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Enhancing Investment in Africa: The Role of Transaction Coverage Guarantee in De-risking Capital Deployment

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Premise

The Transaction Coverage Guarantee (TCG) program provided by the IMCI+ Alliance and MIA Mutua offers a safety net for the initial investment activities essential for developing sound, investable transactions. This includes activities such as business planning, feasibility studies, market analysis, and risk management, all of which are crucial for demonstrating the viability and attractiveness of a project to potential investors. Under the IMCI+ Alliance protocol, the TCG ensures that these foundational steps are supported and protected, encouraging qualified experts to underwrite and design transactions with confidence.

Project finance plays a crucial role in funding large-scale infrastructure projects and Public-Private Partnership (PPP) transactions worldwide. These projects often face numerous challenges, ranging from financial risks to regulatory hurdles. Here, we will explore the significance of bridge/seed finance in addressing these challenges and ensuring the successful delivery of infrastructure projects and PPP transactions.

Challenges in Project Finance

Infrastructure projects and PPP transactions are complex endeavors that require substantial upfront investments and long-term commitment. One of the major challenges in project finance is the high level of financial risk associated with these ventures. Lenders and investors are often reluctant to provide funding due to uncertainties related to revenue generation, cost overruns, and political or regulatory changes.

Moreover, infrastructure projects typically have long gestation periods and payback periods, which can deter potential investors seeking quick returns on their investments. The lack of collateral and the non-recourse nature of project finance further amplify the challenges, making it difficult to secure traditional forms of financing.

The Role of Bridge/Seed Finance

Bridge or seed finance plays a critical role in overcoming these challenges by providing initial funding to kickstart the project and bridge the gap until long-term financing can be secured. Bridge financing typically covers pre-construction costs, such as feasibility studies, design, and permitting, as well as early-stage construction expenses.

By providing early-stage capital, bridge/seed finance enables project developers to demonstrate the viability and bankability of the project, making it more attractive to lenders and investors. This initial funding also helps mitigate risks, build momentum, and accelerate the project development process, ultimately enhancing the chances of project success.

By de-risking the project development process, the TCG program addresses the key barrier of investor reluctance due to the lack of bankable projects in Africa. The guarantee provided by the program enhances the credibility and depth of investment opportunities in the region, making them more attractive to a broader range of investors. This, in turn, facilitates the flow of much-needed capital into Africa, supporting the development of critical infrastructure projects and fostering economic growth.

Access to bridge/seed finance is essential for infrastructure projects and PPP transactions for several reasons. Firstly, it allows project sponsors to navigate the initial stages of project development, where funding needs are high, and risks are most pronounced. Secondly, bridge financing provides financial cushion to absorb unexpected costs and delays, ensuring project continuity and timely delivery.

Furthermore, bridge/seed finance can enhance the creditworthiness of the project by de-risking it for future investors and lenders. By demonstrating progress, meeting milestones, and showcasing a clear path to financial sustainability, bridge financing increases confidence in the project's success and attractiveness to the broader financing market.

TCG program not only benefits investors by providing a level of assurance and risk mitigation but also enables project developers to undertake calculated risks with the support of a structured guarantee mechanism. This encourages innovation, entrepreneurship, and investment in diverse sectors, ultimately contributing to sustainable development and prosperity in Africa.

In conclusion, the Transaction Coverage Guarantee offered by the IMCI+ Alliance and MIA Mutua represents a significant step towards enhancing investment in Africa by de-risking the capital deployment process and promoting the development of bankable and investor-ready projects. By providing cover for crucial initial investment activities, the TCG program creates a conducive environment for investment, fosters confidence among stakeholders, and accelerates the flow of capital into the region. Through collaborative efforts and innovative solutions like the TCG, Africa can unlock its vast potential and pave the way for inclusive growth and development.

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