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

- National Development Strategy
- Identification
- Preparation
- Appraisal
- Approval
- Implementation
- Monitoring
- Post Implementation Evaluation
- Appraisal
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

|------------|------------|--------------------------|-------------------|----------------|--------------------------|--------------------------|---------------------------|-------------------------------|----------------------|-----------------------------|----------------------------------|----------------|-----------------|-------------|------------------------------------|----------------------|
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
PRIVATE FINANCING OF INFRASTRUCTURE: PROJECT DEVELOPMENT MODEL

PROJECT EXECUTION
- CONTRACTORS
- CONSULTANTS
- CONSTRUCTION

GOVERNMENT
- CONCESSION
- PROJECT FACILITATION
- REGULATORY FRAMEWORK
- INCOME
- REVENUE STREAM
- REVENUE STREAM

EQUITY
- PARASTATALS
- INDIVIDUALS
- INSTITUTIONAL
- OTHERS

SHAREHOLDERS
- Funding
- Dividends

PROJECT DEVELOPMENT COMPANY
- Funding
- Debt Service

MANAGEMENT
- BUSINESS DEVELOPMENT
- MAINTENANCE
- FINANCE
- HUMAN RESOURCES

ASSETS
- SOCIAL PROJECTS
- COMMUNITY ACTIVITIES
- MACHINERY EQUIPMENT
- ROADS, POWER, WATER & TELECOM PROJECTS

ORGANISATION

INVESTMENTS
FUNDING MIX
# The Funding Mix: Overview

<table>
<thead>
<tr>
<th>Financial Products</th>
<th>Traditional suppliers of capital</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Senior debt</strong></td>
<td>Investment bank</td>
</tr>
<tr>
<td></td>
<td>Commercial bank</td>
</tr>
<tr>
<td></td>
<td>Development bank</td>
</tr>
<tr>
<td>• Revolving</td>
<td>Mezzanine fund</td>
</tr>
<tr>
<td>• Term</td>
<td>Development bank</td>
</tr>
<tr>
<td></td>
<td>Pension funds</td>
</tr>
<tr>
<td></td>
<td>Institutional investors</td>
</tr>
<tr>
<td><strong>Subordinated debt</strong></td>
<td>Investment bank</td>
</tr>
<tr>
<td></td>
<td>Commercial bank</td>
</tr>
<tr>
<td></td>
<td>Mezzanine fund</td>
</tr>
<tr>
<td>• Senior / sub notes</td>
<td>Development bank</td>
</tr>
<tr>
<td>• Discount notes</td>
<td>Pension funds</td>
</tr>
<tr>
<td>• MTN programs</td>
<td>Insurance companies</td>
</tr>
<tr>
<td></td>
<td>Semi-sovereign funds</td>
</tr>
<tr>
<td><strong>Preferred stock/Mezzanine securities</strong></td>
<td>Vendor</td>
</tr>
<tr>
<td>• Sub. debt</td>
<td>Financial sponsor</td>
</tr>
<tr>
<td>• Preferred stock</td>
<td>Development bank</td>
</tr>
<tr>
<td>• Warrants</td>
<td>Pension funds</td>
</tr>
<tr>
<td></td>
<td>Insurance companies</td>
</tr>
<tr>
<td></td>
<td>Semi-sovereign funds</td>
</tr>
<tr>
<td><strong>Common equity</strong></td>
<td></td>
</tr>
<tr>
<td>• Common equity</td>
<td></td>
</tr>
<tr>
<td></td>
<td>25—40% of total capital</td>
</tr>
<tr>
<td></td>
<td>Permanent</td>
</tr>
</tbody>
</table>
Types and Sources of Funds...

- Loan / Bonds & Warrants
- PIYC (Pay-if-you-can)
- PIK (Payment-in-kind)
- Shareholder’s Loan
- Preference Shares
- Ordinary Shares
- Loan & Redemption
- Premium (call protection)
- Stretch Senior
- Senior Debt
- Mezzanine

Diagram showing the relationship between risk and return for different types of funding sources.
RISK MANAGEMENT:
Commercial & Political Risks
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
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 LEOBOGA
- MUITO OBRIGADO
- MERCI BEAUCOUP
- THANK YOU