

Industrial Deal of the Year Mozal

**INDUSTRIAL DEAL
OF THE YEAR
MOZAL**

Long, long ago, project finance was a tool used to help very poor countries. Successful deals could make a huge difference to the economy of a host country. Well they have. Indonesia being an unfortunate example with all that power coming on stream. So it is good to report on a deal that should make a direct and beneficial impact on its host.

The Mozal project is very much an export credit and multilateral-led deal with little risk to the commercial lenders. But it is a structured loan package based on the performance of a single asset, the Mozal aluminium smelter. It is the first of what hopefully could be a series of large, export-driven, industrial projects in Mozambique.

The country is poor. Poor as defined by being either the most poor or second-poorest country in Africa, so in essence poor. It was wracked in the 1970s and 1980s by civil war and interference from the old South Africa and only now is moving to some sort of political, and therefore, economic stability.

It remains very poor. A gruesome illustration of this is the lions in the Kruger Park have acquired a taste for human flesh, given the number of economic migrants flooding over the border to South Africa via the park. The biggest, poorest and highest crime-generating township in Johannesburg is the Alexandria township, over the road from Sandton, which is full of those who survived the trip. Bringing prosperity to Mozambique is, therefore, for self-interest, an economic priority of the South African government, which itself is stretched economically.

Mozal, a huge US\$1.34bn project, is a start. To follow could be the US\$2.5bn Enron/South Africa Industrial Development Corporation (IDC) Maputo Iron & Steel Project (MISP), utilising gas from the Pande field, the US\$800m JCI Project's hot briquetted iron plant using Sasol/Arco gas, and the JCI 1,000MW Moatize mine power plant with associated industrial development. The South African government has its own Maputo development area plan, linking the two countries. These projects are still in their early stages and are not guaranteed to go ahead, but Mozal is financed and construction started in summer 1998.

Mozal is lead by Billiton. The other sponsors are Mitsubishi, IDC and the Mozambique government. A whole host of development institutions have signed up on the debt side: IFC, CDC, DEG, Development Bank of South Africa (DBSA), EIB and Proparco. Export credit support comes from Credit Guarantee Insurance Corporation of South Africa (CGIC) and Coface. The US\$380m CGIC tranche was 100% covered, while the US\$110m Coface tranche, backing the Pechiney technology, has 95% political cover and 70% commercial cover. In all, senior debt accounted for US\$670m, sub-debt US\$150m and equity US\$520m.

Political risk is obviously a huge concern for lenders, but price risk is also a factor. The aluminium market is volatile – in 1997 prices stood at US\$1,549 a ton and in 1998 they were down to US\$1,274. A US\$1,300 price is needed for Mozal to earn its weighted average cost of capital. However, a low all-in funding cost of 8.9% must help.

Elsewhere, there was the usual batch of petrochemical schemes in the Middle East. In Qatar, Nodco was financed. But the heavily guaranteed deal to expand the Nodco refinery was backed by an US\$800m loan from Barclays Capital priced at 55bp–65bp. When the emerging markets turned, this was a non-starter, but to the credit of those involved, it was restructured and syndication took place in the autumn (still with the same low pricing).

Qatar Vinyl Company (QVC) followed and again had to be restructured but simply with higher pricing. It has sold at the underwriting level with the three arrangers, Apicorp, CSFB and Paribas, now joined by seven others.

Sabic had a few deals in Saudi Arabia. Yanpet was the deal of the year last year, with its cheap margin of 50bp–52bp, large size of US\$2.2bn and success in syndication at the underwriting level (but not the general syndication).

This year, Keyma followed, and to the surprise of many, achieved even cheaper pricing and bought in a huge underwriting group to reduce syndication risk. But the Sabic deal flow is now slowing as the 50% drop in global petrochemical prices bites. Indeed, sponsors and banks will be more selective across the region from now on regarding oil and gas and petrochemicals.

ZPR obtained a project finance loan for its paper mill in eastern Germany. The loan was 80% guaranteed by the government.

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develop strategic projects. Leading the way is the \$1.34 billion Mozal aluminium smelter deal, which will provide a benchmark for the region.

Hard act to follow

"The impact of the Mozal project on Mozambique is enormous," says Jaco Kriek, deputy general manager in the project finance department at the Industrial Development Corporation of South Africa (IDC) in Johannesburg. But structuring a limited recourse financing for the \$1.34 billion aluminium smelter in a country which, until recently, was waist deep in a civil war proved a challenge for project sponsors.

The result is an innovative financing package which incorporates debt and guarantees from a series of multilateral agencies including the International Finance Corporation, the European Investment Bank and export credit agencies from France and South Africa.

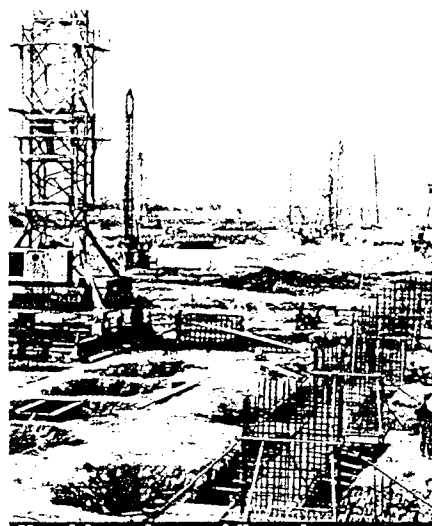
The construction of a 250,000 tonnes-a-year primary aluminium ingot facility and a 450MW power plant, was conceived over three years ago by Billiton. From there Billiton brought in partners such as the governments of Mozambique and South Africa, the IDC, Eskom (the Mozambique utility) and Mitsubishi as well as the international finance partners. It was discussions with these international financiers which influenced the structure of the financing.

The project is structured on a limited recourse rather than a non-recourse basis. "The two principal factors that influenced our decision were the political risk associated with investing in Mozambique and the impact that full recourse finance would have on the shareholders' balance sheets," says Louis Irvine, general manager in the finance department at Mozal in Johannesburg.

Under the terms of the financing structure, the shareholders assume the construction risk. "The shareholders undertake to construct and complete the smelter after which they will be released from their funding obligations towards the lenders," says Irvine. "A production performance standard must be demonstrated by the smelter before the lenders assume non-recourse risk."

Billiton's strong track record as an aluminium producer and the strength of the project once operational, convinced the lenders that a limited recourse transaction would work.

The involvement of the multilateral and export credit agencies was just as impor-



Mozal depends on multilateral support

tant. "We started talking to the International Finance Corporation and the Commonwealth Development Corporation in July 1996," says Kriek. "It was particularly important to get them involved because of the level of perceived political risk involved in the project. The commercial banks and even some of the multilaterals were sceptical about getting involved. For the IDC it was our first project outside of South Africa."

Additional political risks are, however, mitigated by the involvement of two

export credit agencies. South Africa's export credit agency, Credit Guarantee Insurance Corporation of Africa, which is providing 100% political and commercial cover for the project, became involved from an early stage partly because over 60% of the capital was to be sourced from South Africa. France's Coface, which is providing 95% political risk cover and 70% commercial risk cover, entered into the project based on the involvement of the technical equipment supplied by Aluminium Pechiney.

The sponsors faced a number of challenges. Mozambique's infrastructure is not well developed and as a result the sponsors have had to spend time training the workforce as well as constructing road access, water, telephones, electricity and sewage facilities on the site.

The project lawyers also had to work within the boundaries of the Mozambique legal system which incorporates elements of former colonial legislation, Mozambican legislation and decrees passed by the Mozambican council of ministers.

Mozal is one of a series of Mozambican projects others of which include developing mines and ports in the region. But in many ways Mozal should lay the ground work for many more. ■ MW

Mozal

Total cost: \$1.34 billion

Location: Mozambique

Sponsors: Billiton (49%), Industrial Development Corporation of South Africa (IDC)(25%) and Mitsubishi (26%)

Lawyers to the sponsors: Linklaters & Alliance, Doney Reitz and Clifford Chance

Lawyer to the lenders: White & Case

Equipment supplier: Aluminium Pechiney

Power purchaser: Motraco

Project completion: Construction on the plant started in May 1998 and first metal is due in June 2000, with full commissioning scheduled for December 2000

Financing:

Shareholder equity

Billiton	\$245 million
IDC	\$125 million
MDC Metal	\$130 million
Government of Mozambique	\$20 million

Agency subordinated loans

IFC	\$65 million
CDC	\$50 million
Proparco	\$5 million
DEG	\$15 million
DBSA	\$15 million
Total agency subordinated loans	\$150 million

Senior loans

IFC	\$55 million
Proparco	\$20 million
DEG	\$5 million
DBSA	\$5.5 million
CDC	\$5 million
Coface (lenders) is providing 95% political risk and 70% commercial risk cover	\$110 million
CGIC (supported lenders) is providing 100% political and commercial risk cover	\$380 million
Total senior loans	\$630 million
EIB loan	\$40 million



Africa's new project dawn

Africa could see an upturn in project investment this year, as international banks shift their attention away from the unstable Asian markets and explore new territories, Tyll Pahl, head of global project finance at Dresdner Kleinwort Benson, told the European South Africa Business and Finance Forum (ESA) in Hamburg. By Julie Carr.

"Africa will benefit from a new appraisal from investors seeking an alternative from Asia in the short term," he said. Last year saw the bottom fall out of the Asian project finance market, as the region experienced a 50% drop in new debt financings and many other projects were either cancelled or restructured.

With the Asia crisis far from over, investors should now be actively pursuing projects in the underdeveloped African market. But, according to Pahl, the Africa market is not as active as expected, given its huge potential for deals in infrastructure, power and mining. Standard & Poor's has estimated that R170bn is needed to fund infrastructure development in Southern Africa.

Despite Africa's great expectations, banks, still stung by the Asian crisis, are approaching the continent with some caution. This has meant that, post-Asia, banks are developing more conservative financing structures, with fewer risks. "While structures will probably also be more conservative and margins higher than in the pre-Asia era, the short-term effects should be positive," Pahl said.

He added that the main lesson to be learnt from the Asian crisis was to avoid a mismatch of the currency for project debt and the currency in which revenue is generated for the project.

With the crisis in Asia ongoing, and the recent volatility in Africa's own financial markets, the South African government has tried to reassure worried investors that the country has good long-term investment prospects.

"While we are living through a renewed period of turbulence, I am convinced it will be short-lived, that there will be a price correction, and the attractiveness of the South African economy will remain its fundamentals, which are strong," Trevor Manuel, minister for finance, said.

In the past months, South Africa – like many countries – has been buffeted by the crisis in Asia. Last Friday the rand plunged to a new low of 6.3% against the dollar amid reports of brief intervention by the US Federal Reserve and the Bank of England. It was one of the steepest falls in the rand's history.

However, bankers said it was unlikely South Africa would experience a crisis like that in Asia, given its strong regulatory framework, and its floating exchange rate.

John Gipinovich from Standard Bank, South Africa, said that in spite of the recent volatility the debt market in South Africa was well traded and

advanced. He said: "The market is likely to take a longer view of the crisis. It is unlikely that it would impact on future deals in the region."

Jakob Stott, head of investment banking for Eastern Europe, the Middle East and Africa at JP Morgan, said: "I don't think SA is vulnerable to the same domestic forces of economic collapse as Asia. The macroeconomic policies are sound, policies are stable and predictable and the banking system is healthy."

But despite a sound regulatory framework, Stott said a more accelerated programme of privatisation and structural reforms would boost the country's investment potential. He said: "The slow pace of privatisation in South Africa is the sort of thing that unsettles investors."

Although South Africa's privatisation programme has been subject to delays, these are more to do with the government's caution than a lack of commitment. "The government is committed to privatisation, but it is a complex issue and, while there have been delays, I believe criticism is unwarranted," said public enterprises minister, Stella Sicgau.

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African project financings 1998

Sponsor	Project	Country	Amount US\$
Billiton	Mozal aluminium	Mozambique	1.34bn
CTBV	70MW power	Mauritius	90m
Goldfields	Tarkwa mine	Ghana	75m
GE/IFC	56MW power	Senegal	60m
Samax/Resolute	Golden Pride mine	Tanzania	48m
Glencar	Wassa mine	Ghana	47.5m

South Africa's privatisation programme has been guided by the national framework agreement, a policy document that addresses the restructuring process by involving the major stakeholders – government, labour and management.

Last year, the government started the privatisation process with its sell-off of 30% of its equity in Telkom to Southwestern Bell Communications of the US and Malaysia Telkom for R5.6bn.

In addition, 5% of the equity was allocated for sectoral investment and development purposes. The strategic equity partnership is precluded from acquiring a controlling stake in the company but has the option to acquire another 5% at the time of flotation.

This partial privatisation was closely followed by that of the Airports Company. Aeroporti di Roma won the bid to acquire 20% of the Airports Company (ACSA) for R819m. A further 10% of the equity was allocated to the National Empowerment Fund, 9% to ACSA employees and another 10% to empowerment groupings.

Sigau said: "A final public floatation of the company's equity is envisaged to finalise the privatisation exercise. The registration of SAA as an independent body, the first step towards its partial privatisation, will probably be completed by the end of July."

Transnet, which constitutes 60% of the South African Transport System, is currently being organised into divisions of the holding company.

Sigau would not say how the packages would be put together, stating that the country's harbours might be managed as a unit and may be unbundled into separate operations. An announcement

is due to be made within the next two months on what size stake would be available and in which units.

Eskom, the biggest electricity generator in Africa with earnings of more than R3bn, will not be privatised, the minister said. The utility will be restructured for efficiency with separate transparent taxes to fund electrification. The distribution industry will be consolidated into a limited number of independent, financially viable regional distributors.

In the SA infrastructure field, the N4 was closed last year and a range of toll-roads and prisons and other infrastructure deals are now on offer.

Project finance across the rest of Africa is certainly seeing an upturn. There follows a list of the Africa projects deals done thus far this year. For a full list of potential African IPPs see the PFI Yearbook 1998, p133.

In addition, a range of financings are being considered for the oil and gas fields of western Africa.

Austria

Connect Austria presentation

Up to 40 banks attended the **Connect Austria** presentation that was held in London last week. The company is keen to have a select number of relationship banks in the final take. Banks are being invited to participate at three levels: Sch400m for a fee of Sch35m; Sch300m for a fee of Sch30m; and Sch200m for a fee of Sch25m.

So far the arranging banks, UBS, HSBC and Creditanstalt, have had a great deal of interest in the deal with many questions submitted by banks.

One banker said: "All the banks were impressed by the company's management and its professional approach, as well as the detailed plans of its strategy which were presented during the meeting."

Documentation will be sent out by mid-July with closing scheduled for the end of July.

The initial margin is 95bp, which steps down to 45bp depending on the debt to EBITDA ratio. Responses are due by early July. Debt to equity ratio is 60/40. The company's business strategy was reviewed by AD Little.

Connect Austria consists of Tele Denmark (15%), Norwegian national telecommunications company Telenor (17.45%), Orange (17.45%), the German industrial company Viag (20%), the Austrian industrial group Radex Heraklith (RHI) (20.1%) and Austrian bank Constantia (10%), and it paid US\$180m for the licence fee.

Connect Austria

Amount: Sch7.5bn

Term: 8.5 years

Margins: 95bp falling to 45bp, in line with EBITDA ratio

Repayment: Amortising

Lead manager fee: 35bp for Sch400m

Manager fee: 30bp for Sch300m

Co-manager fee: 25bp for Sch200m

Arrangers: Creditanstalt, HSBC, UBS

Belgium

Telenet arrangers

Arrangers BNP and KFC bank have launched syndication for the BFr15bn multi-tranche credit facility for Telenet Operaties.

The loan has been fully underwritten by the arrangers and the deal should be closed in the next couple of weeks. BNP is the global bookrunner and KBC is charge of documentation and is facility agent.

A select number of banks have been invited to take BFr2bn–BFr3bn each. It is structured as a 14-year term loan and a one-year revolving facility. It is believed to have competitive margins. Telenet is a

At long last: Project finance in Africa

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Against a backdrop of depressed commodity prices and financial calamity throughout the developing world, a most strange occurrence is taking place in the poorest continent on earth: Africa is attracting more project financing than ever. While figures are notoriously hard to come by, net foreign direct investment in sub-Saharan Africa reached an estimated \$3 billion last year, easily double the amount of a few years ago. Economic growth averaged 4.8%, up from 3.3% in 1995. At least 21 countries (out of a total 48) had a GDP growth rate of 5% or more.

"Africa has not yet been exposed to massive international borrowing to artificially stimulate its economies," says Charles Liebenberg, manager of project finance at South Africa's Standard Bank in London. "Commercial lenders have limited exposure to the continent. Most lending is from donor and developmental organizations that have a completely different perspective on exposure and different expectations with regard to recovering their funds."

Adds Jason Brewer in Dresdner Kleinwort Benson's mining division in London: "The Far East and Latin America have been sold down tremendously, and you're lucky to get your foot in the door in Russia. Africa, on the other hand, is well endowed with mineral resources, and its governments are restructuring policies to make tax and export regulations more investor-friendly."

That's not to say that Africa is a hotbed of project finance. Its problems are vast-and familiar: Poverty and civil wars make economic and political risks high. But "a revolution is in progress across much of Africa," says Adebayo Ogunlesi, Credit Suisse First Boston's global head of project finance, who operates from New York but is originally from Nigeria. "Countries are slowly changing from military rule to democracy, and that means economies are being liberalized and opening up to outside investors."

Africa's infrastructure is ill equipped to exploit its reserves of oil, gas, water, and gold. Roads, water supplies, power plants, housing, and port facilities must be built to get at the untapped wealth. Says Manfred Ernst, chief project finance adviser at Fieldstone in New York: "You can't have growth without electricity. This lack of infrastructure constrains growth in many African countries."

What's different this time is that African nations are harnessing private sector investment. Even less developed countries are struggling to issue and finance bonds and secure credit ratings. "Today you can find countries across Africa with stable regimes that welcome foreign companies and allow them to earn dollars and keep their revenues in offshore accounts," says Gerard Holden, global head of mining and metals at Barclays Capital in Johannesburg.

Stronger capital markets are beginning to emerge in Namibia, Zimbabwe, Egypt, and Algeria. Stock exchanges are being set up to tap into local funds and support government sell-off programs. "It makes sense for projects to raise as much financing as they can in the local markets, and governments are starting to create the conditions to encourage domestic savings," says Ogunlesi.

Egypt's 650-MW Sidi Krier power project is one of the first local funding deals. International banks (Dresdner Kleinwort Benson, ABN-AMRO, Paribas, and Societe Generale) are raising \$130 million of the \$316 million total financing in the form of a 12-year loan. But a further \$186 million is being raised as local debt by Commercial International Bank of Egypt and National Bank of Egypt, with the local Misr International Bank acting as a sub-underwriter.

Additionally, privatization is occurring in most African countries, and countries such as Egypt are

subsidizing local banks that back privately financed projects. In December the European Investment Bank dished out almost \$30 million in risk capital to five Egyptian banks.



African InFrastructure

Financing structures, too, are becoming slightly more innovative. Late last year Africa saw its first limited-- recourse deal. African project financing deals are traditionally structured on a nonrecourse basis because of the difficulty of attracting investors to deals that require them to assume any of the risk.

The \$373 million N4 Maputo Corndor Road, which stretches from South Africa to Mozambique, is the first build-- operate-transfer project and the first limited-recourse financing in South Africa. "In a true project finance deal, lenders have no recourse to the borrowers' balance sheets-they are secured only by the project's cash flows," says Jose de Nobrega, head of project finance at Investec Bank in Johannesburg, lead arranger of the debt facility for N4, being built by a consortium led by Bouygues of France. "That means the deal has to be structured to parcel out the risk."

In the N4 case, however, the government has not guaranteed revenues during construction, which will be generated by the phased opening of five toll plazas. The sponsors' risk is that traffic on the 440-km toll road might not live up to expectations. The sponsors also bear responsibility for any penalties imposed by the government for operations and maintenance failure. If there is mismanagement by the sponsors, the lenders can award the contract to a new group.

The \$1.34 billion Mozal aluminum smelter in Mozambique dwarfs the Maputo corridor as the region's most significant limited-recourse deal. The biggest project investment ever in Mozambique, the structure places construction risk on the sponsor, London-- based mining and resources group Billiton. Once the smelter meets production standards, the lenders will assume nonrecourse risk.

Billiton's track record as an aluminum producer and the strength of the project convinced lenders that a limited-- recourse structure would work. But the involvement of multilateral and export credit agencies was just as important. Political risks have been mitigated by the involvement of South Africa's export credit agency, Credit Guarantee Insurance Corporation, and Coface of France.

Bankers working on the deal say the structure paves the way for new nonrecourse financings. The introduction of the World Bank's partial risk guarantee-- used in the \$1.5 billion Jorf Lasfar power project in Morocco-has also boosted limited-recourse financing in Africa. It is the country's first independent power project and first successful power privatization since the government began privatizing 112 stateowned businesses in 1989. The partial guarantee does not cover commercial risk or all political risks, but it covers 100% of certain risks.

Other bankers say the risks to sponsors are too high in Africa for limited-- recourse financing to fly. "AIDS is a major social risk that flows down to the bottom line. You're constantly hiring new people,"

says Holden. "On top of that, 13 African countries are currently embroiled in warfare. No matter how promising the mineral reserves, the chances of enticing foreign dollars into a war region are virtually zero."

But the International Finance Corporation is testament to private investors' new African interest. Last year the World Bank affiliate approved more projects in sub-Saharan Africa than in any other region—almost \$1.2 billion for the region for 81 projects, \$2 million more than the previous year's total for 72 projects. This year the IFC plans to invest an additional \$700 million in African infrastructure and is setting up a \$500 million African infrastructure fund that will raise money on the international market from private institutional investors.

The region's drawing card is South Africa. The country's many homegrown investment banks can syndicate rand-denominated loans. It has a relatively large pool of institutional funding, mostly from insurance and pension funds, and the government is privatizing key industries with increased vigor.

In addition to the N4 toll road, South Africa is the site of the largest project ever in sub-Saharan Africa, the construction of the \$2.3 billion Duferco hot steel mill by Belgian steel manufacturer Duferco-Clabecq. Final financing arrangements are also being settled for the \$3.2 billion, 630-km N3 tollway connecting Johannesburg and Durban. And in late January the final round of bidding began on the 380-km westbound section of the N4, linking Johannesburg with Lobatse in Botswana.

In landlocked Lesotho work is under way on the \$163 million Highlands Water Project, which will provide water to Johannesburg and power to Lesotho. In Namibia the local power utility, NamPower is building a \$163 million transmission power plant. And in tiny Swaziland the first \$75 million tranche has just closed for the Maguga dam, part of the \$237 million Komati River Basin development project.

Mozambique is Africa's "shining star," says London-based Edward Farquharson, investment manager for southern Africa at the Commonwealth Development Corporation. Several \$1 billion-- plus projects are on the block in this poorest of all African countries.

Mozambique's single largest investment, the \$1.3 billion Mozal smelter, is worth nearly as much as the country's annual gross domestic product and almost double its total foreign direct investment for 1997. Mozal represents a leap of faith in the economy of a country still recovering from a long civil war and years of central planning.

Oklahoma engineering and construction company Fluor Daniel has an understanding with the government to develop another \$1 billion smelter. Meanwhile, the \$950 million Mozambique Port and Rail Project is being finalized along with the \$2.5 billion Maputo Iron & Steel Project, which includes the construction of a \$400 million, 600-km pipeline by Enron. Enron is still scouting for opportunities in the country's extensive Pande gas fields along with other energy groups, including Atlantic Richfield of the United States, South Africa's Sasol, and Empresa Nacional de Hidrocarbonetos of Mexico.

Central and eastern Africa, too, are seeing increased project activity. In Zimbabwe, South African metals and mineral company Iscor and Vai Industries of Great Britain are using a \$105 million export credit facility to modernize Harare's international airport. In Uganda, Telia of Sweden and MTN of South Africa are rustling up \$60 million to develop a second telecommunications fixed-line network. In Geita, Tanzania, Ghana's Ashanti Goldfields is using its \$135 million takeover of Canada's Samax Gold and an additional \$130 million in project financing to create one of the world's biggest gold mines. Canadian Sutton Resources is also forging ahead with its \$211 million Bulyanhulu gold project in Tanzania. Meanwhile in Chad, Exxon, Elf, and Shell are engaged in one of the biggest projects in the region: the construction of a \$2 billion oil pipeline to Cameroon.

Shell is also busy in Nigeria, with plans to invest \$8.5 billion over the next five years, which it says will come on top of the \$1.6 billion it already invests as Nigeria's largest oil producer and the \$4.5 billion it plans to spend to build a liquefied natural gas plant.

Angola has particularly caught the eye of oil companies. Texaco just purchased a 50% stake in an

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offshore oil field from Shell, joining Mobil, Energy Africa, and Norway's Saga Petroleum in developing the Congo Basin. Chevron is spending \$1 billion a year for the next five years to develop Angolan oil fields.

Cote d'Ivoire-the second-largest economy in West Africa, after Nigeria-is expected to be the region's fastest-growing economy this year. Since gaining independence from France in 1960, the government has been slowly privatizing the country's infrastructure and inviting bids from foreign investors. Asea Brown Boveri of Switzerland and Electricite de France are currently developing the \$220 million Azito power project.

West Africa's other former French colonies, struggling to upgrade plant dating back to the 1950s, are also turning to the private sector. This year opened with the signing of a \$65 million financing for the GTi Dakar Power Plant in Senegal. GE Capital provided 90% of the required equity capital, making the deal the biggest US investment in West Africa.

Guinea has also seen its first project financing in the mining sector, with Societe Ashanti Goldfields de Guinea securing \$55 million to build the Sigui gold mine. In Ghana, Britain's Glencar Mining is building the \$55 million Wassa gold mine, Ranger Minerals of Australia is working on the \$80 million Ambosso gold mine, and Ashanti is developing the \$83 million Bibiania gold mine.

The Arabic north is another major project finance hub. "1999 will be Egypt's year," says Giovanni Ortalani, head of project finance at Warburg Dillon Read. "Egypt suffers from being associated with emerging markets-it's Africa and it's the Middle East-but it's also an investment-grade country that is well managed." Adds Saadia Khairi, head of African project finance at Citibank in London: "We see Egypt's local bond market as a possible refinancing option." In addition to the \$316 million that Bechtel raised to build Sidi Krier, BG International (formerly British Gas) plans to build a \$220 million gas supply pipeline, while Italy's Danieli and Egypt's El-Ezz are finalizing \$590 million in financing to build a steel plant in Suez.

Even Algeria, which does not yet have a stock exchange, is attracting interest, with BP-Amoco looking to construct new oil and gas pipelines. Other power projects could soon be on the drawing board as the government outlines details of its privatization program that will be carried out over the next few years.

Today the bulk of African project finance is in the mining and oil sectors, which earn hard currency. The remote location of mines allows them to operate independent of political and social unrest in the capitals. In the future, the fastest growth could come from telecom and power. Zimbabwe and Cote d'Ivoire are test cases for the cellular privatizations as they sell off parts of the former state monopolies. Bankers are optimistic. The technology and investment required for cellular telecom is low compared with other sectors, and profits usually start rolling in within the first few years of operation.

Political and economic factors, however, continue to hold project finance in Africa at half throttle. Sponsors have to work closely with local councils, many of which are disorganized and corrupt. Education and infrastructure are underdeveloped-sponsors must spend time and money training their workforce and installing road access, water and sewage facilities, telephones, and electricity to project sites. In countries where civil war rages, security is a big issue. Foreign companies struggle to recruit expatriate staff. The unfamiliarity of local banks with project financing prevents sponsors from raising local debt, and project lawyers have to work within the boundaries of local, sometimes inadequate, legal systems.

Alastair Houlding, a commodities financier at ING Barings in London who formerly headed the bank's operations in Harare, Zimbabwe, is realistic about the future of African project finance. "Growth will continue in areas where projects are export-oriented and have strong multilateral support. But we're talking basic belts-and-braces deals. Privatization and liberalization is the mantra for most African countries. It's a slow process, but it does mean a big boost to project finance in Africa."



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AIG/EMP closes two more equity funds

AIG and Emerging Markets Partnership (EMP) have closed two more of their emerging market infrastructure equity funds, an African fund and a central Europe fund. Of the US\$925m raised, US\$195m came from private investors not linked with the funds. By Rod Morrison.

AIG/EMP and the World Bank's IFC have reached first closing for an African Infrastructure Fund. The fund has raised US\$400m from multilaterals but is looking to get a further US\$100m.

IFC and AIG have invested US\$75m each. The African Development Bank and Sheikh Mohamed Al Amudi have invested US\$50m each. Various European institutions such as European Investment Bank (EIB) and Proparco have put in US\$90m while the Development Bank of South Africa has put in US\$25m. Two South African banks are expected to put some money in.

The fund will be able to invest for five years and will close down by the end of year 10 with an option to go for 2 more years. IFC would like to encourage some of the investments to be taken out by IPOs to establish more liquid financial markets.

The fund has a core of 15 countries in which it wants to invest in but it will consider deals elsewhere. These 15 countries include South Africa, Mozambique, Zimbabwe, Uganda, Botswana, Tanzania, Kenya, Cote d'Ivoire, Ghana, Tunisia, Egypt, Namibia and Zambia. This list does

not include Nigeria yet. The fund will focus on investments in infrastructure and infrastructure related businesses in the telecoms, power and transportation sectors. Nelson Mandela will be the first president of the consultative council of the fund.

The AIG/EMP team has raised US\$525m for Emerging Europe Infrastructure Fund. The three main sponsors of the fund, AIG, ABN AMRO and Edison Capital, have put US\$350m into the fund, IFC has invested a further US\$30m and the rest is coming from various insurance companies and pension funds.

The fund is slightly different to the other funds in Asia (2), Latin America and now Africa. It will invest in countries which hope to join the European Union, and therefore the OECD, in either 2003 or 2007. However the mandate can stretch into eastern Europe if the opportunities arise and will include Cyprus and Turkey.

The fund managers believe European companies will be looking to invest in central Europe to compensate for falling market share at home. They will be competing against each other in this market. Therefore the fund will partner the corporates rather than being part of a bigger team of corporates. It is expected 75% of the fund will be invested in telecoms and energy related areas.

The fund was closed slightly earlier than planned due to its involvement in the winning bid for the Czech mobile phone

licence with TRW. There could be a second closing by the end of the year adding a further US\$150m. The fund was looking for US\$750-US\$1bn.

World Bank blocks loans

The World Bank has decided to stop funding developmental projects in West Bengal, following the state government's refusal to accept its terms and conditions for loans. Banks said that the state government had refused financial assistance for two of its projects after it had taken offence to the wording of the loan documents.

The state government has said that the World Bank's conditions attached to the loans were insulting because they were allegedly intended to influence the state's economy and attempting to dictate matters of revenue collection, subsidy and employment policies to the state government. The government will alternatively approach domestic financial institutions for the necessary funds.

A loan worth Rs 1,000 crore for urban development projects and another worth Rs 2,300 crore had been frozen, after the state government made it clear that it would not abide by the bank's conditions.

The decision to entirely stop funding any project in West Bengal was taken after the state government refused permission to the Bank to carry out an economic survey of its own on the financial health of the state and its repaying capacity. The government refused to comply saying the condition was an assault on the economic sovereignty of West Bengal.

Companies Abandon Claims Against Iraq

6/8/99 Contracts Are of Greater Value Than War Payments

BB4A By JAMES EFSTATHIOU
Dow Jones Newswires

Companies that lost property, cash or expected profits as a result of Iraq's 1990 invasion of Kuwait have abandoned about \$900 million in compensation claims against Iraq, in many cases to promote current or future business relationships with Baghdad.

While the companies range from construction outfits to drug makers to food-processing concerns, many share a common characteristic: They hold or covet contracts to sell humanitarian supplies through a multibillion-dollar United Nations aid program.

In interviews and in documentation offered to the U.N. Compensation Commission in Geneva, company officials say they are dropping their claims under pressure from Iraqi officials as a condition for doing business under the U.N.'s "oil-for-food" program.

Caught Off Guard

The maneuver has caught U.N. officials off guard, but for the companies involved, the choice is clear: Drop a claim that may amount to a fraction of real or prospective business with Iraq, or watch contracts go to other firms. "My understanding is [Iraqi officials] did come to our French company," said Art Fruchtman, general counsel for Ingersoll-Dresser Pumps SPA in Liberty Corner, N.J. The discussion led the joint venture to drop its claim so it could protect contracts to sell Iraq Ingersoll water pumps, Mr. Fruchtman said.

Since December 1998, 21 companies have withdrawn claims totaling about \$900 million, according to Michael Raboin, deputy executive director of the Compensation Commission. Another 25 firms have asked for written confirmation that they hold no claims against Iraq, he said.

U.N.-Controlled Oil Sales

Iraq's responsibility for invasion and occupation losses was set in 1991 by Security Council Resolution 687 and accepted by Baghdad in the cease-fire with the

Allied Coalition. Claims are paid with the proceeds of U.N.-controlled oil sales; Iraq retains operational control of the program, including the right to choose suppliers.

Since its creation in 1991, the commission has received 2.6 million claims from individuals, corporations and governments seeking more than \$300 billion. Nine years after the invasion, companies are to begin receiving payments this summer.

U.N. Security Council members here in New York said they were aware of the withdrawals, but had few details. Diplomats are reluctant to interfere in Iraq's business dealings and remain deadlocked over how much to loosen economic sanctions to encourage Iraqi cooperation with U.N. arms inspectors. The U.N. placed Iraq under economic sanctions for invading Kuwait, and they can't be lifted until inspectors verify the elimination of Iraq's weapons of mass destruction.

The oil-for-food program was launched in 1996 as a six-month sanctions waiver on \$2 billion of oil exports primarily to raise money for food and medicine. Today, the program allows the export of as much as \$5.26 billion of crude every six months for a range of humanitarian imports, including oil-sector spare parts. In the six months ended May 24, Iraq sold \$3.93 billion of oil.

Revenue Siphoner

Iraq has challenged the size of some claims, as well as provisions that siphon off 30% of revenue, almost all of it for the compensation fund. In approved corporate claims, the commission has awarded on average 24% of the asserted losses, according to U.N. records.

Iraq's U.N. Ambassador, Saeed H. Hasan, has said companies bringing "excessive, exaggerated" claims against Iraq should not be rewarded with contracts, but he did say he didn't know whether Iraq was requiring vendors to drop claims to participate in the program.

A U.S. State Department official accused Baghdad of manipulating the pro-

gram to "escape that obligation" of paying compensation. Washington has yet to determine how to respond, the agency said.

Pressure from Baghdad also has raised difficult questions for firms such as Tekfen Construction & Installation Co. Tekfen is one of Turkey's largest conglomerates, with interests in banking, construction and food services.

A Variety of Losses

The company submitted a claim of \$3 million to \$4 million for a variety of losses, including confiscation of property and the loss of performance bonds, said Murat Gigin, a former company president and current board member. The bonds are used as security for construction projects.

Tekfen also has signed humanitarian-aid contracts with Baghdad valued at \$17 million to \$20 million, the bulk of which cover parts needed to repair a key pump station on the Iraq-Turkey oil pipeline.

Mr. Gigin said Tekfen withdrew its claim after Iraqi officials said company equipment had been returned and performance bonds released. Noting that pressure tactics were "not beyond Iraqi negotiating capabilities," Mr. Gigin said there were no conditions for future business placed on his firm from Baghdad.

An Egyptian diplomat in Geneva said companies from his country that supply food and medicine to Iraq have also been asked to drop claims.