



Power Infrastructure Development

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Challenges



The “easiest” form of project finance usually comes from local banks

- This is not always possible; or
- This is not always the most cost effective source of funding

Example:

- Current Southern African IPP
- Total cost: \$6bn
- Only 4 big SA banks
- Biggest SA Bank - \$10bn capital
- Regulatory costs – about 60 bpts

Challenges



***Local* liquidity capacity but inability / unwillingness to assume project / credit risk**

- South African bond market – in excess of \$100bn in issue
- As little as 13% of funds invested in bonds
- No government budget deficits – no need to borrow

***International* ability to assume project / credit risk, but inability to fund efficiently**

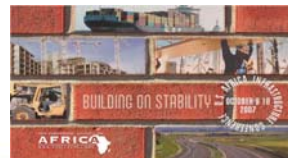
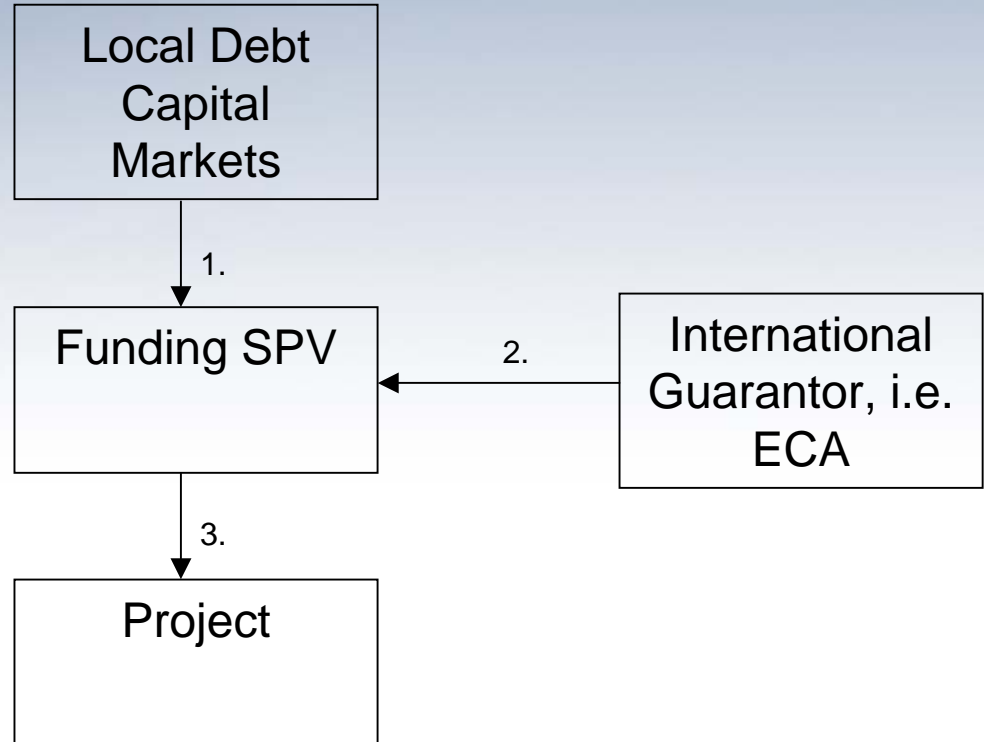
- High cost of raising local currency, or high cost of swapping
- Long-term currency exposure – very expensive to hedge

Solutions



Combine local liquidity with international credit risk assumption

1. Dedicated funding SPV raises funds by issuing paper into the DCM
2. Credit risk / rating is enhanced by international (AAA) guarantee
3. Funding advanced to project / assets



Benefits



- **Project utilizes cheapest source of funding – local DCM liquidity**
- **Funders can invest in long-dated paper with high credit quality (through the DCM)**
- **International credit enhancement creates “new source” of credit risk diversification to investors**
- **International “funders” can assume / purchase credit risk (i) at competitive rates and (ii) without assuming currency risk**