



**Seminar on  
African Electrical Interconnection**

**Module 6 - Financing  
Interconnection  
Projects**



# **Module 6 - Financing Interconnection Projects**



## ***Contents***

- 1) Major Financing Features**
- 2) Basic Financing Approaches**
- 3) Project Financing Process**
- 4) Twelve Financing Steps**



## Module 6 - Financing Interconnection Projects



### *Highlights*

- Strategic importance of an approach to ensure **attracting international investors and lenders**
- Necessity of a well structured and **systematic financing process**
- Imperative need to properly **mitigate the potential risks** associated to a project
- Advantage of making **financial advisors** and other experts part of the project team at an early stage



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## Major Financing Features



- **Large investments usually required for significant regional projects**
  - Large hydroelectric power plants
  - Extra High Voltage long transmission lines
  - **Often beyond the capabilities of local capital markets in developing countries**
- **Allowing a suitable participation of all regional energy players**
  - Determining the role of the public and private sectors in the responsibility of a project
- **Identification of the major risks**



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# Corporate Financing Approach



## The traditional approach for power utilities

Involves the existing utilities **as for any other type of financing activity**

- Funding is put together by each utility
  - On its own balance sheet
  - For a given share of a project
- Risks (and profits) are shared by the utilities
- Financing success rests on the **financial strength of the utilities**



# Project Financing Approach



## May be the only alternative in some cases

- Poor financial situation of the utilities
- Insufficient local capital markets
- High level of risk

Involves the establishment of an entity **exclusively dedicated to a specific project**

- Funding is raised through equity and loans dedicated to the project
- Financing success rests on the **financial strength of the project itself**





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# Project Financing Approach



## **Especially complex and demanding**

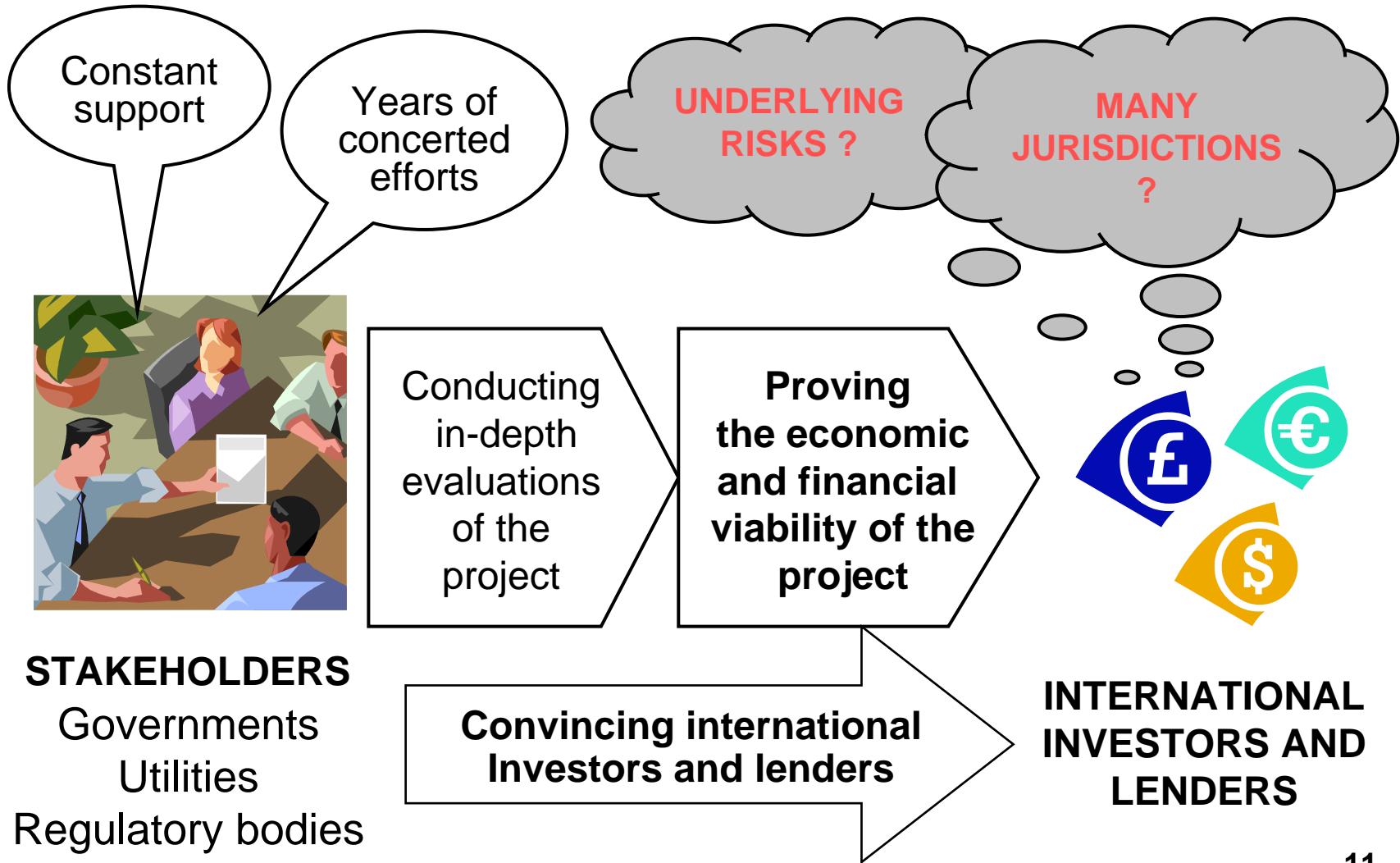
- Must be focused on a specific project to be fully characterized

**Justifies setting up a team of experts very early in the financing process**

**Requires strictly adhering to a detailed and comprehensive series of well defined steps**



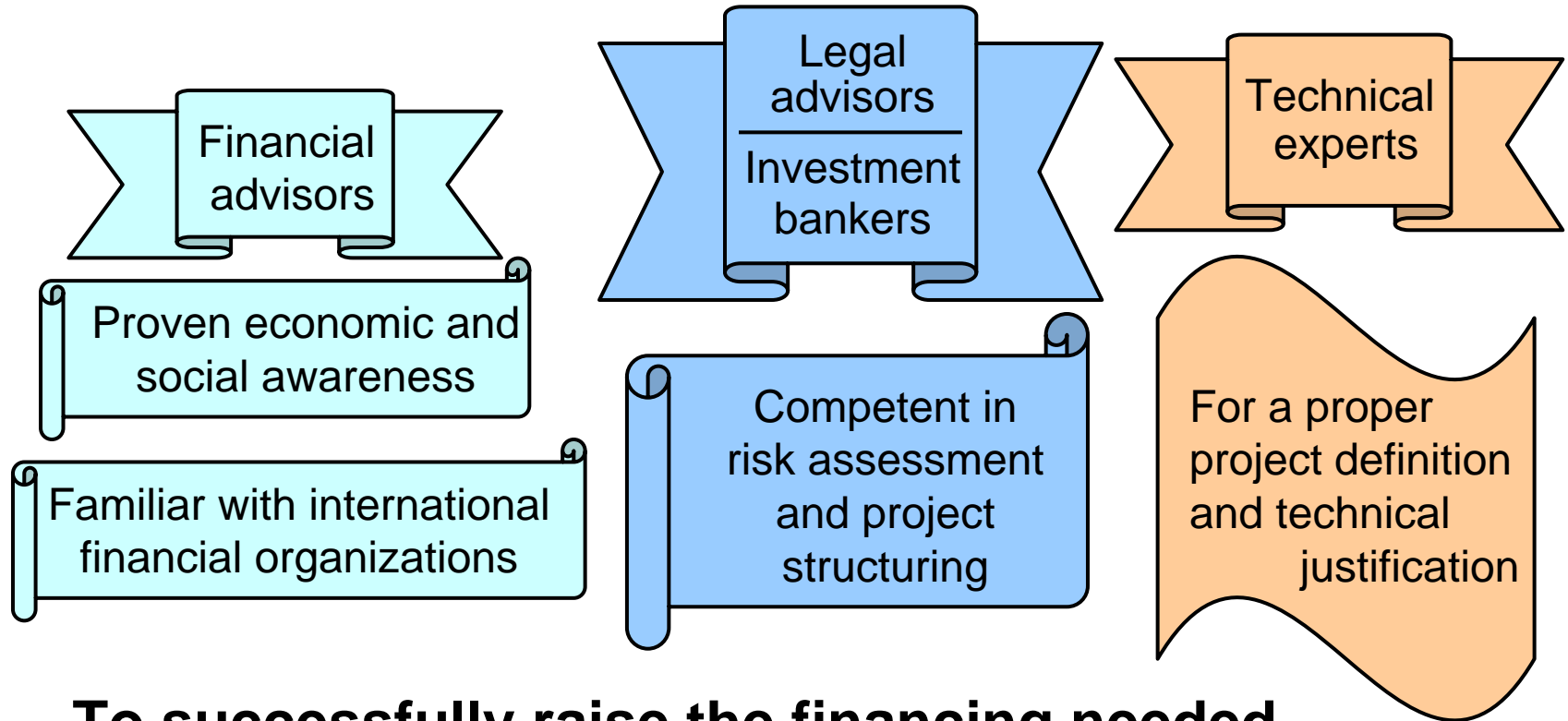
# The Stakeholders' Challenge





# An Important Requirement

Setting up, as early as possible,  
a team of experts



**To successfully raise the financing needed**

In the best interest of the stakeholders

- The same can be expected from the promoters



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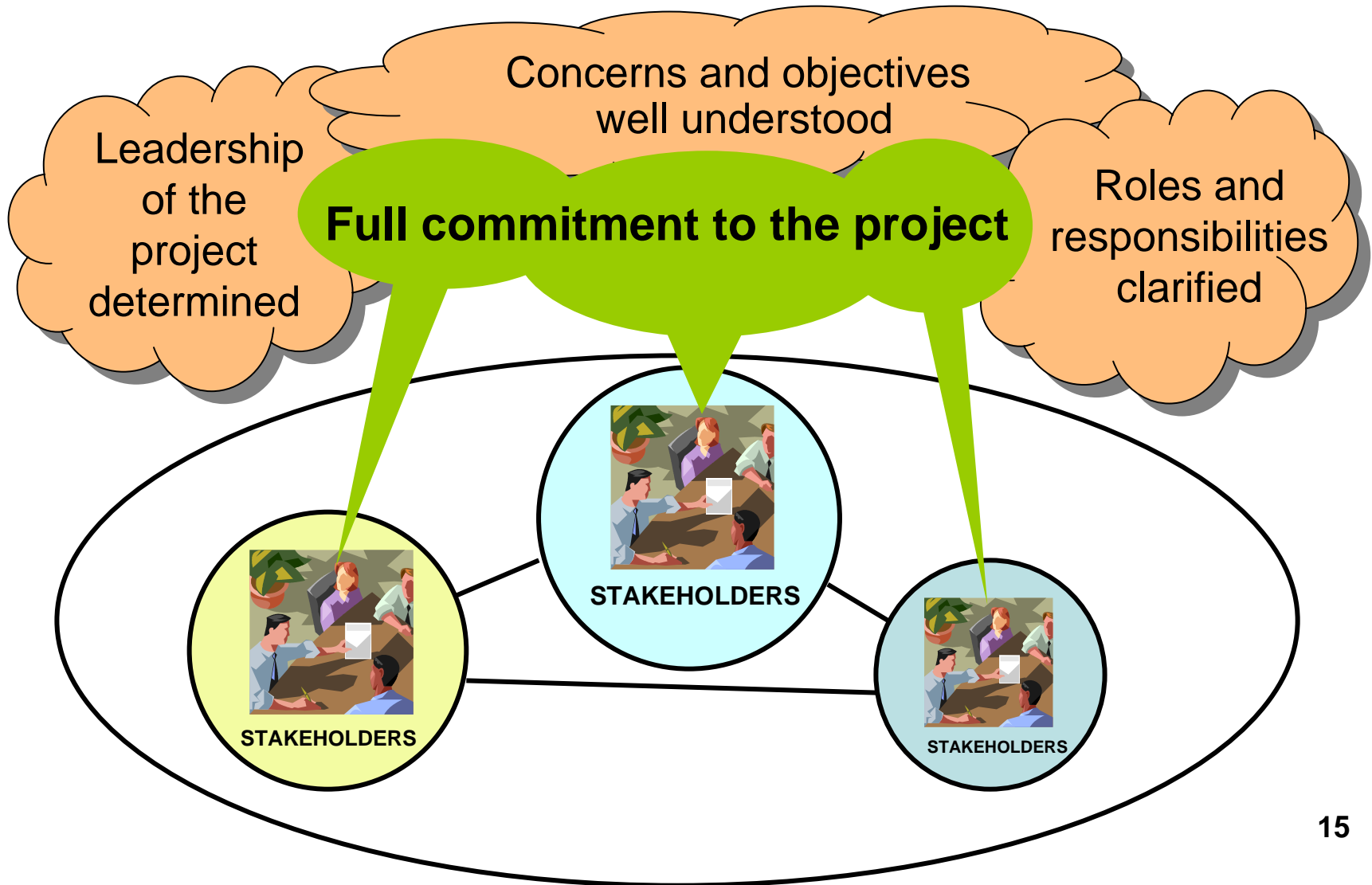
## **Project Financing Steps**



- 1. Commitment from decision-makers**
- 2. Project definition**
- 3. Risk analysis**
- 4. Seeking international interest and support**
- 5. Financial and operational structures**
- 6. Legal environment**
- 7. Independent review of the project**
- 8. Information memorandum**
- 9. Assessing investors/lenders interest**
- 10. Debt and equity proposals**
- 11. Negotiations and contractual agreements**
- 12. Meeting disbursement conditions**



# Step 1 - Commitment from Decision - Makers





## **Providing a Strong Political Support**



### **Confirming a full commitment to the project**

- To provide a strong political support by the stakeholders
- **One of the most important element** for a successful project
  - A crucial pre-requisite to secure the support of international investors

### **Can take the form of:**

- **Policy Statement**
- **Memorandum of Understanding**
- **Inter-Governmental Agreement**
- **Multi-Lateral involvement**

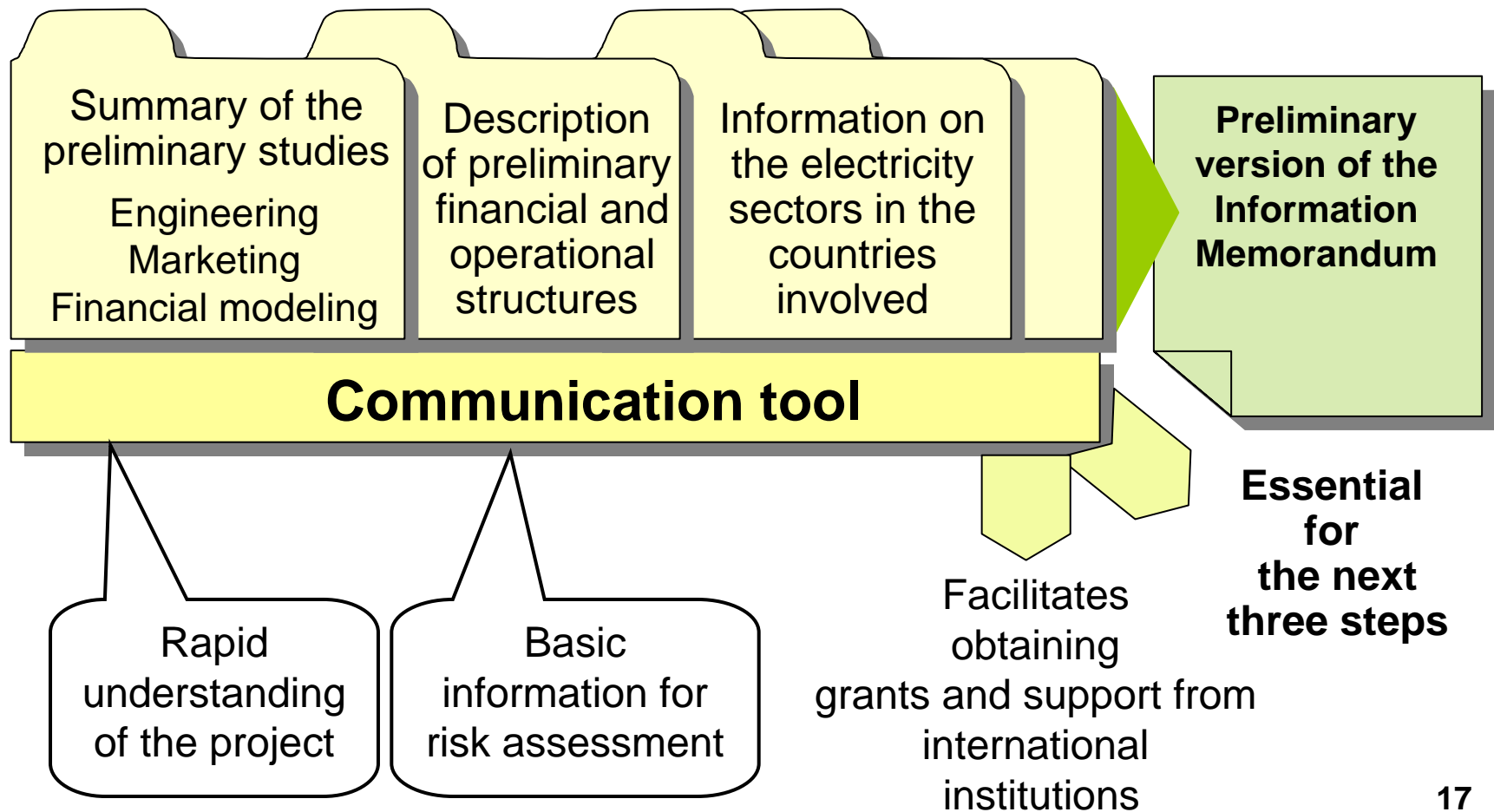




## Step 2 - Project Definition



### Producing a **Project Definition Document**





## Step 3 - Risk Analysis



### Identification of risks and their impact on the project

Concerned with the risks **perceived by investors/lenders**

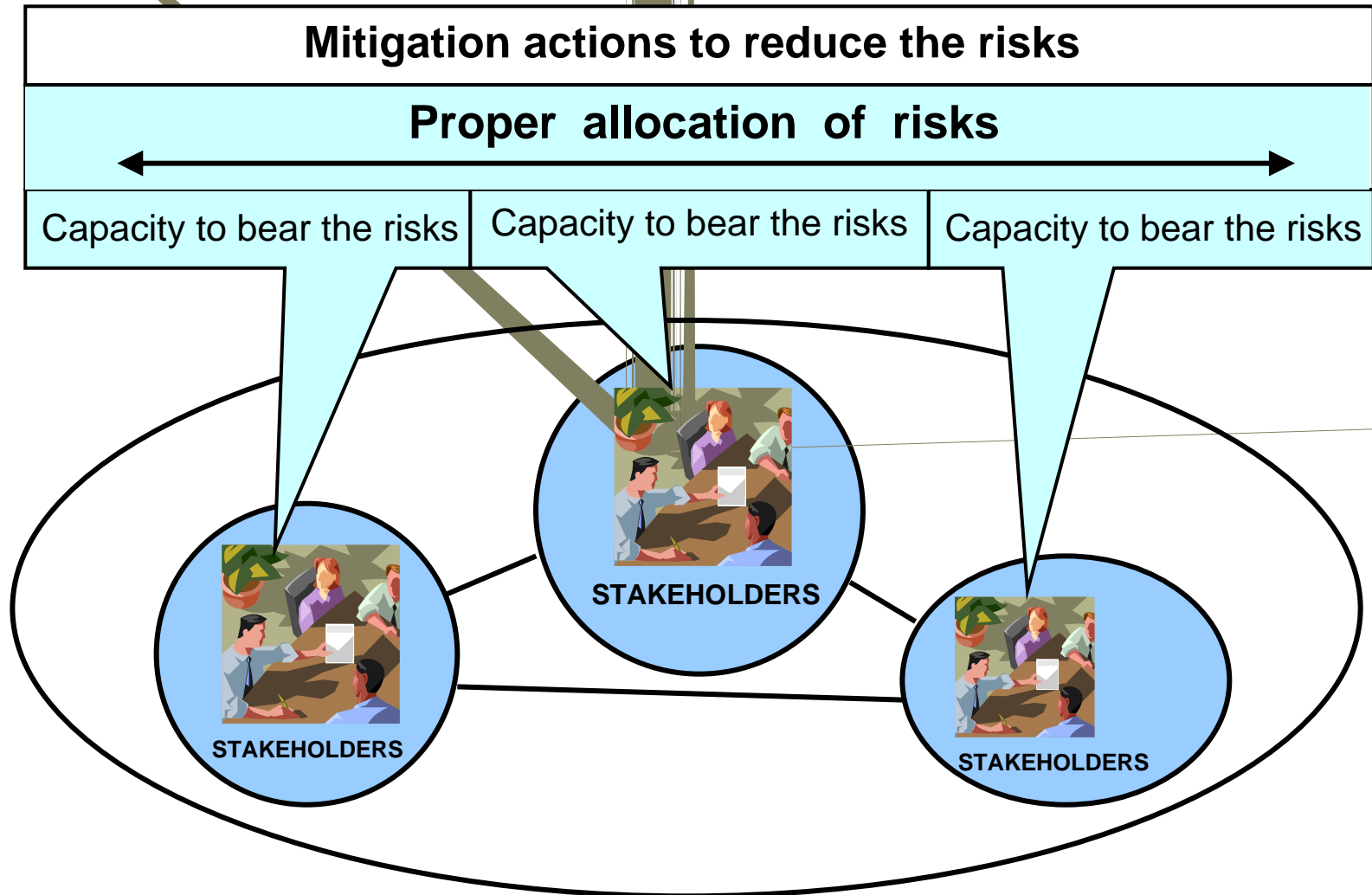




# Risk Management Strategy



May have a determining impact on the financial and operational structures (step 5)

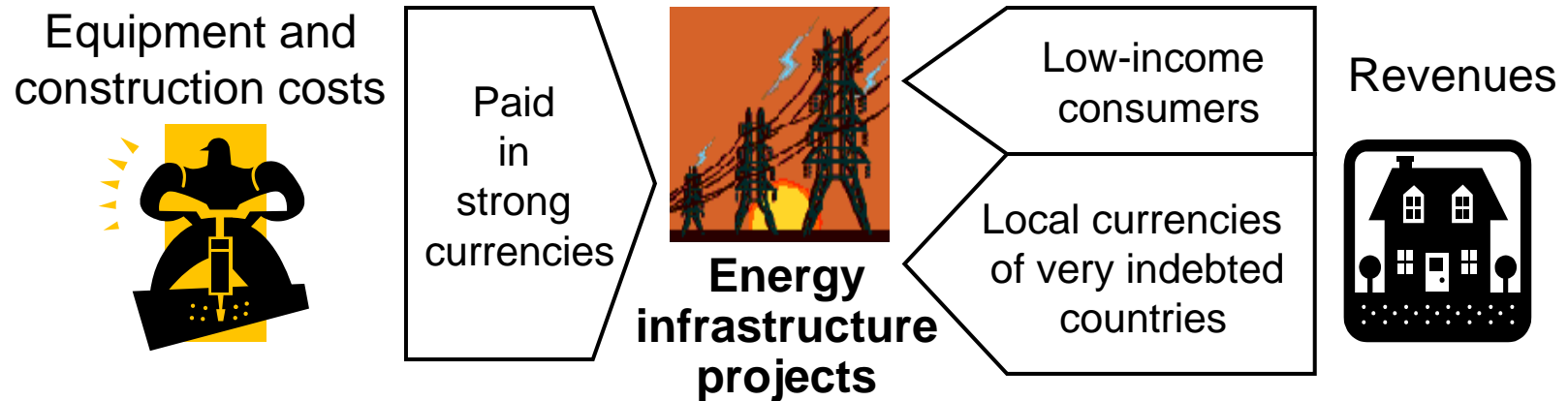




## Step 4 - International Interest and Support



To bring comfort to the investors/lenders



**High sensitivity of investors/lenders to risks**

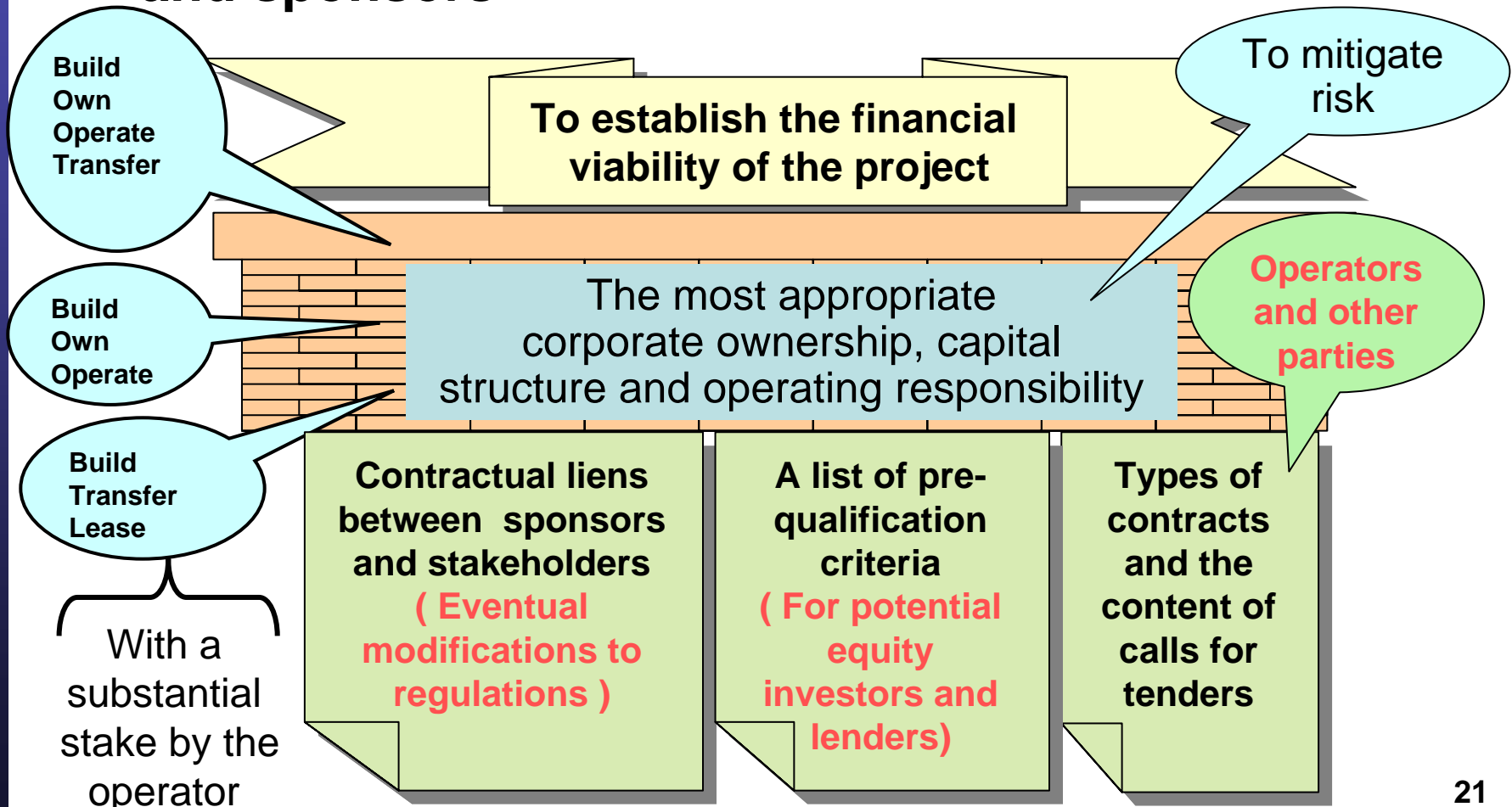
- May be a prerequisite to obtain financing
- Will open the doors for public and private funding
- Will allow obtaining grants from international organizations
  - To proceed with **independent reviews of the project**



# Step 5 - Financial and Operational Structures



Concerns the relationship between stakeholders and sponsors





## Step 6 - Legal Environment



- 1) To provide the group of stakeholders a legal status
  - 2) To establish the legal framework governing their relationships and commitments
    - Making the stakeholders commitments official
    - **Allowing to secure international financing**
- Typically results in a Shareholders' agreement or a Concession agreement
  - Should private ownership or private operating structures be adopted
    - Financing process carried out by the sponsors
    - Limited involvement from the stakeholders



## Step 7 - Independent Review of the Project



To add knowledge and credibility to the project and confirm its feasibility in a convincing way

- Requires independent **well recognized** experts
  - Proven track records
  - Successful financing achievements
- **A key factor of success**
  - A useful tool to follow-up on time and budget schedule to assure completing the project on schedule and without deficit

Provides the information needed to finalize the Information Memorandum

- **Especially regarding the risk management strategy**

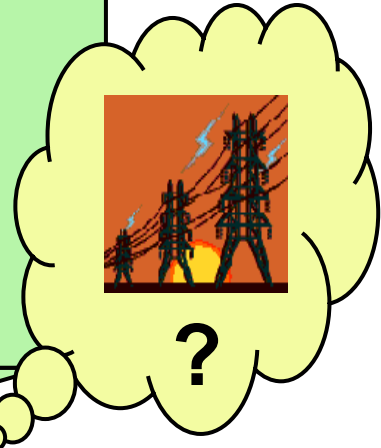
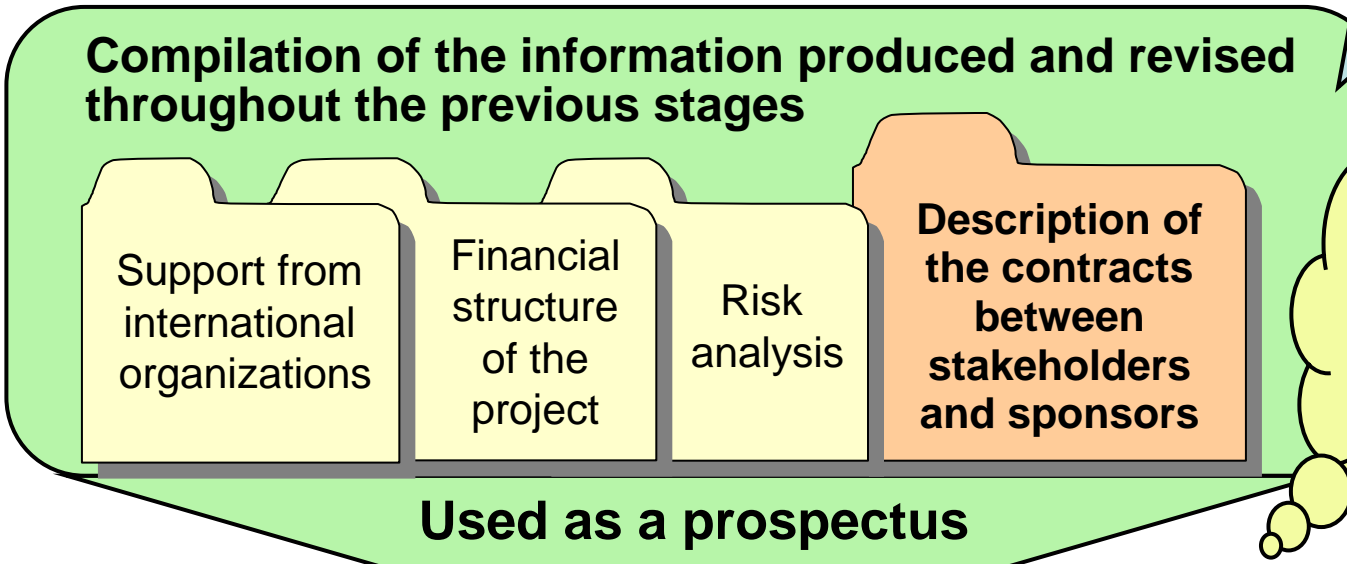


# Step 8 - Information Memorandum



To provide interested parties with all the information to decide on their eventual involvement in the project

Should be exhaustive



SPONSORS



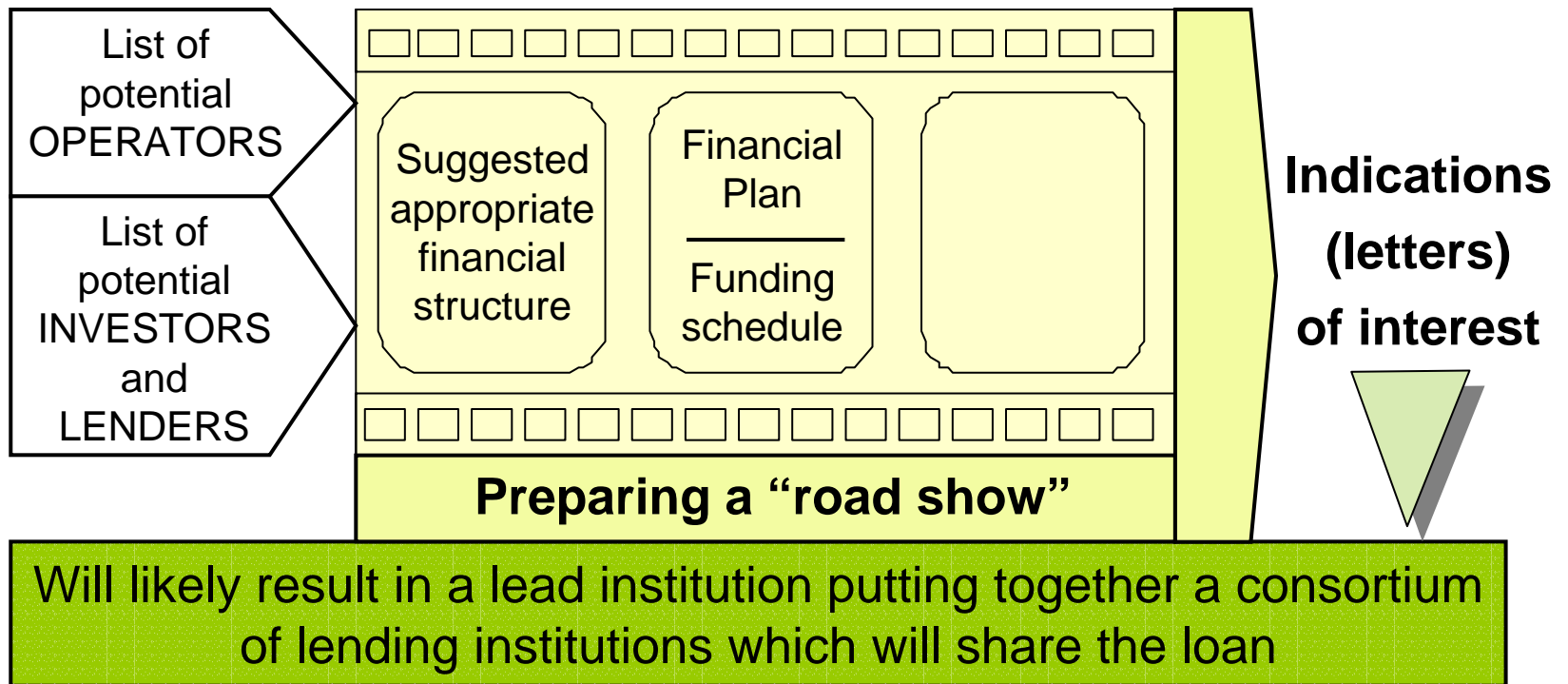


## Step 9 - Assessing investors/lenders interest



**To identify potential investors and lenders and confirm the financial conditions**

Usually performed by sponsors with a limited participation by the stakeholders





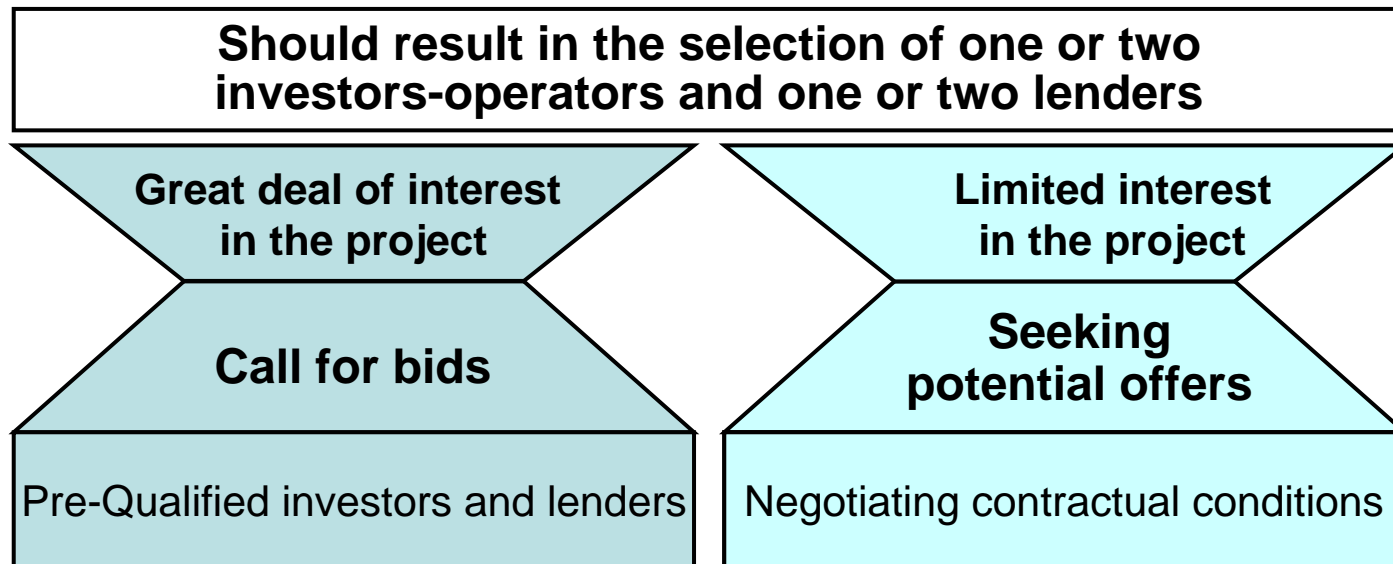
## Step 10 - Debt and Equity Proposals



**Negotiating with the best parties to secure a preliminary agreement**

- Equity from investors-operators
- Loans from international institutions or private sources

**Two possible approaches for the stakeholders**





## Step 11 - Negotiation and Contractual Agreements



**To secure the best financial conditions possible and obtain legal commitments**

- With the winning bidders (**investor-operator and lender**) and usually focused on:
  - Risk mitigation
  - Loan conditions (rate, reimbursement term, etc.)
  - Loan guarantees, etc...
- **The negotiation process is generally long**
- Results in signed financing agreement(s)
  - Preferable to keep a second runner-up just in case negotiations with the winning bidder fail



## Step 12 - Meeting Disbursement Conditions



Making sure that all the conditions required by the investors/lenders are met, in accordance with the agreements

- **To safeguard the good reputation of the stakeholders and the sponsors**

Likely to involve the appointment of an independent trustee

- To control cash disbursements and monitor the overall project realization