An Introduction to ATI & RLSF

RLSF

Overview

1. The relevance of insurance and guarantees
2. About ATI
3. RLSF

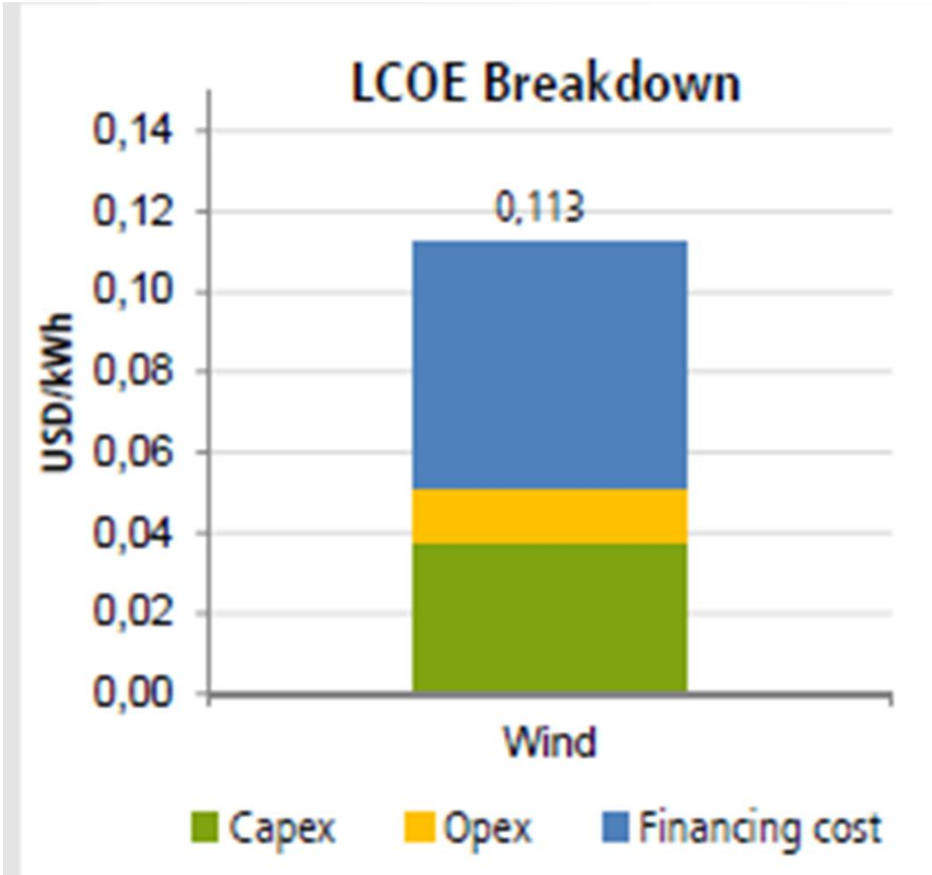
1. The relevance of insurance & guarantees

The importance of insurance and guarantees

- Over the lifetime of an IPP project, the cost of the financing (dividends + interest) is significantly higher than the cost of the plant itself
- The return that equity investors will ask and the interest that banks will charge depends mostly on the way they assess the risk
  - Credit risk on the off-taker
  - Political risks (war, expropriation, currency inconvertibility, unilateral change of the PPA and other agreements, etc.)
- The Tariff that the IPP will ask from the offtaker will reflect these financing costs
- Insurance products and guarantees can take that risk away

Typical cost structure of an IPP

Leveraged Cost of Energy



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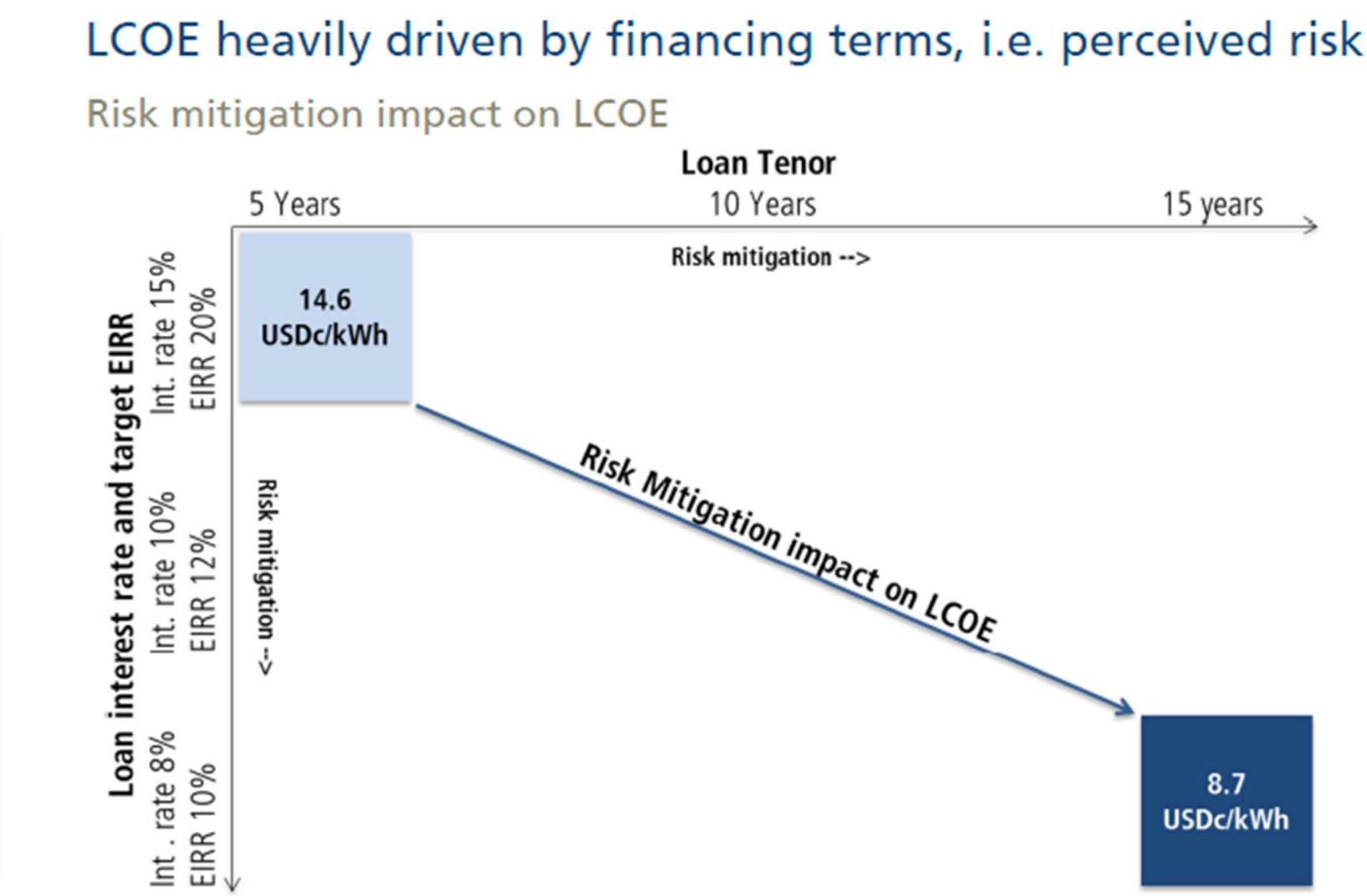


Perceived risk vs real risk

- How can we assess the risk that an IPP will not achieve the income that it has factored in its financial model?
  - What can go wrong?
  - What is the probability that it will go wrong?
- Some of the risks can be reliably be assessed: technology risk, performance risk of the operator, availability of the resource (wind, sun)
- Other risks are very hard to predict: payment risks, changes in law, taxes, currency availability; but the history is often used as baseline for the perception of the risk
- The problem is bigger for IPPs because of the long tenor of their project
- Some of the risks can be mitigated through the contractual agreements (termination agreement, Law applicable, MoF guarantee…)
- Even if structural changes have been implemented and the real risk improves it will take time for the perceived risk to go down

The big message

- If the government takes all the measures to reduce the risks that an IPP takes, the perceived risk will go down over time, the interest rates will go down, the need for insurance will disappear and the tariffs can become much lower.
- Key measures:
  - Recapitalise the utilities
  - Improve the efficiency of the utility (transmission losses, electricity theft, credit management)
  - Cost reflective tariffs
  - Create an “enabling” legal and regulatory environment
- Insurance and guarantees are an interim solution to attract investments at a reasonable cost before the trust in the government / utility is restored

The added value of insurance

- The interest rate charged by banks typically has 2 components:
    1. The cost of funds. For international banks, this is typically LIBOR
    2. The "risk premium", that reflects the quality of the risk that it takes.
- The quality of the risk also directly defines the amount of capital that the bank has to allocate to a project
- If the bank can replace the risk rating of an offtaker by the risk rating of an insurer (ATI is A rated by S&P), it can reduce the amount of capital to allocate and the interest rate it has to ask

Insurance and guarantees available

Available support instruments and trends

Risk mitigation/ de-risking (non-exhaustive list)

PROGRAMME	IMPLEMENTING AGENCY/ DONOR	GEOGRAPHIC AREA AND FOCUS
Geothermal Risk Mitigation Facility	Implementing agency: AU Commission, KfW; Donors: BMZ, EU ITF	East Africa
GET FiT	Implementing agency: ERA, GoU, KfW; Donors: Norway, Germany, UK, EU, WB	Uganda (expansion to other countries ongoing)
World Bank Guarantee Program	Implementing agency: World Bank	various
African Development Fund Partial Risk Guarantee (ADF PRG)	Implementing agency: AfDB	Kenya, Nigeria
MIGA	Implementing agency: MIGA (WB)	global
ATI	Shareholders: member countries, AfDB, selected ECAs	Member countries

Others: Export Credit Agencies (OPIC, Sinosure); AfDB; Guarantco; AFD (?)

Private insurance can become available as the risk improves

2. About ATI

ATI fast facts

- Full name: African Trade Insurance Agency
- An initiative of World Bank and COMESA
- Mission: To attract investments and facilitate trade in Africa and with member countries by removing political and credit risk
- Preferred Creditor Status
- Started 2001
- Shareholders include AfDB, Sace, UK Export Finance, TDB (formerly PTA Bank), Africa-Re and 13 African countries
- Capital of $ 220M
- $ 29M income
- Gross exposure > $ 2 billion (60% reinsured)
- A rating from S&P for 8 consecutive years
- Profitable for 5 consecutive years, underwriting profit for the last 3 years

ATI Products & Member Countries

Products

- Commercial Credit Insurance (whole turnover, single obligor, single transaction, factoring and invoice discounting, bank loans and letters of credit)
- Surety bonds and counter guarantees
- Political Risk Insurance (expropriation, currency inconvertibility, embargo, war and civil war…)
- Non Honouring of Sovereign and Subsovereign Obligation
- Political Violence, Terrorism & Sabotage

Member Countries

- Benin, Burundi, Cote d’Ivoire, DRC, Ethiopia, Kenya, Madagascar, Malawi, Rwanda, Tanzania, Uganda, Zambia, Zimbabwe

ATI in the Energy Sector

- ATI develops energy specific expertise thanks to a TA program from EIB
- Active cooperation with IRENA (International Renewable Energy Agency)
- Active cooperation with REPP (Renewable Energy Performance Platform)
- Partner of Power Africa
- On risk a.o. for Lake Turkana (Kenya), Maamba Coileries (Zambia), Rwaza (Rwanda), Hakan (Rwanda), Access Solar (Uganda), Karuma dam (Uganda), (Kinangop)
- Important pipeline
- Africa Energy Guarantee Facility (AEGF) will start in 2017 (EIB, MunichRe, ATI)
- RLSF started in 2017, with the support of KfW

Engaging the Government

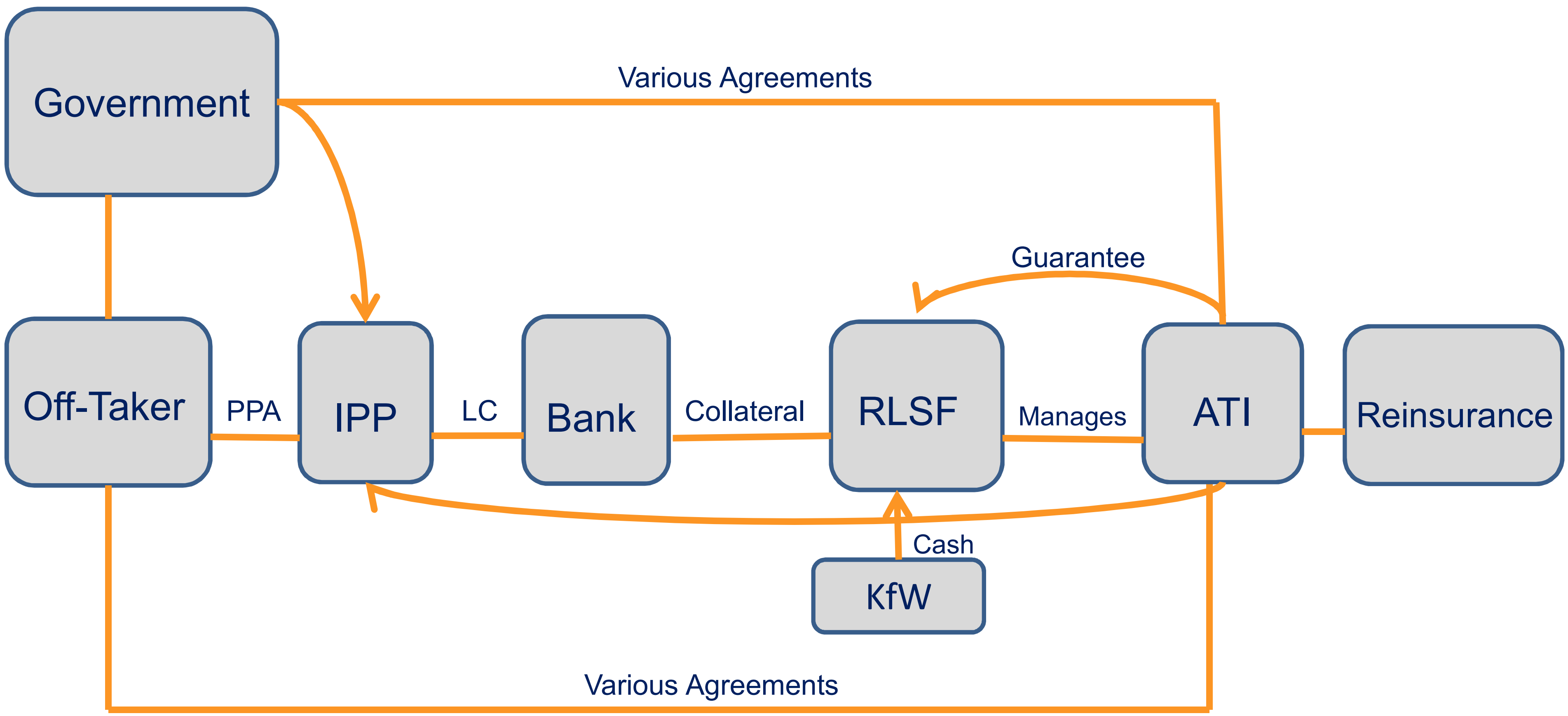
- Traditionally ATI was operating in the background, relying on its Preferred Creditor Status
- Wake-up call with the claims due to non honouring of (sub)sovereign obligations in 4 different member countries.
- Lessons learned:
    1. Make sure that the Government is aware and supports the transaction and ATI's role
    2. Focus on strategic transactions and
    3. Work with strong partners
- Government engagement varies from notification and "no objection" letters to letters of support and MOU
- For RLSF we will seek an MOU with the utility, the MoEnergy and the MoFinance

3. About RLSF

An introduction to RLSF

1. Overview
2. The Problem
3. The Reality Today
4. The Risk
5. The Mechanics
6. The Bank
7. The Cost
8. The Actors
9. The Countries
10. The Transparency Tool
11. The Timing
12. The Questions

Overview


Government
Various Agreements
Guarantee
Off-Taker
PPA
IPP
LC
Bank
Collateral
RLSF
Manages
ATI
Reinsurance
Cash
KfW
Various Agreements

The Problem

- In addition to the typical host government/guarantee, The IPP needs to show to its lenders that it has the liquidity needed to back the off-takers payment obligations

- Off-takers are struggling to find collateral to post the required letter of credit to meet lender/sponsor requirements

The Reality Today

- Typically the liquidity requirement comes in the form of a stand by letter of credit issued by a reputable bank
- The bank will ask for cash collateral (100%) from the off-taker
- Most off-takers are unable or unwilling to provide the collateral
- And as a result the project is put on hold

The Risk

- Most IPPs in sub-Saharan Africa sell their output to the national utility, usually a state owned entity that is:
  a) not controlling the price at which it sells the power
  b) undercapitalized
  c) loss making
  d) needs to use its cash to improve its infrastructure
  e) perceived as a poor credit risk

- Under the RLSF, the risk to be addressed is the delay in payment of the off-taker beyond the grace period provided in the PPA

- The obligation to make the payment under the PPA will remain on the off-taker (and host government if a guarantee exists)

The Mechanics

- RLSF / ATI will appoint one bank (or a group of banks) that will issue (directly or indirectly) all the LCs pursuant to the RLSF initiative
- The LCs will be issued for an agreed term
- The projects will be required to be renewable IPPs in SSA and an investment committee of RLSF will select projects to be approved
- The LC Bank will be protected by
  1. Up to € 31M cash collateral
  2. An additional on demand guarantee of ATI for the same amount
- If one or more LCs are drawn, the bank will use the cash collateral first until it is exhausted

The LC Bank

- The LC Bank will be appointed through a competitive tender
- Key criteria:
  1. Willingness to participate in the risk
  2. Pricing of all components (fees and LC rates)
- The bank has to be acceptable to the international lenders to the IPPs
- The RFP has been issued in July
- The winning bank will be chosen in August

The Cost

The cost to the IPP will depend on:

- The quality of the risk, as assessed by ATI
- The level of formal comfort that ATI receives from the host government and the off-taker
- The handling charges of the bank

The Actors

- KfW is the initiator of RLSF. KfW is the state-owned development bank of Germany. It has received funding from the German Government to finance the RLSF and to launch the initiative

- ATI (African Trade Insurance Agency) is a multilateral credit and political risk insurer based in Nairobi. Its mission is to attract investments and facilitate trade in Africa, but especially in its member countries (currently 13). It has an A rating from S&P

german cooperation DEUTSCHE ZUSAMMENARBEIT Implemented by KFW & ati aca African Trade Insurance Agency Agence pour l'Assurance du Commerce en Afrique

The Countries

- ATI’s member countries are: Benin, Burundi, Côte d’Ivoire, Democratic Republic of Congo, Ethiopia, Kenya, Madagascar, Malawi, Rwanda, Tanzania, Uganda, Zambia and Zimbabwe

- ATI will enter in direct negotiations with its member countries and decide which ones are interested in the facility and which ones it can support

- Non-member countries that are willing to make strong commitments towards the project can still qualify

The Transparency Tool

- Is the risk of non-payment under a PPA a real risk or a perceived risk?
- In order to create more transparency and to increase the trust and creditworthiness of the off-takers, ATI will develop a web based platform where IPPs will report the payment behavior of the utilities
- This information will be shared with participants and made public in one way or another
- This way the confidence in good paymasters will be increased and over time the need for payment guarantees (like RLSF) may decrease

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