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Abstract from my article re: Proposals for Improving Deficiencies in the Multilateral Investment Guarantee Agency's Noncommercial Risk Insurance Guarantee Program to Enable Private Investor Delivery of Clean Water Services to Poor Consumers in Africa

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RISING RISK, AND COSTS

These figures disguise changes in the nature of the market, however, primarily in the costs of financing. “Banks are charging higher margins today because they are pricing for the increased cost or risk of matching the tenor of long-term assets with their liabilities in funding deals,” says Brett Botha, a senior transactor with Nedbank Capital. “Previously short-term funding instruments were used to determine the base cost of funding.” Additionally, while the tenors on offer have remained relatively constant, banks have become more reluctant to lend long-term, putting further upward pressure on margins.

Different also this year is the geographical spread of deals. Angola dominated 2008 but has not yet recorded a project financing deal this year. Instead, 2009’s transactions came from eight different countries. As before, oil field development has attracted the most financing, this year in Ghana and Gabon, but traditional infrastructure projects – ports, power, water and roads – have also successfully raised funds.

Significant recent transactions include the Medupi Power Station Boilers Project ($722 million; Eskom, South Africa), the Lakatabu Cement Plant Expansion Project ($599m; WAPCO, Nigeria) and the Durban Harbour Widening and Deepening Project ($357m; Transnet, South Africa).

DEALS AND THE DFIs

The International Finance Corporation (IFC) lent $90m to Zain Ghana to fund the expansion of its mobile telecommunications network as part of a package worth $160m. Other lenders included Cordiant Capital, the Emerging Africa Infrastructure Fund Limited, FirstRand Bank Limited and the Netherlands Development Finance Company.

IFC is also supporting Umeme, the private sector Ugandan electricity distribution company owned by CDC Group, with a $25m loan to improve service quality and add 20,000 connections per year. And in Algeria, IFC has invested $24m of equity into cement maker ASEC to support the construction of a new cement plant.

The European Investment Bank meanwhile has made a grant of 1.75m euros to the West African Power Pool to fund a pre-investment study for a 330kV electricity transmission link between Ivory Coast and Ghana.

Banks have become more reluctant to lend long-term, putting further upward pressure on margins between 2007 and 2008.

With the DFIs continuing to fund projects, governments (particularly South Africa’s) pushing public private partnerships, and African banks remaining robust and confident, 2009 will be a surprisingly good year for infrastructure.

TAKING THEIR TOLL

More details have emerged about the Bakwena Toll Road project, which received a brief mention last issue following the announcement of the refinancing agreement in February. The conditions precedent have now been met and the funds drawn down.

Nedbank Capital acted as mandated lead arranger and was the largest lender alongside ABSA corporate and business bank.

The borrower, Bakwena, is owner and operator of a 30-year toll concession for the 385km of N1 and N4 toll roads between Pretoria and Bela Bela and the Botswana border. The initial contract provided for design, finance, construction and ongoing operations and maintenance. Eight years into the project, with construction completed and traffic forecasts turning out “comfortingly accurate”, according to Bakwena CEO Graeme Blewitt, the company could refinance existing debt on favourable terms, despite current credit shortages.

“Bakwena has an excellent operating track record and traffic patterns have now been established. This is a well managed, solid, government-supported project with which we’ve had a relationship since inception,” says Botha, explaining Nedbank Capital’s willingness to commit to the deal. “This was a landmark transaction both in terms of the size of the deal and in that it has been achieved under current economic market conditions.”
Africa will make little progress without a good infrastructure base and regional economic integration. There is a severe infrastructure deficit, and the sector is likely to be the major casualty of the financial crisis as investments and new expenditures are cut back. Africa’s infrastructure programmes must be kept on track by scaling up financing for new projects and projects under distress to stimulate growth, maintaining a strong pipeline of projects and preserving existing assets during the downturn. As such, the African Development Bank Group will continue to play a pivotal and leadership role in infrastructure and regional integration.

Infrastructure is a core area for the Bank. Currently, close to 60% of all the Bank’s resources are dedicated to both national and regional infrastructure financing. It is at the heart of the Bank’s new Medium Term Strategy (MTS). In the last three years alone, a total of 7.5 billion dollars has been invested in infrastructure, channeled equally to the energy and transport sectors with nearly 20% of the resources going to regional projects. One of the strategic priorities of the MTS is national and regional infrastructure. The Bank’s focus on infrastructure is consistent with a number of continental initiatives where it has been asked to play a leading role. These include the New Partnership for Africa’s Development (NEPAD), the Infrastructure Consortium for Africa (ICA), and the African Water Facility (AWF). The “Programme for Infrastructure Development in Africa – PIDA” is jointly led by the African Union Commission (AUC), the NEPAD Secretariat and the Bank.

One of Bank’s first response to the financial crisis, a US$1.5 billion “Emergency Liquidity Facility” was set up to provide beneficiaries with urgent liquidity needs including sponsors of projects affected by the crisis. In addition, the Bank is cooperating with the International Finance Corporation (IFC)’s proposed Infrastructure Crisis Facility, to ensure that the gap is filled during this period of uncertainty. The Bank is laying the groundwork for Africa to benefit from the recovery when this crisis ends. The Board of Directors has approved a new regional integration strategy, with pillars focusing on regional infrastructure development and institutional capacity building. The Bank’s indicative pipeline of public sector infrastructure projects for the MTS period (2008 to 2012) amounts to US$10 billion. Lending to the private sector during the same period is expected to reach US$1 billion.

The Bank will continue engaging with countries in undertaking complementary infrastructure policy reforms. Furthermore, the Bank will also use its concessionary resources to co-finance projects and to support actions for improved sector governance as well as for capacity building and project preparation activities.
Africa's water crisis remains as critical as ever, but at least we now understand some of the barriers to progress. Corruption and consumer conflict are the most prevalent problems when it comes to attracting private investment to Africa's water sector. Even where these risks don't exist or are minimal, the sector is perceived to be highly politically charged. Consumers, often egged-on by well-meaning but misguided non-government organisations (NGOs), feel threatened by private sector participation in clean water delivery.

If investors can't avoid such risks, they at least need to mitigate them. This presents a real opportunity for insurers and, in particular, to the World Bank's Multilateral Investment Guarantee Agency (MIGA).

MIGA's primary role is to alleviate poverty in developing nations. Since inadequate water supplies are intricately linked to poverty, MIGA should be doing more in this sector. Unfortunately, MIGA's track record fails to impress.

MIGA made some in providing non-commercial risk guarantees to six private water investors to encourage private participation in 11 water projects in China, Russia, Jordan and Ecuador since 2001. But water still represents only a small proportion of MIGA's total portfolio (3.5% at the end of 2006) and, crucially, the agency has not yet provided risk insurance to any African water projects. Even if MIGA were to boost its involvement in water projects in Africa, the type of cover it can currently provide is simply not up to the job. MIGA explicitly does not cover corruption or consumer conflict risks and this is an area that needs to be tackled urgently.

Insuring against corruption
From the experiences of some regional risk insurance agencies, including the Indian Export Credit Guarantee Corporation, the idea of incorporating corruption risk into assessment parameters is not new. What is new is the concept of providing corruption and consumer conflict risk insurance to private investors in the water sector and providing such cover under stand-alone guarantees instead of incorporating them into existing risks, as MIGA did in the case of terrorism risk, which is incorporated under war and civil disturbance risks.

Clearly, MIGA's decision to expand its risk insurance guarantee to cover terrorism shows the agency's willingness to be flexible and responsive to global political and economic changes and needs. MIGA's coverage of sub-sovereign risk also encourages private investors to partner with technically and financially restricted municipalities in delivery of water services. The question remains whether MIGA can take the final step of insuring against corruption and consumer conflict risk.

Becoming more diligent
The second key area for improvement would be for MIGA to adopt development-based due diligence and risk assessment (DDRA) strategies. These would require MIGA to conduct rigorous independent risk assessments of its guaranteed water investments including: developing criteria on detecting, preventing and reducing incidences of corruption and consumer conflicts and risks; quantifying financial and other losses from such incidences; performing independent onsite research and visits to the countries and respective communities that will be affected by its potential guaranteed investments.

MIGA should also require investors to develop and implement similar due diligence strategies and, in particular, to engage with the relevant communities. Undoubtedly, implementing such a programme prior to MIGA providing corruption and consumer risk insurance will ameliorate corruption and consumer conflicts, thereby encouraging investment.

MIGA cannot be held responsible for Africa's water crisis, nor can it solve it alone. However, by extending its coverage specifically to include corruption and consumer conflict risk, and by modifying its approach to due diligence, it can help attract private sector investment to this most vital of sectors. 

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769,000: number of children under five who die in sub-Saharan Africa due to waterborne disease every year
Transporting copper from the Copperbelt in Zambia to Durban port currently takes two to three weeks. In Europe, it takes 48 hours to transport goods the same distance. Such delays have major cost ramifications for producers.

The Regional Trade Facilitation Programme (RTFP, a UK Department for International Development (DfID) initiative) estimates the lost income in terms of interest alone on a trainload of copper is about US $16,000 per week of delay. It’s not only physical infrastructure that causes problems. Delays at Africa’s numerous border posts result from poor harmonisation of paperwork, inefficiencies in procedures and other onerous requirements. In southern and east Africa, transport represents 15% to 20% of import prices and the knock-on effect is an annual loss of at least 1% to economic growth in landlocked countries, according to the World Bank. These costs are symptomatic of widespread weaknesses in transport infrastructure and trade facilitation across Africa.

The ambitious North South Corridor (NSC) project is an attempt to tackle that problem through reducing transport costs along key trade corridors in southern and east Africa. It aims to create a reliable and efficient transport network and reduce bottlenecks along the main trading routes through eight African countries – South Africa, Zimbabwe, Zambia, Tanzania, Democratic Republic of Congo, Malawi, Botswana and Mozambique.

In addition to upgrading infrastructure and simplifying customs and regulatory procedures, the integrated series of projects includes measures to improve power supply and transmission in the 12 Southern African Power Pool members.

The NSC comprises two priority NEPAD corridors and links into further transport projects in the region including the Central Corridor from the Port of Dar es Salaam to Rwanda and Burundi; the Northern corridor from Mombasa in Kenya to Uganda, Rwanda, Burundi and DRC; and the Lamu–Southern Sudan–Ethiopia Corridor.

The initiative is being driven by three Regional Economic Communities (COMESA, EAC and SADC) and is supported by DfID and other international agencies.

Massive investments

In west Africa, ECOWAS (the relevant regional economic community) is pushing the Abidjan–Lagos corridor to kick start trade. Supported by the ACP Business Climate Facility (BizClim), the African Business Roundtable and the African Development Bank, the corridor is expected to stimulate the free movement of goods and in particular improve access to land-locked Mali and Burkina Faso.

Progress to date includes the completion of a number of studies, workshops and conferences. Steps have also been taken towards one-stop border crossing (which should lead to considerable time savings) and, in Nigeria, some road construction is also underway. The long-term vision is to tie the corridor into a pan-African highway network.

But – and this is a big but – while grand ideas, studies and talking shops are important, the real issue is execution. Trade corridors have huge potential to accelerate economic growth, but they require massive upfront investment, as in the case of the NSC, estimated run to around $1 billion over a five- to ten-year period.

As ever, this leads to calls for private sector participation and funding, usually through public private partnerships. The details of how this will happen in practice are still being worked out.

RTFP, for example, is liaising with the highway agencies of each country along the NSC to develop priority lists for road building and maintenance programmes. These will be published on its website. At some future point (still to be defined) tenders will be issued for various bridge, port and rail projects.

In the meantime, Africa’s roads continue to be pummeled by overloaded trucks, ships drift outside ports for days on end because of inefficiencies and railways struggle because of poorly structured concession agreements, capacity constraints, high tariffs and unreliability.

Given multiple demands on international funding, money pledged for corridor programmes must be backed by an enduring political willingness if they are to succeed once the hype of the launch has faded.
On the button?

It’s already cost $700m, won’t be ready for action until 2024 and the team putting it together is seen as “a very expensive collection of nerds”, but Michael Dynes finds South Africa’s foray into niche nuclear power generation has the world in thrall.
Energy is expensive, but not having energy – as Africa knows to its cost – is even more expensive. As African governments scramble to find ways to fund the rebuilding of their creaking power infrastructure, South Africa has been quietly ploughing huge resources into a strategic national nuclear energy project that offers a promising solution to the African energy deficit over the long term.

The Pebble Bed Modular Reactor (PBMR), a small-scale “pocket reactor” that uses nuclear fuel spheres or pebbles rather than rods, is cooled by gas rather than water, and is fuelled continuously thereby avoiding the dangerous refuelling shutdowns associated with conventional reactors, may be the ticket. “[The PBMR] is one of the most technologically advanced capital investment projects yet undertaken in South Africa,” Jaco Kriek, PBMR project CEO, told Africa Investor. “Since its inception in 1999, PBMR has grown into one of the largest nuclear design teams in the world.”

In addition to the core team of about 750 people at the PBMR head office in Centurion near Pretoria, more than 1,000 people at universities, private companies and research institutes are involved in the project.

Global interest
PBMR is seeking to build around 24 pocket reactors for the South African energy sector. Each unit, housed in the equivalent of a three-story building over an area roughly the size of a football pitch, would be capable of generating 150-200MW, which collectively would add about 5,000MW to South Africa’s electricity generation. As the PBMR design allows for up to ten generating units – sharing a common control centre – to be added to the original reactor as user requirements expand, total generating capacity can be expanded considerably.

Moreover, in contrast to the heavy reliance by state-owned generator Eskom on coal, PBMR offers a safe, clean and reliable energy source, which also has the potential to tap into the energy markets of scores of power-hungry developing – and developed – countries, becoming a serious hard currency earner for South Africa in the process.

Although still in the research and development stage, the PBMR project has attracted enormous interest from around the world.

The project has already received enquiries from the UK, Belgium, Switzerland, Ireland, Poland, Estonia, Turkey, Australia, New Zealand, Chile, Argentina, Peru, Brazil, Indonesia, Malaysia, Vietnam and African countries including Nigeria, Ghana and Tunisia.

PBMR’s business plan seeks to tap into the growing local and international markets for nuclear-generated electricity at a time when world leaders are trying to wean their economies off carbon-based sources of energy. “This is the first time that South Africa is designing, licensing and building its own reactor,” says Kriek. “Our aim is to be one of the first organisations – if not the first – that successfully commercialises pebble bed technology for the world’s energy market.”

Slow progress
So what’s the catch? There are several. The costs of development are astronomical, as the headline “Mini nuke costs a bomb”, carried in one South African newspaper, aptly put it. PBMR has spent US$700 million dollars developing pebble bed technology, running a pilot and perfecting the fuel manufacturing process. But construction of a 200MW demonstration unit whose cost has doubled to ZAR 31 billion ($3.8bn), is now not expected to start until 2018, with commercial rollout unlikely to take place much before 2024.

While it is difficult to put an accurate price tag on the cost of buying one pocket reactor, Brendon Hausberger, director of the Centre of Materials and Process Synthesis at the University of the Witwatersrand, suggests that there wouldn’t be much change from $1.6bn. In addition to domestic sales PBMR’s business plan foresees the export of about four units a year from 2025, rising to eight units a year by 2037.

“Assuming a 5% inflation rate, this translates into foreign exchange earnings of more than ZAR 40bn ($5.1bn) a year,” Kriek said. “This number doubles when the sales increase to eight reactors a year,” he added.

These are seriously big numbers. But they are also a very long way off. Funding such a capital intensive project, with such extraordinary long lead times, has coincided with the economic downturn, the consequent dramatic decline in government revenues and the ballooning of deficit spending. There is now widespread speculation that PBMR, funded so generously...
Short-term opportunities

The downturn and the shortage of funding has forced PBMR to re-think its business plan. It has by no means abandoned the goal of becoming a significant electricity provider, but it has been compelled to look at more short-term market opportunities for pebble bed technology that could ensure the project’s commercial future.

The most promising of these is the process heat market – industrial processes that require vast amounts of heat. Sasol, the synthetic fuel corporation, is likely to develop first where there is a need for power independent of the national grid. But PBMR will eventually come into its own as a contributory provider of baseload electricity. South Africa has doggedly pursued this technology for years. It will not be a wasted effort.

EarthLife Africa has started legal proceedings against what it calls “a criminal waste of public money”

Mark Ingham, independent equity analyst and founder of Ingham Analytics, said there was a tendency among many South Africans to see the PBMR team as “a very expensive collection of nerds.” He insists, however, that the imperative of clean, nuclear generated, baseload power, is likely to become increasingly compelling over time.

“Sasol started out as a government-owned business that was subject to ridicule before it was privatised,” says Ingham. “At the time, the idea of extracting oil from coal seemed pretty far-fetched. But the government of the day backed it to the hilt. Today, Sasol is not only highly commercially viable, it is also a world leader in its field.”

Ingham foresees a repetition of that experience. “PBMR is a technology ahead of the political will needed to make it reality,” he said. “South Africa has little choice but to go down the route of building new coal-fired power stations. It’s a cheap quick fix. But they are likely to be the last coal-fired power stations ever built...we are witnessing coal’s last gasp.

“At the moment, PBMR is very much on the back burner. That will change. PBMR is likely to develop first where there is a need for power independent of the national grid. But PBMR will eventually come into its own as a contributory provider of baseload electricity. South Africa has doggedly pursued this technology for years. It will not be a
RMB ARRANGES FUNDING FOR THE ANGOLAN DOMESTIC SUBMARINE CABLE SYSTEM

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The Ministry of Energy of Mozambique announced construction of the 1,350MW Mpanda Nkuwa hydro dam in the north of Tete Province should begin in April or May 2010 at an estimated cost of US $2.3 billion. This is an anchor project for the Zambezi Valley development programme.

The Ministry of Mines and Energy of Namibia has reportedly signed an agreement with the equivalent authorities in Angola for the construction of a $7bn, 400MW hydro-power plant on the Kunene River that marks the border between the two countries. Brazilian contractors look set to start construction early in 2010.

The DRC Ministry of Energy and the Chinese company Sinohydro have signed an agreement for the construction of the $350 million 150MW Zongo hydro-power plant on the Inkisi River. Finance will be from the Chinese government.

The Kenya Power and Lighting Company is planning three 60-80MW power stations on the outskirts of Nairobi. The utility is offering 20- to 25-year concessions to interested private companies.

The Chirundu border post on the Zambezi River between Zambia-Zimbabwe is being upgrade into a one-stop crossing. A new bridge will be built next to the historic Otto Beit Bridge, which was built in 1939. Some minor repair work will be done on the old bridge. The border post will have the first truck clearance booth in Africa. A study has recently been undertaken for the construction of the Kasenga bridge on the DRC-Zambia border. The bridge would span the Luapula River shortening the transport route for the export of copper and cobalt from Katanga Province.

The long-awaited Congo River bridge linking the capital cities of Kinshasa and Brazzaville may experience some movement with an announcement by the DRC authorities calling for a thorough economic impact assessment before commencement of the project. The Road Development Authority of Mauritius is calling for the pre-qualification of contractors for the Port Louis ring road. Traffic congestion in the Port Louis area has increased substantially in recent years.

The Mozambican government and the European Investment Bank have signed a 65m euro loan agreement for the development of Beira port and supporting rail network. The Ethiopian Railways Corporation has embarked upon an ambitious national railways programme. Initial tenders have been issued. The programme involves the rehabilitation and construction of 4,000-5,000km of rail over the next seven years.

The Indian company Overseas Infrastructures Alliance has signed a Memorandum of Understanding for the rehabilitation and construction of the Addis Ababa-Djibouti rail line.

The Kenyan and Ugandan authorities are trying to mobilise approximately $2.5bn for the planned Kenya-Uganda rail link. Public and private partners are sought.

The World Bank has allocated $130m over three years as “urgent investment” in the DRC national rail utility, SNCC. The African Development Bank is reportedly also interested in assisting the utility. A new legal framework has to be devised for potential investors.

The Maputo Port Development Company has invested $14m for the expansion of the Maputo port sugar terminal. Capacity will now reach 750,000 tons a year.

The construction of $6bn Nsanje Port in Malawi is being undertaken by the Portuguese contractor, Mota Engil. It should be completed by the end of this year. The Malawian port is an integral component of the ambitious Shire-Zambezi waterway project that will reduce transport costs by providing access to Mozambican ports.

The project for the Sunway City inland port and industrial park in Zimbabwe is being revived. It comprises an inland port linked to the cargo terminal at the nearby Harare airport, a logistics and distribution centre and an industrial park specialising in light electronics, consumer electronics as well as downstream petro-chemicals and plastics.

The Chinese company, Sino-Hydro has signed an agreement with the DRC Ministry of Infrastructure and Public Works for rehabilitation work at Ndjili airport, Kinshasa. The contract includes modernisation of the main terminal as well as extensions to the runway.

The Malawi Investment Promotion Agency is promoting three major airport projects: the new Namiyasi airport at Mangochi at the southern end of Lake Malawi, redevelopment of the Kamuzu international airport in Lilongwe. Plans are also being made for a major upgrade of the Chileka international airport.