



# OECD 7th Forum on African Public Debt Management

## *The Financing of Infrastructure Development*



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## World Bank Reports:

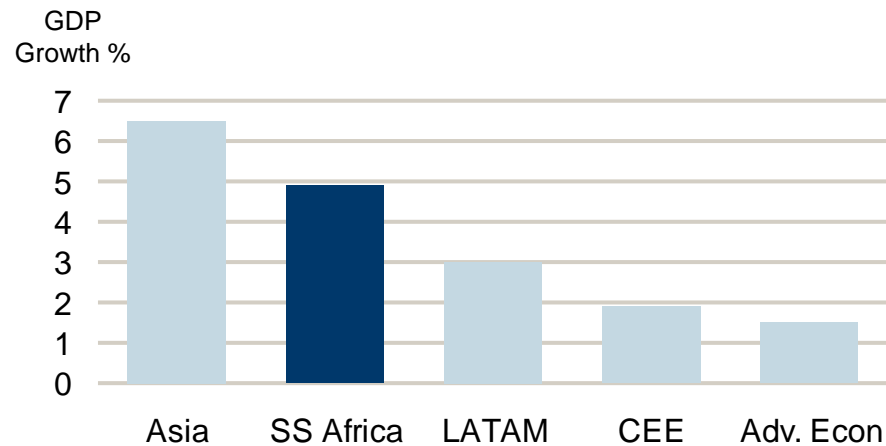
- USD 45bn spent in Africa on infrastructure every year
- USD 75bn required to be spent every year to redress Africa's infrastructure deficit

## African Development Bank Reports:

- Bank funding alone will not suffice
- Financing will remain a major challenge
- USD 93bn p.a. needed until 2020 for Africa to break even their infrastructure deficit
- Even scaling up of infrastructure financing from the traditional sources, including taxes, government borrowing and aid, will not suffice

# Infrastructure Demand Driven by:

- One of the fastest growing economies
  - ▶ SSA growth rate of 5.7% from 2013-18



- GDP of USD 1.3trn
  - ▶ 2.5% of world's GDP
- 1bn people
  - ▶ 13.1% of the world's population

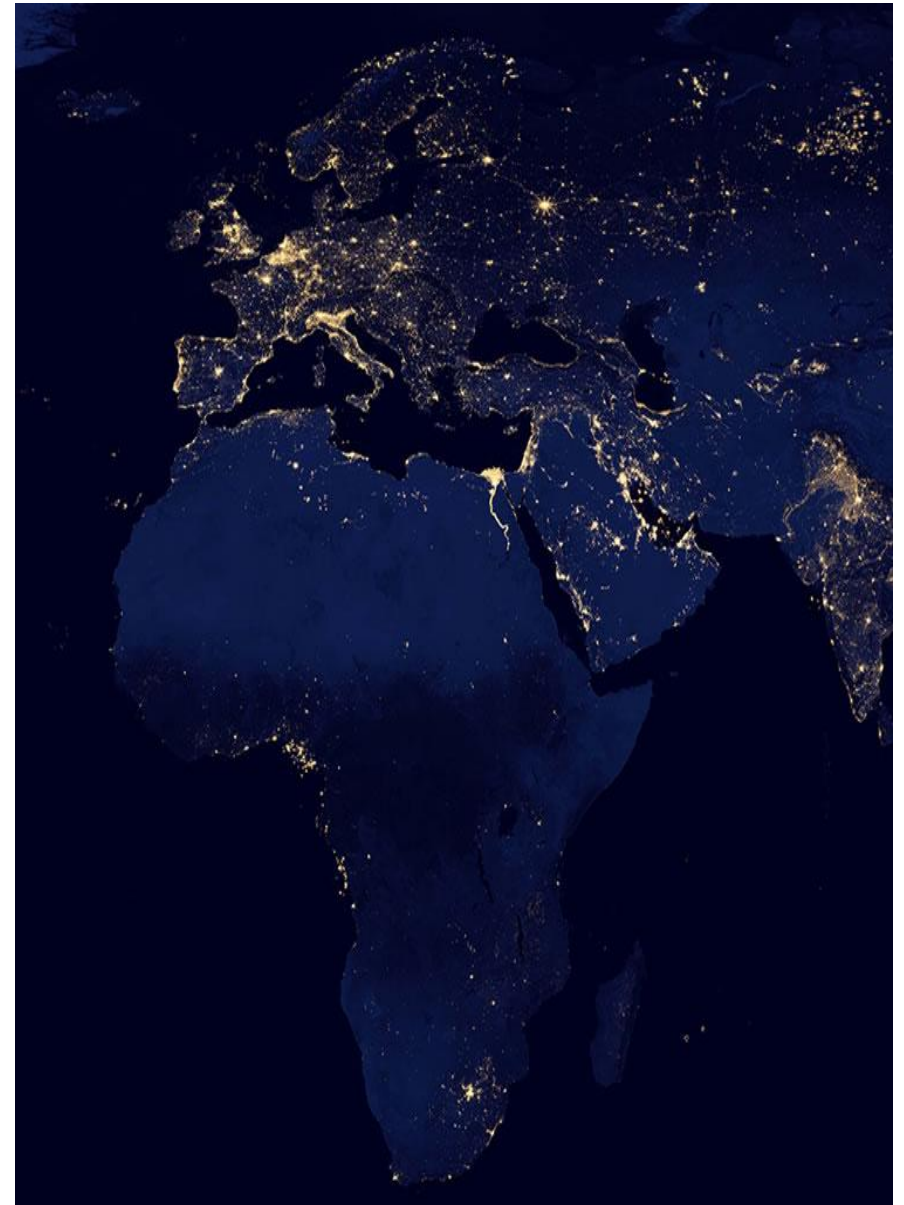
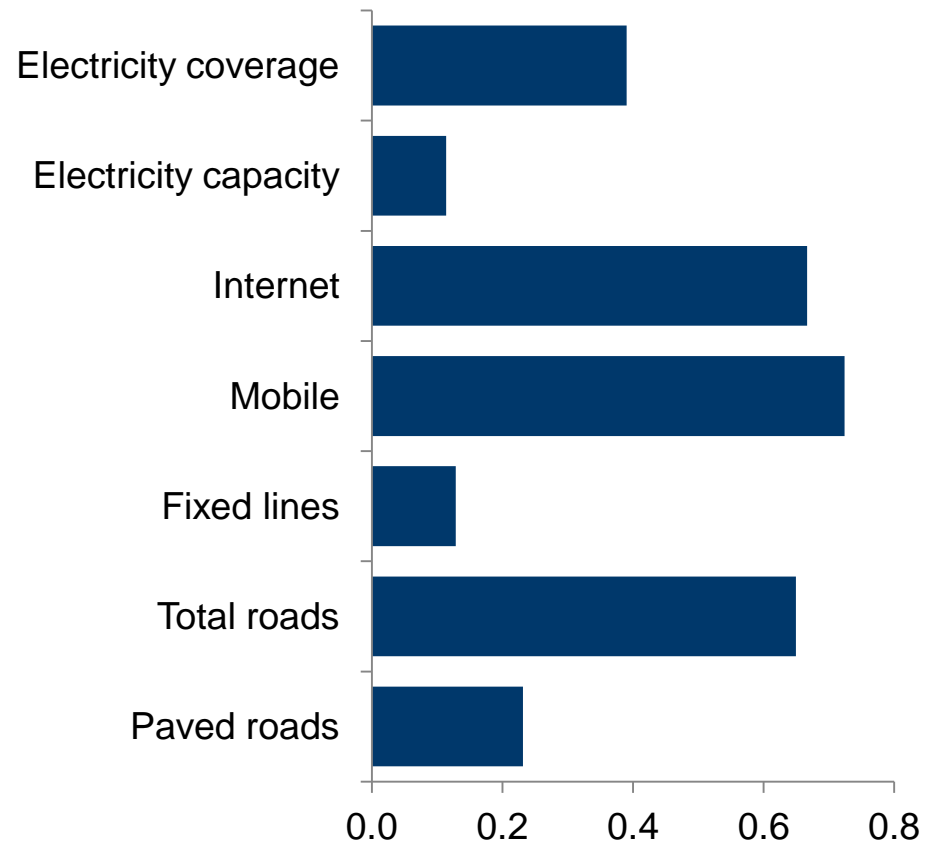
- A land mass requiring a vast integrated infrastructure network



Source: IMF, Barclays Research, Absa Capital.

# Africa Infrastructure

**Africa infrastructure shortfall is glaring, even when comparing to other low-income countries**

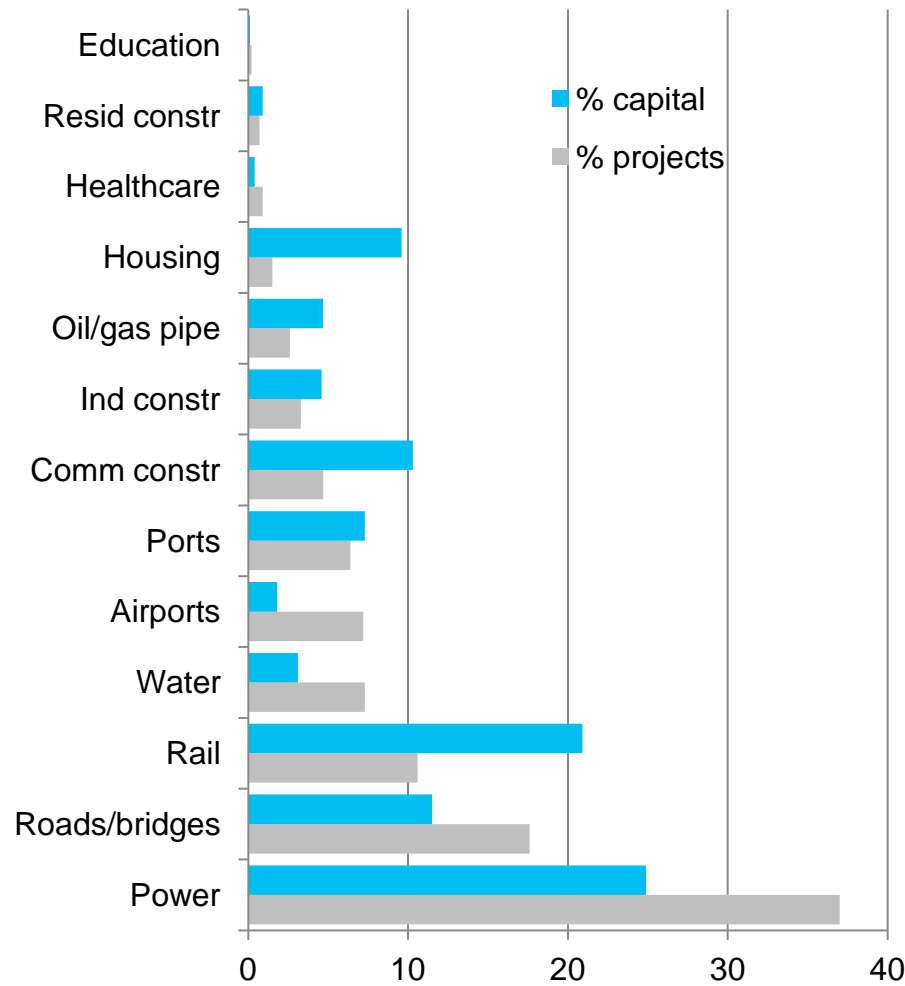


Sources: AICD, NASA, Absa.

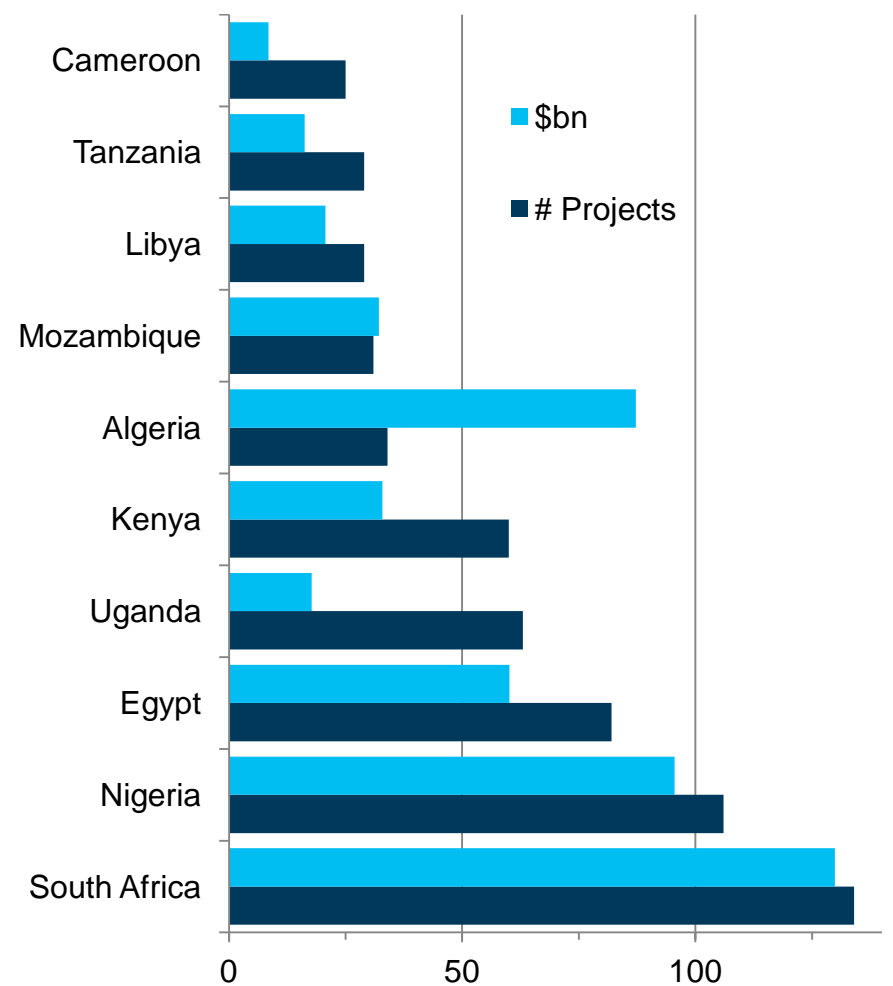
# Africa Infrastructure

## Understanding where the money is going

Active projects, by sector

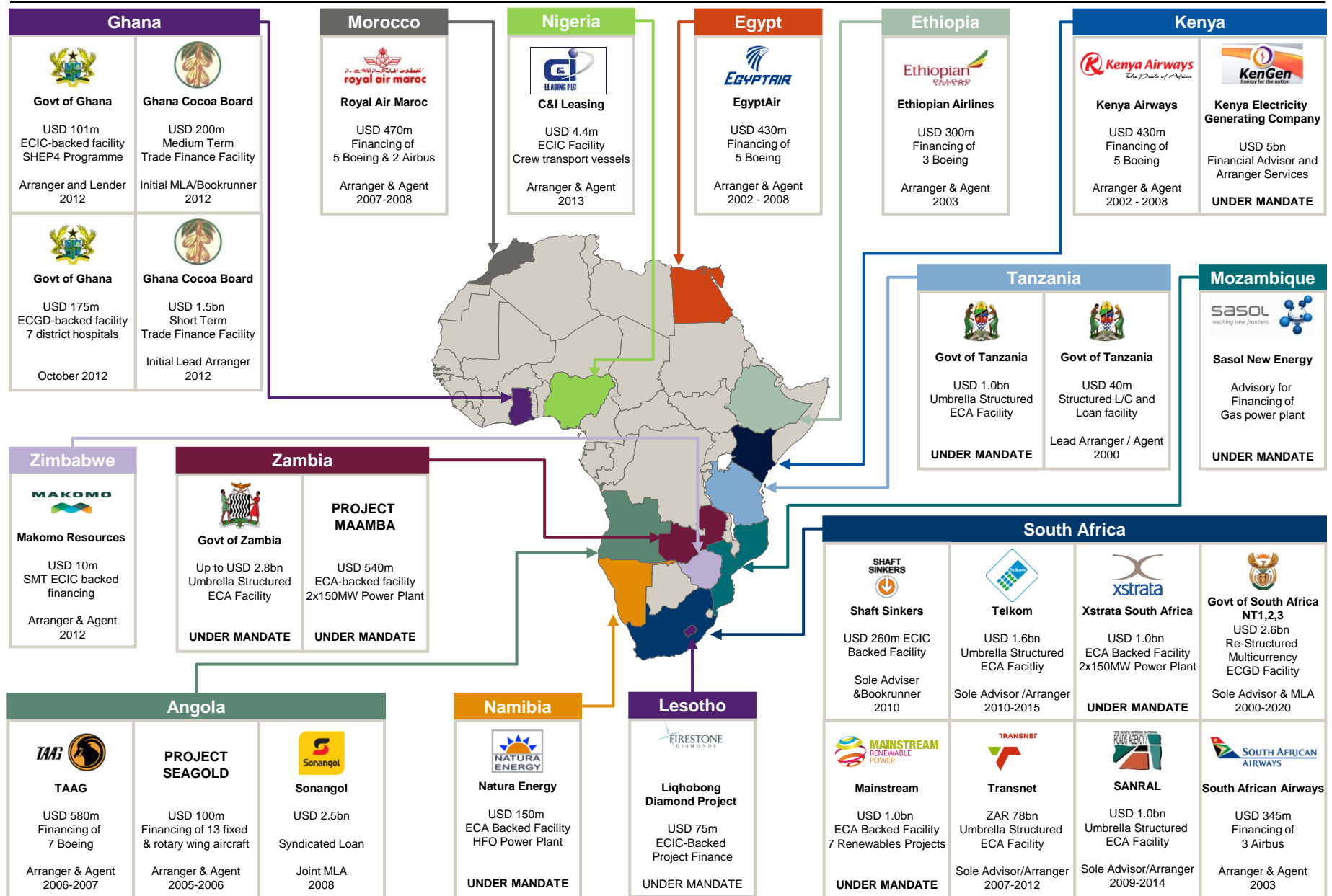


Active projects, by country



Sources: Africa Project Access, Business Monitor International, Ernst & Young, Absa.

# Despite the enormity of the scale, major CapEx programmes are getting done



# Funding Essentially comes from 3 sources:

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## 1. Loan Market Funding

## 2. Bond Market Funding

## 3. ECA Market Funding

- **Borrowers, whether Governments, SOE's or Project Sponsors, need to address how best to fund from these 3 pools of liquidity**
  
- **Due consideration will be given on factors such as:**
  - ▶ **Depth of liquidity**
  - ▶ **Maximum tenor**
  - ▶ **All in pricing – including negative cost of carry**
  - ▶ **FX / Interest Rate risk**
  - ▶ **Suitability/Flexibility especially when dealing with project risk, delays, cost overruns, etc**
  - ▶ **Documentation and the need for a credit rating from either Fitch, S&P or Moody's**

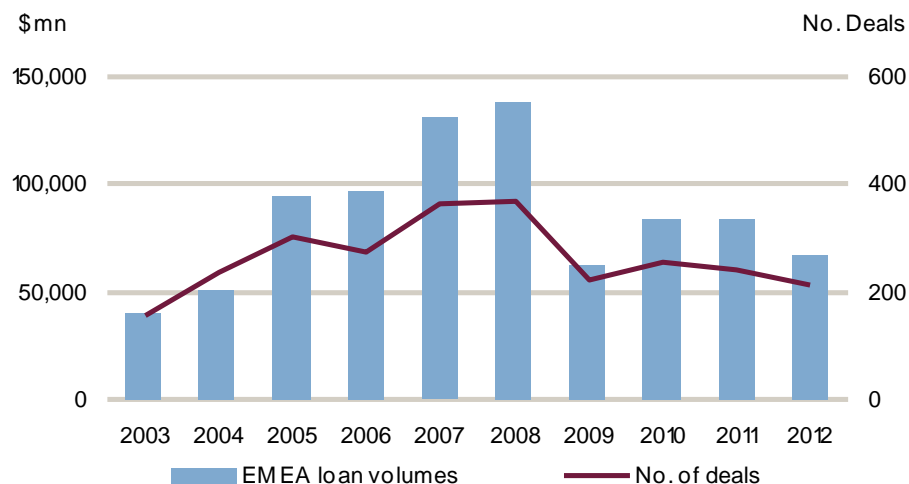
# Loan Markets: International Project Finance: Volumes are down

## The dynamics are evolving

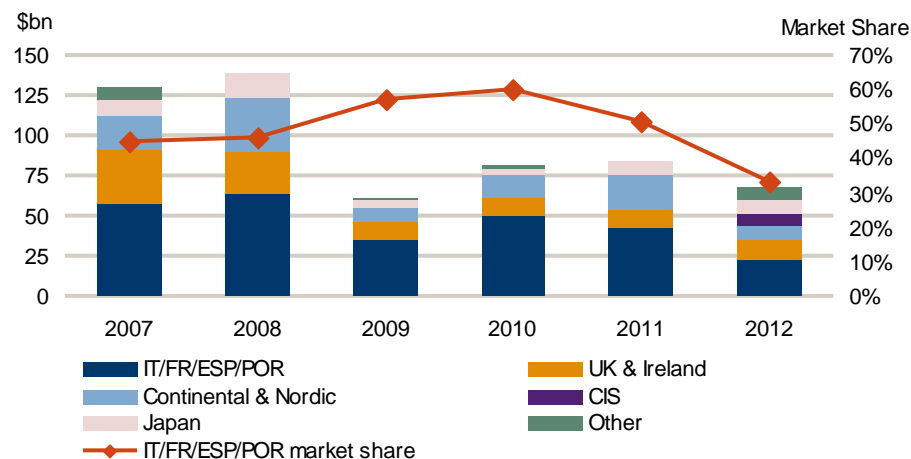
### Commentary

- The global project finance loan market fell back 7% last year to \$198.7bn in 2012
  - ▶ Throughout 2012, a common theme was the fact that **eurozone banks had limited lending capacity**
- **Deal flow in the eurozone fell back as austerity bit**
  - ▶ Volumes in EMEA region fell by 18.5% to \$67.9bn
- **Into 2013, EMEA deal flow remains constrained**
  - ▶ The proportion of capital provided by European banks continues on its downward trend
- Liquidity issues and higher pricing were primarily a result of:
  - ▶ Increased regulatory requirements which have increased bank capital requirements and reduced lending capacity
  - ▶ Higher bank funding costs, and a move towards matching funding with tenor of underlying assets

### EMEA project finance volumes



### EMEA project finance loans – 2007YTD



Source: Dealogic, Project Finance International.



# Loan Markets: Domestic Bank Markets: Single Lending Capacity

Just taking South Africa as an example:

Institution	Total Capital Reserve (less impairments) R'000	Single lending capacity R'000
THE STANDARD BANK OF S A LTD	71,137,334	17,784,333.50
ABSA BANK LTD	57,589,691	14,397,422.75
FIRSTRAND BANK LIMITED	54,875,293	13,718,823.25
NEDBANK LTD	44,937,989	11,234,497.25
INVESTEC BANK LTD	20,392,451	5,098,112.75
AFRICAN BANK LIMITED	13,029,258	3,257,314.50
CAPITEC BANK	8,439,237	2,109,809.25
CITIBANK N.A	4,490,619	1,122,654.75
JPMORGAN CHASE BANK	2,650,000	662,500.00
STANDARD CHARTERED BANK	2,068,226	517,056.50
THE HK & SHANGHAI BANKING CORP	1,866,371	466,592.75
BIDVEST BANK LIMITED	1,821,468	455,367.00
MERCANTILE BANK LTD	1,679,089	419,772.25
BANK OF CHINA LTD JHB BRANCH	1,608,023	402,005.75
CHINA CONSTRUCTION BANK	1,345,868	336,467.00
DEUTSCHE BANK AG	1,302,168	325,542.00
STATE BANK OF INDIA	751,685	187,921.25
SASFIN BANK LTD	599,796	149,949.00
UBANK LIMITED	539,841	134,960.25
GRINDROD BANK LIMITED	526,374	131,593.50
Total R'000	292,132,080	73,033,020
Total USD '000	28,628,944	7,157,236

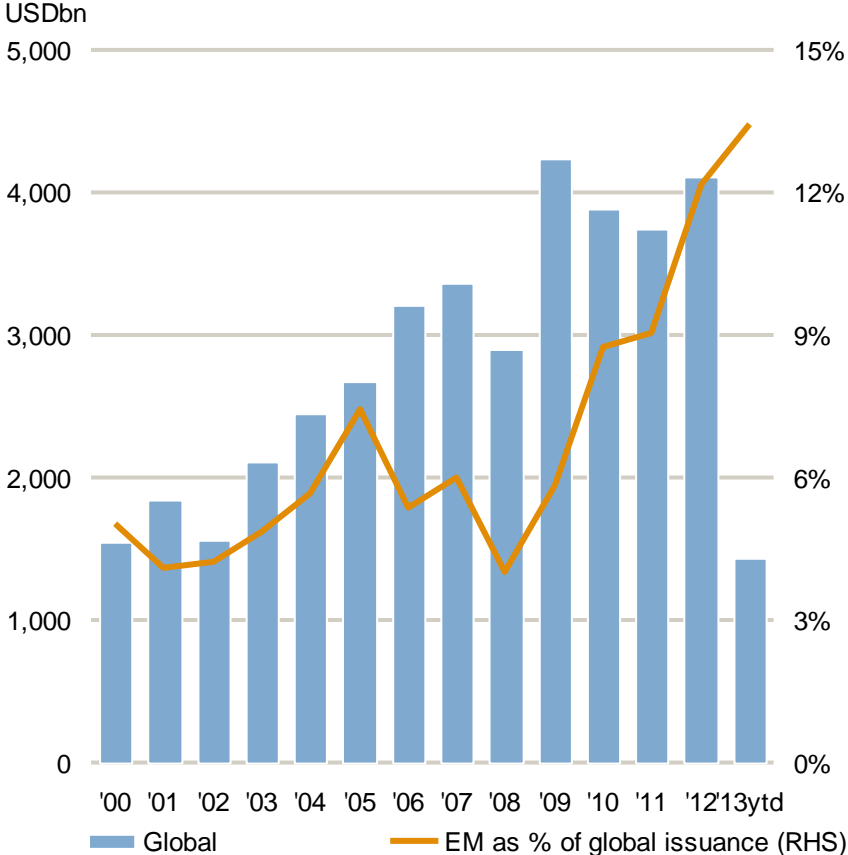
BA900 Returns for Mar 2013.  
FX – ZAR:USD 0.098 as of 21/06/2013.

- Capital reserves determines each bank's single lending capacity
- Even for the South African market, capacity is not big enough to fund mega infrastructure projects
- Top 20 RSA bank aggregate single lending capacity is USD 7.2bn
- For USD 250m-300m sized projects, loan market funding now dependant on multiple banks forming a syndication
- This data reinforcing African Development Bank report that bank funding will not suffice

# Bond Market: Substantial Growth in recent years

With emerging markets growth hitting record levels

**Global new issue market overview**



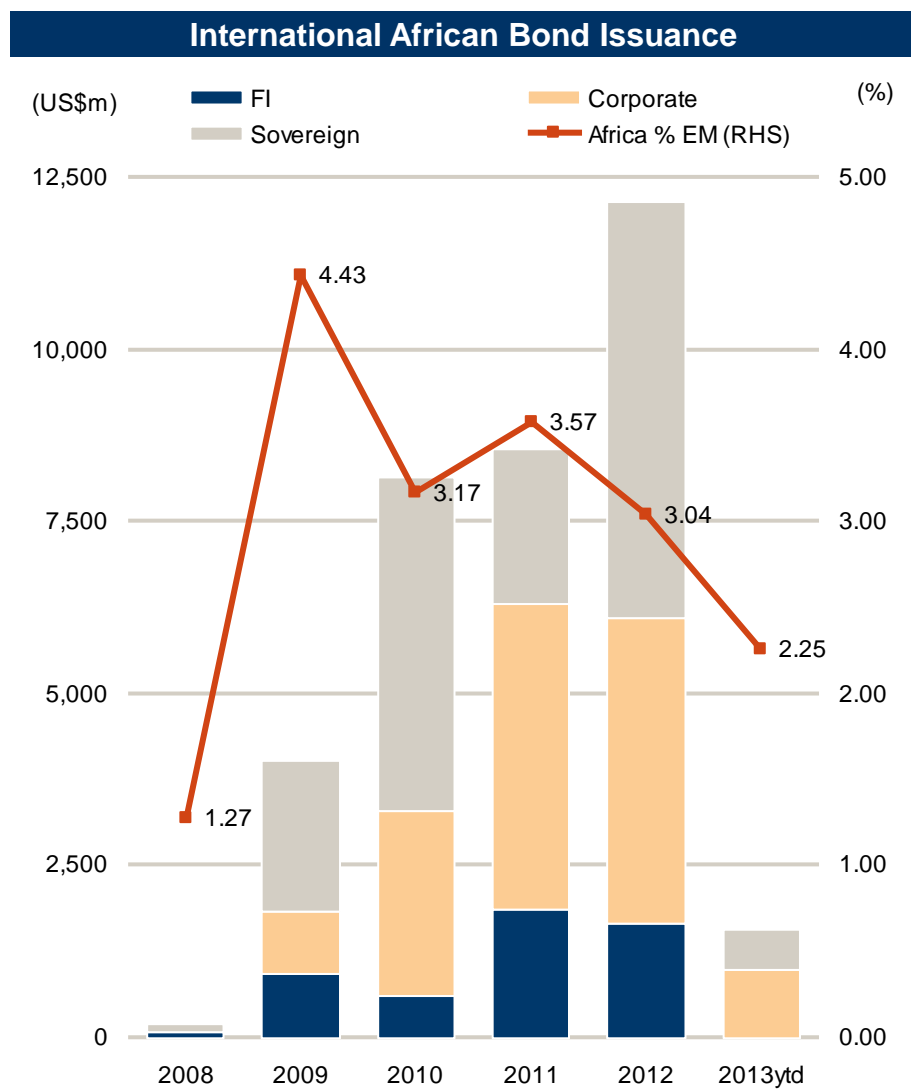
**Credit spreads have compressed**



Source: Barclays, Bloomberg, April 2013.

# Bond Markets: African international issuance has increased, however, still small in context of broader EM

## African 'rarity value' factor has continued to drive investor demand



**All International Public African Issues – 2012 to 2013 YTD**

Date	Issuer	Rating (Current)	Maturity	Coupon (%)	Curr	Size (\$mn)	Spread to Bmk (bps)
May-13	Afrexim Bank	Baa2/BBB-	TBD	TBD	USD	TBD	TBD
May-13	Fidelity Bank	B/B	May-18	6.875	USD	300	635
Apr-13	Rwanda	B/B	May-23	6.625	USD	400	498.7
Mar-13	Sea Trucks	NR	Mar-18	9.000	USD	575	-
Feb-13	Tanzania	NR	Mar-20	6mL+600	USD	600	-
Feb-13	Edcon	B3/B	Mar-18	9.500	EUR	300	978
Nov-12	Sasol	Baa1/BBB	Nov-22	4.500	USD	1,000	288
Nov-12	African Bank	Baa2/-	Nov-16	4.000	CHF	134	-
Sep-12	Mondi	Baa3/-	Sep-20	3.375	EUR	652	221
Sep-12	Zambia	B2/B+	Sep-22	5.375	USD	750	384
Aug-12	Angola	Ba3/BB-	Aug-19	7.000	USD	1,000	630
Jul-12	AngloGold	Baa2/BBB-	Aug-22	5.125	USD	750	380
Jul-12	Transnet	A3/BBB	Jul-22	4.000	USD	1,000	263
Jul-12	Access Bank	B+/B	Jul-17	7.250	USD	350	665
Jul-12	Investec	Baa3/BBB-	Jul-17	3.875	USD	300	-
Jul-12	Tunisia	Baa3/BB	Jul-19	1.686	USD	485	70
Jul-12	African Bank	Baa2/-	Jul-15	4.750	CHF	128	-
Jun-12	Sappi Papier	Ba2/BB-	Jul-17	7.750	USD	400	702
Jun-12	Sappi Papier	Ba2/BB-	Jul-19	8.375	USD	300	727
Apr-12	Tunisia	Baa3/BB	Apr-17	2.500	USD	500	-
Mar-12	Afren	B/B	Apr-19	10.250	USD	300	-
Feb-12	African Bank	Baa2/-	Feb-17	8.125	USD	350	721
Jan-12	South Africa	Baa1/BBB	Jan-24	4.665	USD	1,500	270
Jan-11	Nigeria	Ba3/BB-	Jan-21	6.750	USD	500	-
Jan-11	Afren	B/B	Feb-16	11.500	USD	500	-
May-11	GT Bank	BB-/B+	May-16	7.500	USD	500	-

Barclays led transactions

Source: Bloomberg EMRD

Source: Barclays, Bloomberg, June 2013

# Bond Markets: Zambia's Recent Inaugural Bond

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## A good example: where there is appetite – tap it

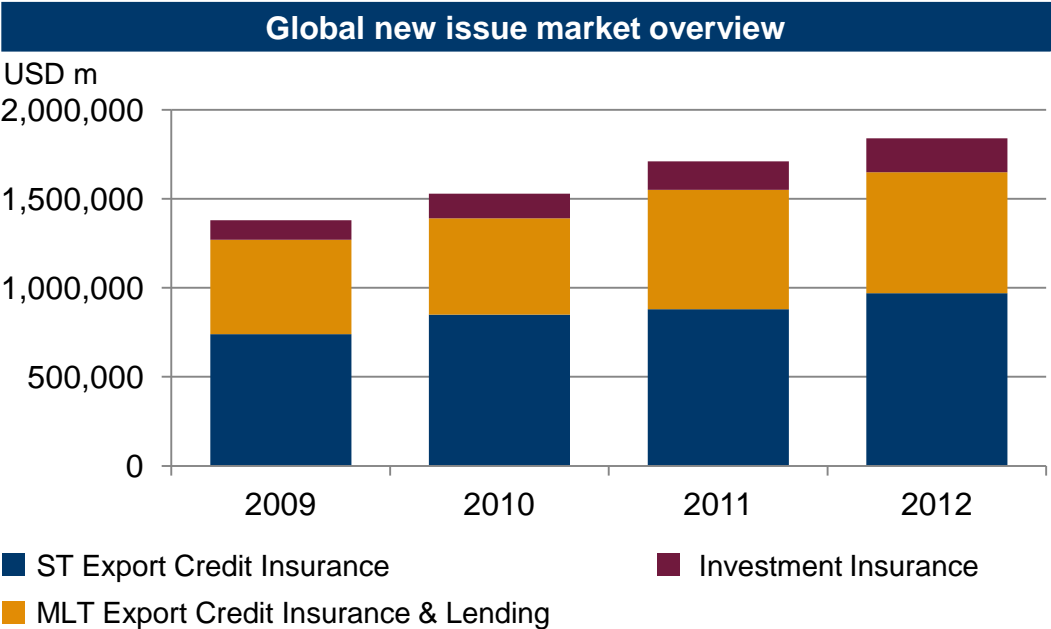
- Initial issue at USD 500m
- Upsized to USD 750m due to strong demand
- 56% of investors from the USA
- 16 times oversubscribed – investor appetite reached c. USD 12bn
- 10 year bond at a coupon of 5.375% - lower than that of the Kingdom of Spain



### Have in mind:

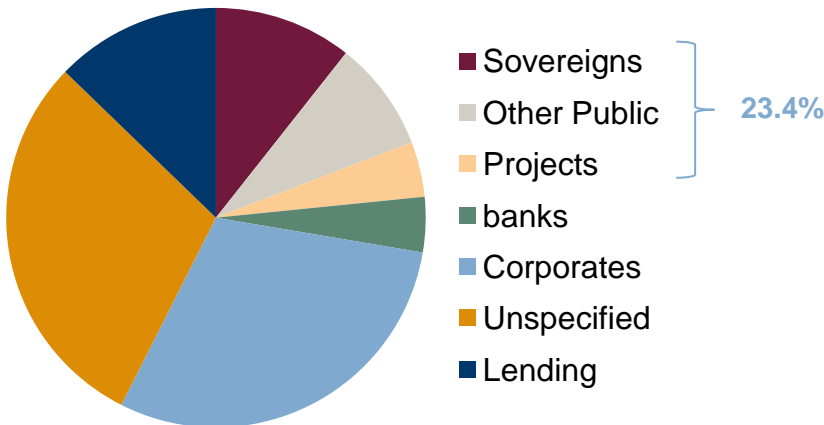
1. Be prepared. The window may not always be open. It is susceptible to periods of market weakness. Important to be ready to launch to take advantage of market strengths
2. Bond Market funding may not always be appropriate for infrastructure financing given the negative cost of carry

# ECAs: The Third Pillar of Liquidity

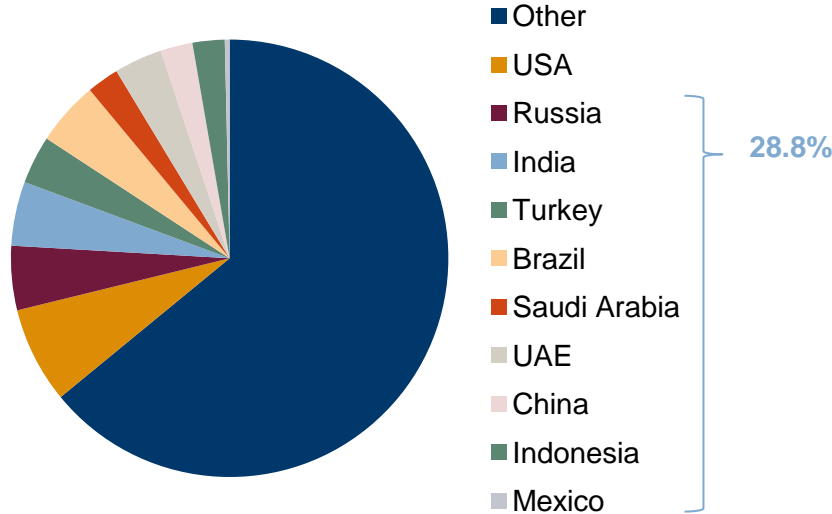


- ECAs are willing and able to fill the gap post the 2007 crisis
- Now USD 1.8trn funded by the ECAs
- All of Africa is on cover with the exception of a few “challenging” markets
- With many ECAs having unlimited appetite

**2012 MLT New Business – Insured during each year**



**2012 MLT Exposure: Top 10 Countries**



Source: Exporta and Berneunion.

# ECA's provide some key advantages For African Infrastructure Projects

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## Key Benefits

- ECAs are under lent to Africa
- Many are extremely keen to do more and can provide FX & interest rate flexibility
- Eligibility to tap ECAs is high as a significant % of Africa Infrastructure is imported
- Don't forget the 3 L's:
  - ▶ Low margins: cheaper than the bank or bond markets and limited to no cost of carry
  - ▶ Longer tenors: build period + 18 years possible
  - ▶ Liquidity: separate pool & no crowd out

## But preposition is key

- ECA's remit is to support exporters win contracts
- It is therefore important to start negotiations with ECAs before the commercial contract is signed
- It is complex and it is never too early to start the process

# ECA: Ghana's New Benchmark ECA Financing



**Government of Ghana**

USD 175m

Financing of District Hospitals



Coordinating MLA

Issuing / LC bank

Bookrunner

Agent

Lender of GHS 55m uncovered portion



MLA and lender of ECA portion

**J.P.Morgan**

MLA and lender of ECA portion



ECA

**C L I F F O R D**

**C H A N C E**

International law firm

**oxford&beaumont**  
SOLICITORS

Local law firm

**October 2012**

- **12.5 years USD funding with an all-in cost of 3.72%**
- **From mandate to close in 8 months**
- **7 Hospitals**
- **Integrated financing solution**
- **Tender Panel providing an open and transparent funding mechanism**
- **Providing an all in cost that achieves affordability criteria without aid / donor support**

## In Summary: Tap all 3 in a balanced way

	Loan Market	Bond Market	ECA Market
■ Depth of liquidity	✓	✓ ✓ ✓	✓ ✓ ✓
■ Maximum tenor	✓	✓ ✓ ✓	✓ ✓ ✓
■ All in pricing	✓ ✓	✓ ✓ ✓	✓ ✓ ✓
■ Low cost of negative carry	✓ ✓ ✓	✓	✓ ✓ ✓
■ Flexibility to cover project risk	✓ ✓	✓	✓ ✓ ✓
■ FX / Interest Rate flexibility	✓ ✓	✓	✓ ✓ ✓
■ Ratings requirements	Not Required	Required	Not Required
■ In summary:	✓ Flexibility & local cost funding × Tenor & depth of appetite	✓ Can attract liquidity × Susceptible to periods of market weakness	✓ Cheapest & attracts liquidity × Prepositioning and limited to Goods & Services imported



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