



Herbert Smith

Project Finance in Africa: Structure and unique aspects

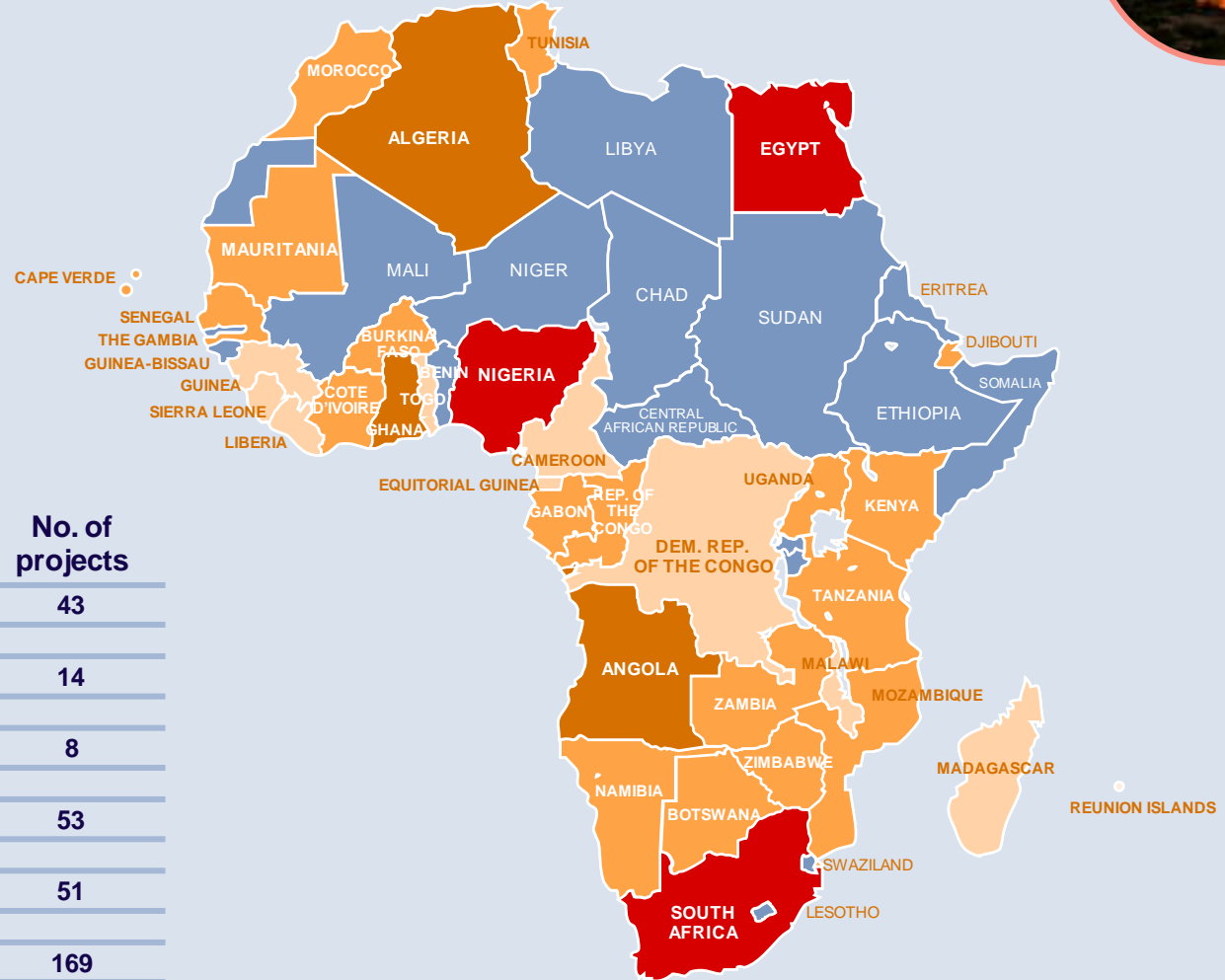
Martin Kavanagh, Herbert Smith LLP
February 2011



Herbert Smith in association with
Gleiss Lutz and Stibbe

- Projects financed in Africa: 2005 - 2011
- How to fund energy / infrastructure projects
- What is Project Finance?
- Structure
- Typical timeframes
- What can be project financed?
- Why is Project Finance difficult?
- What does Project Finance offer to Africa?
- What conditions do we need to create to encourage PF?
- What can we do to make transactions bankable?
- Challenges in structuring PF transactions in Africa

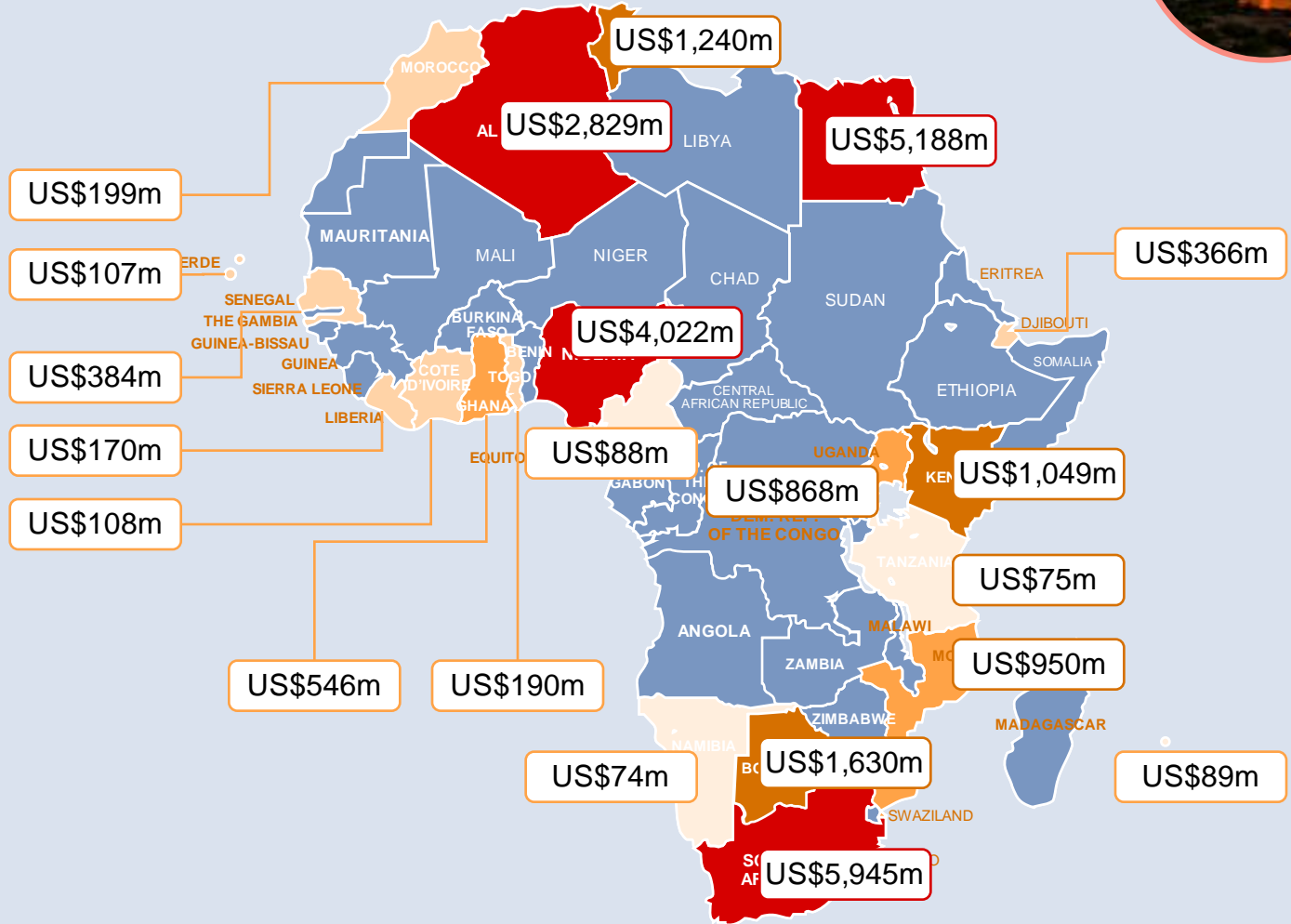
Projects financed in Africa – volume (2005 – Feb 2011)



Region	Total value (US \$m)	No. of projects
North Africa	25,609	43
East Africa	4,241	14
Central Africa	4,938	8
West Africa	20,062	53
Southern Africa	29,967	51
Total	84,817	169

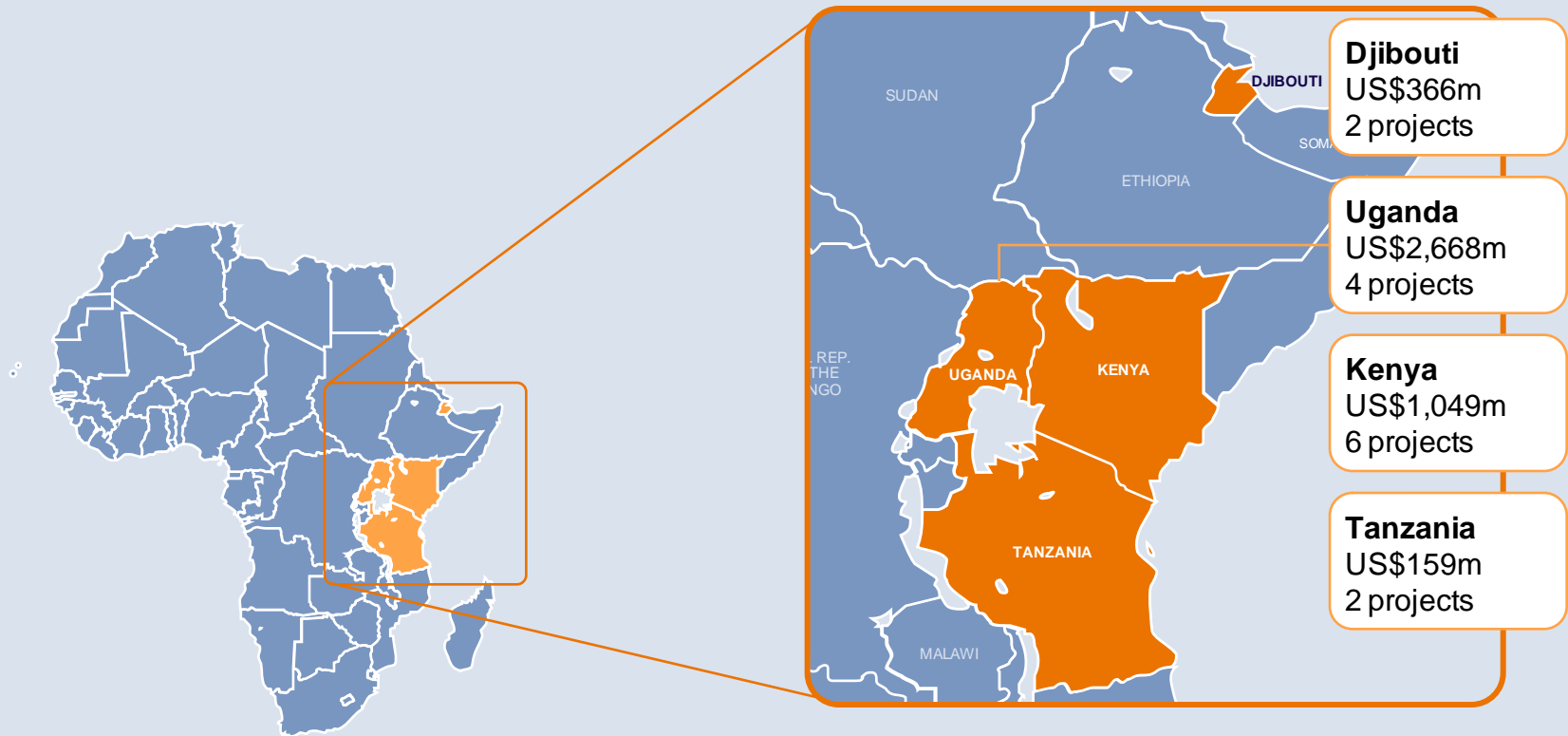
Source: Infrastructure Journal Online, Feb 2011

Projects financed in Africa (excl. oil/gas & mining)



Source: Infrastructure Journal Online, Feb 2011

Projects financed in East Africa (2005 – Feb 2011)



Source: Infrastructure Journal Online, Feb 2011

Projects financed in East Africa (2005 – Feb 2011)



Year	Project name	Country	Sector	Total value (US \$m)	Multilateral / Govt. support (US \$m)
2007	Doraleh Container Terminal	Djibouti	Ports/Terminal	263	n/a
2009	Doraleh Container Terminal refi	Djibouti	Ports/Terminal	103	103
2009	Econet Wireless Credit Facility	Kenya	Network	250	n/a
2008	Mombasa Port Development	Kenya	Ports/Terminal	235	235
2006	Safaricom	Kenya	GSM	167	n/a
2009	Olkaria III Refinancing	Kenya	Geothermal	160	105
2008	Rabai IPP	Kenya	Oil-fired	155	n/a
2006	Rift Valley Railroad	Kenya	Heavy rail	82	54
2010	Williamson-Cullinan Diamond Mines Expansion	SA / Tanzania	Diamond	84	44
2006	Celtel Tanzania Restructuring	Tanzania	GSM	75	n/a
2010	Tullow Uganda Guarantee	Uganda	Oil	1,550	n/a
2007	Bujagali 250MW Hydro Plant	Uganda	Hydro	840	n/a
2009	Tullow Oil Uganda Oil & Gas Assets	Uganda	Oil	250	n/a
2009	Buseruka Hydro Power Plant	Uganda	Renewable fuel	28	n/a

Source: Infrastructure Journal Online, Feb 2011

How to fund energy / infrastructure projects

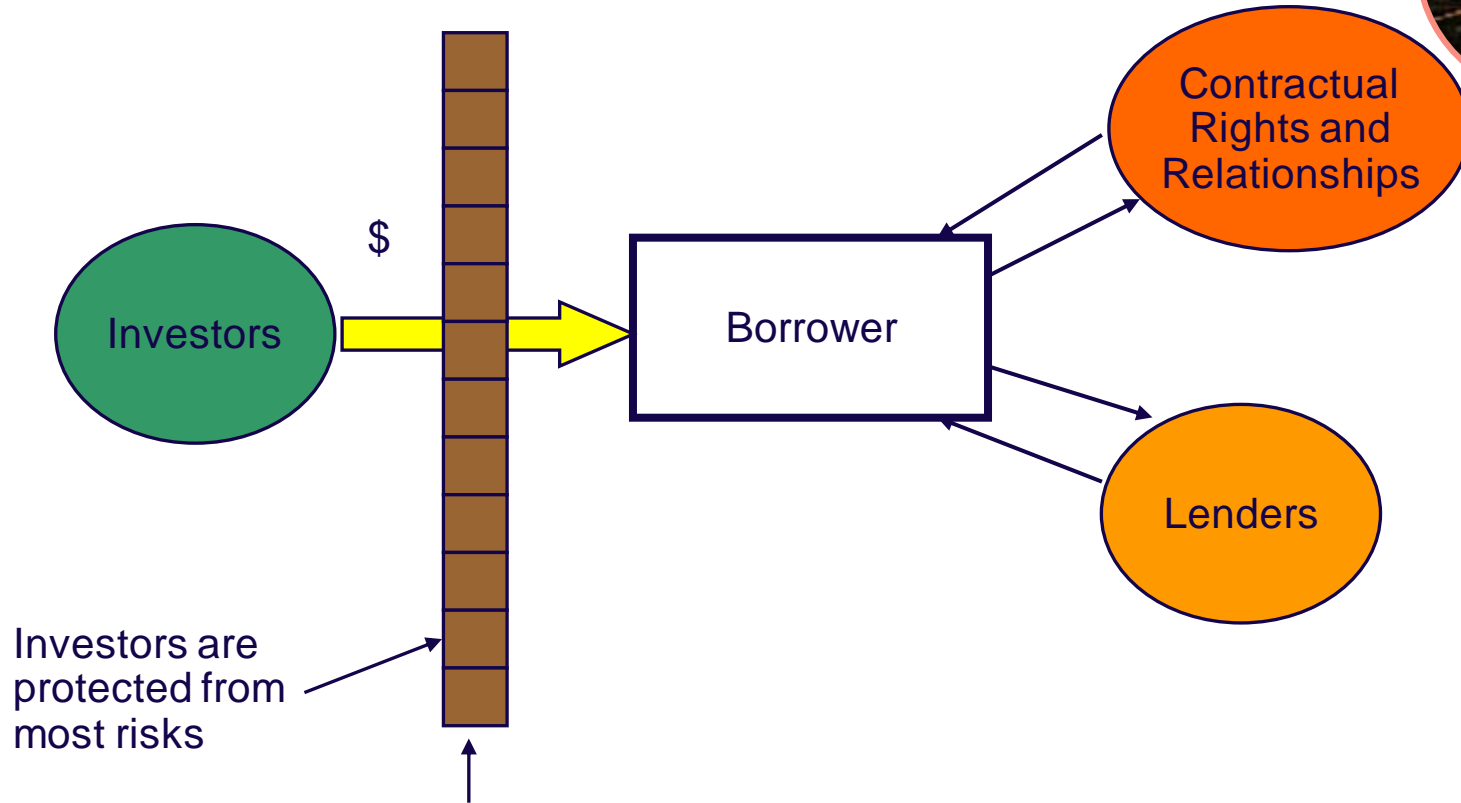


- Traditional
 - government pays
 - significantly limits how much can be done
- Private Investment
 - private sector pays
 - only really works for valuable assets and wealthy investors with balance sheet power – unless debt leverage can be unlocked

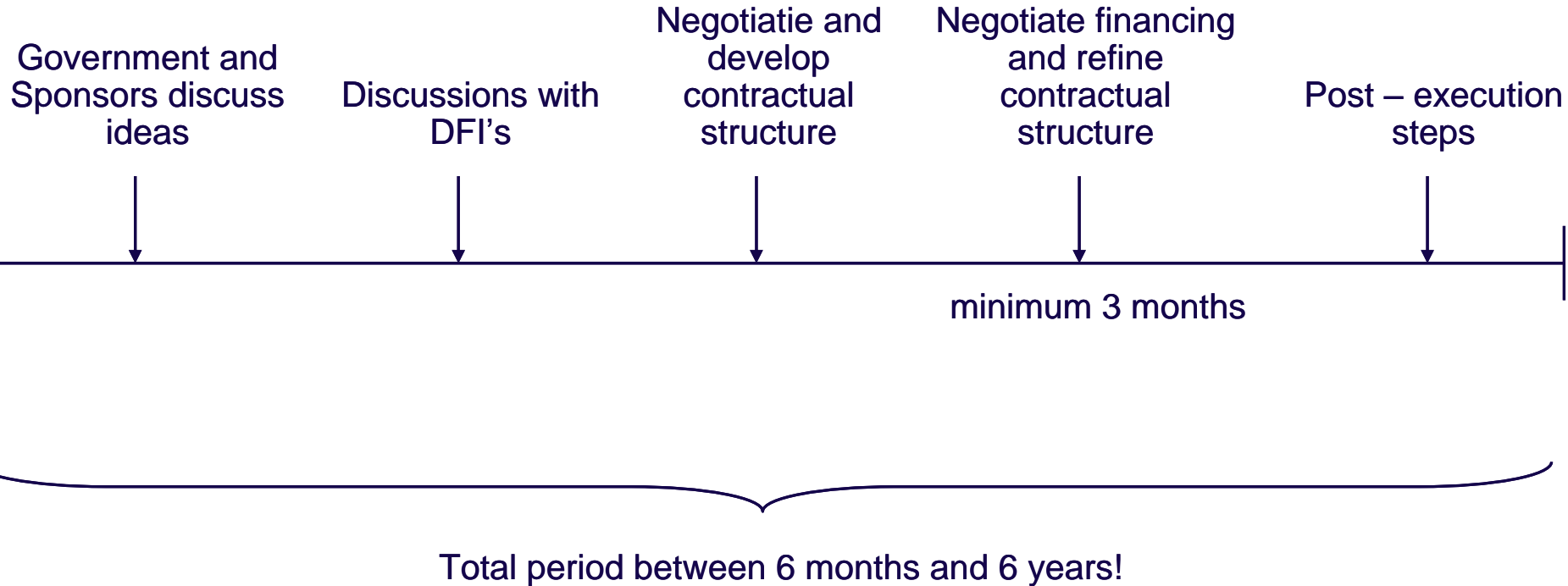
What is Project Finance?

- Large-scale capital projects – discrete project with limited risks
- Financed mostly with debt
- Borrower is typically SPV, owned by the sponsors
- Limited/no recourse to, and off balance sheet (ideally) for, sponsors
- Reliance placed on cashflow generated by project for repayment of the debt
- Robust contractual structure

Structure



Typical timeframes



What can be project financed?



- Power plants
- Pipelines
- Mining
- Property Development
- Refineries
- Oil and gas
- Renewable energy
- Gas storage
- Schools
- Telecoms
- Hospitals
- Prisons
- Stadia
- Waste treatment
- Airports
- Ports
- Railways
- Water treatment
- Roads
- Bridges
- Tunnels

Why is Project Finance difficult?

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- Contract structure must be watertight
- Borrower has no other assets so structured project is crucial
- Credit analysis of counterparties
- Reliance on ability to enforce contractual rights

What does Project Finance offer to Africa?

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- Fast-tracks development of infrastructure
- Ability to borrow funds far in excess of assets on balance sheet
- Government credit can be used to provide comfort in contractual relationships without directly injecting funds
- PRI and other products available to assure investors
- Support of African Development Bank and other institutions is significant benefit

What conditions do we need to create to encourage PF?

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- Sponsors with a vision and good advice
- A willing and committed government
- Legal / regulatory environment in host country
- Good local legal advice
- Involvement of DFI's such as African Development Bank
- Availability of risk protection products such as PRI/Equity Insurance
- Trust in the rule of law in the host country

What can we do to make transactions bankable?

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- Get involved early
- Pay attention to construction, offtake contracts, etc
- Think about enforceability of contractual rights
- Think about a lender's security package
- Lawyers making life easy for investors and sponsors

Challenges in structuring PF transactions in Africa

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- Perceived political risk issues (can be overcome!)
- Contractual counterparties must be creditworthy or supported
- Explaining local legal systems and requirements to corporates and banks
- Convincing banks that security structure works in local jurisdiction



- Effort involved to structure PF deals but effort brings reward
- Much that lawyers can do to facilitate
- Role of multilaterals / DFI's crucial in terms of both funds and support



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