FEATURE: BANKING ON INFRASTRUCTURE

19 March 2015

SAVCA speaks to Carmelo Cocuzza, regional head for Southern Africa and the Indian Ocean for the European Investment Bank (EIB), about bank's African infrastructure projects. The EIB has been funding economic developments in Africa, the Caribbean and the Pacific for over fifty years.

Tell us more about the EIB's model of investing in infrastructure?

The EIB was originally established to support large key infrastructure projects initially in the EU and later in emerging markets directly through loans or indirectly through equity finance. In sub-Saharan Africa, the EIB has provided loans for over 50 years under the Africa Caribbean & Pacific (ACP) mandate. In South Africa, the EIB has been operational for the past 20 years under its South Africa mandate. Broadly the infrastructure projects financed have been in the energy, transport, water and sanitation, and ICT sectors. Traditionally our approach is to work on a regional or country basis, prioritising those key sectors which individual governments have earmarked as key for their economic growth.

Our loans entail more favourable conditions such as longer amortisation schedules on either regular or bullet repayment terms, than those offered by commercial banks. These also include allowing for a grace period during the construction phase and linking principal repayments to the project's revenue inflows. Unlike commercial banks, which would typically fund for a period of five years, the EIB can provide long-term financing of up to twenty-five years.

What type of infrastructure investment has the most economic impact and why?

Infrastructure investment is a key driver for economic growth, and it creates other multiple opportunities, including related and downstream industries through the multiplier effect. Backbone transport infrastructure such as roads, railway, airports and ports opens up developing countries from trade with the rest of the world, which would ultimately improve the economic performance of the country. Water, sanitation and other social infrastructure improve the standard of living and the quality of life on the continent. Energy infrastructure (generation, transmission and distribution) also ensures security of supply, which assists in building investor confidence.

The EIB measures infrastructure projects in accordance to development pillars and fulfilment of the Millennium Development Goals (MDGs). In the future, we will weigh up projects in terms of the post-2015 Sustainable Development Goals (SDGs). Providing safe drinking water and sanitation in areas with a high incidence of typhoid and resulting infant mortality, or extending the electricity grid to cover highly populated rural areas is a good match with these goals.

How does the EIB work with private equity players?

The EIB operates in Africa under two separate financial mandates. One for South Africa, which is limited to debt financing, and one for most of sub-Saharan Africa and covered by the ACP mandate which, besides debt, also allows us to offer equity and guarantee instruments. The EIB can support infrastructure development by co-financing alongside private equity funds to meet the often enormous capital investment requirements of large projects. Alternatively, in most of sub-Saharan Africa we can also subscribe to private equity funds to support infrastructure development.

As an example, in Uganda for the Bujagali 250 MW Hydropower Plant project, private equity investors Sithe Global and Aga Khan provided $195 million in equity financing while the EIB, other multilaterals and commercial banks provided $681 million equivalent to 78% of the debt requirement.

The EIB also manages the €150 million GEEREF fund-of-fund to combat climate change in developing countries. This fund, through the Evolution Private Equity Fund, has invested in twelve wind, solar and hydro projects across Southern Africa. Interventions by the EIB tend to have a significant catalytic effect in sourcing investor and commercial funding, in stimulating capital markets development and in a general improvement in investment performance.

What do private equity investors bring to this space?

Private equity investors play a critical role in providing that much-needed initial capital and then mobilising resources on a project. They also tend to be more efficient operators and ensure that projects are well-managed, meet project timelines and deliver returns to investors. Most of these private investors have to adhere to strict key performance indicators (KPIs) to ensure that completed projects, whether a power plant or port, are also well-managed and sustainable, in the long run.

What do you look for in a private equity partner?

Before looking at the partner we consider how much of a catalytic role our involvement would play in mobilising the required funding for the project concerned. The projects also have to meet our criteria relating to technical and environmental requirements but also with regards to economic and social impact. We consider the level of experience of the team in structuring infrastructure deals. We favour partners who have teams on the ground with local knowledge and networks; since we view local insight as critical to the success of any project. Finally, we seek partners who share our values. While we are aware that financial returns are important to any investor, we also want to support investors who are committed to positive change. We factor in a private equity partner's track record in supporting economic growth, job creation, social and community involvement and adherence to the highest environmental standards.

Tell us more the solutions that the EIB offers the private equity industry.

Projects in the pre-feasibility involve high costs and risk. We seek to stimulate demand for private investment in infrastructure through reducing some of the commercial and county risks associated with early project development. For instance, the EIB manages the EU-Africa Infrastructure Trust Fund, an innovative financial instrument set up to benefit cross-border and regional infrastructure projects in sub-Saharan Africa. This fund provides grant support for the initial technical assistance and feasibility studies, environmental or social components linked to projects or payment of early-stage, risk-mitigation insurance premiums. The insurance component is important because this covers the investor for political conflicts or disputes that have the potential to derail projects. We also have project preparation grants available through the Development of Southern Africa for funding pre-feasibility studies in most of the SADC countries, with the exception of South Africa. If we can reduce the risk, hopefully, we can stimulate interest in African infrastructure and see more private equity partners involved in this space.