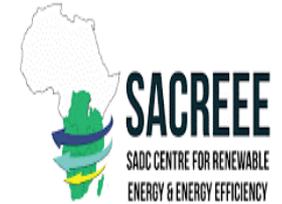




East African Centre of Excellence for
Renewable Energy and Efficiency



Bankable Projects: Key Attributes of Sound Project Proposal

Presented by:

SIYANGA MALUMO

VIRTUAL FROM JOHANNESBURG

14 July 2021

BASICS OF INVESTMENTS

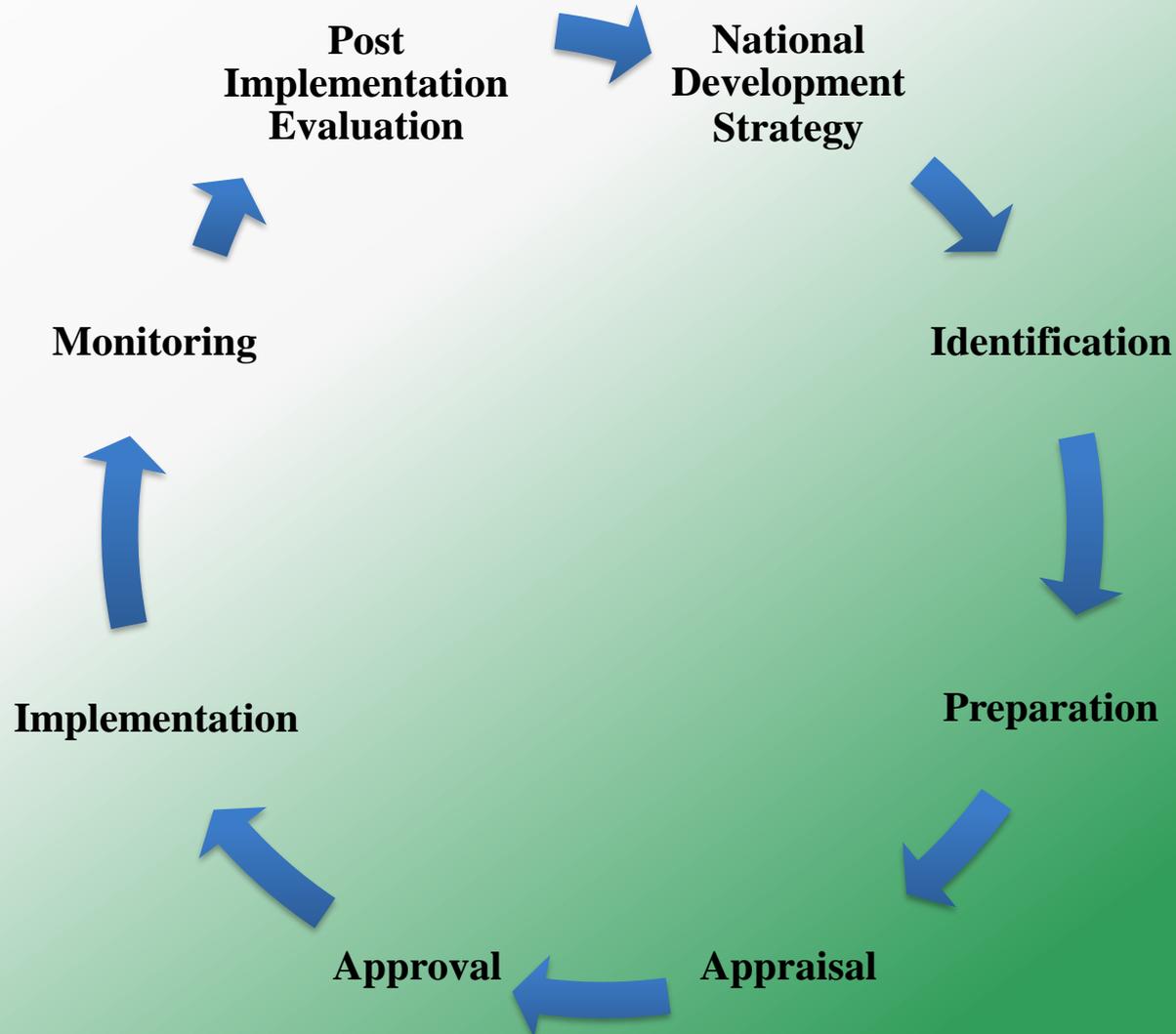
ENABLING ENVIRONMENT

□ Political Environment

□ Macro-economic Environment

□ Legal & Regulatory Environment

THE PROJECT CYCLE



KEY ELEMENTS OF INVESTMENT

INVESTMENT STRUCTURES

Government

PPPs

Private Sector

VARIANTS OF PROJECT DEVELOPMENT

Private Sector:

- High Risk – High Reward Philosophy
- Profit Driven
- Success Driven
- Efficiency
- Productivity

Public Sector:

- Public Service / Goods
- Political Benefits
- National Development
- Socio-Economic Progress

Public-Private Partnership

SUSTAINABLE DEVELOPMENT GOALS (SDG)

THE SDGs:

Sustainable Development Goals

- 1. No Poverty**
- 2. Zero Hunger**
- 3. Good Health & Well Being**
- 4. Quality Education**
- 5. Gender Quality**
- 6. Clean Water & Sanitation**
- 7. Affordable & Clean Energy**
- 8. Decent Work & Economic Growth**
- 9. Industry, Innovation & Infrastructure**
- 10. Reduced Inequalities**
- 11. Sustainable Cities & Communities**
- 12. Responsible Consumption & Production**
- 13. Climate Action**
- 14. Life Below Water**
- 15. Life on Land**
- 16. Peace, Justice & Strong Institutions**
- 17. Partnership for the Goals**

AFRICAN UNION AGENDA 2063

AU Agenda 2063....1

- ❑ **Strategic Framework for Transformation of Africa in the next 50 years:**
 - **PIDA: USD 360 Billion by 2040 (60% Energy)**
 - **Reduce Extreme Poverty (Below USD 1.25 per day) to 10% by 2040 and 3% by 2063**
 - **Increase per capita to USD 10 000 by 2040**
 - **Increased Power Demand from 590 TWh in 2010 to 3100 TWh by 2040**
 - **Increased Transport Volume from 265 Million tons in 2009 to 2 Billion tons by 2040**
 - **Increase Domestic Resource Mobilisation**

AFRICAN DEVELOPMENT BANK *HIGH 5s*

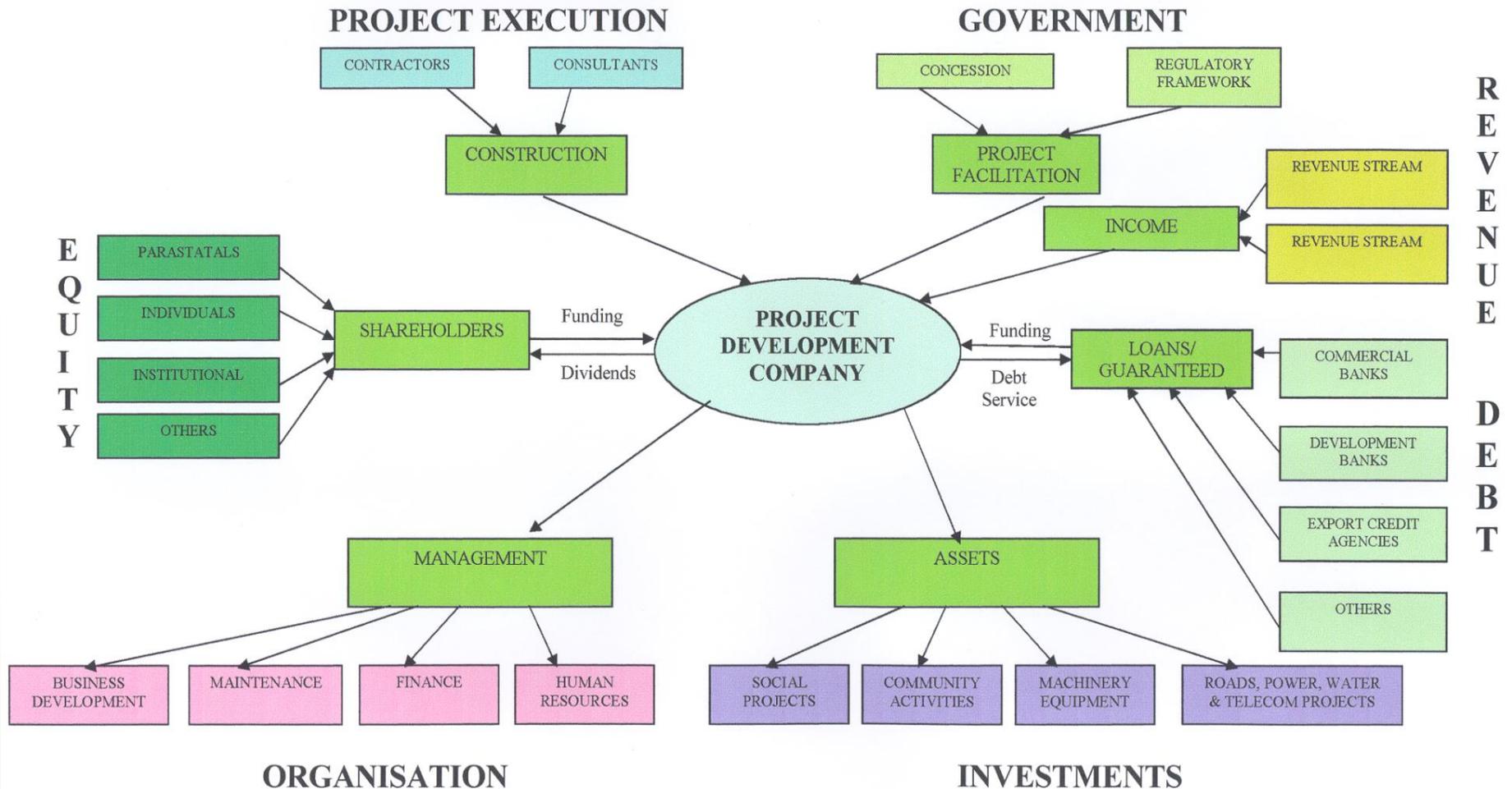
AfDB High 5s

- **Light up and power Africa**
- **Feed Africa**
- **Industrialise Africa**
- **Integrate Africa**
- **Improve the quality of life for the people of Africa**

PROJECT DEVELOPMENT

PROJECT DEVELOPMENT

PRIVATE FINANCING OF INFRASTRUCTURE: PROJECT DEVELOPMENT MODEL



FUNDING MIX

The Funding Mix: Overview

Financial Products

Senior debt

- Revolving
- Term
- 30—70% of total capital
- Five—Fifteen years

Subordinated debt

- Senior / sub notes
- Discount notes
- MTN programs
- 10—25% of total capital
- Seven—Ten years
- Five—Ten years

Preferred stock/Mezzanine securities

- Sub. debt
- Preferred stock
- Warrants
- 0—35% total capital
- Seven—Ten+ years

Common equity

- Common equity
- 25—40% of total capital
- Permanent

Traditional suppliers of capital

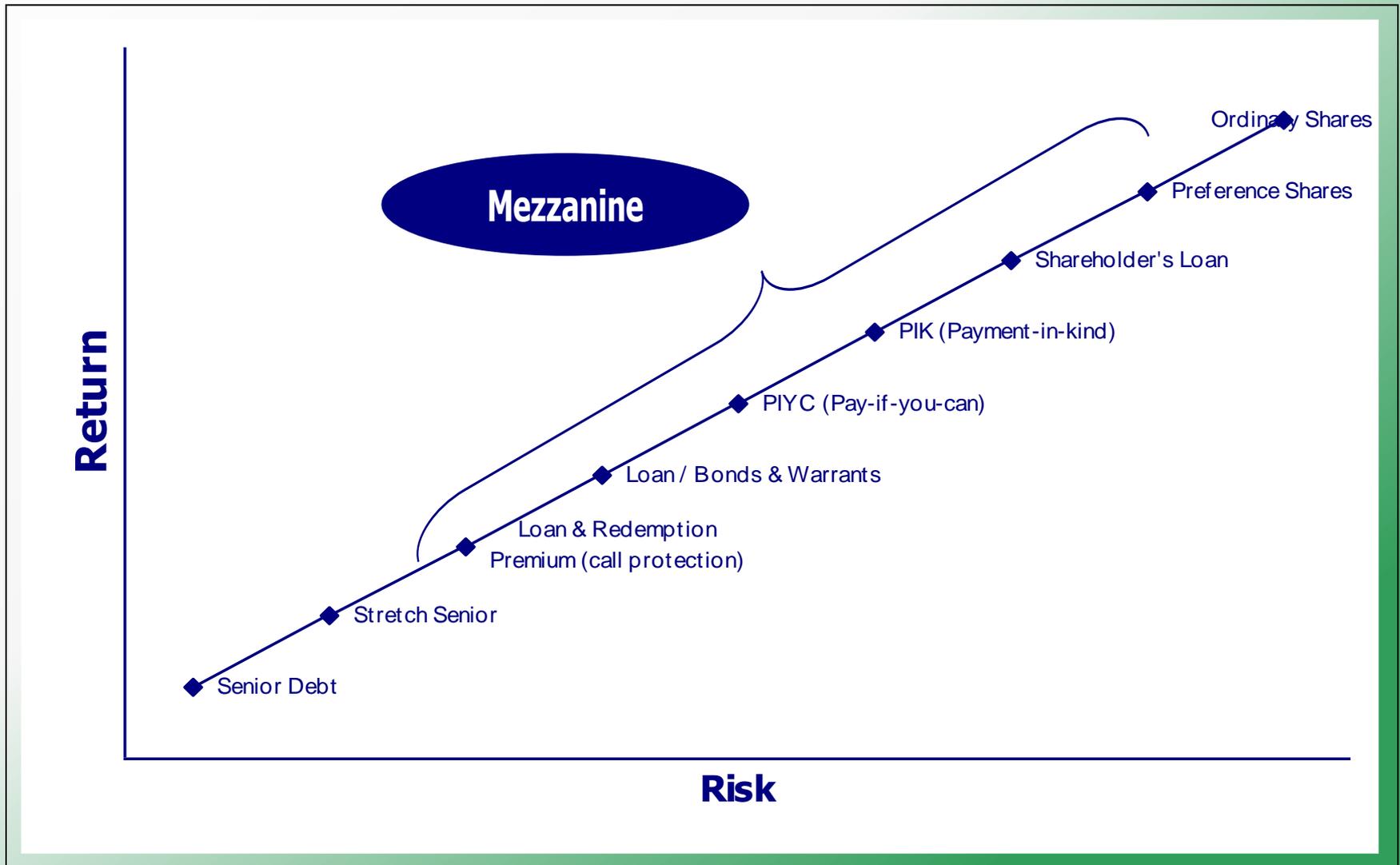
Investment bank
Commercial bank
Development bank

Investment bank
Commercial bank
Mezzanine fund
Development bank
Institutional investors

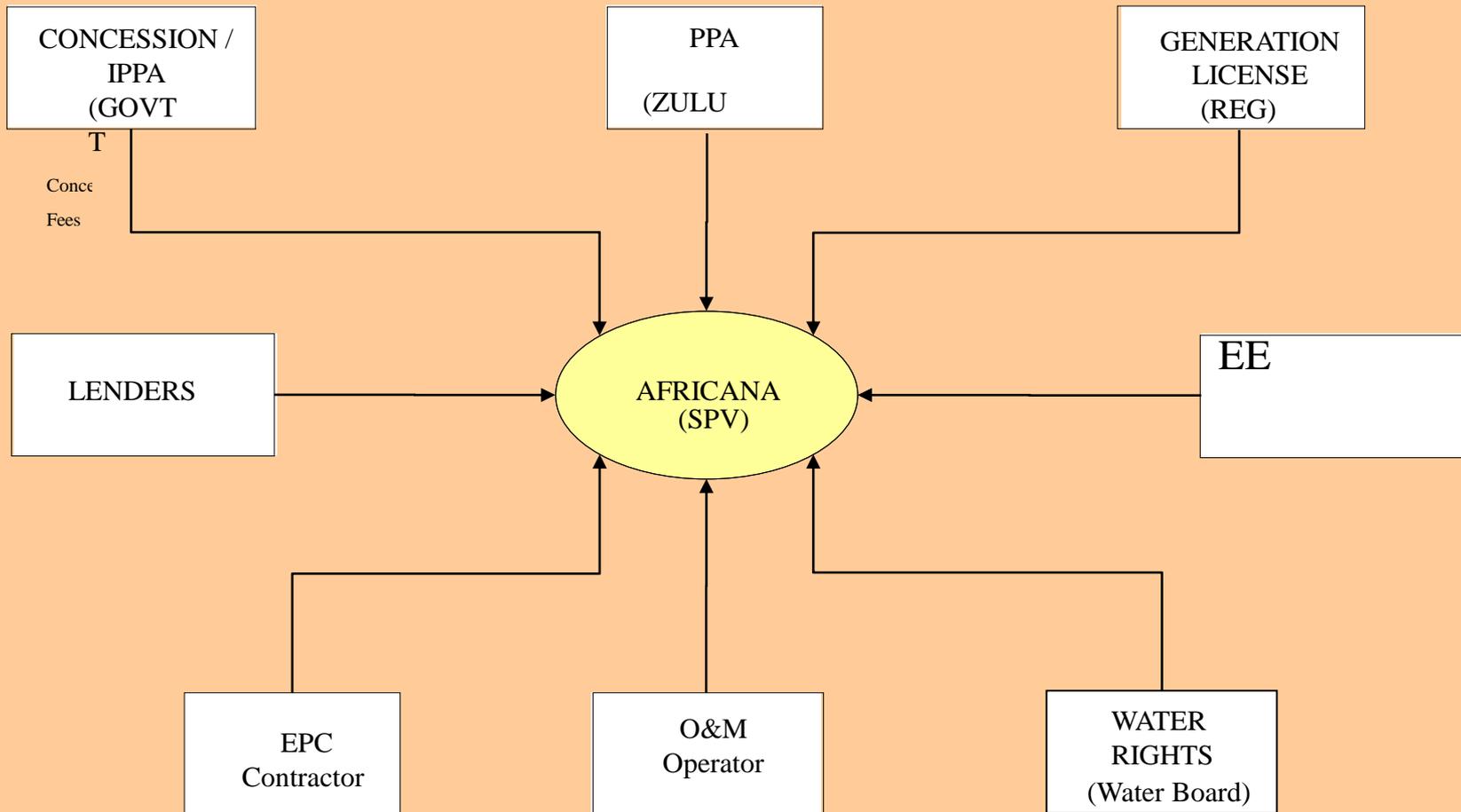
Investment bank
Commercial bank
Mezzanine fund
Development bank
Pension funds
Insurance companies
Semi-sovereign funds

Vendor
Financial sponsor
Development bank
Pension funds
Insurance companies
Semi-sovereign funds

Types and Sources of Funds...2



AFRICANA PROJECT STRUCTURE



RISK MANAGEMENT:
Commercial & Political Risks

VALUE OF RISK TAKING

He who is not courageous enough
to take risks will accomplish
nothing in life.

Muhammad Ali



KEY RISKS

- Financial (Including Cost over runs, Underwriting, etc.)**
- Commercial (Including Pricing, Quantity, Marketing)**
- Partner Selection**
- Economic (Macro – Economic Aggregates, Infrastructure, etc.)**
- Technical**
- Legal**
- Environmental**
- Social**
- Political**
- Climatic**

SELECTED SPECIFIC RISKS

- **Capital Risk (Equity / Debt shortfall)**
- **Completion risk**
- **Default risk**
- **Delivery risk**
- **Exchange rate risk**
- **Interest rate risk**
- **Liquidity risk**
- **Operations risk**
- **Payment system risk**
- **Refinancing risk**
- **Reinvestment risk**
- **Settlement risk**
- **Sovereign risk**
- **Underwriting risk**
- **Market Risk**
- **Change in Law**

RISK MITIGATION - 1

- Identify Pertinent Risks**
- Develop a Risk Inventory**
- Develop a Risk Matrix**
- Undertake Due Diligence**
- Develop Risk Mitigation Strategy (Covering All Pertinent Risks)**
- Allocate Risks to Various Parties**

DUE DILIGENCE

OBJECTIVES OF DUE DILIGENCE

Risk Management

Corporate Buy-In

Resource Mobilisation

KEY COMPONENTS OF DD

- Commercial**
- Financial**
- Human Resources**
- Cultural**
- Legal**
- Socio-Environmental**
- ICT**
- Others**

TYPES OF DUE DILIGENCE

- Investor Due Diligence**
- Lender Due Diligence**
- Customer Due Diligence**
- Supplier Due Diligence**
- Banker Due Diligence**
- Greenfield Due Diligence**
- Brownfield Due Diligence**
- Mergers & Acquisition Due Diligence**
- Public-Private Partnership Due Diligence**
- Privatisation Due Diligence**

LEGAL

THE KEY CONTRACTS

❑ Project Contracts:

- Joint Project Development Agreement (JDA)
- Shareholders' Agreement
- Concession Agreement
- Permits and Licenses
- EPC
- O&M
- Connection Agreement (Infrastructure Projects)

❑ Financing Contracts

- Loans
- Equity
- Security, etc.

❑ Commercial Contracts (PPA)

SECURITY PACKAGE

THE SECURITY PACKAGE

- The Market**
- Finance**
- Technical**
- Legal**
- Socio-Environmental**
- Insurance**
- Political Support**

THE KEY ELEMENTS OF SOUND PROJECT PROPOSAL

- The Security Package**
- Stakeholders**
- The Advisors & Role**
- Project Preparation**
- Due Diligence**
- Risk Management**
- Structuring & Packaging**
- Project Implementation:**
 - *EPC Procurement*
 - *O&M Procurement*
 - *Construction*
 - *Operation*
 - *Administrative Aspects*
- Key Contracts:**
 - *Project Contracts (Concession/Implementation, EPC, O&M, etc.)*
 - *Joint Development Agreement / Shareholders Agreement*
 - *Financial (Loan, Equity, Security/Collateral, Escrow Accounts, Insurance, Common Lenders Agreement, etc.)*
 - *Market (Offtake, Supply)*
- Termination Clauses (*Project*)**
- Termination Support (*Finance*)**

CONTENTIOUS ISSUES

- Tariffs/Tolls/Charges**
- Price Adjustments**
- Termination Clauses**
- Compensation**
- Step-In Rights**
- Direct Agreement (with Government)**
- Government Support**
- Inter-Creditor/Common Agreement**

SUCCESS FACTORS

SUCCESS FACTORS

- The Political Climate**
- The Economy & Economic Policies**
- Project Structuring & Packaging**
- Legal & Regulatory Environment**
- Socio-Environmental Management**
- Due Diligence (in Partner Selection: Country, Investors, Lenders, EPC Contractors, Off-takers, Suppliers)**
- Local / International Competitive Bidding (all players)**
- Careful Technology Selection**
- Probity in Tender Processing**

THE END

☐ ASANTE SANA

☐ SIYABONGA

☐ REA LEBOGA

☐ MUITO OBRIGADO

☐ MERCI BEAUCOUP

☐ THANK YOU