

Financing Energy Projects In Africa

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Frontier Markets Fund Managers - FMFM

- A Fund Management Team
- US\$675 million under management (US\$800 million by Q1 2010)
- Managing transactions for
 - Emerging Africa Infrastructure Fund; and
 - GuarantCo
- Our mission is to find commercial solutions to overcome development challenges
- Based in London

Emerging Africa Infrastructure Fund - EAIF

- **First dedicated debt fund for sub-Saharan Africa**
- **Size: US\$500 million to be increased to US\$600 million by Q12010**
- **Shareholders: 4 European Governments (UK, Sweden, Netherlands, Swiss)**
- Lend to private sector owned, managed and controlled entities with infrastructure sector focus
 - Power
 - Transport
 - Telecoms
 - Water
 - Manufacturers of components of infrastructure e.g. cement
 - Infrastructure within mining, agribusiness projects
- Investment Size: US\$10 -35 million
- Tenor: up to 15 years
- Instruments: Senior and Mezzanine Debt (possibly with equity features)
- Dose not require a Political Risk Insurance (PRI)

GuarantCo

GuarantCo's business is:

“Credit enhancement of local currency debt issuance by the private, municipal and parastatal infrastructure sectors in lower income countries”

- Initial capital of US\$73m leveraged to US\$146m by KfW and Barclays
- Additional backing from KfW / Barclays up to total of US\$400m
- Covers similar infrastructure sectors to EAIF, operates globally

GuarantCo offers

- Partial credit guarantee covering default risk on a portion of a loan or bond - generally on demand and unconditional
- Partial risk guarantee covering default risk due to specific events - such construction failure or revenue shortfall
- Cover for senior, mezzanine or sub debt; maturity, coupon or principal strips; Loans, bonds or securitisation
- Other methods of risk transference considered (e.g. insurance / reinsurance or CDS / derivatives)
- Preference for risk sharing - defined on a case-by-case basis

Financial Structures for Long-Term Provision of Energy

Infrastructure finance - Sources

- International Commercial Banks – shortest tenors
- Domestic Banks – shorter tenors
some hard currency
- DFIs – 15 year + tenors
small DFIs -tied aid
- Private Equity – equity with exit
- Local Bonds
- International Bonds

Construction Period Bridge Financing

- Some Sponsors elect to use bridge financing on a corporate basis in order to expedite project completion
 - Advantages
 - Easier to secure
 - eliminates construction risks from long term funding
 - Disadvantages
 - Requires a strong balance sheet
 - Need to handle two rounds of financing
 - High risk if long term funding does not close expeditiously
- Mainly funded by local banks

Local currency

- Financing in local currency allows projects to match their currency of revenue with currency of debt service
- Even if a project financed in \$ has the right to pass on currency losses, the end consumer may not be able to pay if there is a devaluation - contractual agreements may fail
- Local currency financing involves productive recycling of savings within a country rather than increasing the country's external debt burden
- Involvement of domestic banks and institutions helps build capacity to finance further projects

Local Currency -Funding Tenor Extension

- Tenor of local bank lending often constrained due to absence of longer tenor deposits (asset / liability mismatch)
- Either internal treasury or external regulator constraint
- GuarantCo is prepared to offer “put” options to local lenders:
 - Guarantee can be called for liquidity reasons (as well as credit reasons)
 - Could cover funding risk beyond a certain date or during times of unusual volatility
 - Only offered in conjunction with partial risk or credit guarantees (ie not standalone)

Lessons Learnt From Power Projects financed in 2008 -2009

A recent Study commissioned by EAIIF shows

- The main constraints for increasing Private sector participation relate to institutional arrangements and capacity namely:
 - Governments need to take control of the planning and procurement process in a way which is not undermined by entrenched vested interests
 - Governments need to support their decision making through high quality transaction advice to ensure that projects are appropriately structured and negotiated. The absence of such advice is frequently a reason for delays and even abandonment of financial closure.
 - The need for greater flexibility into the design of regulatory models to ensure that what is introduced in each country meets the country's specific characteristics.

EAIF Power Portfolio

- In 2008-2009 EAIF has financed five power related projects
 - The Bugoye power project in Uganda (March 08)
 - The Rabai power project in Kenya (September 08)
 - The South Asia Energy Management System (“SAEMS”) power project in Uganda (September 08)
 - Olkaria III geothermal power project in Kenya (Jan 09)
 - Aldwych Corporate Finance (Feb 09)
- In previous years
 - EAIF financed the AES-Sonel power project in Cameroon

Lesson learned from recent transactions

- There is a move towards “standard” support packages from governments
- Financing a mega power project is the same as a small project – having a portfolio of projects can reduce the cost per project
- There is more equity available for projects (equity funds)
- One of the key success factors is experience (in the sector and in the market)

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