Project Finance in Africa
AfDB Role in Hydro Sector

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Capacity Building Workshop on Hydro Projects
Monrovia, Liberia – April 2012
Two lending windows: Public and Private

AfDB’s lending operations

Public window
- Governments or state owned enterprises
- Concessionary terms

Private window
- Privately owned enterprises
- “Financially strong” govt. owned enterprises
- Non sovereign
- Commercial terms

Recipient

Guarantee
- Sovereign

Financial terms

Recipient
- "Financially strong" govt. owned enterprises

Guarantee
- Sovereign

Financial terms
Private Sector operations strategy

- Assist African governments to improve the enabling environment for the private sector:
  - Improve essential physical infrastructure
  - Improve “soft infrastructure” (regulatory and legal frameworks, financial sector, trade liberalization, BDS)

- Create catalytic and demonstration effects by assisting entrepreneurs with specific transactions:
  - Infrastructure (power, transportation, telecoms, water)
  - Industries and Services (mining, O&G, cement, agribus, hotels)
  - Financial Intermediation (banks, MFIs, insurance, leasing)
Non-sovereign financing eligibility

- An enterprise/project must be located and incorporated in the Regional Member Countries (RMCs) of the Bank, whether promoted by African or non-African investors.

- An enterprise/project must be majority-owned (51%+) by private-sector investors, or publicly owned with strong financial standing and proven managerial autonomy.

- Projects for the establishment, expansion, diversification and modernization of productive enterprises (i.e., CAPEX). No direct financing of trade.

- AfBD can provide up to 1/3 of Project Cost as Debt
Financial Products

- Senior Loans, USD, Euro etc., Local Currency Possible
  - Project Loans, Corporate Loans, Lines of Credit to banks
- Subordinated / Mezzanine Loans
- Direct Equity or through PE Funds
- A / B Loan - Commercial Bank Syndications
- Partial Risk Guarantees (PRGs)
- Arranger Role – Assistance in Mobilizing Funds
- PPPs in Collaboration with Public Sector Window
- Close collaboration with other multilaterals
- Technical Assistance Grants and concessional funding
Technical Assistance Grants And Seed Capital

- **Sustainable Energy Fund for Africa (SEFA)**
  - Established in 2011 with Danish support with two objectives
    - Project preparation grants for projects up to US$ 70 m
    - Seed capital for projects up to US$35 m before they are bankable.
  - For RE and EE projects
  - First round of projects is being considered for grants now
  - Seed capital will flow through a fund manager not directly from AfDB

- **Fund for African Private Sector Assistance (FAPA)**
  - Created in 2006 with Japanese support
  - Technical assistance grants up to US $1 million
  - US $30 m from Japan and US$10 m from AfDB so far
Bankability

- Hydrology
- Technical feasibility and design
- Environmental and Social
- Legal
- Insurance
- Commercial
- Economic
- Financial
- Procurement
AfDB Procurement Rules

• If the concession or PPA was awarded under international competitive bidding – No need for further competitive process

• If the concession or PPA was negotiated or awarded through an unsolicited bid, some or all of the project contracts (EPC etc.) must be competitively bid.

• In exceptional cases with proprietary technology and limited choices, these conditions can be waived
Recent / Current Hydro Projects

- Bujagali – Uganda – 250 MW – USD 800 m
- Sahanivotry – Mozambique – 14 MW – EUR 14 m
- Buzeruka – Uganda – 9 MW – EUR
- Coder – Gabon – 86 MW – EUR 200 m.
- Itezhi-Tezhi – Zambia – 120 MW – USD 248 m
Sahanivotry

- 14 MW Run of River Project in Madagascar
- Scope included: access road, bridge, power house, penstock, water retention pond, switchyard and 63 KV t-line connection
- Project Cost - EUR 14 million
- AfDB Loan – EUR 6 million (43%) – (Normal guidelines 33%)
- Consortium of local banks leg by BFV- SG – Eur 3.6 m in local currency (27%)
- Equity EUR 4.4 m (31%)
- Borrower: Hydelec Madagascar S.A. (HMSA)
- Offtaker – JIRAMA (Government Agency for Energy and Water)
- 30 Year concession
- First CDM project and first PPP in Madagascar’s energy sector
- AfDB Board Approval – July 2007
- Plant commissioned in October 2008 – within budget – slight delay due to political situation in the country
Buzeruka

Buzeruka Mini Hydro Power Project is a “Renewable Energy project” located in Uganda, 270KM from Kampala, on River Wambabya-Buseruka sub-county in Hoima district – Western Uganda.

The project site has a catchment area of 745 sq. Km. and is a run of river 9 MW project.

The power generated is to be fed directly to the Grid and fed into the proposed distribution network along the transmission line for the rural communities.

The US$38.4M project is intended to promote Rural Electrification and Poverty Reduction for Rural communities along shores of lake Albert.
Project site before development
Project Progress Photos

Penstock Works
## Financing structure

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<th>Slno</th>
<th>Source</th>
<th>Amount-USD</th>
<th>Percentage</th>
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<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>38,804,500</strong></td>
<td><strong>100</strong></td>
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Buzeruka

- Consequent to increase in Project cost due to Geological surprises during the implementation of the project which made the project unviable at this stage the AfDB team acted on behalf of the developer and skillfully convinced the authorities (UETCL and ERA) to revise the Tariff and concession period which salvaged the project to a viable state.

- Consideration for an additional financing for the project and convincing the Government in granting the transmission line to evacuate the power to the grid.
**Coder**

- 96 MW Run-of-river project in Gabon
- Two Sites, two concessions and two PPAs in one Project Finance SPV
- Chutes D’Imperatrice 60 MW expandable to 86 MW
- Chutes de FE2 36 MW
- Total cost – about EUR 216 m
- AfDB Co-arranger Role with other DFIs and Commercial banks
- Financial close expected Q1 2012
- Two to three year construction period
- T-line of 450 km in parallel, with sovereign financing
- EPCM Contracting Approach!
**EPCM Pros and Cons**

- Under EPCM approach, sponsor manages a suite of contracts instead of having one EPC contractor
- Saves costs – perhaps 20% cheaper than EPC
- You know what you are getting (unbundling)
- One underperforming contractor may be easier to fire
- But - much higher interface risk
- Harder to project manage
- A small contractor may obstruct a larger one and may not post a large enough performance bond
- Less certainty on project cost
- Harder to finance since banks don’t like the completion risk and cost overrun risk