



SEPTEMBER 15, 2021

SUSTAINABLE, INCLUSIVE AND RESILIENT URBAN WATER SERVICES IN MOZAMBIQUE  
INVESTMENT PROGRAM 2022 - 2032

# Leveraging private sector investments for water and sanitation infrastructure development



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- The African Development Bank (AfDB) financing windows
- AfDB financial instruments available to the private sector
- The case of Kigali Bulk Water Supply Project
- AfDB guarantees
- Benefits of AfDB guarantees
- Risks covered by AfDB guarantees
- Requirements for a sovereign counter indemnity
- Summary of guarantee pricing
- Energy sector investments catalyzed through PRG
- Partial Credit Guarantee examples

	<u><b>Public Window</b></u>	<u><b>Private Window</b></u>
<b>Recipient</b>	Governments or State Owned Enterprises	Privately owned enterprises or « Financially strong » State Owned Enterprises
<b>Guarantee</b>	Sovereign	Non-sovereign
<b>Financial terms</b>	Concessionary terms	Commercial terms/Blended Finance

Project finance

Corporate Finance

Technical  
Assistance

Guarantees

Financing can be provided in hard and local currencies



# Case: Kigali Bulk Water Supply Project (1/2)



## The project

- Design, build, operate and maintain for 27 years a 40,000 m3/day bulk water production facility (PPP)
- Water distributed into Kigali network of WASAC
- Financing : AfDB, EAIF, IFC and FMO

Key Figures	
Total Project Cost	USD 79,1 Million
Debt / Equity	80 / 20
ADB Senior Loan	USD 20 Million
AfDB Board Approval	Dec 2015

## Key challenges and mitigation factors ?

- Kigali city water supply network : financed through the Rwanda sustainable water supply and sanitation program (USD 262Mn cofinanced with EIB)
- WASAC risk profile : Rwanda Sovereign Guarantee
- Currency volatility : tariff paid in USD or in local currency but indexed to the prevailing exchange rate
- Tariff level vs. Costs : Viability Gap Funding of USD 6.5Mn
- Preparation and negociation of a long term PPP agreement :  
Recruitment of an experienced transaction advisor IFC

## Awards

IJ Global African Water Deal  
of the Year 2018  
Partnerships Awards 'Best  
Utilities Project' 2018

## AfDB Group offers 2 types of guarantees:



Guarantees to protect the beneficiaries **against political risks** emanating from the government or its entities:  
**Partial Risk Guarantees (PRGs)**



Guarantees to protect the beneficiaries **against non-payment** by the Applicant:  
**Partial Credit Guarantees (PCGs)**

## Why is AfDB offering guarantees?

### Africa is still perceived as risky...

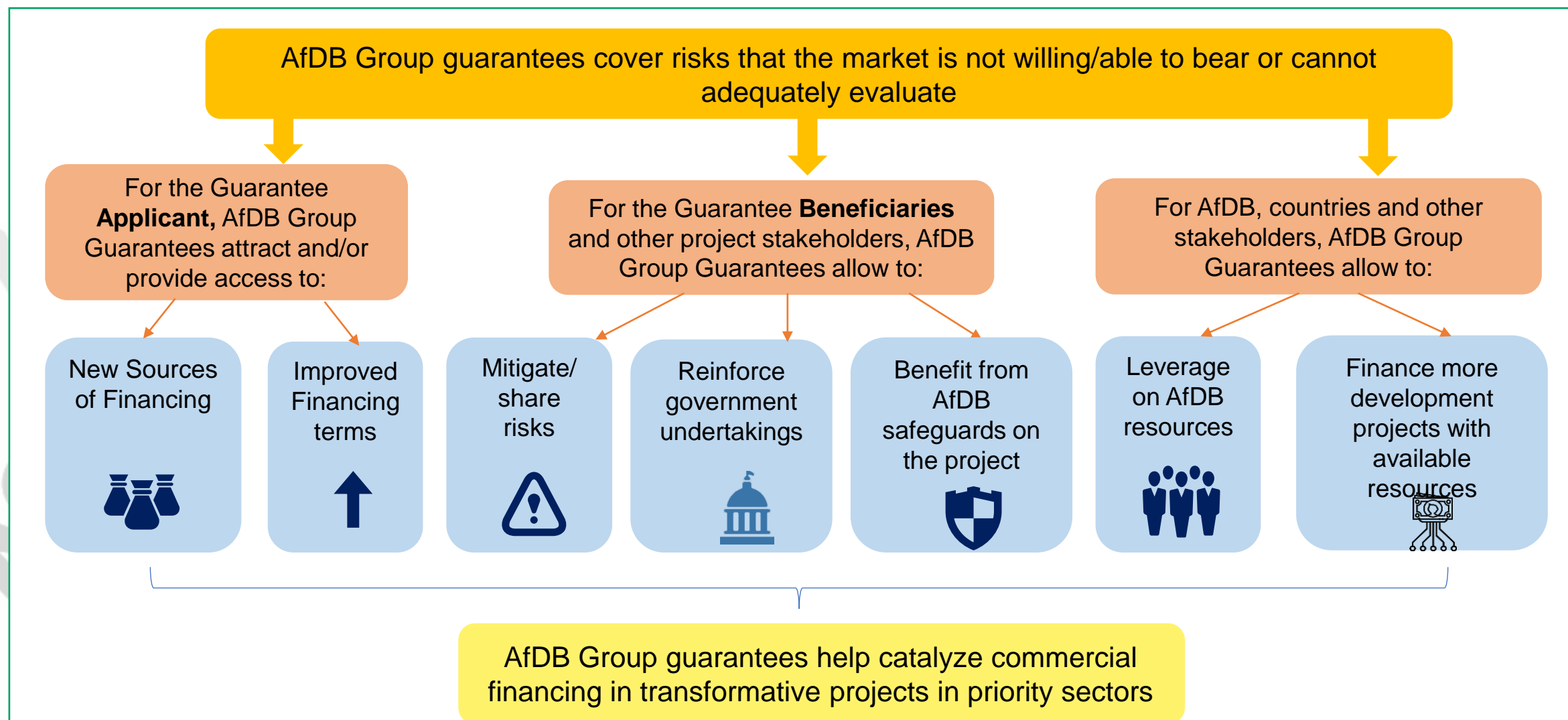
**Sub-Saharan Africa** has been **less successful** than other developing regions in attracting private investments.

Investors require an **additional risk** premium in Africa compared to other regions of the world.

This perception of **high risk** directly impacts the terms and volume of commercial financing accessible to sovereigns and private sector projects in Africa.

**AfDB builds on its unique standing to offer guarantee products in order to challenge the high risk perception against Africa and crowd in commercial investors towards priority sectors for development in the continent.**

# What are the benefits of AfDB Guarantees?





# RISKS Covered by AfDB Guarantees:

## AfDB PRGs can be used to cover:

- Currency Inconvertibility and Non-transferability
- Confiscation, Expropriation, Nationalization and Deprivation (CEND)
- Political Force Majeure Risks
- Breach of Contract
- Non-honouring of contractual payment obligations

❖ **Risks not covered by PRGs:** Currency depreciation and devaluation, pre-existing restrictions on conversion or transfer (unless government has expressed to undertake cover)

## AfDB PCGs can be used to cover:



**PCGs can cover any debt instrument including:**

☐ **Commercial debt**  
from individual lender or a syndicate of lenders

☐ **Bond issues**

☐ **Debt derivatives**  
including cross currency swaps

☐ **Debt restructuring,**  
where the intervention would generally improve debt sustainability or the viability of the project under consideration



**Instruments which do not trigger a default in case of nonpayment are not eligible:**



Refinancing operations

## PRGs – Counter-indemnity

- ✓ **ADB PRGs** can be offered with or without the requirement for a sovereign counter-indemnity
- ✓ In the absence of a sovereign counter-indemnity, ADB PRGs to SOEs will be commercially priced (i.e. market-based)
- ✓ **ADF PRGs** cannot be extended unless the member country provides a Counter Indemnity under which it agrees to reimburse the Fund for any payments the Fund makes under the guarantee

## PCGs – Counter-indemnity and security package

**Sovereign counter-indemnity** is required for all sovereign or SOEs with a sovereign guarantee under ADB or ADF window.



**Sovereign counter-indemnity**

**In the absence of Sovereign guarantee**, and for Private sector entities, ADB PCG will be subject to commercial pricing and backed by the **normal project security** that would have been taken if a loan was being made.



**Normal project security**

# Summary of Guarantee pricing

Partial Credit Guarantee				Partial Risk Guarantee	
Lending Window / Terms	ADF	ADB		ADF	ADB
Eligibility	ADF countries / our SOEs in ADF countries with low or moderate risk of debt distress as per the IMF Debt Sustainability Analysis (DSA) are eligible	<ul style="list-style-type: none"> <li>Any Regional Member Country or SOE with sovereign guarantee that qualifies for financing under the ADB window</li> <li>ADF countries with access to the ADB window through the Bank's 2014 amended credit policy</li> <li>Any private sector entity or SOE without sovereign guarantee eligible for financing under the ADB window</li> </ul>		<ul style="list-style-type: none"> <li>All RMCs in accordance with their eligibility or classification. ADF RMCs are also eligible regardless of their level of debt distress.</li> <li>While lenders with a PCS or SOEs operating under public law or for public policy purposes will NOT be direct Beneficiaries</li> </ul>	
Leverage	Only 25% of the guarantee amount is deducted from the Performance Based Allocation	A PCG will consume same level of headroom as an equivalent loan		Only 25% of the guarantee amount is deducted from the Performance Based Allocation	100% loan equivalent risk capital is assigned to a guarantee
Borrower/Applicant	Public	Public	Private	Public	Public
Maturity (yrs)	Up to 40	Up to 25	Up to 15	Up to 40	Up to 25
Guarantee fee	0.75%	0.80%	Lending margin	0.75%	0.80%
Front-end fee	Up to 1%	0.25%	1% or more	0%	0.25%
Standby fee	0.5%	0.25%	0.5% – 1%	0.5%	0.25%

## Chad

2019

### 33MW Djermaya Solar IPP project

**PRG: USD 10 million**  
**Investment: USD**

- The project company will build, own and transfer operation of the 18km 33kV transmission line to the grid
- The EUR 10 mn PRG to the National Electricity Company (SNE) is to mitigate against PPA obligations needed for the implementation of the 33 MW Djermaya Solar PV Independent Power Producer (IPP) project



## Madagascar

2019

### 192MW Sahofika Hydropower project

**PRG: EUR 100 million**  
**Investment: EUR 1bn**

- Support the construction and operation of a 192 MW hydroelectric power plant.
- The PRG is to mitigate the risk of non-payment from JIRAMA through Power Purchase Agreement (PPA) for power purchases.
- PRG amount to cover at least 6 months of power billings



## Cote d'Ivoire

2017

### Transport Sector reform through Asset Backed Financing

**USD 20 million**

- support modernization and acquisition of new planes by Air Côte d'Ivoire (ACDI)
- PRG with L/C used to cover payment obligations of ACDI under the lease agreement
- PRG amount to cover at least 80% of 1 year lease payments.



## Kenya

2014

### Power generation with Geothermal Development Corporation

**PRG: USD 12.4 million**  
**Investment: USD**

- Three 35 MW geothermal power plants
- PRG to mitigate the risk of non-payment from Kenya Power and Lighting Company for power purchases and the Geothermal Development Company of Kenya for non-supply of steam 3



## Nigeria

2013

### Energy Sector Reform and Restructuring Program

**PRG: USD 180 million**

- Boost private sector confidence to invest in independent power producers (IPPs) through the operationalization of Nigeria's Bulk Electricity Trading Plc (NBET), a government entity established to act as intermediary for an interim period between IPPs and distribution companies
- PRG used to mitigate the risk of NBET not fulfilling its obligations under its PPAs with IPPs



# Partial Credit Guarantees examples

2000

**CAMEROON  
MTN PCG  
EUR 13 MILLION**

Guarantee to allow syndicate of lenders to provide local currency to invest in IT telephony expansion across Cameroon

Introduced limited recourse project finance to local banks to enable them to provide 5 year funding in an environment where the longest maturity was 2 years

2006

**MULTINATIONAL  
GOWE PCG  
USD 16 MILLION**

Growth Oriented Women's Enterprises (GOWE) Portfolio co-guarantee with USAID, extending a 50% loss sharing portfolio guarantee to African banks

Facilitated access to finance for women entrepreneurs and SMEs through guarantees

2010

**SEYCHELLES  
POLICY REFORM PCG  
USD 10 MILLION**

Seychelles Economic Reform PCG was part of a policy-based program to support the implementation of economic reforms by reducing public debt to more sustainable levels

Eased reentry into the capital markets following a crisis / default thereby facilitated the restructuring of USD 320 million worth of debt

2015

**CAMEROON  
DERIVATIVES PCG  
USD 500 MILLION**

Guarantee to cover the payment obligations of the sovereign under cross currency swaps executed by commercial banks to hedge the proceeds of a USD denominated Eurobond

Lowered FX exposure, achieved better and cheaper terms from hedging counterparties and saved an estimated EUR 24.1m as compared to without the PCG

2016

**MADAGASCAR  
EUR 37.3 MILLION ADF  
PCG - 70% of the loan  
amount**

ADF provided its maiden PCG in connection with a EUR 55 million loan provided to Madagascar by International Banks, the PCG covers interest and principal repayments

Enabled the international banks extend the tenor and lower the interest rate by more than 60% for a non rated country





# Financiers' Conference

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## Questions?

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