



Feature: Talking African energy

SAVCA interviews Anne Keppler, vice president: equity and mezzanine for DEG in Africa and Ewout van der Molen, Manager of FMO's regional office for Southern Africa, about the two institutions' involvement in African infrastructure. German finance institution, the DEG, was established in 1962 and has ever since been investing in Africa and infrastructure. Likewise, Dutch development bank FMO has been involved in a number of infrastructure projects since the early seventies.

SAVCA: How do the DEG and FMO work together on investments?

Ewout van der Molen (EVDM): FMO and DEG started co-operating in the late eighties. The cooperation started initially on the debt side, but more and more we came across each other on equity investments, especially into funds. Globally, we do about one-third of our annual investments together, with the larger part of that co-operation on the debt side. In 2012, we established the joint office in Johannesburg, working closely together on both debt and equity transactions. With debt, we have standardised our processes and documentation so that we can make use of each other's credit papers. We share legal documentation and master templates between the two legal teams through a friendship facility. Normally, when we cooperate on debt transactions, there's an institution in the lead with the other one following as the silent partner.

Anne Keppler (AK): On equity our processes are a bit different. On the debt side, you might want a dominant or leading partner while on the equity side co-operation amongst equals is better. We have very similar investment criteria, we look for similar characteristics in investee companies, and so we try and run a parallel process as far as possible. While we have meetings and discussions together and have a very close relationship, we are still two separate institutions at signing.

SAVCA: Is this close relationship unique or an approach that many development finance institutions (DFIs) adopt?

EVDM: It's a unique relationship in the sense that I haven't seen this set-up elsewhere. It's a very developed and disciplined arrangement, with a clear definition of what the lead and follower has to do. It has to be this way because, as mentioned previously, internationally we do about a third our annual new transactions together. If I look at the Southern African market, we share between sixty to seventy per cent of our annual transactions. That's the impact of sitting together, looking at each other's pipeline and deciding where to work together.

AK: In general, the cooperation amongst European DFIs is close, but the cooperation between FMO and DEG in Southern Africa is special. Here, we've taken this a step further by sharing infrastructure and executing deals together. It is a joint office and a truly integrated one. We sit together and actively work together. We think that it's a big benefit

that we provide to our clients; they can access two of the largest European DFI's at one place. We can offer them access to a larger volume of funding than they could receive through approaching one institution individually.

SAVCA: What specific infrastructure projects do you focus on and why?

AK: Our infrastructure investments can be clustered into two big pockets, namely energy and then investments which I term enabling infrastructure. On the energy side, our focus is on renewable energy. We have a strict no-coal policy so we only look at opportunities where we can make a difference in greening the power sector. In terms of enabling infrastructure, we like to focus on initiatives that help economies grow. This is much like building a skeleton so that related industries can also take off. For example, developing roads and ports also support the logistics and transport industries.

EVDM: In Southern Africa much of our infrastructure focus is around power. The tight energy supply situation in South Africa also has an impact on energy security in surrounding countries. Namibia, Mozambique and Zimbabwe all need to look at their base electricity supply because the days of secure power supply, provided by Eskom, are certainly over. So these countries all have to rethink their power sector structures, and they are also increasingly looking for greenfield projects together with extension of existing facilities. I estimate that eighty per cent of our regional infrastructure pipeline is power-related at the moment. Following this, it's between ten and twenty per cent in railways and ports.

Both FMO and DEG can only invest in infrastructure projects which are developed by the private sector. Of course, governments play an important role here, but the majority of shareholders should be from the private sector. We are both private sector investors by mandate and see that there are already a number of financing options available to the public sector.

AK: Both organisations are founded on the belief that the private sector growth is what is needed to develop (not only) emerging economies. It's important to promote entrepreneurship and encourage greater independence from the public sector.

SAVCA: Tell us more about your renewable energy projects

AK: We have a mix of equity and debt renewable energy projects and are quite active in South Africa. Our exposure grew off the back of the South African government's renewable energy independent power producer procurement' programme (REIPPP). On the equity side, we closely cooperate and have put up regular capital finds since 2011. Together, we have equity exposure to three wind projects and a concentrated solar power (CSP) project. We have also managed to co-invest into four of these projects. So for example, as the FMO and DEG, we are currently direct shareholders in the Bokpoort CSP project together with our partner, the Lereko Metier Sustainable Capital Fund.

EVDM: In total, FMO is involved in the funding of nine renewable energy projects as part of the South Africa REIPPP. In seven of these, FMO has invested together with the DEG. FMO further aims to close another two deals in the course of this financial year, of which one is also together with DEG. Of the seven joint projects, four are wind, one is CSP and two are PV; further, four are equity financed and three are debt financed. The FMO and DEG are not

the only finance providers to these projects, but this shows how we are working together in this space.

SAVCA: Tell us about your energy projects in the rest of Africa

EVDM: Last year FMO and DEG provided funding to a generation and transmission company in Central and West Africa. The funding is to be used for upgrading and expanding of generation and distribution projects in Zambia and Nigeria. In addition, FMO participated in the funding of a hydro power project in Zambia, together with AfDB, DBSA and Proparco, amongst others.

AK: From a purely DEG perspective, we are also involved in a geothermal power plant in Kenya as well as Africa's largest wind power project in Kenya, where we provided a junior debt facility.

SAVCA: What are you looking for in a private equity fund manager in this space?

AK: We want to work with people who are excited, knowledgeable and have an industry track record. Infrastructure is different to a standard private equity transaction in that it has longer lead times, and it demands a great deal of initial thinking to establish the contractual framework. There is a myriad of contracts for every project!

EVDM: Infrastructure private equity is different from general private equity. You need to have a longer time horizon and a good grasp of technical details involved in a large-scale project. The private equity partner's influence is at the front end and not in adding value to operations and improving business performance. That's where we want to have a patient, but very diligent team setting up a project.

SAVCA: What do you think is required to build more African capacity for infrastructure investments?

EVMD: When I look at, let's say, a comparison between countries in Africa, you have to be careful not to position Africa as one country, which it is definitely and obviously not. In South Africa, for example, what helped support investment in this space was the REIPPP. It's a world-class program. The structure and guarantees involved in this programme made financing and structuring much more efficient and accessible for international financiers and also commercial banks. In other parts of Africa, there is a great deal of investment appetite for infrastructure projects from DFIs and international companies. However, what the investor community struggles with is the whole legal and financial framework. There are still quite a number of improvements possible in terms of protection for investors and also regulatory independence. There aren't always independent energy regulators able to make the tough decisions. There are many African experts in the field of financing, energy and in law. They just need the right legal frameworks and environment and the right people, and companies will provide the funding for the projects to be built.

AK: I think one big element Ewout just touched on is "scalability". This means moving away from individual solutions and upping standards. We need reliable uptake agreements which are bankable and not reinvented per project and transaction. This will enable scalability and make African infrastructure project investment worthwhile to international investors.

EVMD: I also believe the future solution for many African countries might not be in centralised power generation but rather in smaller-scale solution power projects. Much like what happened in the mobile telephone space in Africa, where a newer technology was deployed and unlocked a market that was not covered by the older fixed-line technology.

AK: Africa as a continent has the chance to jump over certain development stages and avoid some of the mistakes made by developed markets. You don't necessarily need a big power plant in a country when there could be number of self-sustaining solutions for villages and even houses. That's a very new way of looking at African power.

EVMD: There are a number of new developments, such as for instance the diesel-solar hybrid generation mechanism, which during the day generates power from solar panels and at sunset generates power from diesel. That might be a good solution for countries like Nigeria, where you still have a great deal of diesel-generated electricity, but also great potential for solar. Then, thinking a bit further, there are also technologies combining solar with fuel cells, so that's even cleaner. It will be interesting to see whether these technologies can find a place in the African (solar) energy market.