

BEATING THE SLOWDOWN

Banks may be struggling but good projects can still attract financing from alternative sources, says **Simon Griffiths**

Until recently, African infrastructure project finance appeared to be thriving despite the financial crisis, but the last two months have seen little activity. The only deal of note to reach financial close was the US \$185 million Abu Qir Power Station in Egypt, according to Dealogic. State-owned West Delta Electricity Production Company raised an EGP 1 billion (\$185m) debt facility to support the development of a 1,300MW thermal power station near Alexandria. The Arab African International Bank acted as sole mandated lead arranger.

Other banks in the transaction include Banque du Caire, Egyptian Saudi Finance Bank and National Bank of Kuwait. Pricing and tenor details were not disclosed. Orascom Construction Industries was named as the contractor back in March.

Filling the void

Despite the recent slowdown, total deal volume for the year to the end of October, at \$10.6bn, exceeds last year's total for the same period but it doesn't quite match 2007's record-breaking \$14.5bn. More positively, the first ten months of 2009 saw 29 infrastructure project finance deals, compared with 16 in 2008 and 18 in 2007.

Market participants say that many banks – with the possible exception of South African banks – currently have limited appetite for infrastructure lending. At the same time, viable projects have stalled because of a shortage of funds.

"Banks, especially in Nigeria, have become debt collectors rather than lenders," says Derek Campbell, managing director of Accession International, a specialist African management consultancy.

But where banks have left a void, other capital partners are seeing opportunity. "Private equity firms and other alternative sources are being very creative in approaching financing opportunities and some are generating incredible rates of returns by stepping into projects abandoned by banks," says Campbell, who warns that banks run the risk of losing long-term business.

Exemplifying this trend perhaps, Actis, an emerging markets private equity investor, announced in October the final close of its \$750m Actis Infrastructure 2 Fund. The fund will focus on power generation and transport opportunities in Africa, Asia and Latin America.

Regarding the sectors that look strong, Campbell thinks some smart investors have spied an opportunity in LNG. "There are a lot of small pockets of gas either associated with oil fields or stranded that individually look uneconomic to extract.

the African Development Bank has been the most active recently, agreeing to a number of infrastructure related loans and grants. These include 53.3m euros (\$79m) covering 23% of the project cost for a waste water treatment plant in Cairo, \$123m for rural water and sanitation projects in Kenya, \$154m for the Morupule B Power Project in Botswana, \$59.5m for road projects in Malawi, \$85m for road projects in Ghana and \$47m to strengthen electricity networks in Tunisia.

In Nigeria, the International Finance Corporation (IFC) led a \$250m investment in Helios Towers Nigeria. HTN will use the funds to expand its telecommunications network. The company leases space on communications towers to wireless telecommunications providers. IFC's contribution was \$100m, with the balance coming from other developing finance institutions and commercial investors.

The European Investment Bank made a

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However, there is a profitable business model in pooling gas from multiple fields for conversion to LNG."

Other promising sectors include ICT, especially the use of microwave and satellite to increase broadband penetration, construction and security. "Although east coast piracy receives most of the headlines, it is also a problem on the west coast. There are growing opportunities to improve maritime security using technology," says Campbell.

Cementing the trend

Among development finance institutions,

82m euro (\$122m) loan to Namibia's only cement factory. The deal has been structured as a project finance loan with EIB acting alongside the Development Bank of Southern Africa and arranger DEG. The EIB stressed that the plant will be a smaller version of one already operating in Germany and as such will adhere to all EU environmental and renewable energy requirements.

While the deal has been closed without any off-take contracts in place, lenders are confident the plant will have a significant first mover advantage and therefore a big impact on the cement market both locally and in the wider region. **FA**



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