

SPV: STRUCTURE AND ATTRIBUTES

Typically, creating an SPV allows privately managed infrastructure projects, either at the stage of construction and/or operation, to enjoy most degree of isolation. SPVs vary depending on the legal and financial agreements with stakeholders in a project. Moreover, different infrastructure projects have different structures of SPV. Fundamentally as an operational and financing model, there is a basic structure or template for SPVs, but in technical terms, there is no one-size-fits-all structure. For example, in Power Purchase Agreement (PPA), telecommunication, gas and oil, mining or even water treatment projects the structure of the SPVs will be quite different and unique. Therefore, no single SPV structure is suitable for all private or public private partnership (PPP) projects. The SPV is the hub, and the desired financing depends on its functionality and its linkage to various participants involved in the project. And these participants are the components or elements of the structure.

TYPICAL SPV STRUCTURE



PARTIES TO AN SPV

In a typical SPV structure several different parties are bound by a set of detailed contracts and agreements, and are essential to unlocking the full value in a project finance transaction using the SPV platform. As indicated earlier, there is no limit to the number of parties; it is only a function of the nature and structure of the SPV. However, some of the parties are considered key as identified below:

- **Sponsor:** This is the parent company of the SPV. It may also double as a part owner but in arms-length relationship with the SPV.
- **Owner (Investor):** Depending on the structure and the stage of the SPV, the owners can also be the investors. The owner typically gets to keep any profits accrued to the SPV after its operational expenses and debt payments are covered.
- **Lender:** Provides up-front cash to the SPV and is repaid with principal and interest over time.
- **Borrower:** The SPV is the borrower in a project finance transaction. It takes out a loan to fund its operations and then repays the lender with interest over time.
- **Off-taker:** Consumes the output produced by the project and pays the SPV for goods or services received. The off-taker can be either a private customer or the general public.

Some other common participants include contractors to build and maintain any necessary equipment, government agencies to grant regulatory approvals, and feedstock providers – otherwise the suppliers of raw materials - to deliver inputs to

MARKET UPDATE

	15/01/13	15/12/13	16/05/14
Naira/US\$	157.65	159.94	161.45
Brent, US\$/BBL	109.78	107.84	111.8
COCOA, US\$	1487.82	2685.47	2760.56
MPR%	12.00	12.00	12.00
INFLATION RATE %	10.3	7.9	7.8
MORTGAGE RATE %	22.0	23.0	23.0

STOCKS CONSTITUTING GMA INDEX

STOCKS	31/12/13 Price (N)	16/05/14 Price (N)	%Change in Price
OANDO	24.25	15.90	-34.43
GTBANK	27.02	27.10	0.30
OKOMU	44.00	34.00	-22.73
STANBIC	21.35	22.04	3.23
DANGSUGAR	11.70	9.21	-21.28
FIDSON	2.79	2.56	-8.24
TRANSCORP	4.35	3.65	-16.09
CCNN	11.75	9.30	-20.85

	PRICE(N)	NAV (N)
	31/01/14	16/05/14
UHOREIT	50.00	55.58
UPDCREIT	10.00	10.17

Index	31/12/13	16/05/14	% Change
NSE ASI	41,329.19	39,022.10	-5.58
GMA Index	1.50	1.39	-7.62

Source: CBN, SEC and NSE

the project.

THE LEKKI CONCESSION COMPANY (LCC) EXPERIENCE

The Lekki Concession Company (LCC) is an SPV that signposts a milestone in the adoption of this model in infrastructure project financing and implementation in the country. The SPV is made up of the Lagos State Government representing the interest of the Lagos citizens, the Asset and Resource Management Company, ARM, as the key investor, and Hitech Construction Company, Hitech, as the engineering, procurement, and construction management, EPCM, partner. In addition to financial contribution in the form of a mezzanine loan, Lagos State, who owns the road, also provided public guarantee, backed by an irrevocable standing payment order, ISPO, over its statutory revenue, on all debts incurred to construct road. ARM is the key sponsor, strategic investor, and financial arranger with equity shareholding in the project.

Hitech also holds a 'tied' equity shareholding.

Using the platform of LCC, the 49.4km road starting from Ozumba Mbadinwe in Victoria Island through Lekki and Ajah to Epe was conceived for reconstruction through public private partnership arrangement at the cost of N55 billion. The project involves the upgrade, expansion and maintenance of the expressway (Phase I), and construction of approximately 20km of the coastal road (Phase II) on the Lekki Peninsular. The project is designed as a Build-Operate-Transfer, BOT, model of infrastructure delivery, under a 30-year concession agreement, after which the assets will be transferred to the Lagos State Government in good condition. Revenue from toll collection would provide the concessionaire with the cash inflow required to recover the cost of investments, service and repay the debts whilst meeting capital and operating costs.

SPV ATTRIBUTES

Finance-ability: It is vital to structure the financial attributes of SPVs. In this respect the foremost duty is to set and check the finance-ability attributes of the project. Finance-ability refers to the project quality or its ability to attract funding. The structure is the 'sell idea' to attract funds from lending and financial institutions. A project with high financial and legal risks may not generate investment interest if not adequately covered. The structure has to be such that all issues are properly designed to appeal to investors. **Sources of funds:** If domestic capital market contribution is not significant, the sponsors must consider the option of offshore funds, and possibly the World Bank as the first and foremost option. Particularly for an IPP, the host government can take the World Bank's help for subordinated debt financing mechanism and ensuring partial credit guarantee and/or partial risk guarantee to attract other lending institutions in debt financing for the project. Export credit agencies (ECAs), bilateral banks are in a better position to compel the government to meet its obligations to the project investors and lenders. The support of ECA is sometimes crucial in the project finance market. These agencies need to be selected carefully according to the risks and mitigation strategy set by the project vehicle.

Securities and Agreements: Securities and agreements need to be transparent, concrete and creditworthy. The contract awarding process must be competitive. The non-competitive direct negotiation of awarding the contract has huge impact of mistrust to the project.

Sovereign Support: Government should step in and provide guarantees to the investors in terms of payment guarantee, comfort letter etc. The government can extend its sovereign support for successful financial structure of SPV with regards to fund accumulation, guarantees to payment and performance, even foreign exchange by the Central Bank.

Credit Enhancement: Sponsors' contingency equity support can play a big role in credit enhancement in an SPV. It not only attracts financing by private offshore and export credit agencies but also helps in the debt restructuring mechanism. The subordinated debt mechanism also acts as credit enhancement.

CONCLUSION

The applicability of the SPV structure will depend on selecting the attributes suitable on that particular condition of the situation exists. The proposed guideline will help the project sponsors, and policy maker of the government sector to foresee the essential attributes governing the financial and legal aspects at the time of structuring the SPV framework.

Disclaimer

This report is produced by Goldbanc Management Associates Limited for information purposes only. Nothing in this report constitutes investment, legal or other advice, an offer or an invitation to sell any securities or to produce investment services of any description.

Goldbanc Management Associates Ltd. 5th Floor Medife House, 58/60 Broad Street, Tinubu Square, Lagos. P.O. Box 2294 Marina. Tel: +234 1 4480803, 4480802. Email: info@gma.com.ng Website: www.gma.com.ng



...thinking and executing new perspectives