



# Mobilising Investment for Infrastructure Development

Global Forum on Sustainable Energy

Vienna 29<sup>th</sup> November – 1<sup>st</sup> December

# Emerging Africa Infrastructure Fund

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- **First dedicated debt fund for sub-Saharan Africa**
- **Original sponsor: UK Government – DFID underwrote equity**
- **3 other European Governments joined (Sweden, Holland, Swiss)**
- **Debt from three development finance institutions and two private sector international banks**
- **Public/private sector partnership**
- **Donor aid funds leveraged private sector capital for development purposes**
- **First multi-donor initiative by Private Infrastructure Development Group**
- **Part of a portfolio of PIDG developments – GuarantCo (guarantor of long-term local currency private infrastructure debt), DevCo (project development facility), InfraCo (infrastructure development company), TAF (local capacity technical assistance facility) and others.**
- **ADA just joined PIDG**
- **[www.pidg.org](http://www.pidg.org)**

# Principle Features of Fund

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- **Size: US\$305 million**
- **Products: senior and subordinated loans or guarantees to domestic debt providers**
- **Eligible borrowers: private sector owned (>50%), managed and controlled entities with infrastructure focus**
- **Eligible sectors: electricity, gas distribution, telecommunications, transport, water and sanitation, manufacturers of components of infrastructure and infrastructure elements of mining and agricultural projects.**
- **Region: creditworthy countries in sub-Saharan Africa, excluding Mauritius**
- **Investment size: US\$10 -30 million (<\$10m in some cases)**
- **Tenor: up to 15 years**
- **Pricing: market-based**
- **Environmental and social policy standards: monitored by FMO**
- **Compliance with poverty reduction criteria**

# GuarantCo

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- **Aims at addressing failures in domestic markets to supply capital to infrastructure projects in Emerging Markets by:**
  - Providing guarantees as credit enhancement of local currency debt
  - Supporting both:
    - Private and municipal sectors to obtain such capital
    - Domestic market to supply such capital

# GuarantCo Offers

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- **Credit enhancement products such as:**
  - Partial Credit Guarantee to local banks to cover default risk on under-lying debt service
  - Liquidity guarantee
  - Bond guarantees
  - Tenor extension
- **Principle of risk sharing with local debt providers**
- **Acceptance of certain local currency risks**

# GuarantCo's Eligible Sectors & Clients

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- **Sectors**

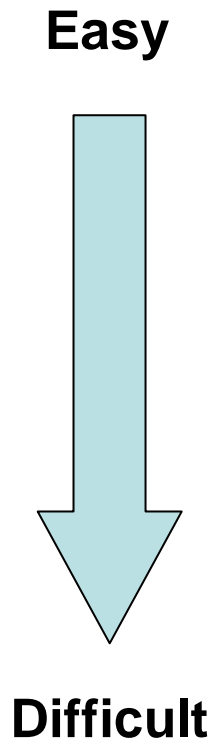
- Power
- Transport
- Telecoms
- Water
- Components of Infrastructure

- **Clients**

- Private sector project companies undertaking greenfield or expansion projects
- Refinancing if cross-border financing is substituted for local currency debt
- Parastatals if privatisation is planned (exceptions possible if operations are along commercial lines)
- Municipal infrastructure if funded largely through user fees (or ring-fenced structure providing satisfactory security)

# Infrastructure Finance – Hierarchy of Difficulty

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- Telecoms
- Mining
- Agribusiness
- Power
- Transport
- Water

# Infrastructure Finance – Telecoms

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- **Mainly Mobile**
- **Well established model – Celtel worth US\$3.4 billion**
- **No failure once EBITDA positive**
- **Less risk than Developed World?**
  - No free handsets
  - Lower churn / competition
- **Short Tenors – repay in five years**
- **Privatisation opportunities**
- **US\$ lending -v- local currency cash flows**
- **Regional consolidation reducing opportunities**
- **Fixed line becoming more interesting**
  - Data transmission
  - Network “spine”

# Infrastructure Finance – Mining and Agribusiness

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- **US\$ cash flows available**
- **Good development benefits**
  - Clean water
  - Power
  - Transport links
  - Employment
  - Health services
- **Market Risk**

# Infrastructure Finance – Transport

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- **Roads, bridges, railways, pipelines, ports and airports**
- **Vested Interests**
- **Railways – “Colonial” configuration -v- current need**
- **Roads – No successful toll road or bridge outside South Africa**
- **Shadow tolls**
- **Local currency income -v- US\$ lending**

# Infrastructure Finance – Power

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- **60% of Sub-Sahara will still lack power by 2020 – FT 21/11/2006**
- **Creditworthy off-takers?**
- **Political interference in tariff setting**
- **Affordability / subsidy availability**
- **Fewer sponsors – AES, Enron, Eskom departed**
- **Current Players**
  - Globeleq
  - Aldwych
  - Local players
  - Corporates
- **Local currency income -v- US\$ lending**

# Infrastructure Finance – Water

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- **Water can be supplied at 2% of low income household income**
- **Vendors charge between 5% and 20%**
- **Political interference**
- **Universal entitlement – Should be free**
- **Too many “misunderstandings”**
- **Debt pushed out by grant monies**

# General Lessons

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- **Private Ownership or management necessary for efficiency gains**
- **And to address vested interests**
- **Political Will**
- **Legal Framework for contacts**
- **Good regulation to address regulatory risk**
- **Recognising private sector concerns**
- **Government capacity**
- **Economic Tariffs**

# How to Contact Fund

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## Emerging Africa Advisers Team in the UK

	<u>Direct Tel Number</u>	<u>Email Address @standardbank.com</u>
<b>Nick Rouse</b> Managing Director	+44 20 7815 2780	nick.rouse
<b>Sofia Bianchi</b> Senior Investment Adviser	+44 20 7815 2785	sofia.bianchi
<b>Orli Arav</b> Senior Investment Adviser	+44 207815 2782	orli.arav

Fax: +44 20 7815 2789

[www.emergingafricafund.com](http://www.emergingafricafund.com)

