“Mobilise additional financial resources for developing countries from multiple sources”

PIDG seeks to demonstrate commercially viable and cost-effective models for infrastructure in some of the lowest-income countries in the world. Demonstration effects from PIDG-supported projects should influence other private sector partners to invest more in these countries, leading to more and better infrastructure, and a smaller role for PIDG in the longer term. Once a market becomes self-sustaining following this crowding-in effect, PIDG Companies are expected to focus on new challenges at the frontier.

Demonstration effects in frontier markets are, however, both difficult to achieve and difficult to measure. Market data in PIDG priority countries is scarce. Assessments rely on anecdotal evidence and local market perceptions.

In 2018, Lion’s Head Global Partners (LHGP) conducted an independent assessment of the demonstration effects of PIDG’s two largest companies, EAIF and GuarantCo. This included three case studies of projects, seeking to answer the question: Are we a step closer to a similar transaction happening without the need for PIDG’s involvement?

LHGP selected case study projects using criterion-based sampling to establish a valid representation of EAIF and GuarantCo’s portfolio. The researchers then used macroeconomic and sectoral data to capture market trends and undertook in-depth interviews with a wide range of market stakeholders to identify changes in market behaviour and perceived causes.

For each case study, the figure below serves as a guide to summarise whether and how the underlying transaction created change in behaviour or perception by market participants and what effects on the markets these changes imparted.

Pathway to demonstration effects

While we cannot quantify or rate the market level effects of PIDG transactions for comparison, this independent assessment provided a clear validation of the demonstration effects of three projects, as an indicative sample of EAIF and GuarantCo’s portfolios. It also provides a basis for setting
realistic expectations regarding the demonstration effects of individual projects. These effects are likely to be incremental rather than radical, and are highly dependent on other factors, such as macroeconomic conditions, and policy changes.

We will use this study as a template for ex-ante and ex-post assessment of transactions where the development impact case is based on establishing models for replication or local market building. In addition, PIDG will seek to build insight into market level effects in 2019 by:

- Reviewing our indicators for the financial addi onality of projects, and
- Participating in longitudinal assessments of financial market development.

**Lower Solu Hydropower, Nepal**

Lower Solu is an 82MW run of river hydroelectric power plant in north-eastern Nepal. The project reached financial close in December 2014 with total committed capital of $191m. This made it the first hydropower project in Nepal to be funded by both local and international debt. GuarantCo provided a local currency credit guarantee of NPR 2.78 billion ($28.2m), covering 95% of the local commercial debt into the project.

New policy directives on Power Purchase Agreements (PPAs) make any wholesale replication of Lower Solu’s mixed local and international financing model for hydropower unlikely. However, the project has made existing stakeholders more familiar with the hydropower sector in Nepal and brought the attention of more international financial institutions and developers to the country at a critical time.

> “After the success of Lower Solu, it was definitely easier to convince our board to allocate another 10% [c. €80m] of our [otherwise Europe-focused] Fund to emerging market projects.”
> – International bank

> “We have taken away great learnings from Lower Solu on how to lend in an international structure and have since looked into an even larger project.” – Local bank

The study also found significant growth in the pipeline of local projects that could be guaranteed - including at lower levels of guarantee coverage - since the transaction. While market stakeholders indicated Lower Solu had contributed to this growth, changes in regulation are likely to be the main driver.

Local participating banks and many other interviewed participants also highlighted the increased knowledge of international ESG standards as a result of Lower Solu.

**SA Taxi, South Africa – using guarantees to prove a unique business model**

SA Taxi is a leasing company that finances minibuses for micro and small entrepreneurs that provide affordable transportation to lower income workers in South Africa. GuarantCo’s guarantees of SA Taxi (2010-2015) allowed a local bank to lend to the company despite its comparatively low credit rating, which in turn enabled SA Taxi to on-lend to more small enterprises. These guaranteed loans demonstrated to the local bank, to other DFIs and to commercial banks the viability of lending to the company. This led to additional loans with reduced guarantee, and ultimately no guarantee requirement.
However, the study did not find evidence of demonstration effects on the wider sector, or on the availability of capital to small firms.

**IHS Eurobond – setting a benchmark for bonds in Nigeria**

IHS is the leading telecoms infrastructure firm in sub-Saharan Africa (SSA). It owns, operates and leases telecoms towers across the continent and in Nigeria it has 71% of the mobile tower market at the time of writing. Whilst it has a diverse shareholder base, the group had never issued listed debt internationally. In 2016, IHS acquired Helios Towers Nigeria (HTN), which allowed it to extend its market presence in the country.

IHS issued a $800m 5-year bullet Eurobond in October 2016, with EAIF providing $50m as an anchor investor. The bond was one of the very few international issuances out of SSA (excluding South Africa) not in the extractive, financial or agricultural sectors over the past decade. It was also relatively large and diverse in the investor pool it attracted. The issuance came at a time of market turbulence in Nigeria, leading to a higher price than originally expected. However, it received significant interest and was recognised both as a successful issuance and a benchmark for a Nigerian entity outside the Oil & Gas or Financial sectors.

> “IHS brought visibility to non-oil/gas sector in Nigeria.” – Investor who attended IHS roadshow.

In doing so, IHS led to further issuances by comparable firms, and increased familiarity amongst investors with telecoms in sub-Saharan Africa. IHS also had a positive effect on comparable firms’ appetite and ability to issue Eurobonds. A following bond achieved higher subscription and lower cost of capital, while requiring less involvement from EAIF. Market stakeholders also indicated that the effect of a bond in stimulating local market interest is considerably greater than of a loan.

> “In a couple of years [after the first issuance] support by DFIs will not be needed.” - Telecoms bond issuer