

InfraCo Africa and PIDG; De-risking Greenfield Projects in Africa through DFIs

Isaac Asiamah

Ashby Monk

Background

InfraCo Africa is a private sector infrastructure development company supported exclusively by donor funds. The company promotes the creation of viable infrastructure projects by acting as an intermediary between the competing interests of entities such as host governments, the national and international private sector, and providers of finance. By playing the role of the principal project developer in early-stage, high-risk ventures, InfraCo is able to stimulate greater private investment in African infrastructure projects by reducing entry costs for these private financiers.

InfraCo is charged with a mission “to identify, create and structure financeable and sustainable private sector and PPP investment infrastructure project opportunities, and offer them prior to financial close, to the private sector for implementation” (InfraCo Brochure,2008).

In 2002, the UK Department for International Development (DFID), the Swiss State Secretariat for Economic Affairs (SECO), the Netherlands Ministry of Foreign Affairs (DGIS), the Swedish International Development Cooperation Agency (SIDA) and the International Finance Corporation (IFC)/World Bank formed a coalition to consolidate some of their resources under one umbrella. The goals of this new organization was to fashion out solutions that can help combat the institutional and market problems that cause low private sector involvement in infrastructure development in the developing world.

A decade after its inception, the organization known as the Private Infrastructure Development Group (PIDG), has expanded to include donor groups representing Austria, Ireland, Australia and the Netherlands. InfraCo Africa is one of seven subsidiary initiatives of PIDG under operation in various regions around the world. The overarching goal of the nine member institutions is in creating these investment facilities to improve the provision of infrastructure needed to eliminate poverty in developing countries by boosting private investment.

PIDG’s subsidiaries are created to satisfy three main purposes ranging from long-term debt financing/guarantees, early-stage project development expertise and capital raising as well as technical assistance and capacity-building support. InfraCo Africa falls into the second group. Established in 2005, InfraCo Africa was created to address the issue of early development risk leading to the failure of several bankable projects in Africa.

Method of Operation

Governance

The PIDG is run by at three levels by a Governing Council, a Program Management Unit (PMU) and the PIDG Trust. The responsibilities of these organizations range from the high-level strategy at the Governing council level to tactical day-to-day project-level management by the PIDG Trust. The Governing Council represents the nine donor organizations that provide funds to a trust set up in the parent organization’s name. The PMU serves as the nerve center of the organization’s activities. The PMU is operated by a legal advisory firm with five key staff members who function as Executive Director, Chief Operating Officer, Development advisor and Technical Manager dedicated to coordinating all activities of the subsidiary facilities.

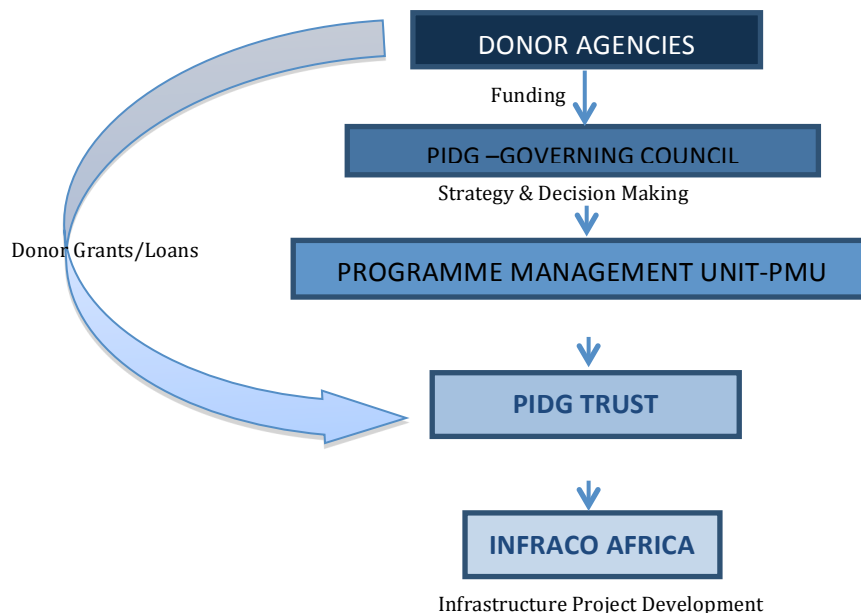


Figure 1

Financing Approach

InfraCo Africa, alongside its sister PIDG facilities, accesses funding for projects through the PIDG Trust, a Mauritian trust administered privately by a principal trustee. InfraCo in return issues shares to the PIDG member organizations in each new venture they support. InfraCo Africa secures in-principle commitments from capital providers in advance in order to garner private sector interest in these projects. The company then issues a tender for private sector consortia to enter into a process of competitive bidding to demonstrate their ability to collaborate with the Principal agent to complete the project.

InfraCo’s operating model exposes it to a number of risks related to development costs and risks of projects, which would typically include legal, tax and accounting expenses, technical advisor expenses, costs of feasibility studies and similar pre-financial closing development costs. As a private sector project developer, InfraCo is uninhibited in the manner in which it chooses to structure its project organization; the gamut ranges from self-funded projects to co-developing with host governments, or collaborating with private sector developers selected by competitive tender.

For taking on the initial risk of developing the project and securing funding commitments, InfraCo receives compensation for its initial involvement after financial close with proceeds from the private sector consortium. InfraCo may also be rewarded in the form of a minority ‘carried’ interest in the venture or during the sale of its equity stake to institutional and public investors.

InfraCo’s Investment Cycle

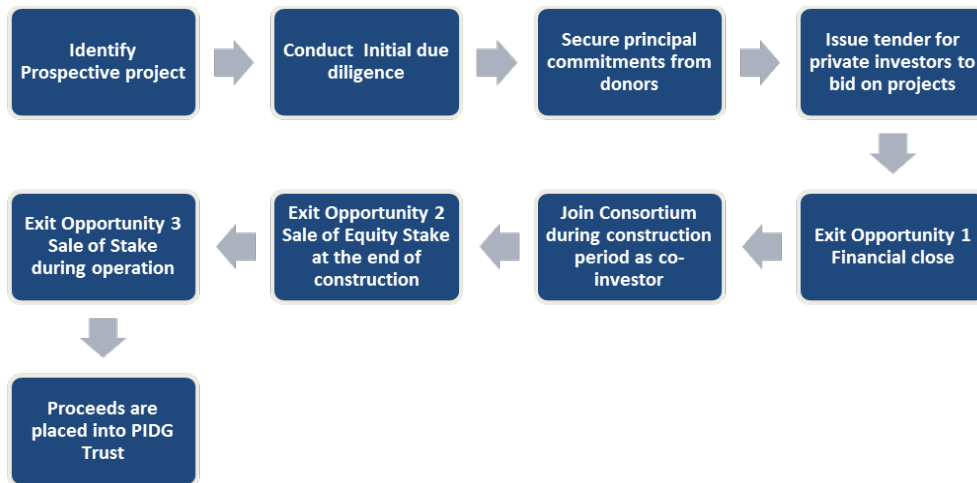


Figure 2

Value Proposition

InfraCo provides significant value in the pre-construction phase with the goal of obtaining the best possible value for the host country. As a private sector developer, acting in the best interest of the host governments, InfraCo works with the governmental support in order to deliver infrastructure projects with a readily ascertainable developmental impact. The ability to gain the host government’s backing will be an important consideration when deciding their level of involvement in a given project.

InfraCo’s active involvement in the project development phase and the assumption of significant development risks helps them to deliver significantly de-risked, government-backed projects ready for implementation. This goes a long way to reducing the capital cost to other private sector investors that decide to join the venture.

The company works on generating a large project pipeline in several low-income countries and carefully selects which projects have the best chance of succeeding based on economic analysis and then proceeds to build and execute the financing plan by raising capital for the project.

InfraCo assesses each project’s technical configuration and economic impact before initiating the preliminary engineering design. In terms of funds for project development, InfraCo taps into a Technical Assistant Fund (TAF) provided by PIDG to support capacity building, technical assistance, feasibility studies and training to facilitate in country development (PIDG Trust (2010:19). Grants obtained through TAF allow InfraCo to fund the technical, environmental and feasibility studies required to get the project of the ground. InfraCo also handles the lump sum capital and lifecycle cost determinations and manages the competitive tender process for the engineering and procurement contract.

As part of the financing and development process, InfraCo may also sponsor the environmental impact assessments required to secure for the project environmental permits from the appropriate government agencies. InfraCo Africa is usually involved in every stage of the development process for each activity ranging from economic analysis to building the project organization.

InfraCo’s Engagement in the Project Development Life Cycle

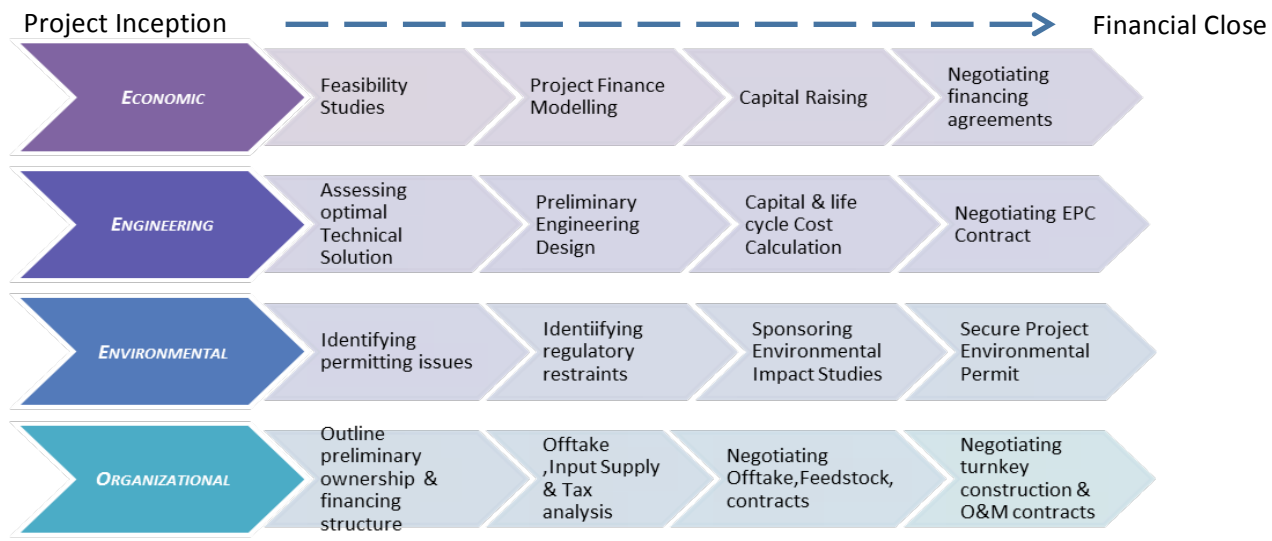


Figure 3

Case Study: Cabeolica Wind Farm –Cape Verde

Project Description

The government of Cape Verde initially planned to construct a wind farm to take advantage of the archipelago’s significant wind resources and cut down on the nation’s dependence on imported fuel. This project was part of the government’s agenda to expand its infrastructural services but the costs of subsidizing the project and the high development risks prevented the government and the World Bank from securing bids from turbine providers.



InfraCo's Role

InfraCo became involved in the project after being consulted by the Government to restructure the project as a Public-Private Partnership (PPP). InfraCo Africa redesigned the project, making it less risky, more economically viable, and eliminated the need for government subsidies. Acting as the principal agent, InfraCo secured the potential sites and acquired the necessary environmental permits to clear the path for engineering design phase. InfraCo tapped into the PIDG Technical Assistance Facility (TAF) grant of US\$170,000 to fund wind pattern and technical engineering studies. InfraCo Africa also led the development and negotiation of the key projects agreement and managed the procurement of the contractor. In terms of financing, InfraCo successfully raised both debt and equity to make the fund the project

Deal

As a 28 MW PPP Wind farm developed, constructed and operated by InfraCo Africa, the Cabeolica wind farm is the first commercial-scale, privately financed project of its kind in Sub-Saharan Africa. The special purpose entity managing the project, Cabeolica SA consists of the Government of Cape Verde, The local utility company (Electra) and Infra Co Africa. The US\$78m project reached financial close during 2010. It has been financed by a combination of debt supplied by the European Investment Bank and the African Development Bank, and equity from the African Finance Cooperation (the principal shareholder, an African private equity firm in West Africa), Finnfund, and InfraCo.

Structure

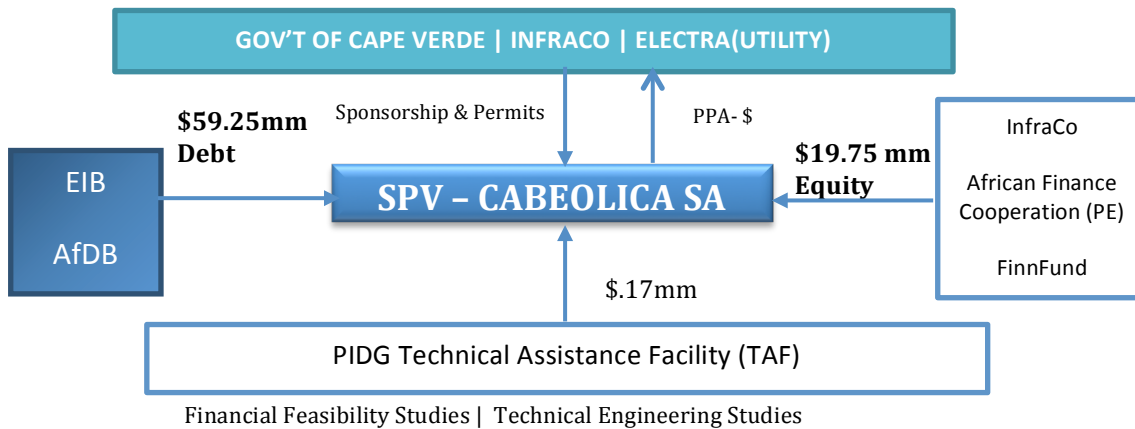


Figure 4

Review

The process of applying for further funding from donor agencies is a lengthy bureaucratic process, which can slow down the privately run company's ability to sponsor more projects. Since being infused with initial capital of \$10 million from DFID in 2005 (InfraCo, 2008), InfraCo has received additional donor funding in small doses ranging from \$10-\$40 million dollars. This model also seems to have a high success rate for small to medium projects but makes it harder to scale up to sponsor larger projects that can have a bigger socio-economic impact.

InfraCo focusses solely on greenfield investments; however, a significant portion of Africa's infrastructure is functioning under capacity or in a state of disrepair. Out of the \$93 billion a year needed over the next decade for African infrastructure, a third is required for rehabilitation of assets and regular maintenance of these operating assets (Foster, V. et al, 2010). Therefore, there is a strong need for capital allocation into brownfield projects on the continent and InfraCo's current approach disregards a sizeable portion of the need.

The toughest challenge with InfraCo's business model is its reliance on donor funding. The lack of diversity in the source of funding for the Trust is also worry considering the recent banking and sovereign debt crisis in the Eurozone. All but one of the members of the PIDG is European aid agencies and as the continent deals with their own economic crises, this event threatens to freeze up the funding cycle for new projects.

To address the issue of development risk and uneven funding cycles, InfraCo Limited is sponsoring a USD 300 million called the InfraCo Sub-Saharan Infrastructure Fund (ISSIF) (OPIC,2011). This private-led financing alternative's goal is to provide the essential scarce equity capital for both Greenfield and brownfield infrastructure projects. This new financing model is worthy of emulation since the emergence of such funds structured to target equity, quasi-equity and debt investments can supplement the work already being done by their donor-funded counterparts. The cumulative effect can have a strong developmental impact on the various greenfield infrastructure opportunities on the continent.

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