



# **ATTRACTING LOCAL, REGIONAL AND INTERNATIONAL INVESTORS**

**SADC Regional Investment Conference**  
Namibia  
20 September 2005

# Presentation Outline

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- The Investors
- Investment Environment
- Regional Sector Overview
- Key Issues & Challenges
- Private Investment
- DBSA's Experience
- Renewing Investment Interest
- Conclusions

# The Investors

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- Traditional Multilateral Agencies
- Bilaterals and Donors
- IFI's and DFI's
- Commercial Banks
- Private Investors
- Big Industry Players
- Power Utilities

# Investment Environment

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Then.....

- Historically high dependence on foreign capital
- Shift in traditional sources of finance - diverted to Eastern Europe, Latin America & Asia
- “Restructuring period” in the 1900’s

Now....

- 2000’s - Scramble for sophisticated IPPs
- High expectations on private finance (only partial solution)
- Low direct participation of commercial banks, recently in selective markets only
- 2004 onwards “the Bounce Back” period for investors & developers
- Big industry players interested to secure power supply

# Regional Sector Overview

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- SADC region has abundant energy resources which are unevenly distributed
- Huge regional disparities in energy supply and demand
- Impending power deficit by 2007
- Low level of access to energy (20%)
- Increasing willingness to commit to regional schemes
- Considerable progress in restructuring, commercialising, and introducing competition
- Restructuring entailed unbundling ownership of vertically integrated utilities
- Progress in privatising and diversifying generation capacity
- CDM finance possibilities for 'clean energy'

# Key Sector Issues



<p>Sector Specific</p>	<ul style="list-style-type: none"><li>• Small markets – anchor projects</li><li>• Insufficient infrastructure to deliver energy services</li><li>• Inadequate institutional capacity and poor operational performance</li><li>• Tariffs not cost reflective</li><li>• Drawn-out implementation period for projects</li><li>• Environmental requirements increasing</li></ul>
<p>Perceived Political Risks</p>	<ul style="list-style-type: none"><li>• High level of political uncertainty</li><li>• Cross-border financing risk associated with specific countries</li><li>• Need for independent regulation</li><li>• Provision of an enabling environment</li></ul>

# Financing Challenges

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- High dependence on foreign capital as the major source of finance
- Competition for limited investment and financial resources
- Lack of access to long-term capital at affordable rates
- Poor financial performance due to low public sector finance, high currency depreciation, high interest rates and high inflation
- Utility financial efficiency and weak balance sheet
- Private sector investment is expected to grow in competitive markets
- Need to develop local capital markets – will address currency mismatch
- Poor tariff structure impacting on financial sustainability

# Unblocking the Financing Challenge

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- Viable and sustainable projects
- Increase technical assistance to package projects to bankability
- Improve PPF's and project implementation link
- Capacity building – institutional and skills
- Policy and regulatory reforms – tariff structuring
- Payment discipline by Govt agencies - tend to be greatest defaulters
- Guarantees and risk mitigation measures
- Clarify role of development financing
- Local capital markets development to mobilise local currencies
- Knowledge sharing among key players

# Emerging Trends

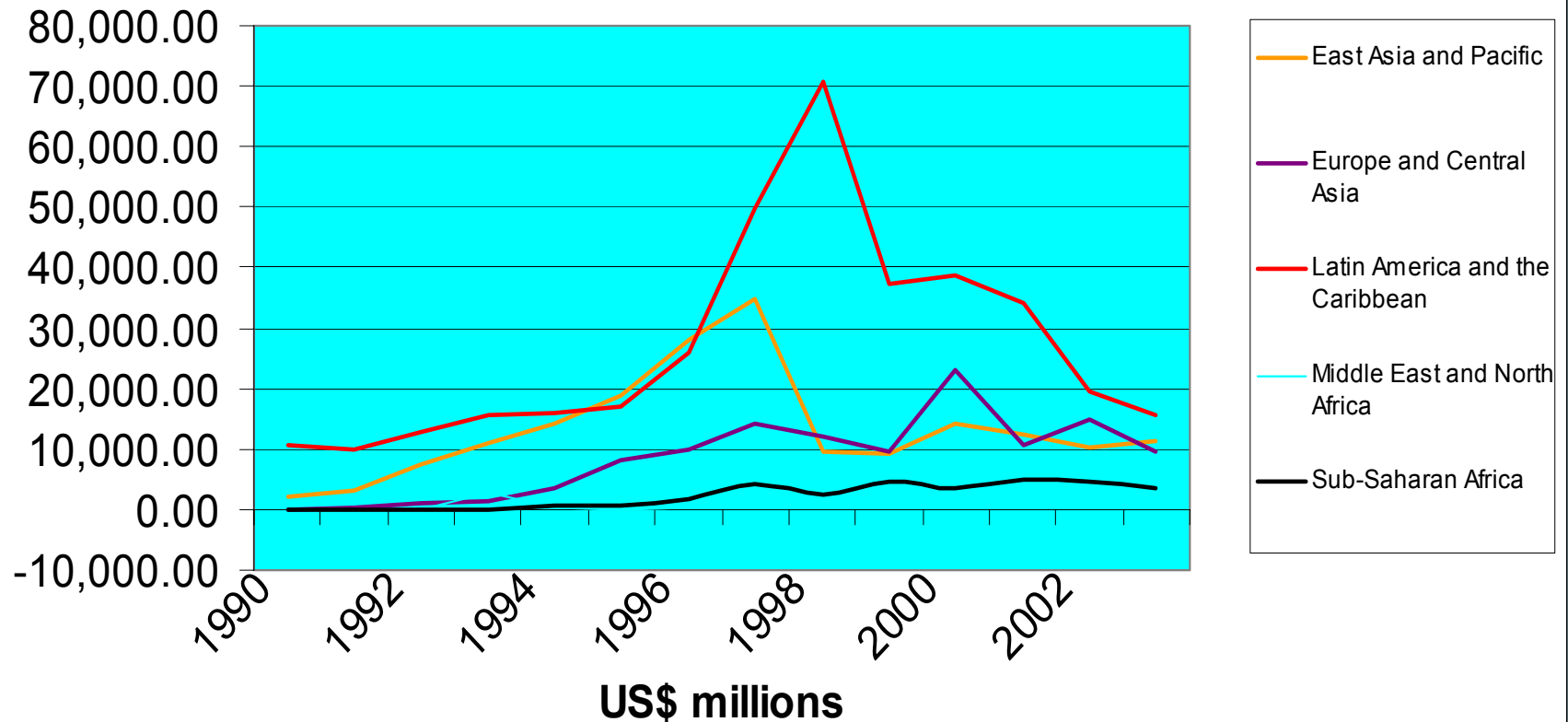
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- Private capital and developers are coming back to emerging markets
- Strong demand growth
- Certain countries provided with debt relief (HIPC)
- Greater participation by local and regional investors
- Increased use of local capital markets to finance projects

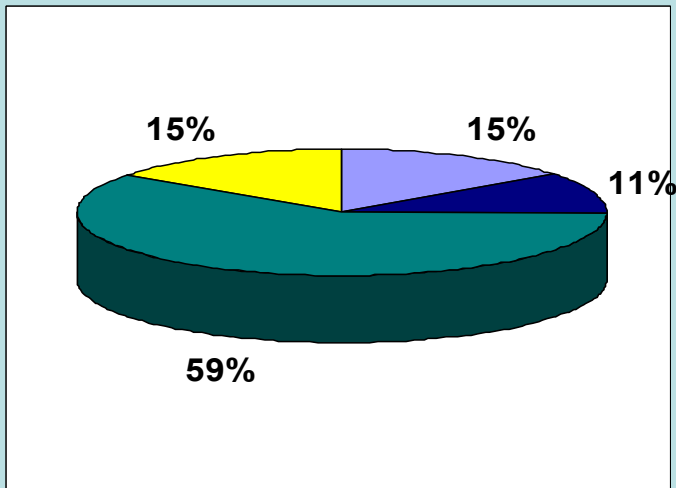
# A Focus on Africa

## Total Investment by Region, 1990-2003

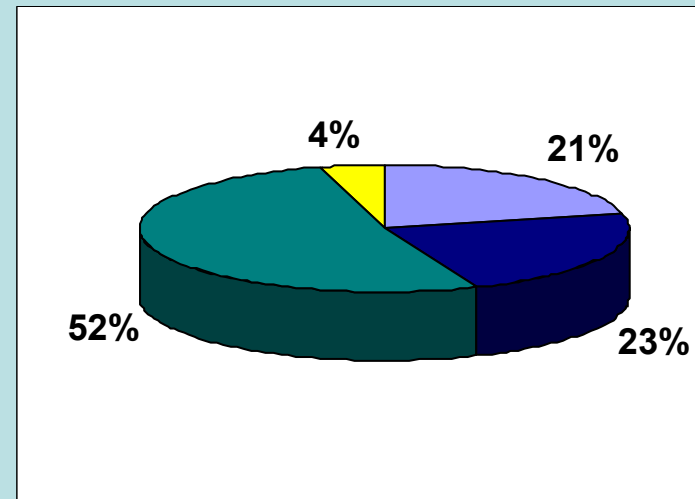


# Private Participation in Infrastructure (1990-2003)

## Sub-Saharan Africa



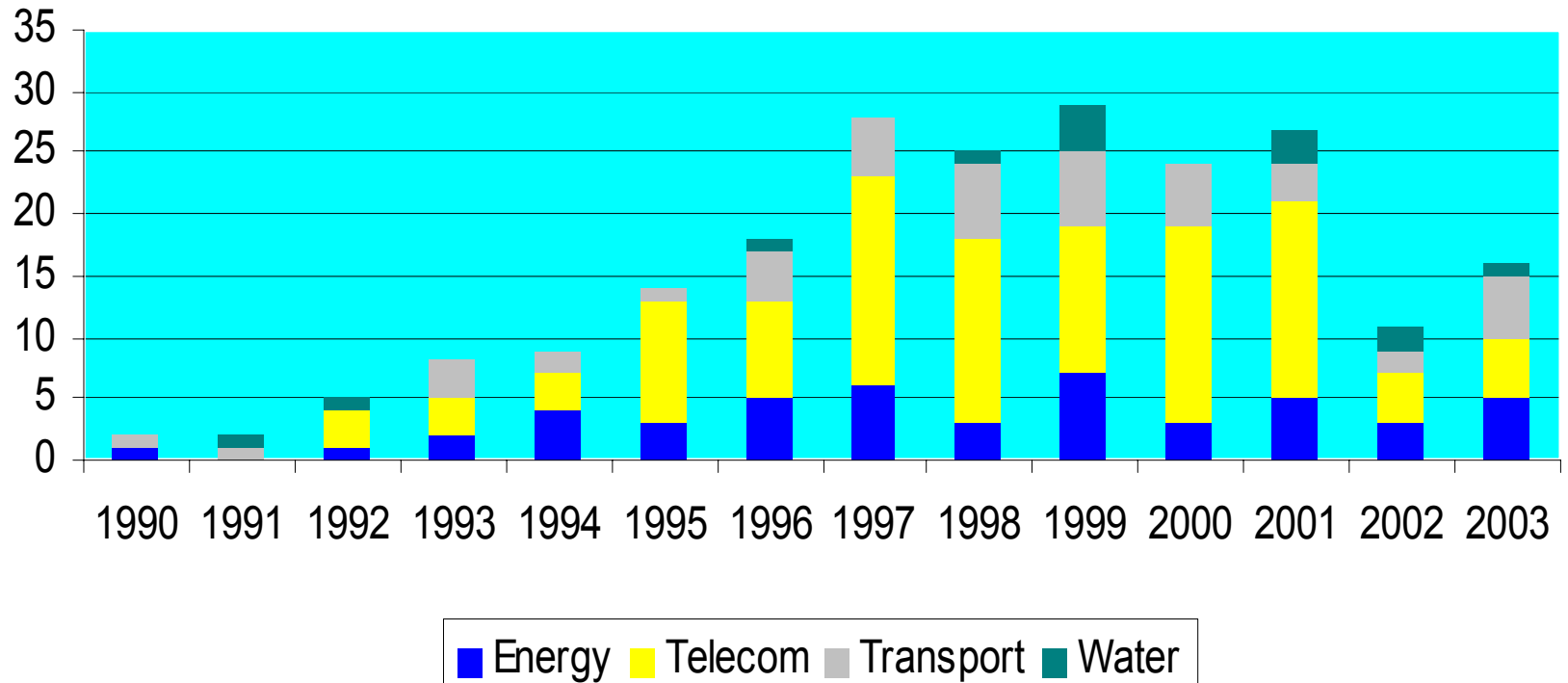
## All Developing Countries



■ Concession ■ Divestiture ■ Greenfield project ■ Management and lease contract

# PPI by Sector

## Number of PPI Projects by Sector, 1990-2003



# DBSA and its Business

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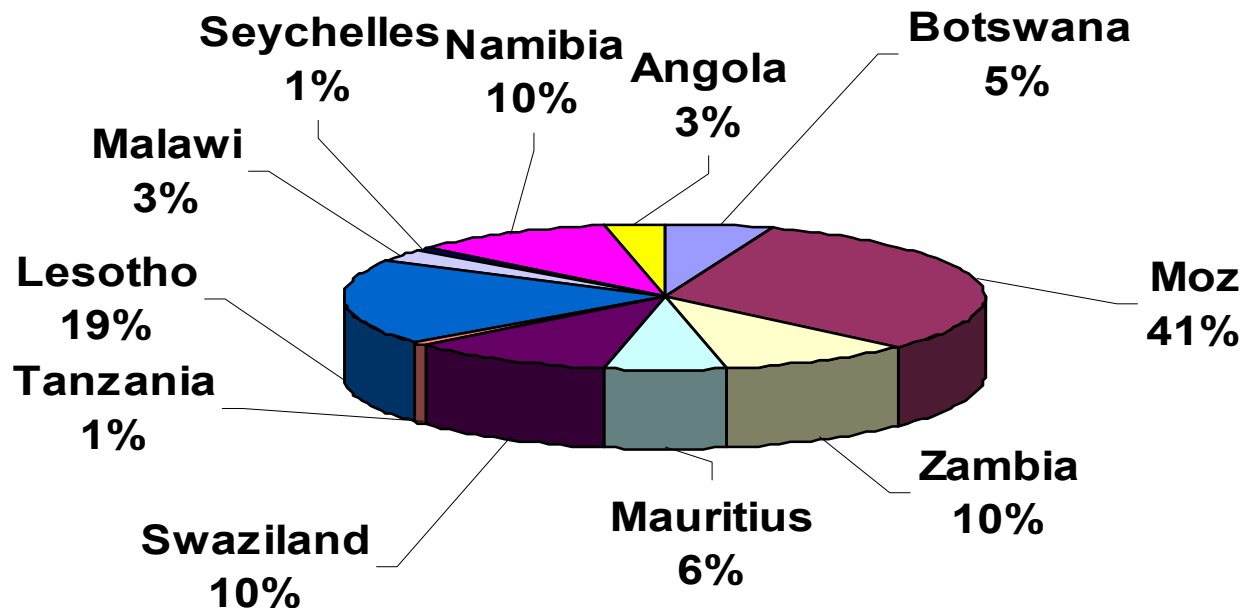
- Direct investment through loans and equity
- Guarantees
- Advisory services
- Technical and project preparation assistance
- Agency functions
- Capacity building
- Development information
- Public/Private sector facilitation
- Policy research, analysis and support

# DBSA's SADC Portfolio Coverage

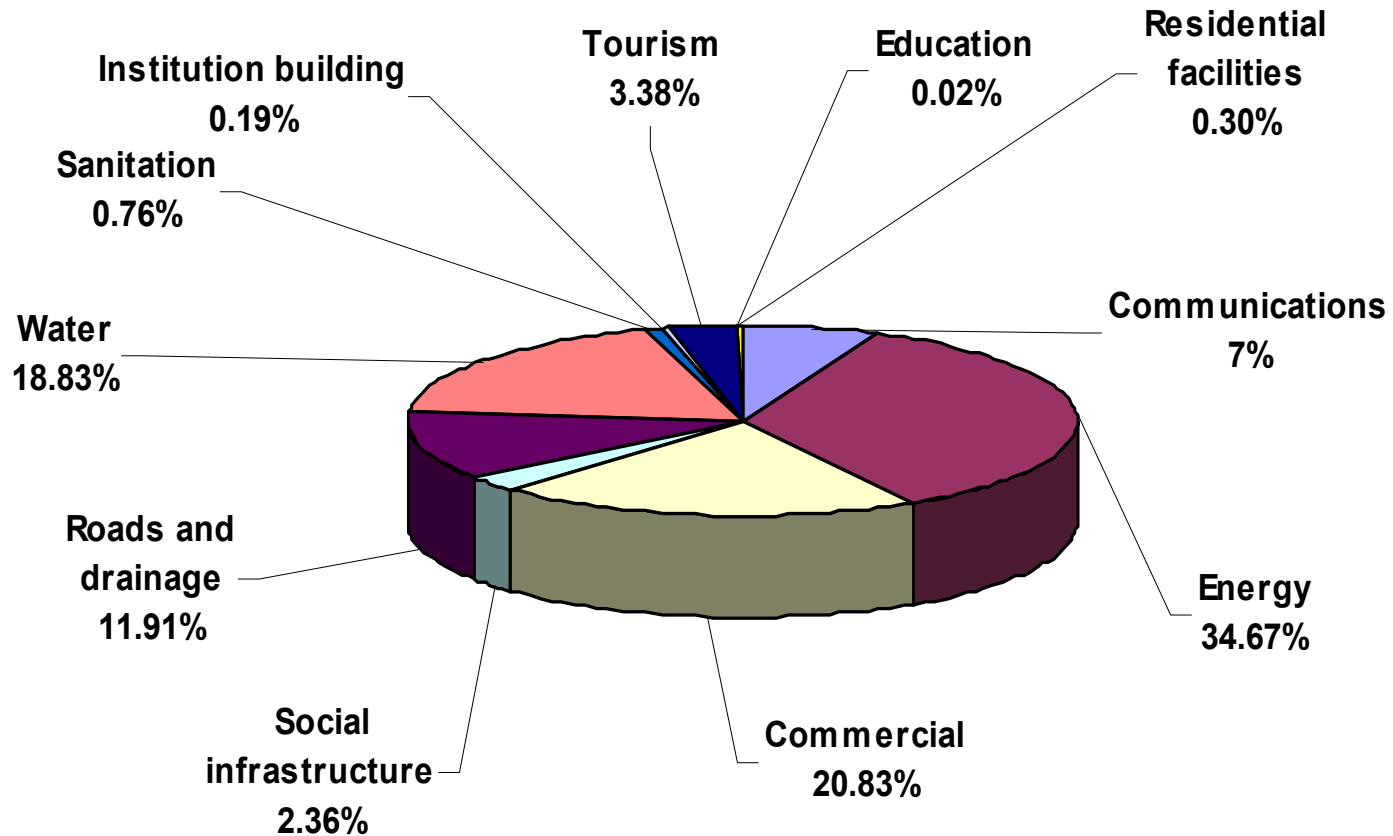
2004



- R7 billion committed to projects in SADC (excluding South Africa)
- R2.6 billion for the energy sector



# DBSA Sectoral Funding in SADC 2004



# Renewing Infrastructure Investment

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- Long term focus on creating a transparent power sector
  - > Strong independent regulator
  - > Creditworthy off-taker
  - > Market-driven tariffs
  - > Targeted subsidies - avoid general subsidies
  - > Management teams with authority
- A strategic role for MLA's, IFI's and DFI's
  - > Enhance credit to projects and infrastructure providers
  - > Ability to offer multitude of risk-mitigation instruments
  - > Assist to capacitate Regulatory Bodies
  - > Explore opportunities for both grid and off-grid electrification technologies for regional application
- Encourage strategic partnerships with both public and private organisations (PPPs, IPP's, ITO's, etc...)
- Creative and well structured Management Contracts

# Conclusion

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- New strategic approaches and regional cooperation are essential but the political will must be there
- Governments to create an enabling environment for investment
- Investors looking for stability, sustainability and returns
- Encourage diversity of funds through innovative credit structures and improve access to long-term capital
- Need for coordination at all levels, project, sponsor, investor, utilities, power pool
- Co-financing will be key to new investment
- Widen investment community - increase levels of local currency liquidity
- Maximise financial and economic returns for all parties involved 'win-win' situation

# Contact Details



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