RLSF for sub-Saharan African Independent Power Producers

Objective

The RLSF is designed to help Independent Power Producers (IPPs) to obtain the liquidity that they need in the event that their off-taker (frequently a state owned entity) delays payment. The RLSF will provide immediate cash collateral supported by guarantees to a bank that will in turn open a stand-by L/C to the benefit of the IPP. The amount provided will be the equivalent of 6 months of the IPPs revenue. Further, unlike most IPP L/Cs (which tend to be of 12 month tenors) the facility is designed to be in place for multiple years.

Eligibility

1. In the first phase, the RLSF will mainly consider IPPs in **ATI member countries** (Benin, Burundi, Cote d'Ivoire, Democratic Republic of Congo, Ethiopia, Kenya, Madagascar, Malawi, Rwanda, Tanzania, Uganda, Zambia, Zimbabwe). Projects in other countries can be added.

2. Projects with an installed capacity **up to 50 MW,** in exceptional cases up to 100 MW.

3. Supported technologies: **Solar PV, Hydro, Onshore wind, Geothermal, Biomass** (using waste-to-energy)**, Cogeneration** (using a renewable feedstock).

4. Projects will be **underwritten by ATI** and assessed according to its internal guidelines (financial sustainability, environmental and social impact, off-take risk and government support, etc.).

5. **Sufficient support of the host government and the utility** for the project and the role of ATI.

Background

Independent Power Producers face a number of challenges before they reach financial close and have to address a number of key risks.

One of the most challenging risks to address is the offtake risk: the risk of not being paid in time by the off-taker – typically a public utility. For a project finance project, cash flow is key. Lenders will ask for various guarantees and buffers to ensure that the IPP can continue to operate and service its debt even if there are payment defaults by the off-taker.

The standard solution is to obtain a stand-by letter of credit that can be called if the off-taker does not pay on time. However, in most cases the bank providing the L/C will ask for up to 100% cash collateral, and usually this has to be provided by the utility. Most utilities are unable to provide this collateral, and thus many power projects don't reach financial close because the liquidity risk cannot be mitigated.

The Regional Liquidity Support Facility ("RLSF") has been specifically designed to address this problem. It provides the L/C bank with cash collateral and additional guarantees that will give it enough comfort to issue the L/C at a reasonable cost, so that the IPP can continue to operate for at least 6 months in the event of off-taker default.

Product description

ATI, as manager of the facility, will select a bank (or banks) to issue L/Cs to approved IPPs with the backing of the RLSF.

The facility has two components:

1. A funded cash component as a first loss collateral buffer. German Cooperation through KfW has made EUR 30,000,000 available for this.
2. An unfunded on-demand guarantee of ATI for the same amount, which can be called in case the first loss portion is exhausted.

Potentially the facility can cover 100% of the risk, but the L/C bank will be encouraged to keep a certain uncollateralized retention on its own books.

ATI will enter into an umbrella agreement with the bank that sets the terms and conditions under which the bank will issue Letters of Credit. ATI will assess each potential transaction, ensure that the project has the full support of the utility and the Host Government, and activate its preferential relationship with the Government (as a preferred creditor) in the case of payment delays. Once ATI has approved a transaction, it will ask the bank to issue the L/C to the IPP.

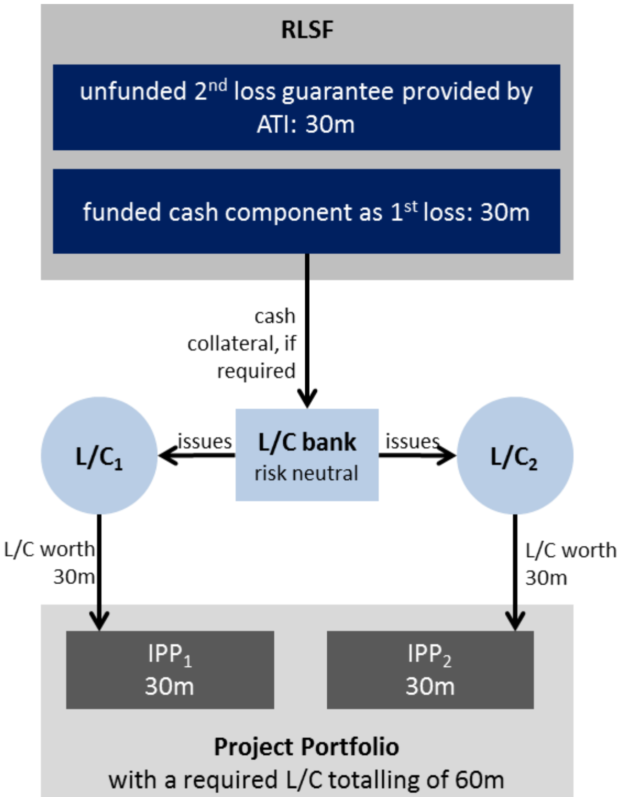
Whereas such L/Cs are traditionally valid for 1 year, the banks will be able to issue L/Cs with tenors of multiple years.

Alongside the RLSF facility, ATI will continue to offer its traditional products of political risk insurance and ATI can also insure the PPA termination risk, albeit the different covers are not necessarily linked.

ATI expects to finalise the selection of the L/C Bank during the 3rd quarter of 2017.

How does it work?

The illustration below assumes a project portfolio that reaches the maximum the RLSF can support, i.e. L/Cs covering a total exposure of EUR 60 million. For illustrative purposes, it is assumed that only two projects make up this portfolio, and that each requires an L/C for EUR 30 million.



The bank providing the L/C is protected by the funded cash component that serves as a first loss buffer. The cash will be deposited in an escrow account and will be available immediately upon drawdown under the L/C.

The second loss guarantee is provided by ATI and matches the funded component 1:1. It is available on-demand to the L/C bank in case the first loss tranche is exhausted. Accordingly, the L/C bank does not take any risk except its pre-agreed share of retention on its own books.

When an IPP experiences payment delays, it can immediately draw from the L/C and thus continue debt repayment to its lender(s). It replenishes the L/C as soon as it is paid by the utility.

The L/C bank will make a commitment for the whole program, and will continue to issue L/Cs up to the maximum capacity of the facility irrespective of the level of utilized cash component (i.e. the bank is taking some second loss / excess credit risk on ATI).

Transparency

Utilities in Sub Saharan Africa have a poor image with regards to their creditworthiness and payment morality. In order to correct this perception the RLSF project will additionally develop a web based platform where IPPs will report the actual payment made by the off-takers, and the actual aggregate performance of each utility will be made public.

The hope is that this transparency will over time provide an objective view on the actual performance of the utilities, compared to their perceived risk. This in turn should help banks and other lenders to adjust their pricing and even to reassess their need for collateral.

Stakeholders

The African Trade Insurance Agency (ATI) will implement the RLSF. ATI is a multilateral investment insurer of credit and political risks with a paid up capital in excess of $200 M. ATI has been profitable for the last 5 consecutive years and has an A rating from S&P. Its main shareholders include 13 African member countries as well as the African Development Bank. The

RLSF will benefit from ATI’s expertise and preferred creditor status with ATI member countries. The 2016 annual report of ATI can be found on their website: http://www.ati-aca.org/images/2016_English_Annual_Report.pdf

- **KFW** initiated the RLSF. Funds for the cash component and to set up the RLSF have been provided by the German Federal Ministry for Economic Cooperation and Development (BMZ). In December 2016 the BMZ approved a total investment grant amounting EUR 31.6 million as well as a grant TA component amounting EUR 1.3 million.

Contact

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