“Enabling Long Term Finance in Local Currency”

(www.guarantco.com)

Nepal Power Investment Summit, Kathmandu (27-29 January 2018)

Organised by Energy Development Council

GuarantCo is supported by

Who Are We?

Mission

Be a *market* driven guarantee solutions provider aimed at enhancing availability and role of **local currency debt** finance (where applicable) for infrastructure related endeavours.

Sectors

Scorecard

- International ratings of AA- (Fitch) / A1 (Moody's);
- USD 700 million of guarantees written between Sub Sahara Africa (47%), South Asia (49%) and Others (5%) across 46 projects to date;
- Private sector investment attracted (e) = c. USD 3.7 billion;
- Investment commitments in fragile states (e) = USD1.7 billion;
- Additional people with access to infrastructure (e): 19.4 million;
- People with improved access to infrastructure (e): 14.8 million.

GuarantCo Guarantees For Development

What We Have Achieved?

Year	GuarantCo…
2006	Closes its first transaction – guarantees a local currency bond issue by Celtel Kenya
2009	First leverage facility put in place increasing guarantee capacity to USD 146 million
2010	Guarantees its first local currency securitisation in India
2011	Guarantees first local currency corporate bond in Nigeria
2011	**Total portfolio size exceeds USD 100 million**
2012	GuarantCo, EAIF and InfraCo Africa combine on Kalangala project in Uganda.
2012	Provides its first co-guarantee with USAID in Uganda
2012	Provides its first guarantee for Standard Chartered Bank
2013	Guarantees its first local currency bond in Sri Lanka
2013	Guarantees its first local currency sukuk in Pakistan
2014	Guarantees its first local currency project financing in Nepal
2014	**Total portfolio exceeds USD 200 million**
2014	Rated AA- by Fitch Ratings
2014	Rated A1 by Moodys
2014	Rated AAA by Bloomfield in West Africa
2015	Guarantees its first local currency securitisation in Zambia
2015	Guarantees its first local currency project financing in Cameroon
2015	Rated AAA by PACRA in Pakistan
2015	**Total portfolio exceeds USD 300 million**
2015	Additional capital from DFID and FMO
2016	**Total portfolio exceeds USD 450 million**
2016	Opens Singapore office to cover Asia supported by new equity investment from DFAT
2017	Launches InfraCredit in Nigeria – first guarantor in the country and a joint-venture with NSIA
2017	Signs partnership with London Stock Exchange which allows local currency debt issuers to access global investors
2018	Guarantees first internationally placed Local currency Green Bond from Singapore

London Stock Exchange Partnership

On 31st March 2017, GuarantCo signed an agreement with the LSE in presence of the UK Secretary of State for International Development (DFID), Priti Patel

- *"This collaboration with GuarantCo is part of London Stock Exchange's commitment to fostering the development of emerging and frontier capital markets. Efficient capital markets are key to raising finance for companies from these economies and it's our hope that this partnership will encourage and facilitate further development local currency debt markets, building on our experience as the global leader for international RMB and Indian rupee bond markets"* ***Nikhil Rathi, CEO London Stock Exchange plc.***

The partnership aims to achieve the following:

- Unlock new sources of capital to support infrastructure finance in emerging market economies like India
- To support the growth of domestic capital markets through cooperation on capacity-building and if needed, by enabling dual-listings of local currency bonds on the London Stock Exchange's markets, as a means of introducing offshore investors, and thereby greater liquidity into emerging markets.
- Help global investors gain access to local currency debt opportunities in emerging markets

Brief on International Securities Market (ISM) rulebook

- Stock Exchange responsible for the admission process – efficient and transparent process
- Full integration in the London financial community
- Clear and consolidated rulebook
- Simplified disclosure regime for certain issuers
- Common derogation requests have been hard-wired into the rulebook itself to simplify the process and circumvent the need to submit derogation requests
- Enhanced incorporation by reference provisions
- No requirement for a listing agent

Why Partner with GuarantCo?

Financiers	Borrower/Issuer	Suppliers (EPC , Equipment, etc.)
1 Risk transfer (instead of risk mitigation) counterparty risk to a AA- / A1 entity;	1 Positive signalling;	1 Offer more flexible terms;
2 Efficient capital treatment for long dated transactions;	2 Access new pools of capital (e.g. local currency loans and bond markets);	2 Opportunity to accelerate mobilising of projects whilst capital is being finalised;
3 Build capacity in sustainable long term finance using myriad types of financing solutions.	3 Enhance overall return on investments.	3 Risk mitigate counterparty risk in event financing is extended.

How Does GuarantCo Compare?

	GuarantCo	Export Credit Agencies	Private Insurance
Format	Financial and Commercial guarantee	Commercial and PRI Financial guarantees	Commercial and PRI
Instruments Supported	Bank Loans and Debt Capital Markets	Loans and Equity	Loans
Eligibility	Credit appetite	Linked to exports unless involving Government to Government facility	Credit appetite
Fees	Payable annually on guarantee outstanding	Full Fee payable upfront upon signing	Full Fee payable upfront upon signing
Callability	On demand (also dependent on risk-pricing mechanism)	Subject to waiting period	Subject to waiting period and on first loss basis
Prepayment Penalty	Flexible	Yes	Yes
Tenor	15+ years	Up to 12 years	Up to 5 years
Currency	Local Currency (Note: Hard currency can be considered for OECD Defined Fragile States)	Hard Currency	Hard Currency
Coverage	Up to 50% of total debt or USD 50million equivalent in local currency	Up to 85% of total capex (Note: Excludes local content which can take up to 50% of project cost)	Up to 90% (tenor dependent)
Security	Customised	Formularised	Formularised
Countries	Category 1,2 and 3 Development Assistance Countries (‘DAC’)	Export led	Depending on appetite

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Guarantees for Development

GuarantCo Investment Policy Overview

Criteria	Description
Guarantee Size	> USD 10-50m in local currency equivalent
Currency	> Local currency focus > Hard currency guarantees possible in Fragile and Conflict Affected states
Tenor	> Up to 15 years
Guarantee Types	> Non-payment guarantee covering all risks > On-demand guarantee, not an insurance product > Principal and interest coverage > Innovative structures possible to solve liquidity constraints, tenor miss-match or funding timing constraints
Beneficiaries	> Private sector infrastructure debt providers – Project finance, corporate debt, mezz debt, bonds etc
Clients	> Borrowers must be private sector entities although in certain cases also municipalities / sub-nationals and parastatals can be supported
Security	> Pari passu security required alongside all other senior debtors
Coverage Limits	> Limit on guaranteeing up to 50% of the long-term debt position of a company’s balance sheet
Environmental and Social Standards	> PIDG Performance Standards

Why Local Currency Financing?

Nepal is a priority country for GuarantCo. We aim to help build sustainable financing capacity in domestic financing market by partnering with Nepalese funding institutions and introducing new approaches to project risk evaluation and financing

Benefits of Local Currency Financing

- Local currency finance matches currency of revenue to debt service
- Even if a project has the right to pass on currency losses, prices/tariffs may be unaffordable - contractual agreements may fail
- Involving local lenders can reduce the risk of discriminatory action
- Local currency financing will enable productive recycling of savings within the country rather than increasing the country's external debt burden
- Involving local lenders will help build capacity to finance future projects

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GuarantCo's Approach for Achieving Success

Impact	▪ Through investment in infrastructure projects, enable development and create positive impact on developmental indicators
Capital	▪ Build different 'pools of capital' to execute in-country strategies
Partners	▪ Build relationships with partners to support the 'originate/distribute' model particularly in capital markets endeavours
Regulatory Support	▪ Obtain regulatory support to help with our mission to 'encourage' banks to consider using 3rd party guarantees from non multilateral sources

Appendices

The Private Infrastructure Development Group ("PIDG")

PIDG helps finance infrastructure in lower-income countries in sub-Saharan Africa and south and south east Asia.

- Using limited sums of public capital to encourage private investment in infrastructure
- Working throughout the infrastructure project development cycle and across the capital structure
- Helping projects overcome the financial, technical or environmental challenges
- Creating investment-ready infrastructure opportunities

Case Study: Essel Clean Solu Run Of River Hydro

Transaction Overview

Country: Nepal

GuarantCo's Guarantee Amount: NPR 2.750 billion (USD 28 million)

Total Transaction Size: USD 191 million

Beneficiaries & Financing Partners: Prime Commercial Bank, Nepal SBI Bank, Prabhu Bank, Siddhartha Bank, and HIDCL

GuarantCo Additionality:

Essel Clean Solu Hydropower Ltd ("ECS") won a tender to develop the 82 MW Lower Solu Run-of-the-river hydropower project and targeted funding it with a mix of local and foreign currency debt. However, the local banking system in Nepal lacked the capacity to extend, without credit support, the 16.5 yr c. USD 28.2 million equivalent local currency debt that the project required in order to align the currency profiles of its revenues and debt obligations.

GuarantCo's credit guarantee covering 90% of the local banks' exposures, enabled Essel Clean Solu to raise the required local currency funding and achieve financial close in a timely manner.

Developmental Benefits

The Lower Solu project will add c. 11% to Nepal's electricity capacity, and will reduce the severe electricity shortage in the country, which sees 12-16 hour daily power cuts in winter months.

The project is the largest private sector plant in Nepal, and the first project to have both local and international debt. The project is also the first in Nepal to involve an international financial guarantor.

The transaction also introduces Nepalese banks to long tenor project finance, incorporating international best practices. The project is thus also expected to have a significant demonstration impact for future projects

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Case Study: Infrastructure Credit Guarantee Company Nigeria

Transaction Overview

USD 50 million Callable Funding Facility for the first Nigerian based credit guarantor focused on credit enhancing infrastructure bonds to target pension fund investors. The Facility allowed InfraCredit to achieve a high domestic rating increasing its attractiveness to bond investors.

Country: Nigeria

GuarantCo's Guarantee Amount: USD 50 million

Total Transaction Size: USD 100 million

Beneficiaries & Financing Partners: InfraCredit

GuarantCo Additionality:

GuarantCo acted as one of the founding sponsors for InfraCredit (alongside the Nigerian Sovereign Investment Authority), providing grant funding and manpower to bring InfraCredit from concept to reality. The unusual nature of InfraCredit means that there are few, if any, commercial entities that would be willing to provide such a facility as that provided by GuarantCo, particularly for a start-up guarantee company. GuarantCo's involvement allowed InfraCredit to start operations, making further capital raises easier.

Developmental Benefits

GuarantCo's involvement helped to credit enhance InfraCredit's capital structure and achieve a higher credit rating, thereby increasing its attractiveness to borrowers and bond investors/banks. The leverage provided by GuarantCo will allow InfraCredit generate commercial returns, allowing it to achieve its long term aim of attracting private sector investors.

GuarantCo's support will allow InfraCredit to mobilise pension and insurance fund capital to help to meet the significant infrastructure funding needs of Nigeria (beyond the capacity of the Nigerian Government and banking markets to fund in isolation). It will also allow InfraCredit to open up infrastructure bonds as an asset class to pension funds, helping to diversify fund portfolios heavily concentrated in Nigerian Government securities.

InfraCredit will facilitate access to the corporate bond market to first time issuers, providing them access to long term financing more appropriate for funding infrastructure. Subsequent bond refinancing of infrastructure linked bank debt will also will enable banks to recycle their capital for new infrastructure loans.

InfraCredit
Securing Infrastructure Finance

Case Study: BYCO Oil Pakistan Limited

Transaction Overview

Country: Pakistan

GuarantCo's Guarantee Amount: PKR 3.15 billion (approx. USD 30 million)

Total Transaction Size: USD 45 million

Beneficiaries & Financing Partners: Multiple investors

GuarantCo Additionality:

Byco Oil Pakistan Limited ("BOPL") was seeking to complete several strategic projects which would have improved the performance of its flagship refinery, the largest in Pakistan. BOPL wished to finance the required capital expenditure by accessing the local debt capital markets and specifically the Islamic finance market. Being a new company (commercial operations began in 2015) BOPL needed GuarantCo's support to successfully raise the financing it required as local bond investors will not invest in a company that has not been operational for at least 3 years.

GuarantCo's 100% guarantee improved the local credit rating of ByCo's Sukuk to AAA thereby enabling conservative new Islamic investors to invest.

Developmental Benefits

GuarantCo's assistance will allow BOPL to improve its productivity by a further 400,000 metric tonnes of petroleum products for domestic consumption. This increase in productivity will be achieved by implementing technology that will allow BOPL to recover both waste heat and oil derivatives which can be recycled into power and needed petroleum products respectively, thereby improving the overall efficiency of the refinery in tandem with improving its environmental impact.

According to the Asian Development Bank, prolonged power shortages have cut Pakistan's GDP by about 2%. Crude oil is significantly cheaper to import than the furnace oil used by a number of power producers and as such having significant onshore refining capacity helps the Government of Pakistan to reduce its import bill thereby contributing to the health of the domestic economy and improving its energy security. The improvement in productivity at BOPL that the GuarantCo supported financing will create will help reduce this financial burden.

A further development aim of this transaction is to mobilise funding from non-traditional investors. To this end the transaction is being structured as a 5 year AAA rated Shariah compliant corporate bond or sukuk and will be the first of its kind in Pakistan.