African Development
Bank Group

Italian Development Cooperation
Ministry of Foreign Affairs and International Cooperation

Initiative for Risk Mitigation in Africa (IRMA)

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IRMA - Initiative for Risk Mitigation in Africa

- The Initiative for Risk Mitigation in Africa (IRMA) is a program of the African Development Bank promoted by the OECD, with financing provided by a Trust Fund established by the Italian government.

- IRMA is hosted by the Private Sector Department of the Bank. It commenced its operations in 2011.

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IRMA - Initiative for Risk Mitigation in Africa

- The main objective of IRMA is to support the effective use of the Bank's risk mitigation platform. Interacting with the various departments of the Bank, IRMA ensures that the best and most cost-effective risk mitigation solutions are implemented.

- In the face of the growing needs for risk mitigation in the Continent, the African Development Bank has devised a range of financial instruments intended to offer risk mitigation solutions to various stakeholders and investors.

- The activities of IRMA are centred on three pillars: (1) Support to the Investment Officers on transaction structuring and implementation of risk mitigation strategies; (2) Analysis and implementation of innovative methodologies to allow for a dynamic management of the Bank's own portfolio of loan assets; (3) Capacity building.

What is Risk Mitigation?

- By paying specific attention to the different layers of risk involved in a transaction, deal structuring can be enhanced through risk mitigation, thus allowing for more transaction to be finalised and for financial costs to be optimised.

- Risk Mitigation can be defined as the systematic reduction in the extent of exposure to a risk and/or the likelihood of its occurrence". It can be achieved by using Risk Mitigation Instruments.

    - Risk mitigation instruments can be defined as "financial instruments that transfer certain defined risks from project financiers (lenders and equity investors) to creditworthy third parties (guarantors and insurers) that have a better capacity to accept such risks".
    - The availability of appropriate risk mitigation instruments allows private sector lenders and investors to cover those risks that they are not willing to accept because are perceived as excessive or beyond their control.
    - When risk mitigation instruments are effectively used, it becomes possible to undertake commercially viable projects which would not get financing otherwise.

Advantages of Risk Mitigation

DO MORE WITH LESS

- Leverage the Bank's risk capital to avail more funds to projects
- In comparison to loans, guarantees tie up resources for a shorter period of time and improve commitment capacity

CROWDING IN

- Attracting private investors to Africa
- Greater amount of capital, enabling governments to share risks/financing with the private sector

RISK SHARING

- Opportunity to cooperate with other private and public risk mitigation providers as well as sister institutions through the sharing of risks, knowledge, and due diligence.

The AfDB Guarantee Platform
Partial Risk Guarantees (PRGs)

- A PRG is a financial guarantee for lenders to a project, covering debt service defaults that result from the non-performance of a government or a government owned entity on its obligations with respect to the specific project.
- These obligations are usually defined in contracts between the government and the private sponsor responsible for the implementation of the project, which can be a green-field investment project, an expansion or rehabilitation of an existing project, or a privatization project.
- Typically, a PRG covers four categories of political risk: (i.) Currency inconvertibility and non-transferability; (ii.) Expropriation; (iii.) Political Force Majeure; (iv.) Breach of contract.

LTWP – Lake Turkana Wind Power Project

The Project

Development of a 300 MW wind farm in the north west part of Kenya

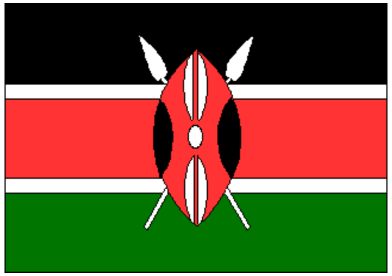
- Will consist of 365 wind turbines of 850 KW capacities
- Adds clean energy to the power grid
- Increases Kenya's national installed power by 25%
- Project Sponsor(s): Aldwych, KP&P, IDC, Norfund, Vestas, IFU

AfDB Role

- AfDB Long-term Loan
- Lead Arranger of DFI's participation
- Issuance of a Partial Risk Guarantee

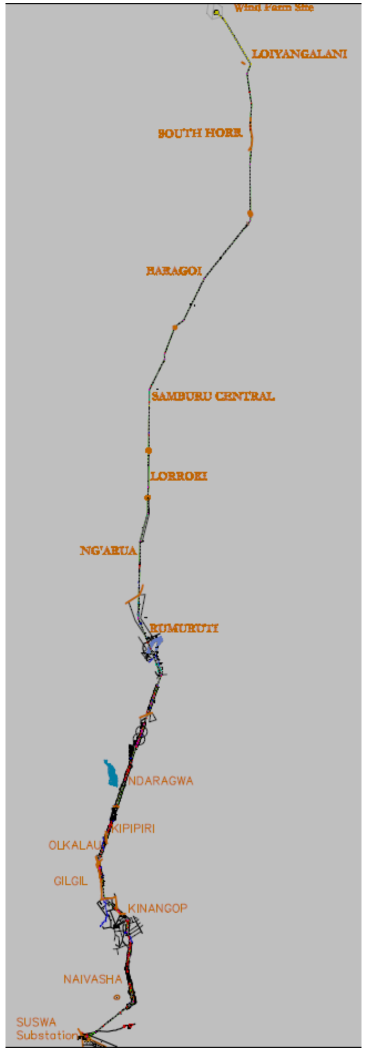
Key Figures

Total Project Cost	**USD 585 million**
Debt / Equity	70% / 30%
ADB Senior Loan	USD 100 million



LTWP – Lake Turkana Wind Power Project

- Simultaneously with the Lake Turkana Wind project, a 400kV transmission line extending from Loyngalani to the Suswa substation (428km) is being commissioned.
- The line serves as a major backbone of Kenya's transmission system allowing the 300MW LTWP plant and future geothermal power plants to deliver low cost, renewable power to the nation.
- The Kenya Electricity Transmission Company (KETRACO), KETRACO owns the transmission line and has a tolling arrangement with the off-taker Kenya Power.
- The works for the transmission line are funded by the Spanish Government and by commercial banks on the basis of a guarantee issued by the Spanish Export Credit Agency CESCE.
- Construction works are being executed by Spanish contractor Isolux.



Multilaterals Exposure Exchange

- Risk can be mitigate not only at project level, but also on a portfolio basis.
- IRMA has supported the conception and the execution of the sovereign exposure exchange agreement collectively executed by the African Development Bank, the Inter-American Development Bank and the World Bank.
- The Multilateral Exposure Exchange is an innovative framework agreement for an exchange of sovereign exposures that allows to optimize their respective balance sheets for greater development effectiveness.

African Development Bank Group

IDB
Inter-American Development Bank

IRMA – Capacity Building

IRMA is carrying out a far-reaching capacity building program in the Continent to increase awareness and capacity in governments on risk mitigation issues

Objectives of the program:

- Create the institutional/enabling environment to facilitate private sector projects to close
- Improve the ability to apply the Bank products and, more in general, risk mitigation techniques
- Strengthen the risk profile and structure of the various deals to the benefit of investors, financiers and other stakeholders

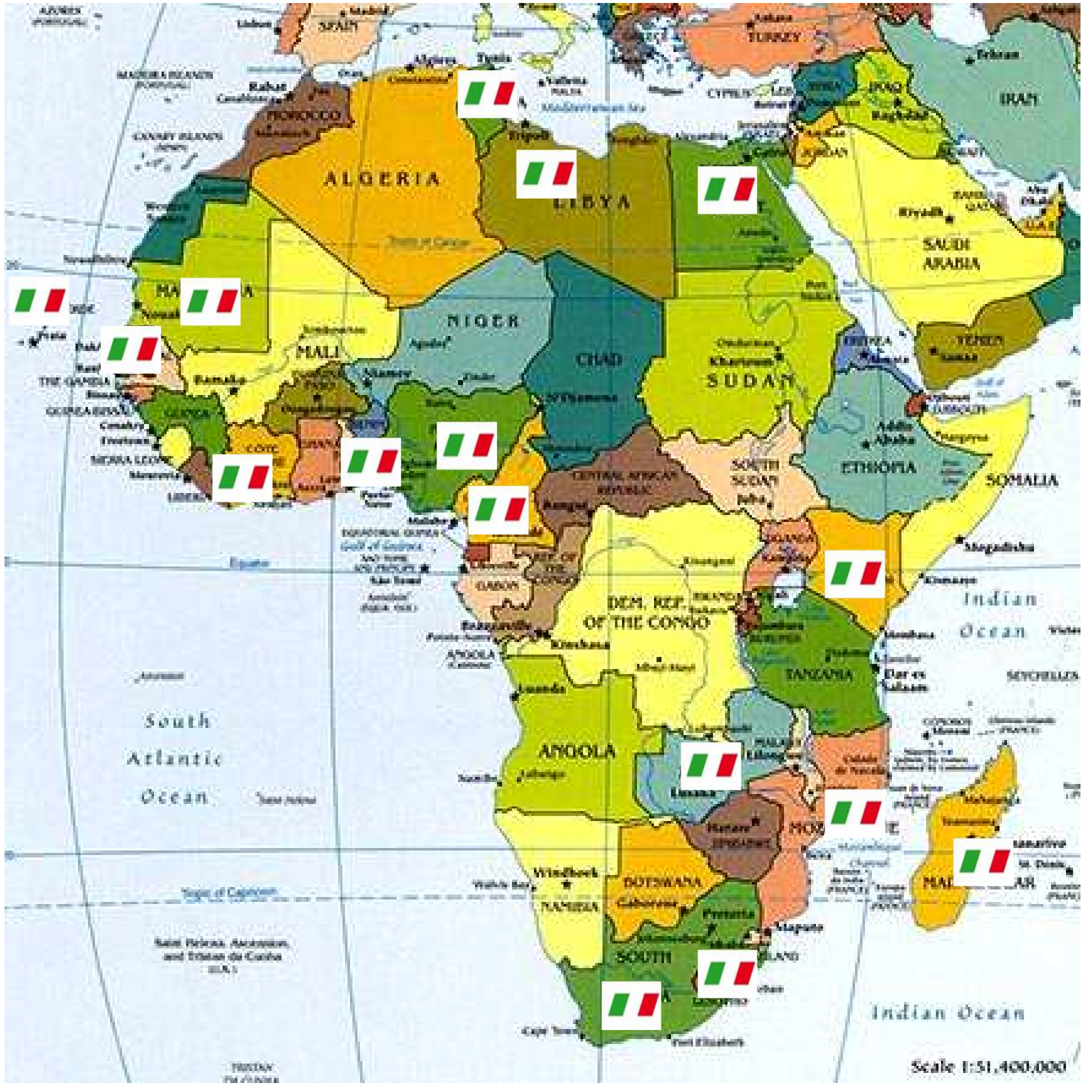
IRMA – Capacity Building and Knowledge Dissemination

IRMA-led Capacity Building Programs reached out 12 countries:

- Tunisia
- Kenya
- Cote d'Ivoire
- Togo/Benin
- Libya
- Senegal
- Mozambique
- Lesotho
- Madagascar
- Egypt
- Cape Verde

IRMA – Capacity Building

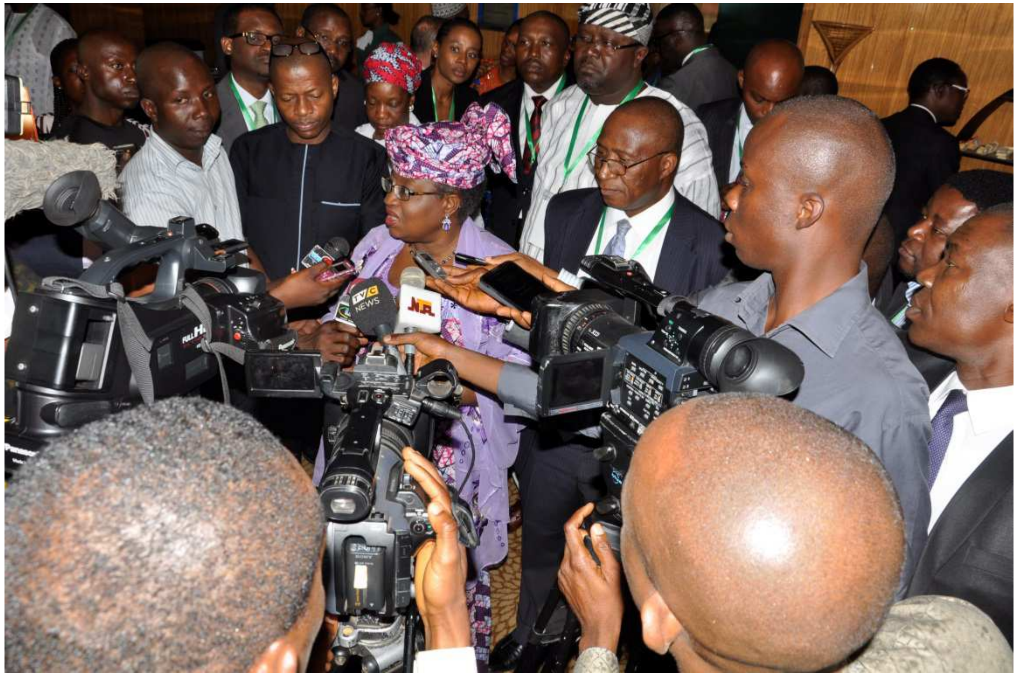
IRMA – Capacity Building and Knowledge Dissemination



IRMA also participated to other Capacity Building Initiative with other departments of the Bank (FTRY, PPP-Hub) and with other development partners (OECD, WBG)

- **Nigeria (with PPP-Hub)**
- **Cameroon (with FTRY)**
- **Zambia (with the OECD)**
- **Mauritania (with MAFO)**
- **North Africa (with the OECD)**
- **SADC (with the WBG)**

Capacity building: Collaboration with the PPP Hubs of the Bank



Wrap-up

- Africa is the fastest growing region in the world and African governments are improving policies and processes to encourage private sector investment
- Despite this, risk perception remains high in the Continent
- Development banks and other operators are developing a panoply of instruments aimed at mitigating business risks
- Availability and awareness of usage of the available instruments is a key factor in attracting private investment
- IRMA has given a measurable contribution to this process by providing targeted technical advice and by building capacity among government officials and other stakeholders in the Continent

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