutional, Legal, and Regulatory framework for lasting development of capital intensive, high risk gas markets and:

- ☞ **Provide incentives to attract investors**
- ☞ **Promote economic development**
- ☞ **Protect consumer's interests**
- ☞ **Have a proper monitoring and enforcement mechanism**

Developing Viable Gas Projects Requires

- Co-operation between Governments, NOCs, IOCs and private investors
- Successful gas projects often require initial, strong Government involvement and support
- Smaller projects are easier to bring to fruition and mobilize less scarce resources
- Pilot projects have a strong demonstration effect and generally lead to larger projects

IFC Supports Financing Private Sector Requests for:

Projects

- Appraisal and Development (no wildcat exploration)
- Oil and Gas Pipelines
- Oilfield Services
- LNG
- LPG
- FPSOs
- Acquisition Financing
- Debt Refinancing

Products

- Senior Debt
  - Project Finance
  - Corporate Loans
- Income-Participating Debt
- Convertibles
- Revolving Credit
- Equity
  - Corporate
  - UJVs
- Partial Credit Guarantees

IFC and IBRD collaborate to finance Major Cross-border Pipeline Projects

Chad-Cameroon Pipeline

- **US$1.5 billion Chad Oilfields owned and funded by a Consortium led by Exxon, US$2.2 billion pipeline**
- **Pipeline funding:**
  - **65% - 75% of cost: IFC A and B Loans, Export Credit Agency-supported loans, project bonds**
  - **25% - 35% of cost: consortium equity, Chad/Cameroon equity in 2 pipeline companies as funded by IBRD/EIB**
- **IBRD/IFC key in mobilization of funds: country and cross-border risks perceived to be high**

Bolivia-Brazil Gas Pipeline World Bank and IADB

- **Bolivian Transco is Majority private.**
- **90% Shell/Enron/BG/ El Paso/ BHP**
- **10% Petrobras**
- **Pipeline Bolivian section 550Km, cost US$0.4 billion**

- **Brazilian Transco is Majority Public.**
- **49% Shell/Enron/BG/ BHP**
- **51% Petrobras**
- **Brazilian section: 2600km, cost US$ 1.7 Billion**

Bolivia-Brazil Financing Sources

	Bolivia	Brazil	Total
Project cost	**$ 436**	**$1,650**	**$2,086**
WB Loan	**--**	**130**	**130**
WB Guarantee	**--**	**180**	**180**
Other IFI	**--**	**380**	**380**
Petrobras Fin.	**361**	**650**	**1,011**
Shareholder Eqty	**75**	**310**	**385**

The West Africa Gas Pipeline Project

- **Sponsors: Shell, ChevronTexaco, NNPC 75%**
- **25% Equity participation:Benin,Togo,Ghana**
- **World Bank to fund part of this equity and provide Guarantee along with MIGA and OPIC to Sponsors**
- **650 km onshore/offshore pipeline project,**
- **450 MMCF/d at Lagos Beach**
- **Total cost: US$650 million**
- **First gas expected in Ghana in 2006**

Concluding Remarks on Gas Projects

- **Major gas projects and investments, such as trans-border pipelines, require innovative and specifically tailored institutional and Policy frameworks.**
- **Major risks are better mitigated through:**
- **Public-private sector partnerships**
- **IFIs' involvement is necessary at the earliest phases of Project Concept Stage.**
- **Good governance and transparency key to successful projects.**