An Introduction

About ATI
Overview

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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 offtaker
- 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
Typical Cost Structure of an IPP – Leveraged Cost of Energy

LCOE heavily driven by financing terms, i.e. perceived risk

Risk mitigation impact on LCOE

- 5 Years
  - Loan Tenor: 10 Years
  - Loan interest rate and target EIRR
    - Int. rate 15%
    - EIRR 20%
  - Risk mitigation

- 14.6 USDc/kWh

- 10 Years
  - Loan Tenor: 15 years
  - Loan interest rate and target EIRR
    - Int. rate 10%
    - EIRR 12%
  - Risk mitigation

- 8.7 USDc/kWh
Perceived 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 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:

- Recapitalize 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 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)

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<td>Implementing agency: AU Commission, KfW; Donors: BMZ, EU ITF</td>
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<td>Shareholders: member countries, AfDB, selected ECAs</td>
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Others
Export Credit Agencies (OPIC, Sinosure)
AfDB
Guarantco
Private insurance can become available as the risk improves
About ATI
ATI Fast Facts

- Full name: African Trade Insurance Agency
- An initiative of World Bank and COMESA started in 2001
- Mission: To attract investments and facilitate trade in Africa and with member countries by removing political and credit risk
- Preferred Creditor Status
- Shareholders include AfDB, Sace, UK Export Finance, TDB (formerly PTA Bank), Africa-Re and 14 African countries
- Capital of USD230M
- USD29M income in 2016 and Gross exposure > USD2 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 Sub sovereign Obligation
- Political Violence, Terrorism & Sabotage

Member Countries

- Benin, Burundi, Côte d’Ivoire, DRC, Ethiopia, Kenya, Madagascar, Malawi, Rwanda, South Sudan, 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
- Important pipeline
- Africa Energy Guarantee Facility (AEGF) will start in 2017 (EIB, MunichRe, ATI)
- RLSF started in 2017, with the support of KfW
RLSF : An Introduction
Overview

Government

Off-Taker

PPA

IP

LC

Bank

Collateral

RLSF

Manages

ATI

Reinsurance

Various Agreements

Various Agreements

KfW

Cash

Guarantee
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.
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 (up to 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.
Most IPPs in SSA 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) desperate 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 that will issue (directly or indirectly) all the LCs pursuant to the RLSF initiative.

The LCs will be issued for an agreed term – up to 10 years.

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 €31.6M 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 has been selected through a competitive tender.

Key criteria:
1. Willingness to participate in the risk
2. Pricing of all components (fees and LC rates)

The bank will be acceptable to the international lenders of the IPPs.

The RFP has been issued in July.

ATI is negotiating the agreements with the chosen bank.
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 14). It has an A rating from S&P.
The Countries

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

ATI has started direct negotiations with its member countries and will 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.
Role of Governments

- ATI has a preferred Creditor Status and its normal recourse is with the ministry of Finance of each country.

- Experience has shown that it is also important to make sure that all the Government entities involved in a transaction are aware of the role of ATI and support it.

- Government engagement varies from notification and “no objection” letters to letters of support and MOUs.

- For RLSF we will seek an MOU with the utility, the MoEnergy and the MoFinance.
3 key statements:

- Art. 7: RLSF is protected by the preferred creditor status of ATI
- Art. 8: The Government will solve any problems arising from RLSF
- Art. 6: ATI can collect information about payments by the off-taker to IPPs, share the information among IPPs and make the information public
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 credit worthiness 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.

This way the confidence in good paymasters will be increased and over time the need for payment guarantees (like RLSF) may no longer be needed.
The Timing

- The tender for LC banks was issued in August.
- 3 Potential LC banks have been shortlisted and final negotiations are under way with the preferred bidder.
- ATI is engaging with the interested Governments and off-takers, the first MOU has been finalised.
- The tender for the Transparency Tool has been published and 2 bids have been shortlisted.
- RLSF could go on risk during Q1 2018
- Discussions with pipeline IPPs have started and a survey conducted in October has confirmed the tremendous interest for RLSF.
Your Questions
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