

GuarantCo

Enabling infrastructure Finance in Local Currency

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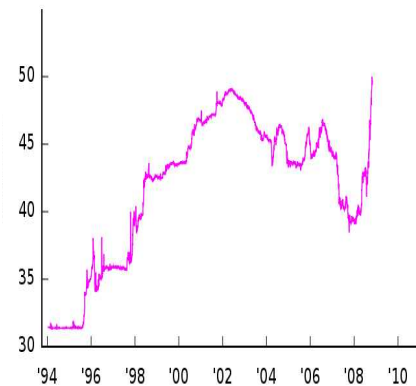
“Guarantees of local currency loans and bonds to finance infrastructure in lower income countries”

An additional aim is to build sustainable financing capacity in domestic capital markets through partnering with local institutions and introducing new approaches to project risk evaluation and financing



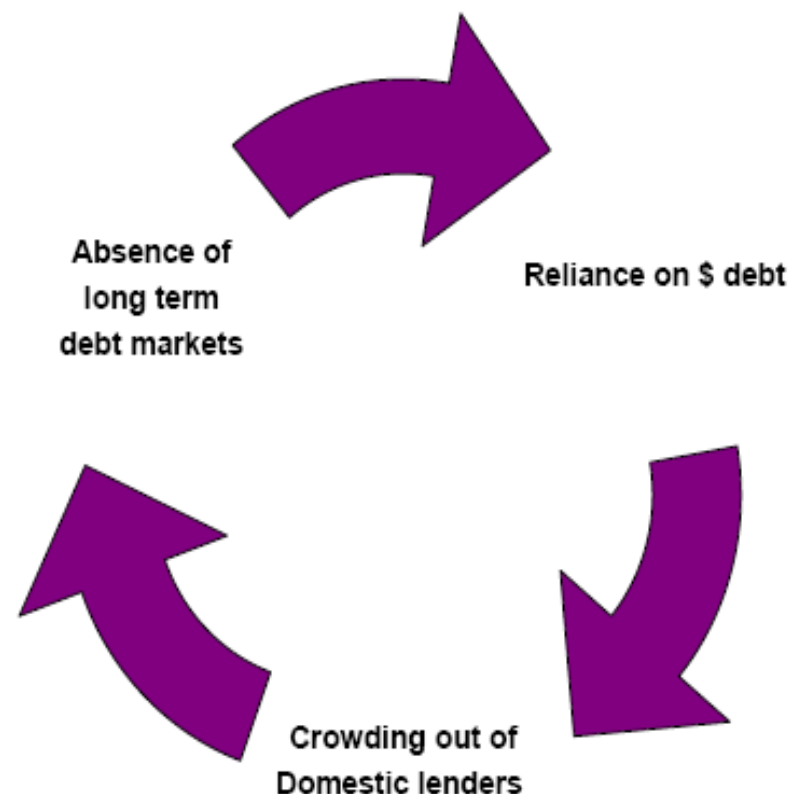
Local currency finance is a better solution at both project level and country level

- Financing in local currency allows projects to match their currency of revenue with currency of debt service
- Even if a project financed in \$ or Euro has the contractual right to pass on currency losses, the end consumer may not be able to pay if there is a devaluation - contractual agreements may fail
- Local currency financing involves productive recycling of savings within a country rather than increasing the country's external debt burden
- Involvement of domestic banks and institutions helps build capacity to finance further projects without reliance on outside help



All participants are used to working in traditional ways.....

- International lenders dominate project finance – they find it easier to lend in \$ or €
- National utilities are used to accepting pass through of currency risks from debt finance
- Domestic debt markets often cannot offer the tenors required and / or interest rates may appear comparatively high
- Until 2008 the \$ was weak so borrowers did not fear devaluation



But borrowers can begin to break the vicious cycle.....

Capacity building in local markets through partnership



- Funding of projects by domestic banks / pension funds who take as much or as little risk as they wish
- Guarantee from GuarantCo for remaining risks
- There is empirical evidence that risk sharing builds confidence, competence and greater risk appetite of lenders over time
- GuarantCo anticipates that most transactions it guarantees will eventually be refinanced without need for credit enhancement - and actively encourages this transition
- There may be legal, regulatory and policy constraints in certain countries which unnecessarily hinder the development of local capacity.
 - GuarantCo has access to quick disbursing technical assistance funds for Capital Markets capacity building (e.g. to pay for external consultants, assistance to governments or regulators)

- **Partial credit guarantee covering default risk on a portion of a loan or bond** - generally on demand and unconditional
- **Partial risk guarantee covering default risk due to specific events** - such as construction failure or revenue shortfall
- **Cover for senior, mezzanine or sub debt; maturity, coupon or principal strips; loans, bonds or securitisation**
- **Other methods of risk transference considered** (e.g. insurance / reinsurance or CDS / derivatives)
- **Preference for risk sharing** - defined on a case-by-case basis

- **Private sector project companies undertaking greenfield projects or expanding existing facilities**
- **Municipal infrastructure if funded largely through user fees (or ring-fenced structure providing satisfactory security)**
- **Parastatals if privatisation is planned (or case by case if operations are on a commercial basis)**
- **Refinancing of existing projects if cross-border financing is substituted by local currency debt**

- **Power generation, transmission and distribution (incl. renewable and non renewable)**
- **Water/waste management services**
- **Transportation (mainly fixed installations)**
- **Telecoms / IT Backbones etc.**
- **Urban / social infrastructure (incl. affordable housing / mortgages)**
- **Basic industries involved in infrastructure development (e.g. steel, cement, biofuels etc.)**
- **Infrastructure component of agro-industry, mining and energy projects**



Ineligible: Upstream Oil & gas and mining

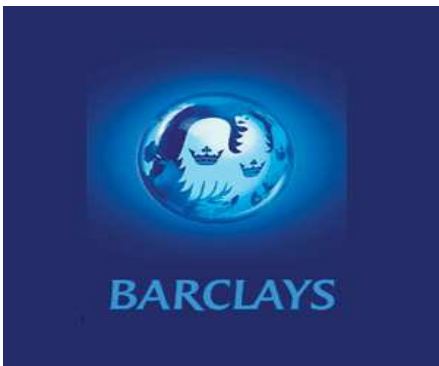
“Good projects in poor countries rather than poor projects in good countries”

Local currency finance is lower risk than hard currency finance (often rated 2 or 3 notches higher to reflect absence of devaluation / convertibility risk etc)

Although GuarantCo’s focus is on some of the least developed countries, projects there are usually more conservatively structured

We target the DAC list, the OECD defined “low and lower middle income countries” - per capita income up to \$3,705 (in 2007)

- **Most of sub Saharan and North Africa**
- **parts of M.E. eg. Iraq, Jordan, Palestinian Territories, Yemen**
- **Most of Central and parts of Southern America**
- **Parts of Asia eg Indian sub continent, Central Asia, Vietnam, Laos, Cambodia etc**



- Initial capital \$73m. Increase to \$100m pledged by shareholders.
- Additional backing from KfW / Barclays up to potential \$400m
- Single project participation \$5m - 20m (initial period) rising to \$10 – 40m
- Larger requirements can be syndicated to dfi's (up to \$100m)
- Technical Assistance Funds - grants up to \$500k per initiative / project but most \$50k – 250k
- Transaction tenors up to 15 years
- Guarantee pricing varies according to risk but floor of 1.75%pa (no wish to displace commercial risk takers)
- Guarantee payments typically made in accordance with the original debt service profile of the loan or bond

(amounts quoted are the US\$ equivalent of local currency)

Completed transactions

CelTel Kenya. Partial Credit Guarantee of a \$50m 5 year bond issue for mobile phone network expansion. Only the third commercial bond issued in Kenya and largest at that time

CelTel Tchad. \$14m guarantee of 6 year bank loan. Local lenders, Afriland First Bank and BDEAC, also lent \$20m equivalent without guarantee

Mabati Rolling Mills Kenya. Partial guarantee of a \$30m 9 year bond issue to finance a steel rolling mill to supply low cost roofing materials

Alaf Limited Tanzania. Partial guarantee of a \$14m 9 year bond issue to finance a steel products manufacturing plant

Shriram Transportation India. \$18.3m Mezzanine tranche credit enhancement for a securitisation of truck finance loan receivables

Wataniya Palestine. partial risk gtee for loans of \$25m to a new mobile phone operator in the West Bank

Mandated transactions

- Partial guarantee of \$18m finance for a new private sector utility on Bugala Island, Uganda
- \$14m partial gtee for a new factory producing steel pipes for the water sector in Algeria
- \$10m partial guarantee to enable an Indian Infrastructure Finance institution to access the 10 year rupee bond market
- partial guarantee of a \$65m financing for a cement plant in Assam, India
- Partial guarantee of a \$22m broadband backbone service in Niger
- Partial guarantee of a \$340m steel plant in Orissa, India
- \$15m in construction performance bonds for water and road projects in Uganda

Potential transactions

- **\$20m 15 year guarantee for a \$200m toll road in Kenya**
- **\$12.5m 15 year loan guarantee for a gas fired power project in Nigeria**
- **Credit insurance of low income house buyers seeking mortgage finance in various African countries**
- **Various power generation projects in Benin, Jamaica and Rwanda**
- **\$20m partial guarantee for slum redevelopment project in Mumbai**

How is GuarantCo Managed?

GuarantCo Ltd is based in Mauritius. It is owned by a trust set up by the governments of Sweden, Switzerland and the UK together with FMO (the majority Dutch government owned development finance institution)

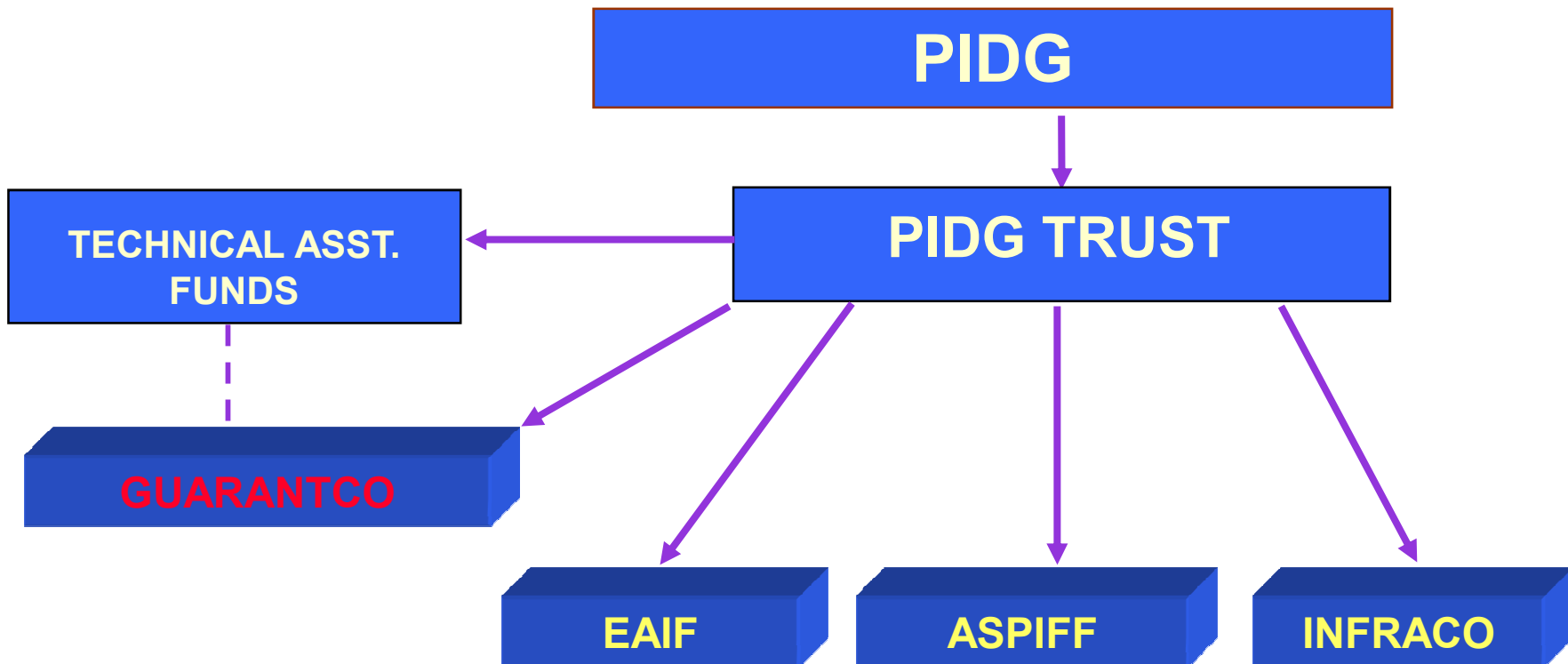
The manager is SIFMA Ltd, Mauritius - owned 70% by Standard Bank Ltd, South Africa; 18% by FMO, Netherlands and 12% by EMP, Washington. SIFMA was appointed manager in Dec '06

The adviser to GuarantCo and SIFMA is Frontier Markets Fund Managers, FMFM, (a division of Standard Bank Plc), based in London and regulated by the FSA

FMFM and SIFMA's management of GuarantCo is kept separate from Standard Bank's main activities and is supervised by an independent board of non executive directors appointed by the shareholders

Shareholder Structure

PIDG sponsors various infrastructure development funds



The Private Infrastructure Development Group (PIDG) = IFC Washington + governments of Austria, Ireland, Netherlands, Sweden, Switzerland + UK

GuarantCo is owned by the PIDG Trust and FMO, managed by Frontier Markets Fund Managers

Q1 2009

- GuarantCo signed a facility agreement in March 09 whereby all its guarantees will be backed severally by KfW (AAA) and Barclays (AA-)
- The facility provides clients of GuarantCo with the benefit of additional cover from two highly rated entities while GurantCo's portfolio is built
- The counter-guarantee arrangement will remain in place until GuarantCo achieves an independent rating of at least "A"

2012 onwards

- An independent rating (minimum "A" international) will be sought based on capital of \$100m and a diverse guarantee portfolio of \$300m+ – will eventually replace interim counter-guarantee arrangements above but only if the target rating is obtained

Risk Sharing:

GuarantCo can co-operate with ECA's where they provide local currency guarantees or local currency loans:

- **We can risk share on a pari pasu basis or take different risks such as**
 - longer tenors
 - construction risk
 - subordinated or first loss positions
- **We can co-guarantee, front or counter guarantee / reinsure**

Complementary finance :

Borrowers often look for 100% finance. GuarantCo can enable additional finance to pay for non-eligible content or local costs

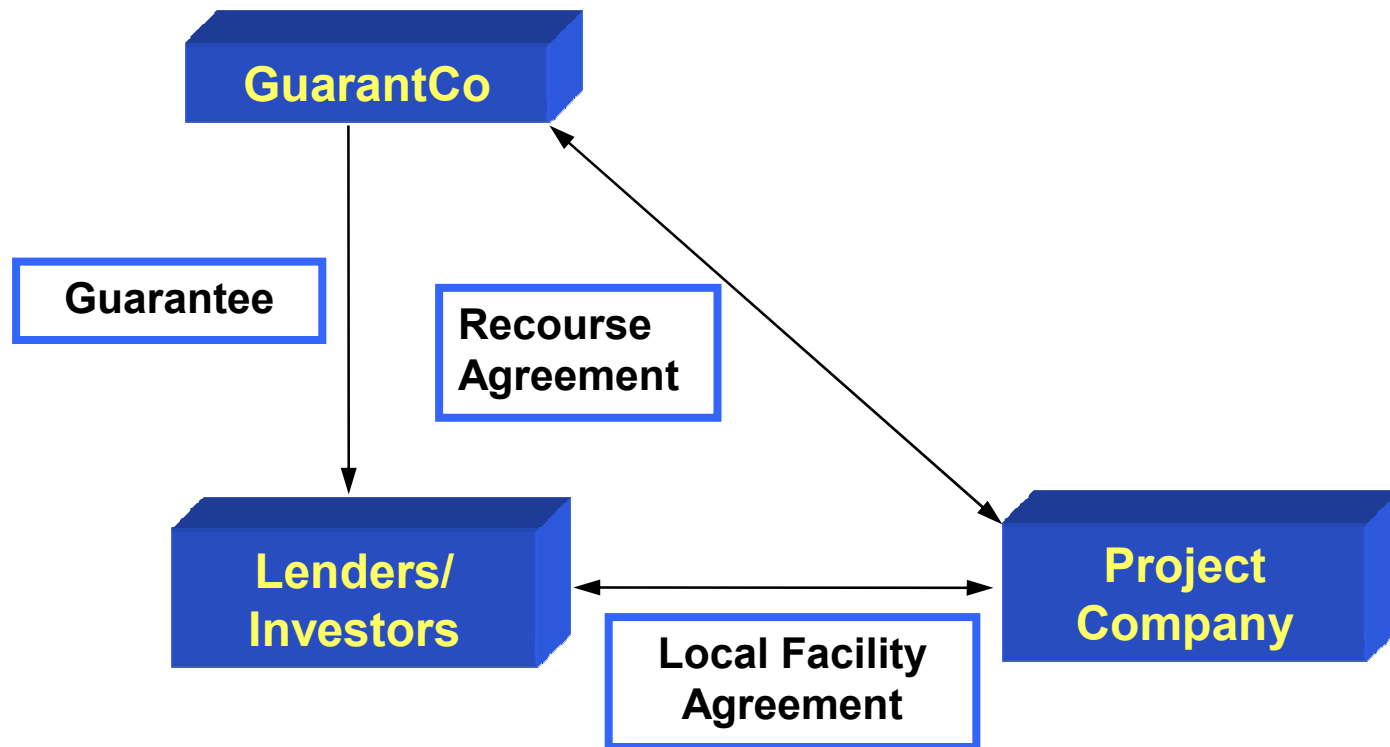
- **The main ECA facility can be in either local currency or hard currency**
- **Availability of 100% financing may accelerate financial close**
- **Comfort from sharing common due diligence and monitoring**
- **Our support is untied**

- **Tenor of local bank lending often constrained due to absence of longer tenor deposits (asset / liability mismatch)**
- **Either internal treasury or external regulator constraint**
- **GuarantCo is prepared to offer “put” options to local lenders:**
 - **guarantee can be called for liquidity reasons (as well as credit reasons)**
 - **Could cover funding risk beyond a certain date or during times of unusual volatility**
 - **Only offered in conjunction with partial risk or credit guarantees (ie not standalone)**

- **In the event of a default, payments will be made to guarantee beneficiaries by GuarantCo in local currency and the currency of obligation by the borrower will typically remain in local currency**
- **This is not the case with many guarantors who require crystallisation of borrower obligations in \$ or Euro on default**
- **GuarantCo believes that redenomination into \$ or Euro could add to borrower distress and might even result in lower eventual hard currency recovery. Such redenomination may also not be legal in certain countries**
- **Opportunities are increasing for hedging post default exposures and potential recoveries and GuarantCo may choose to take post default currency protection for its own account**

Basic Structure - Loans

Guarantee of local loan





- Crisis of confidence in developed markets but contagion has spread to emerging markets
- Greater reliance on dfi's, ECA's and non commercial providers, although little evidence of increased capacity
- \$ strength and higher margins driving more borrowers to look at local debt
- Long term swap markets have dried up for many poorer countries
- Local lenders still have risk appetite
- Dramatic retreat by international banks to their core domestic markets has highlighted benefits of in-country financing capacity

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