

INTERNATIONAL FINANCING FOR AFRICAN PROJECTS

The methodology: The preparatory phase of a project is essential.

A project owner must not hesitate to invest time, money and know-how to properly present the Project to potential sources of financing. It is necessary to know how to prove its viability and it is equally important to make it stand out. Victor Politis, President of PRI, a New York based Project Development and Financing firm, lays it all out, based on his experience.*



International Lenders, Strategic Partners and Equity Investors will eventually look more aggressively beyond South Africa, which still attracts most of the comparatively little global capital that finds its way to the Continent. However, there are many obstacles to overcome before Private Capital replaces

Donor Financing in Africa, on a significant scale.

The most important issue is the shortage of Projects that are conceived, prepared and structured in a way that mitigates the various real and perceived risks. Most project owners and their staff have no experience closing on international financing transactions. Therefore, they cannot anticipate and address the complex questions and issues that will give investors and lenders the comfort that they need. These owners think that everyone should see the opportunities that are obvious to them. They are wrong in most cases. No one should be expected to follow the enthusiasm of Project owners, unless the Project Information Package can support it.

There are obviously many opportunities to replace expensive imports in markets that have consumer bases with growing purchasing power. In some cases, projects can target regional markets and even developed countries with value added exports for which there is clear demand and demonstrable competitive advantage from the African companies. The opportunities

exist in most sectors from food processing to energy and from media to tourism. In most of these sectors, multilaterals have very little to contribute. At best, they can participate when it is appropriate to give comfort to private capital. It is critical for the Owners and Managers of Private and State owned companies to stop targeting multilaterals as the main source of financing. It has not worked in the past and it will continue to be disappointing going forward.

It is critical to understand that African Companies are competing for Project Financing with everyone else on the Globe. In reality, they have the same chance to succeed as anyone else, provided that they comply with all the requirements of Private Capital. Only "obvious" proposals will compete successfully, especially when one considers the lack of track record of successful investments in most sectors and most countries on the Continent. In order to reverse the perception and the trend, major, priority projects must be successfully implemented so that they can be the prototypes to follow.

Key decision makers in Banks are geographically far away

from the projects that they are asked to review. They are not familiar with the Project Sponsor and the proposed opportunity. They need to be educated in their “language” and without having to read much more than a couple of pages. The initial short summary must contain the most relevant and strategic information that “speaks loudly and clearly” to the very first reader. If the initial information about an Investment opportunity is not obviously interesting, the chances of the material to be seen by the right people are extremely slim. The review process has many roadblocks.

The very first Bank executive (the Contact) to see the Project Information has a “Job to Do” as well as “Job to Protect. The Job to do involves putting money to work safely and profitably, for his employer. However, he cannot afford to be criticized for recommending an Investment that does not meet the criteria of his institution. Each time he does that, he puts his job at risk.

In most cases, an opportunity will be screened three times before it moves to the negotiation stage. The initial screening is done by The Contact. Next, an internal Committee, which consists of the person’s colleagues and immediate superior, reviews the Project. Lastly, the Credit Committee, which consists of members of the internal committee and decision makers appointed by the Board of the Institution, takes on the job of reviewing the Project.

The Contact needs to be

empowered to defend his decision to bring the opportunity to the attention of his colleagues and the decision makers. This person is key to the success of the effort to obtain international financing. Project owners must remember that they will not meet most of the members of the Credit Committee. These members need access to someone within their Institution who can answer all their questions. This someone is The Contact and his Team.

Investors and Bankers will be making decisions on the basis of the quality and transparency of each proposed project. To get their attention, owners of potentially profitable projects will have to apply basic marketing principles. Projects will have to be packaged to draw their attention and to address their concerns. Companies who do not have in-house executives who are experienced in attracting International Capital must invest in the work of Experts who have a successful track record. Business Plans and Feasibility Studies prepared by local consultants may be helpful in marketing to domestic sources of financing, but will not attract international partners, investors and creditors.

It is practically impossible to cover all the issues that face all the projects. However, there are certain elements that are common among all proposed investment opportunities. The project owner who understands these elements and prepares his project accordingly, is likely to succeed, even if he is operating in a difficult environment.

Project Development

The development of a project, the preparation and packaging of the information and the marketing effort to inform the financial market is a long and expensive process. Owners of projects in emerging markets must accept the fact that it is necessary to invest and risk seed capital in the predevelopment of their projects in order to bring them to the point when they can attract financing. This requires the combined expertise of the project owner’s team and international experts who understand the continuously changing language and needs of International Capital Markets. This period in the life of project development involves the ability to manage and coordinate the activities of various team members who are working on parallel tracks to meet one goal: **to get the project properly structured so it can be financed.**

Information

In Emerging Markets, Business Plans and Feasibility Studies prepared according to standard formulae acceptable for Developed Markets do not produce results. In many cases, these documents exclude the most important information and are insufficient as the basis for credit and investment decisions. Often, a one-page opinion paper prepared by an Independent Technical Expert trusted by the Banks is worth 100 times more than 10 pages prepared by the Project Owner’s internal specialists. There is no doubt that properly packaged information will make a huge difference in the chances of a project to attract financing.

Structure

Areas such as contracts with offtakers, customers and suppliers, and insurance are important for creating a financing structure in compliance with investor requirements. In many cases, in order to obtain "fresh" international financing, the project owner must restructure and reschedule existing domestic debts.

Packaging

Packaging communicates how a product works and its benefits but most importantly it makes the product stand apart from others on the shelf. Similarly, investors will be drawn to projects that are packaged in such a way that they properly communicate the underlying quality. In most projects, the problem begins with lack of relevant information and a financing structure that shows how the project will repay its debts. These are elements that are critical to lenders and investors and must be part of the "packaging".

Marketing

Strategic Partners, Investors and Banks – they all have different objectives and therefore different and very

unique requirements. In order to market a Project as an Investment opportunity, the Owner must understand deeply the profile of his target audience (Strategic Partners, Banks, Investors, Customers) before the very first approach is made to any of them. Otherwise, the risk of rejection is great. It is practically impossible to go back after the wrong impression is made.

Negotiations

When an agreement-in-principle to invest is made, the negotiations on terms and conditions begin. This is the riskiest period of the quest for investment process. It often results in failure because of the inexperience of the owner and his inability to anticipate all the pitfalls and the issues that will be raised by the lawyers for the Investor. It is critical to have people on the Team who understand thoroughly the process and had done it successfully in the past.

It is necessary to remain flexible and continuously process, analyze and filter information. Market conditions can change significantly between the time that the

Project is conceived and the time that financing is about to close. The combined local and international team must stay with the project until it is successfully implemented. A few months of close cooperation creates a project team, which can present the project to the sources of money in the most effective and coordinated way.

There are several examples of success in countries in crisis and in sectors that were not the most attractive to investors that prove that it is possible to achieve a breakthrough and attract international project financing, even when there is no substantial track record.

The key always is to show that there is a Market for Products or Services to be offered by the Project, there is an experienced Management Team in place to run the Business and that there is a structure in place that will insure good cash management, repayment of Debt and good returns to the Investors.

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