



IBTTA Transportation Summit

Toll Road Concessions - A Lenders' Perspective

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March 2012

MAKE THINGS HAPPEN



NEDBANK | CAPITAL

- **General**
- **Introduction**
- **General Considerations**
- **Lenders' Perspective**
- **Brief Case Study**

General - Mike Peo's Brief Curriculum Vitae



AFRICAN
BANKER

ProjectFinance

2009: Transport Deal of the Year for the refinancing of the Bakwena Toll Road

Deal Value: ZAR 3.7bn

- Mike is currently the Head of Infrastructure | Energy | Telecommunications at Nedbank Capital, the Investment Banking Arm of Nedbank Limited – one of South Africa's 4 largest commercial banks and heads up a team of 20 Project Financiers
- Mike is a Chartered Accountant (SA) by qualification and has 17 years of investment banking experience, the last 12 of which have been involved in project financing
- Mike has been involved in numerous high profile infrastructure project finance transaction including the the N4 Platinum Toll Road Project, the New Limpopo Bridge Project, the Beitbridge Bulawayo Railway, the Maputo Corridor N4 Toll Road and Extension and the N3 Toll Road Project
- Recent transactions that were originated and led by Mike include: the largest ever limited recourse deal funded in SA for Neotel (SA's second fixed line operator), the first African Satellite funded on a limited recourse basis - New Dawn Satellite, the financing of the Seacom Undersea Cable on the West Coast of Africa as well as the largest ever re-financing of a project in South Africa, namely the Bakwena Platinum Toll Road
- Mike's team is currently mandated to lead the financing of thr R12bn N1\N2 Protea Parkways Toll Road Project into the Western Cape



- ***“Concession” - broadly defined as any arrangement in which a firm obtains from the government the right to provide a particular service under agreed conditions, creating a “monopolistic” project which is capable of being financed without singular recourse to the balance sheet of the project developer***
- Toll Roads serve as an alternative means of financing road transportation infrastructure independent of state funding
- However the State plays a significant role in the entire process of “concessioning” the affected road, including receiving back the road at the end of the concession life
- In particular, the State should be involved in firstly determining affordability of the tariff to be paid by the end user and then in ensuring that all contractual obligations regarding the maintenance, upgrading and rehabilitation of the road are maintained at an acceptable level through the life of the concession



- ***The Role of the State should not be underestimated in the success of a project:***
 - *Policy objectives at a political level need to be critically evaluated, be well defined and understood by all levels of Government, at a national, provincial and municipal level*
 - *A proper legal framework needs to be in place to allow for the provisioning of such a project as well the ability to rely on the rule of law in order to deal with contractual issues which might arise during the course of the project*
- ***These are two of the most important factors governing the ability of investors to pursue infrastructure projects in Africa***



- Various concession models exist, but in general as follows:
 - Management Contracts with incentive payments
 - Long Term Leases
 - Pure Concessions
 - Build Operate Transfer (BOTs) and
 - Rehabilitate Operate Transfer (ROTs)
- Concepts of “Risk Transfer” and “Affordability” are prime features
- Balancing of objectives, a necessity between the private sector (often the “Concessionaire”) and the state (the “Authority”) in order to ensure fundability
- In general, the obligations at the commencement of the concession are funded through Debt and Equity

*...Diverse driving forces
and agendas*

*....fair balance of
relationship dynamics
wil place project in good
position for success*

- **The State:** the authority granting the Concession and regulator at the same time
- **Politicians:** as they can influence government policy and public opinion around the subject of road tolling
- **The Public:** bear the burden of tolling but in return receive the benefit of the infrastructure
- **The Concessionaire:** carries out the service obligations as per the concession agreement including construction and operations over life of concession
- **Investors (Private and Public):** provide the source of funds to carry out the obligations associated with the concession agreement

*.....An appropriate risk
reward relationship
must exist in order to
entice funding from
investors*

- One of the most misunderstood principles in funding long term infrastructure assets is that:

“An appropriate risk \ reward relationship must exist between the stakeholders in the project“

In practice each risk needs to be identified and appropriately passed on to the party most capable of assuming \ mitigating such risk and who is capable of pricing such risk

This does not mean the “***debt lender***” who is typically the lowest risk investor, with returns equivalent to this assumption of risk

*.....Contracting terms
do have an impact on
attractiveness of
project*

.....An appropriate risk reward relationship must exist in order to entice funding from investors

- Understand that investing in infrastructure is a long term game
- Protection of investment and invested funds is critical
- Assume risk(s) must be deemed manageable over the life of the investment
- Legal and Regulatory framework must be certain
- Clear political commitment to the project critical
- Require transparency in the procurement process
- Real need and benefits of tolling the concerned road(s) must be visible

.....Contracting terms do have an impact on attractiveness of project

.....An appropriate risk reward relationship must exist in order to entice funding from investors

- Continuous communication to all the stakeholders important for success
- Thorough feasibility studies proving viability of project
- Verifiable or forecastable traffic history and expected traffic volumes
- Tariffs must be certain and affordable (including tariff setting mechanisms)
 - User Pay Mechanism
- Tolling Strategy viewed as critical to success and viability of project over time

.....Contracting terms do have an impact on attractiveness of project

*.....Well-defined
parameters of design,
investment and risk
mitigation provide
limited but attractive
levels of return to
private investors*

- Overall cost (incl. Life cycle) of the project over its entire life must be well understood
- Cost and conditions of financing are important variables due to influence on ROI
- Fair sharing of gains with the state over time as a result of de-risking of project
- Effective and effecient dispute resolution mechanisms must be in place

*.....Lenders prefer to
take well calculated
understandable risk.....*

*.....fund well structured
projects*

- Level of traffic risk and affordability of tariffs associated with the project critical – forecasting risk high
- Properly managed construction and operations risk
- Strong project sponsors and operators with proven track records vital
- Overall financing and security arrangements must match credit appetite

*....boots, umbrellas,
belts and braces are
part of the game*

.....Lenders prefer to take well calculated understandable risk.....

- Prefer that project possess reasonably ascertainable revenue streams
 - Toll collection risk
 - Debt service obligations and protection of debt investment
- Access to good and experienced advisors is of paramount importance
- Refinancing gains and sharing mechanisms during life of debt
- Compliance with covenants used to monitor project performance

.....fund well structured projects

....boots, umbrellas, belts and braces are part of the game

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▪ **SOUTH AFRICAN CONTEXT**

- Patronage risk underwritten by the State
- Very high levels of debt capacity
- Institutional investors as yet largely untapped
- No project bonds (only SANRAL listed bonds)
- Very long tenors > 20 years
- Debt prices off 3 or 6 month Jibar
- Highly sculpted debt profiles
- Covenant light
- CPI Linked Debt available

*.....Lenders prefer to
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■ **AFRICAN CONTEXT**

- Very few projects have come to market
- Legal and regulatory frameworks still largest issue
- Lack of local long term domestic funding markets
- Local currency toll regime vs US\$ funding mismatches
- Political risk insurance due to tenors
- Large role for DFI's to support such projects

.....The value of a truly symbiotic partnership between the State; the Community; the Concessionaire; the Equity Investors and the Lenders resulted in a successful transaction

- Bakwena was awarded the Concession Contract to design, build, finance, operate and maintain 95 kilometres of the N1 running from Pretoria northwards to the town of Bela Bela and 290 kilometres of the N4 running from Pretoria westwards to the Botswana border in October 2000 by the South African National Roads Agency
- At the time this was the largest limited recourse financing conducted in South Africa to date
- The project was funded by a combination of project developer equity, infrastructure fund equity and project finance debt, arranged and underwritten by Nedbank Capital and Investec Bank Limited
- In 2009 the project was subsequently refinanced, resulting in the largest re-financing of a project in South Africa to date, and was fully arranged by Nedbank Capital and funded by Nedbank Capital and ABSA Bank Limited



END - THANK YOU