From Concept Design to Project Execution

ECREEE – Abidjan, March 2014
Introduction and agenda
Introduction and agenda

Introduction:
• IFC – PPP Transaction Advisory Services
• Dan Croft, Senior Investment Officer, Johannesburg
• Ange Kouassi, Consultant, Dakar

Agenda:
• Introduction to IFC
• IFC and ECREEE
• RE and EE implementation models
• Key issues in RE and EE PPPs
• How IFC can help
• Working with IFC
• Case studies
Introduction to IFC
Private sector arm of the World Bank Group

Lends to governments of middle income developing countries.

Promotes private sector development through financial products and investment services.

Provides concessional loans to governments of the poorest countries.

Settles investment disputes between foreign investors and host countries.

Provides guarantees to foreign investors against non-commercial risk.

Exclusive focus on private sector
What we do

**Investment services**
The World’s largest multilateral provider of financing for private enterprises
$5.3 billion invested in sub-Saharan Africa in 2013

- Loans
- Equity
- Guarantees
- Structured Finance

**Advisory services**
to governments and businesses to promote private sector development
$65 million devoted to advisory services in sub-Saharan Africa in 2013

- Enterprise Assistance
- Environment & Social Sustainability
- Access to Finance
- Business Environment
- **Transaction Advisory Services**

Only DFI to provide transaction advisory services directly to public sector clients
IFC and ECREEE
ECREEE has ambitious targets for 2018:
• 35 projects up to 30MW developed to feasibility
• 5 projects brought to financial closure
• 5 projects in operation
• 2 refurbishment / rehabilitation projects realised

ECREEE website clearly envisages:
• Private sector involvement in project delivery
• ECREEE engagement with new partners

IFC keen to do more to support RE and EE in Africa:
• MOU with ECREEE to support programme
• Engage with Member States directly
RE and EE implementation models
Three broad options

Purely public sector:
• Public procurement and operation
• Funding from Government / donors

Purely private sector (‘true’ IPP):
• Government establishes enabling regime
• Private sector free to develop projects
• No further Government support

Public-private partnership (PPP):
• Private funding, procurement and operation …
• … under an agreement with the public sector
What is a PPP?

“A partnership between the public and private sectors to deliver a public service with full or partial transfer of risks to the private sector”
Why involve the private sector?

Cost:
- Hydro – $2-4m / MW = $60-120m for 30MW
- Significant amounts of capital available:
  - Private equity
  - Commercial debt
  - DFI finance
- Typically conditional on private sector involvement
- Frees up public capital – e.g. network expansion

Expertise:
- Best practice in project development and operation
- Skills transfer
Key issues in RE and EE PPPs
Clear framework, robust revenue model

Investors look for security in a few key areas:
• Clear energy policy / Government priorities
• Clear route to PPA – to justify development risk:
  • Level playing-field
  • Lack of political interference
• Realistic tariff – all costs plus return on investment
• Creditworthy buyer (or Government support)

Without this, there will be no finance … and no project

Solutions:
• IPP – Enabling regime, feed-in tariff, standard forms
• PPP – Concession / PPA
Land access, water rights, grid connection

Land access:
- IPP – land must be readily available
- PPP – typically part of concession structure

Water rights (hydro only):
- IPP – royalty regime, competing riparian rights?
- PPP – typically part of concession structure

Grid connection:
- Private construction
- Public ownership
- (Private O&M?)
- Importance of a grid code
Environmental & Social

Environmental issues:
• Ongoing river flow
• Biodiversity
• Greenhouse gas emissions

Social issues:
• Resettlement / land acquisition
• Competing water uses
• Surrounding infrastructure
• Labour conditions during construction
• Cultural heritage / indigenous peoples

Without E&S compliance, investors will not finance
How IFC can help
The partner of choice in PPPs …

Global market knowledge and experience as both advisor and investor

Objectivity & transparency in transactions

60 successful projects since 2004

Neutral partner balancing objectives of government, consumers and investors
... delivering real impact ...

79 active mandates across the world in February 2014

35.5 million people with first-time or improved access to education, electricity, health, sanitation, water, and other basic services

$3 billion in private investment

$2 billion in fiscal benefits

Developmental impact of IFC projects closed FY05 to FY13
… through clear added value …

- Pioneering transactions in frontier markets & sectors
- Social and environmental focus
- Risk sharing and long-term commitment
- Worldwide expertise of the largest multilateral development organization
... across the entire transaction

- Introducing competition
- Setting the conditions for private investment
- Assessing consistency with environmental and social standards.
- Tracking results and sharing lessons.

- Financing projects through debt, equity and mobilization of external resources.
- Advising governments
- Collaborating with donors
- Implementing private-sector participation arrangements (PPPs)
A perfect partnership

PUBLIC
• Assumes risk as needed for project to succeed
• Defines regulatory and strategic framework
• Provides necessary subsidies to ensure affordability

PRIVATE
• Brings expertise and efficiency
• Achieves risk-adjusted rate of return
• Manages technical, commercial and regulatory requirements
• Secures limited-recourse financing

IFC
• Ensures project feasibility
• Prepares structure
• Identifies investors
• Maximizes competition
• Helps close the deal
Recap on key issues

Clear framework / revenue model:
- IFC advises on FITs and other frameworks
- IFC structures concessions

Land access, water rights, grid connection
- IFC advises on land access and water rights
- IFC can commission a new grid code

Environmental and social issues:
- IFC’s Performance Standards – industry standard
- Compliance maximises availability of funding
- IFC advises on implementation and monitoring
Working with IFC
The PPP process

Phase 1
Analysis & Diagnosis

- Assess PPP options / Perform market sounding
- Define transaction structure
- Government decision

Due diligence identifies client objectives, investor interest, and strategic options, to inform optimal structure.

Phase 2
Implementation

- Market to investors
- Prepare PPP contract
- Conduct tender
- Closing

Development of marketing strategy to assistance with bid evaluation, award, and closing

Stakeholder engagement
A perfect fit

**Project Financing**
- Service affordability
- Balanced payment structure
- Potential IFC financing

**Contract Design**
- Service obligations/standards
- Sustainable risk allocation
- Monitoring and dispute resolution

**Tender Process**
- Fair treatment of investors
- Global promotion
- Transparent tender and bid evaluation

1 Mobilization
- Mandate signing
- Team setup
- Consultant selection
- Kick-off

2 Due diligence and strategic options
- Audits
- Preliminary marketing
- Financial analysis
- Strategic options report

3 Reforms and transaction preparation
- Audits
- Marketing
- Reforms
- Labor/social plan

4 Implementation and closing
- Pre-qualification
- Marketing
- Contract preparation
- Tender & Closing

1-2 months
4-6 months
8-12 months
Advisory mandate structure

Government
Client

IFC
Lead Advisor

IFC team structure

- Project Director (Advisor)
- Team Leader (Dedicated)
- Transaction Team (multi-skilled)

Legal advisor
Technical advisor
Other advisors
This fee structure enables IFC to minimize the cost to the government and assume the risk of a successful closing.
Large hydro – Sounda Gorge, Congo

400-1000MW, $1-3bn, 150km from Pointe Noire

Long history:
• First studied by EDF in the 1950s
• Several subsequent attempts by private sector

IFC signed MOU with Government in February 2014:
• Key principles recognised (E&S, offtake etc.)
• IFC to develop timeline and budget for approval
• IFC now arranging $2-3m donor funding

Next step – signature of full advisory mandate
Small hydro – Nyagak III, Uganda

4MW, isolated grid (West Nile Region, DRC border)

Uneconomic without donor subsidy:
• KfW grant, conditional on PPP structure
• Remaining funding from private sector

IFC advising UEGCL, state generation company:
• Technical, E&S and legal consultants
• Drafting tender and concession documents
• Roadshow to potential developers
• Support during tender process and negotiation

Three bidders – scheduled to close June 2014
Wind – Blue Mountain Pass, Lesotho

Full development programme by IFC:
• Initial mesoscale model for entire country
• Preliminary analysis of three sites:
  • Wind resource assessment
  • Logistics assessment
  • Environmental assessment
• Policy gap analysis of Lesotho energy sector
• One of three sites has sufficient resource (28MW)

Next steps:
• Validation of mesoscale model
• 24-month wind measurement programme
• Subject to wind resource, tender out as a PPP
Solar PV – Standardised PPP Model

Joint initiative – IFC, WB, MIGA

Low-cost, utility-scale solar PV power across Africa:
• Donor-funded pre-feasibility studies
• Simple, standard documentation and tenders
• Pre-approved long-term, low-cost debt for bidders
• MIGA and PRG support to enhance offtake credit

Simple, standard approach:
• Economies of learning/repetition
• <15c/kWh tariff – similar to that achieved in SA ...
• … compared to 20-30c/kWh often proposed
Solar PV – Solar Home Systems, South Africa

Government target: 300,000 households by 2025

Current structure – ‘fee-for-service’:
• Flawed revenue model
• Wrong technology
• Insufficient transfer of risk to private sector

Proposed IFC assignment:
• Develop generic PPP model – install and maintain
• Use South Africa as a pilot – then roll out elsewhere
• Innovation is key – SMS-activated solar panels
• $150,000 of donor funds secured for concept
What next?
IFC is here to help

RE and EE are strategic priorities:
- Senior management support
- Resources from across the World Bank Group
- Significant availability of donor funding

If you have potential projects:
- Discuss them with us here
- Send them to us for an initial desktop review
- We can visit you to discuss them in person

Many options available:
- Single-project mandate for larger schemes
- ‘Packaging’ option for smaller schemes
Thank You!

Dan Croft  
Senior Investment Officer  
IFC Transaction Advisory Services  
Johannesburg, South Africa  
Tel: +27 11 731 3180  
Cell: +27 83 795 0338  
E-mail: DCroft@ifc.org