Case Study:
Doraleh Container Terminal Djibouti

IFC Ports PPP Seminar, Cairo

April 2010

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1. Project description

Doraleh Container Terminal – the facts

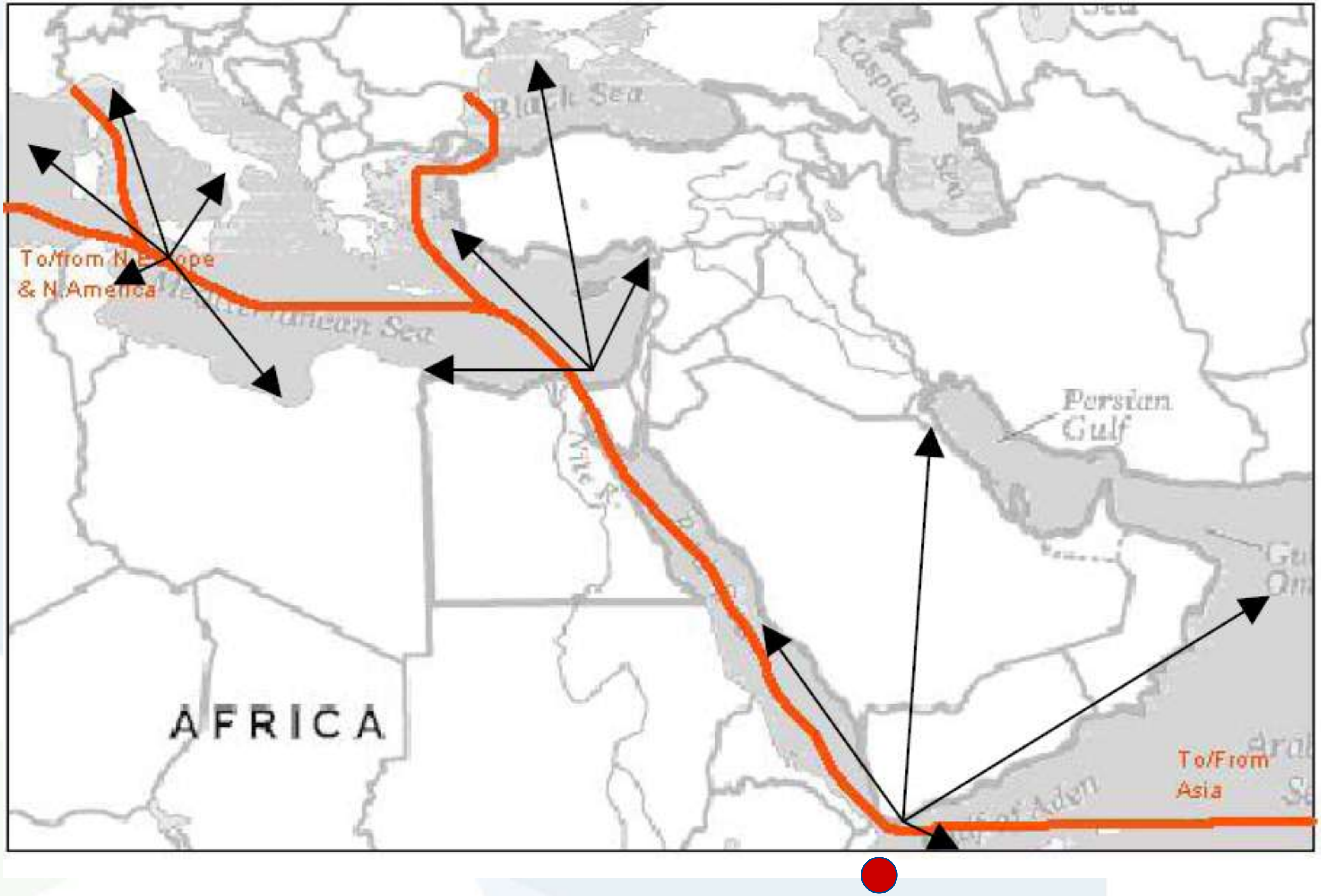
- Greenfield container terminal in Djibouti
- The $396 million project represents the first ever PPP style financing in Djibouti
- Joint venture between the Djibouti government and DP World
- 30 year concession
- Djibouti port has a monopoly position for Ethiopian imports and exports
- The port is also strategically situated on the main east-west shipping lanes which makes it very competitive for transhipment traffic
- The new terminal has an annual capacity of 1.5 million TEU (twenty foot equivalent container units)
- Project financing of $263m

2. Limited recourse lending (project finance)

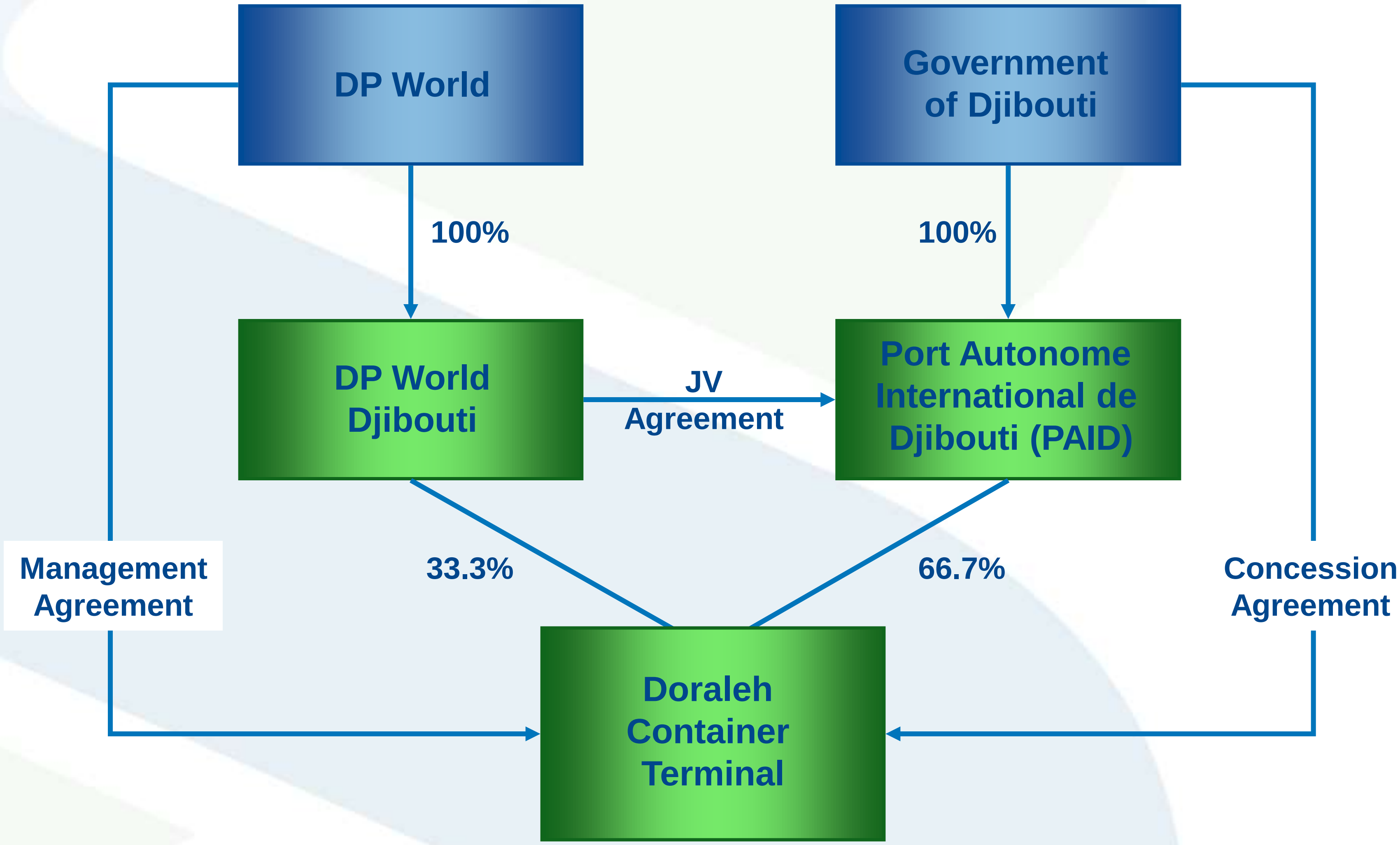
Financing a private sector port development:

- No loan to government
- Borrower is a single purpose business
- Separate legal and financial entity with ring-fenced cash flows
- Sponsor guarantees don’t cover all the risks
- High leverage and long repayment terms
- Contracts with major project parties are a key credit support mechanism
- Security rarely covers the nominal value of the loan

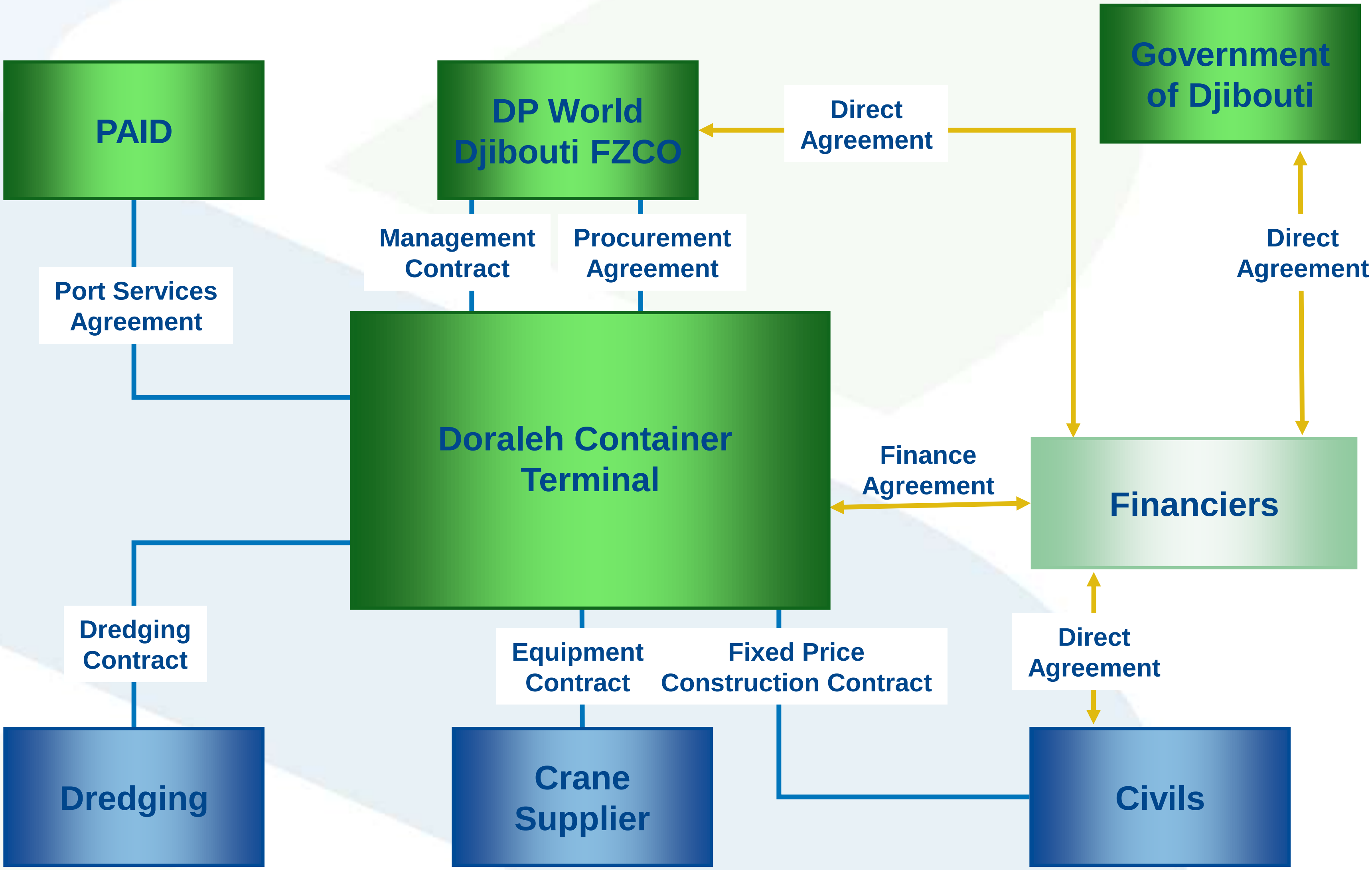
Doraleh, a strategic location for transhipment



Shareholding structure



DCT contract structure



Economic Performance

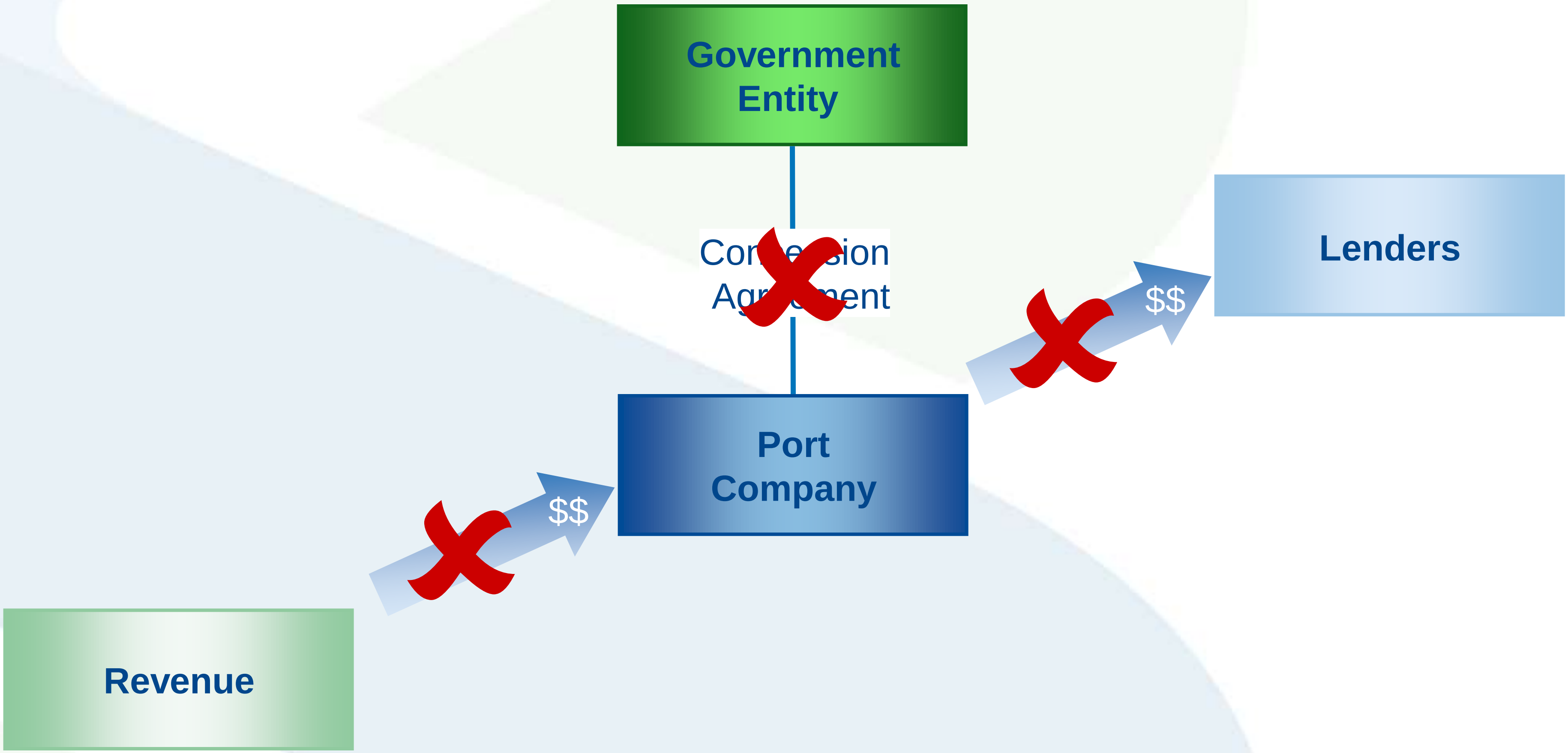
- is a catalyst for growth, private sector development, and trade
- created jobs (500 during construction and 600 permanent jobs during operation) and enabled a transfer of technology for Djibouti
- allows the shipping lines serving Djibouti and Ethiopia to lower their transportation costs by USD 30 million
- an Economic Net Present Value (ENPV) of about USD 234 million in constant 2007 prices (discounted by 12% real). The Economic Internal Rate of Return (EIRR) is estimated as 24.4% real

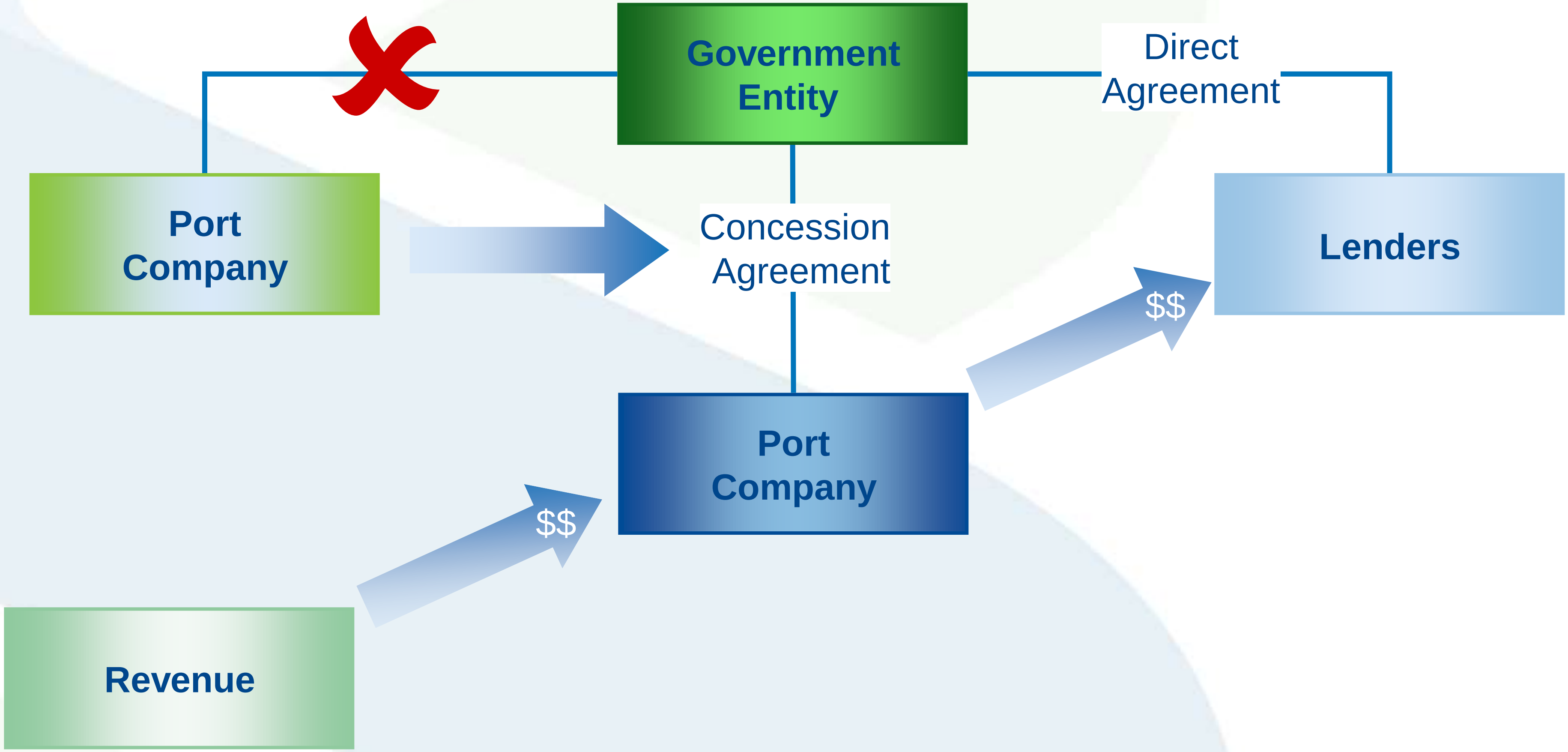
3. The most valuable asset – the concession agreement

Concession agreement

- A bank does not finance a port, it finances the right to develop and operate a port i.e. the Concession Agreement

- Lenders therefore need to have rights linked directly to the Concession Agreement itself rather than the concessionaire / borrower


Government Entity
Concession Agreement
Lenders
$$
Port Company
$$
Revenue



Government Entity
Direct Agreement
Port Company
Concession Agreement
Lenders
$$
Port Company
$$
Revenue

Concession agreement

- Direct Agreement between lenders and government or the grantor of the concession

- Temporarily prevents termination of concession
  - Lenders step-in rights
  - Right to replace operator

Concession agreement

- Termination compensation
- Key risk sharing mechanism for sponsors and lenders
- Governments compensate project sponsors for capital investment and related finance costs in the event of early termination
- Aim is to leave both parties whole

4. The Importance of cash flow

Cash flow

- Cash flow is central to project finance
- The entire debt of the project is repaid from the project’s own cash flows
- Strength of cash flow determines debt capacity of the project

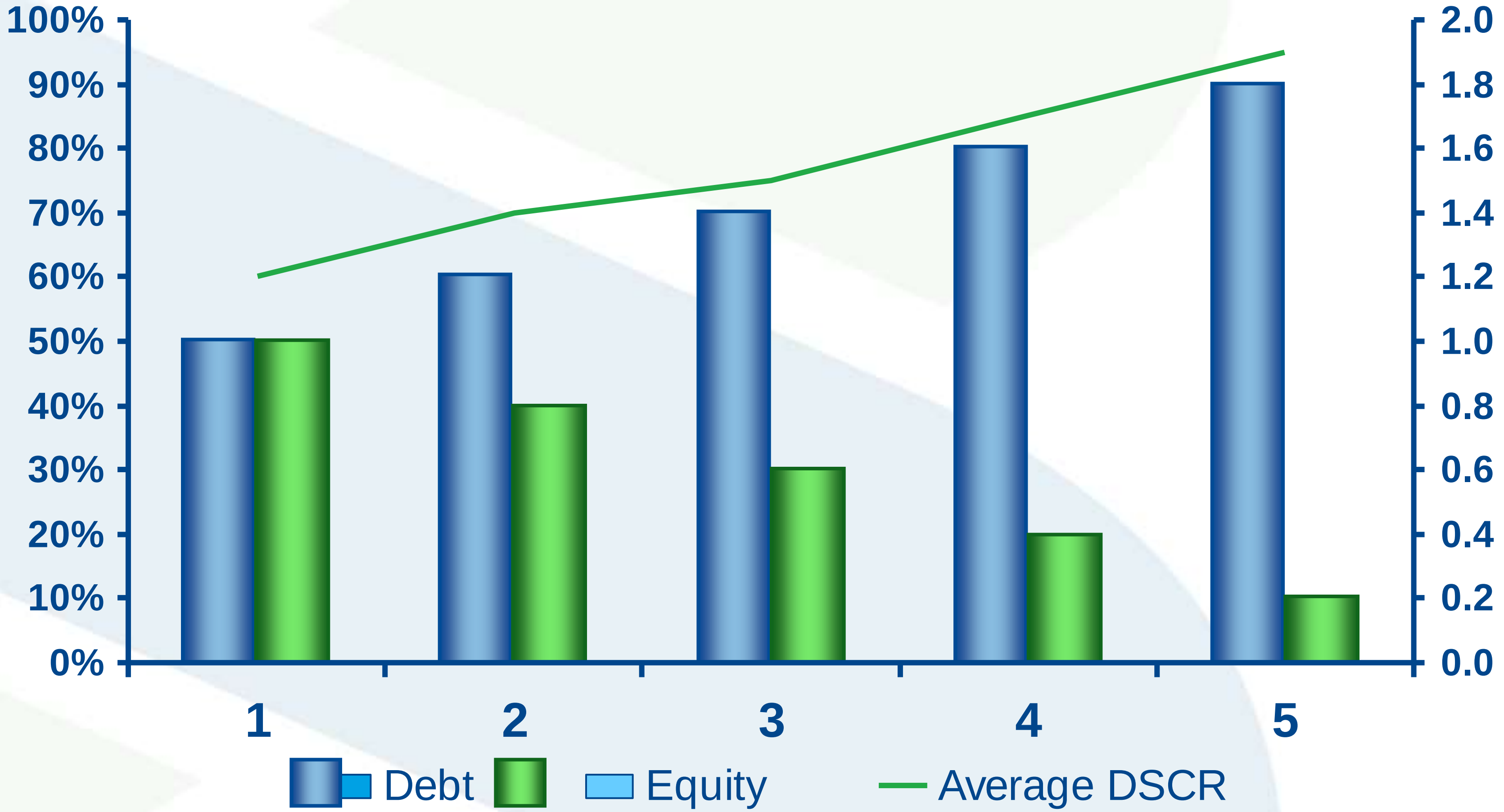
Free cash flow

- Amount of debt and repayment profile is a function of the quantity and timing of free cash flow

- Free cash flow =
  - net operational cash flow
  - after tax
  - less working investments and capital expenditure

Debt service cover ratio

- Capital structure – debt / equity ratio is driven by the DSCR



Cash flow

- Typical minimum DSCR's across industries:
  - Government procurement PPP – 1.1x
  - Minerals and metals – 1.5 to 2.5x
  - Greenfield telecoms > 2x

- Ports:
  - Greenfield container terminal - 1.6x
  - Brownfield container terminal - 1.4x
  - Greenfield mixed use port >2x

5. Understanding and mitigating the risks

Risks

- All **risks** should be considered in terms of their impact on a project's **cashflows**

- The risk profile of the project has a direct influence on the financing structure of the project

- Three main (risk) phases in a project life cycle:
  - development (equity only),
  - construction (sponsor guarantees), and
  - operation (non-recourse)

Typical risk categories

- Completion Risk
  - Delays
  - Cost overruns

- Cash flow impact
  - Funding shortfalls = additional debt
  - Increased repayments

- Mitigants:
  - Guarantees
  - Standby equity
  - Fixed price contracts
  - Final project approvals and authorisations (environmental certification; business licences; direct agreements)

Typical risk categories

- Market / Revenue Risk
  - Reduced demand
  - Competition
  - Congestion
- Cash flow impact
  - Reduced revenues
- Mitigants
  - Contracts with shipping lines / co-ownership with lines
  - Government undertaking not to introduce competing terminals
  - Supporting infrastructure – rail, roads, customs processes

Typical risk categories

- Political Risk
  - Transferability / convertibility
  - Interference with tariffs
  - Expropriation / nationalisation

- Cash flow impact
  - Increased operational costs
  - Lower revenues
  - Termination - no rights to revenues

- Mitigants
  - Clear responsibilities and obligations in concession agreement
  - Government ownership aligns interests with concessionaire
  - Termination provisions allow clear understanding of rights

Typical risk categories

- Operating Risk
  - Inefficiencies
  - Maintenance
  - Congestion
- Cash flow impact
  - Reduced revenues
  - Increased costs
- Mitigants
  - Experienced operator
  - Clear performance standards in the concession agreement

Private port financing - summary

- Partnership between governments, financiers and investors
- Common goals
- Clear roles and responsibilities
- Solution driven approach – everyone is in it for the long term

6. Doraleh Container Terminal

DCT financing challenges:

- Structuring:
  - Multiple contractors
  - Government co-ownership
  - Reliance on Ethiopia (transit port)
- Syndication
  - First major international funding in Djibouti
  - Financial crisis – impact on liquidity
  - Islamic and conventional financing

DCT financing challenges:

- Funding requirements of the Sponsors resulted in an interim funding solution
- Standard Chartered Bank jointly arranged the interim funding solution bringing together an initial group of 5 banks
- The initial group of banks funded total debt amount of $263m under an Islamic structure
- 10 year term including a 2 year construction phase
- Financial close achieved in December 2007

DCT financing challenges:

- Standard Chartered Bank sought to partner with African Development Bank (AfDB) and Proparco to join the financing
- Significant benefits of working with Multilateral institution and the Development Finance Intuitions
- AfDB / Proparco and SCB worked together to arrange a structure allowing for the partial refinancing of the interim funding solution by a conventional facility funded by AfDB and Proparco
- This process required the support of the Government of Djibouti, the Borrower; the Sponsors; the interim banks and the contractors
- Significant efforts by all led to completion of the financing in December 2009

Lenders

- In total 7 financing institutions have committed to support the project. These are a mixture of commercial lenders, multilateral financing institutions and development finance institution;

- Islamic Tranche USD160m
  - Bank of London & The Middle East
  - Dubai Islamic Bank
  - Islamic Development Bank
  - Standard Chartered Bank
  - WestLB AG

- Conventional Tranche USD103m
  - African Development Bank
  - Proparco

Q&A