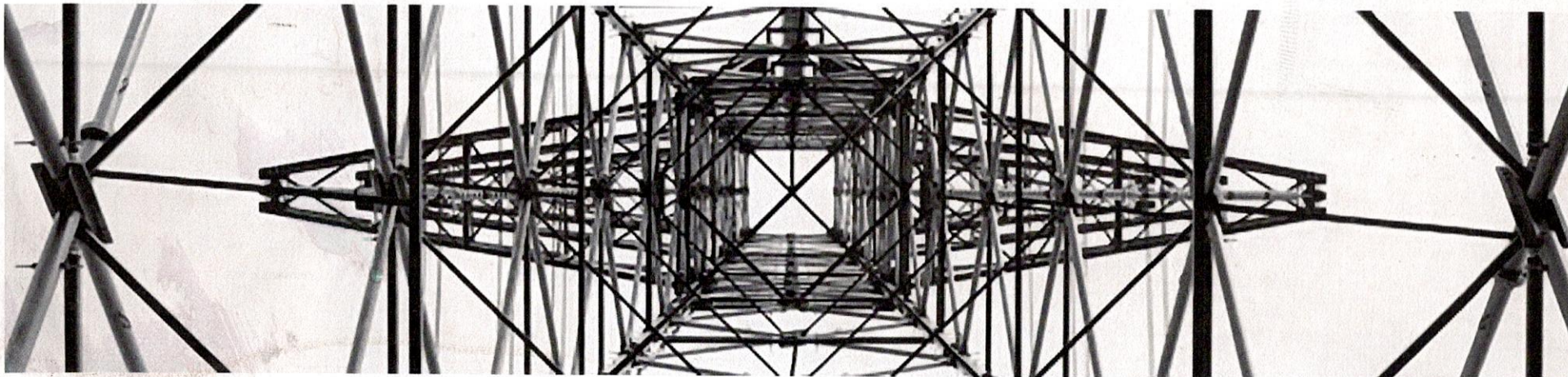


# Raising funds for power projects through the financial and capital markets: challenges and opportunities in Nigeria

Arun Velusami  
Partner  
ESQ Energy/Oil and Gas Summit  
Lagos  
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## Introduction

- Limited Recourse Financing
- Equity Funding
- Debt Funding
- Bankability Issues



# Limited Recourse Financing

- What is it?
- Why is it used?
- Combination of debt and equity
- What is equity funding?
- What is debt funding?
- Typical debt-equity ratios
- Project bonds

## Equity Funding – Sources and Criteria (1)

- Local developer/private investors
  - Personal funds
  - High development risk
  - High return on equity
  - Development fee (costs plus premium)
  
- International developers
  - Will assume development risk
  - Often partner with local developer
  - Minimum equity return requirement
  - Bring technical and management experience
  - Often require majority equity holding in project vehicle
  - Own and operate asset

## Equity Funding – Sources and Criteria (2)

- Private equity and Infrastructure funds
  - Minimum IRR required for investment
  - Ideally, project needs to be “well cooked”
    - > Project documents substantially advanced or executed
    - > Debt term sheets
  - Scrutiny of management experience
  - Do not require majority equity holding
  
- Sovereign Wealth Funds/Family Offices

# Debt Funding and Funding Support – Sources and Criteria (1)

- DFIs and Multilaterals
- Commercial Lenders
- Export Credit Agencies (ECAs)

## Debt Funding – Sources and Criteria (2)

- Development Finance Institutions (DFIs) and Multilaterals
  - Goals are to promote development and investment
  - Will assume “country risk”
  - Due diligence (technical, legal, commercial, social and environmental, insurance, etc.)
  - May not fund all projects
    - > Country limits
    - > Fuel supply
  - Longer tenor
  - Typically the slowest form of debt finance to arrange

## Debt Funding – Sources and Criteria (3)

- Commercial Lenders (International)
  - Similar requirements to DFIs
  - Due diligence
  - Generally will not take “country risk”
  - Political risk cover and partial risk guarantees
  
- Commercial Lenders (Local)
  - Limited due diligence
  - Generally full recourse
  - Shorter tenor
  - Will lend in local currency



## Debt Funding – Sources and Criteria (4)

- Export Credit Agencies (ECAs)
  - Support equipment suppliers
    - > Direct Lending
    - > Guarantees
    - > Insurance

## Bankability Issues (1)

- Main revenue contract
  - Length of contract
  - Payment support
  - Creditworthiness of offtaker
  - Take-or-pay
  - Termination payments
  
- Government support
  - Sovereign guarantee
  - Support for political risk
  - Consents and permits

## Bankability Issues (2)

- Political risk insurance and partial risk guarantees
  - MIGA
  - IDA
  - Guarantco
  
- EPC Contract
  - Lump sum turnkey
  - Design responsibility
  - Liquidated damages for delay and performance
  - Termination payment
  
- Operations and Maintenance
  
- Insurance

## Summary

- Equity – local and international
- Debt – DFIs, Commercial Debt and ECAs
- Bankability issues



# Our international practice



\*associate office \*\*effective June 1, 2013

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