

Special Supplement: Africa - Emerging Asset Class - A Decade After Big Developers Pulled Back, Sub-Saharan Africa Is Re-emerging As A Market For Infrastructure Finance, With Innovations In International And Local Markets, Write Jon Marks And Kevin Godier.

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Author: Marks, Jon;Godier, Kevin

Byline: JON MARKS AND KEVIN GODIER

Nothing concentrates the mind like competition, except perhaps for a dramatic change of circumstance. Both trends are apparent in the long, largely dormant, sub-Saharan African project finance market. Here, the emergence of China offering huge infrastructure-for-resources deals with countries such as Angola and Democratic Republic of Congo (DRC), and a continent-wide upturn in economic performance, have led banks to refocus on the region's potentials for creating big projects.

There are echoes of the late 1990s, when the Azito and Jorf Lasfar independent power projects (IPPs) in Cote d'Ivoire and Morocco laid down a financing model, by drawing in funding and guarantees from the World Bank and other major multilateral and development finance institutions (DFI) alongside commercial bank finance.

According to lawyer Paul Biggs, partner at sub-Saharan African project finance specialist Trinity International: "On the power side, there is beginning to be the same growth of interest as about five to six years ago, when AES and Enron were active in the continent."

After a wasted decade, in which few infrastructure deals could be concluded using commercial finance, bankers and investors have developed a keener appetite for better quality African assets, encouraged by an improving credit story.

With the IMF's World Economic Outlook forecasting 7.1% growth across sub-Saharan Africa - "it's best period of sustained growth since independence" - sub-Saharan African officials and bankers were feted as major partners at the late-October IMF/World Bank annual meetings. Multilaterals and other donors who gathered in Washington DC reiterated how Africa was now centre stage in their operations, led by the World Bank, which is reviving under Robert Zoellick, and backed by a reinvigorated African Development Bank under Donald Kaberuka.

Taste of the action

Commercial bankers were just as keen to get in on the action. Finance minister Kwadwo Baah Wiredu basked in the glory of the market's enthusiasm for Ghana's early October Reg S144a \$750m 10-year Eurobond issue, which was four times oversubscribed, raising \$3.25bn. Mr Baah Wiredu said the funds would be used to tackle energy bottlenecks, pointing to the potential of using markets to help make up sub-Saharan Africa's huge infrastructure deficit.

According to the incoming World Bank managing director (and former Nigerian finance minister) Ngozi Okonjo-Iweala: "There is a lot of liquidity out there but not enough of it is

coming into Africa." Private equity and hedge fund interest in African projects - and companies promoting deals in such difficult frontiers as DRC and Guinea - shows "there is appetite" that could be exploited, with "the company making a profit but also doing some good in the long run", Ms Okonjo-Iweala said.

To encourage this trend, the World Bank Group (WBG) may review its policy towards market-friendly instruments like guarantees, whose use has proved limited in recent years. Mr Zoellick is giving the International Finance Corporation (IFC) private sector arm a bigger role, and there are plans to link it into the work on the concessional-lending International Development Association (IDA).

Traditional infrastructure lending will remain relevant - especially following the World Bank's decision to move back into financing big-ticket projects like dams - but under Mr Zoellick, commercial solutions are moving to the top of the agenda.

New players emerge

With a range of other players coming on to the scene, "there is often competition to lend now between commercial banks and the DFI community, which is a nice situation for the [project] sponsors," Mr Biggs said.

Chukwuma Soludo, Central Bank of Nigeria (CBN) governor, has launched Africa Finance Corporation (AFC), a Lagos-based investment bank with \$2bn of authorised share capital. AFC wants to play a lead in structuring bankable projects across sub-Saharan Africa. In Washington, Mr Soludo announced that AFC had already raised \$1.5bn.

Botswana's massive 3600 megawatts coal-to-power project at Mmamabula is one of the key pieces in the push to address electricity shortages that are now starting to hit the southern Africa region. A proposed \$3bn-plus debt finance package is expected to include both DFI and export credit money.

In South Africa, about 25% of the country's much-increased energy expenditure budget for the next five years - R150bn (\$21.5bn) - is expected to come from local capital markets and equity, while another quarter could be raised in the international capital markets.

Other local markets are emerging. In the rand zone, Namibia Power Corporation issued a R500m 13-year bond in mid-July, representing the first drawdown from the N\$3bn (\$456m) medium-term note programme listed by the Namibian parastatal; it is dual-listed on the Namibian Stock Exchange and Bond Exchange of South Africa (Besa), the main marketplace for debt in South Africa.

Co-arranged and placed by pointBreak (Namibia) and Rand Merchant Bank, and further supported by NedCapital (Namibia), the bond represented the first cross-border debt-raising transaction of its kind in southern African capital markets. The proceeds will be used primarily by NamPower for the Caprivi Link Interconnector, scheduled for completion by 2009, which will eventually link the electricity networks of Namibia, Zambia and South Africa.

The NamPower bond was oversubscribed, which "was a significant achievement for a BBB-[foreign currency] rated borrower from outside South Africa," says Jonathan Berman, principal at Fieldstone Capital, the financial adviser to NamPower's corporate fundraising programme. "There has been a gap where nobody in the region was going to the debt markets, but

NamPower was well- positioned, located in an investment grade market and also had the benefit of the Common Monetary Area, giving a one-to-one link between the Namibian dollar and the rand."

Appetite building

There has been a smattering of other issues. Mauritius' Central Electricity Board embarked on a MRs5bn (\$161m) bond issuance programme in mid-2006. Arranger Barclays Bank expected the issue to trigger interest elsewhere in southern Africa, in countries like Zambia, Botswana, Mozambique and Angola, and to build appetite among capital markets investors seeking alternative debt instruments to diversify their portfolios away from the traditional equities, treasury bills and government securities that dominate African markets.

Zambia Energy Corporation (Zam-En) went out to international markets to raise funding for its February 2006 purchase of a controlling stake in Copperbelt Energy Corporation (CEC). "The hardest part of the deal was obtaining international money for a local management team," says Mr Biggs, whose practice acted for Zam-En. CEC's sound track record in distributing electricity to mines in the Copperbelt placed it in a "prime situation" to raise further finance and become involved in other sub-Saharan IPPs, he says.

Fieldstone's Mr Berman says he believes that "other regulated utilities could do more of these, either in domestic or regional markets or in a dollarised market like Nigeria". More and varied issuers are expected to follow, from Kenya, Tanzania and other reforming countries that are attracting investor interest.

Potentials and problems

"There is more appetite, and developers are seeing some good margins in comparison to the Middle East and other regions," says Orli Arav, senior investment adviser at Frontier Markets Fund Managers, principal adviser to the Emerging Africa Infrastructure Fund. The fund signed a 15-year, \$35m loan for Canadian developer Artumas' Mnazi Bay gas project in Tanzania earlier this year, and it is also involved in plans for electricity schemes in Kenya, Ghana, Rwanda, Nigeria, Uganda and Mali/Senegal.

The World Bank's Ms Okonjo-Iweala argues: "We can do more private investment even in the more riskily perceived countries." But there is general agreement that many problems remain to be overcome, and too many countries remain off financiers' radars due to political risk concerns.

Timescales for African projects remain an issue. Ms Arad says the four-year time span required to bring the Artumas deal to fruition was "frustrating" - but not as bad as the four years spent working on a loan to the Takoradi power plant in Ghana that was eventually cancelled.

Developers are slowly moving in, notably including a new generation of Gulf- based companies, such as Abu Dhabi's hugely ambitious state-backed Taqa and Sharjah-based Dana Gas. However, the supply of investment is still far outweighed by the demand. This was shown when the UK government-owned CDC group sought to sell a bundle of African power assets held by its Globeleq subsidiary, but subsequently deemed bids for four out of the five assets offered were too low. Lehman Brothers, which acted as adviser to Globeleq,

recommended a global sell-off after studying a range of options that would allow new money to be raised for greenfield projects.

Despite such setbacks, the global trend is positive, with major new developments expected in 2008. These could include the emergence of 'infrastructure bonds' on the Nigerian Stock Exchange - instruments created to soak up liquidity in the booming Lagos market that will help to fund projects in sub-Saharan Africa's most populous country, which has arguably the biggest infrastructure gap of all.

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