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Partnerships Crucial to Fuelling Kenya's Growth

The prospects for East Africa as a trading bloc remain promising despite the current headwinds being faced in the global economy. According to the African Economic Outlook 2016 report, East Africa's GDP is expected to grow 6.4% in 2016, up from 6.3% in 2015.

The International Monetary Fund (IMF) report released in January this year, said Kenya's estimated real GDP in 2015 of 5.6% was driven by public infrastructure spending, buoyant credit growth, and strong consumer demand. Of course, the growth acceleration is generally slower than projected, reflecting delays in planned road infrastructure spending, weaker tourism receipts, and volatile external capital flows. In October last year, the World Bank said growth in Kenya could be attributed to government investment in infrastructure and strong consumer demand and that it has the potential to become one of the best performing economies in sub-Saharan Africa and also among middle income countries.

Yet the uncertainty facing global currencies is causing volatility in the domestic money and foreign exchange markets, as it is in many other countries across the continent. This has without a doubt moderated Kenya's growth prospects, but has not stopped the growth momentum. Deals continue to happen as opportunities present themselves for strong partnerships to be formed, to structure solutions that fill the financing gaps and meet the needs of a growing market.

Because East Africa is not commodity dependant it is protected somewhat from the current fallout being experienced in commodity-producing countries. It is not as prone to the same exogenous shocks as some other countries with consumer industries continuing to grow benefitting from the increased investment in power and infrastructure.

However, incautious investors face the risk of eventual "decision paralysis", as they quickly find they are unable to measure all the risks appropriately and do not have the level of technical depth needed to structure large deals and achieve the best outcomes.

A strong understanding of regulatory and legal requirements is going to become even more crucial, as more deals happen to finance the infrastructure gaps. For example, investors will struggle to contextualise some of the risks in project financing if they do not choose the right partners with on-the-ground sectoral expertise.

According to the African Economic Outlook report, private external flows in the form of investment and remittances are driving growth in external finance across the continent. One trend is that foreign investment is diversifying away from mineral resources into consumer goods and services and is increasingly targeting large urban centres in response to the needs of a rising middle class, with increased green field investment underpinning this investment.

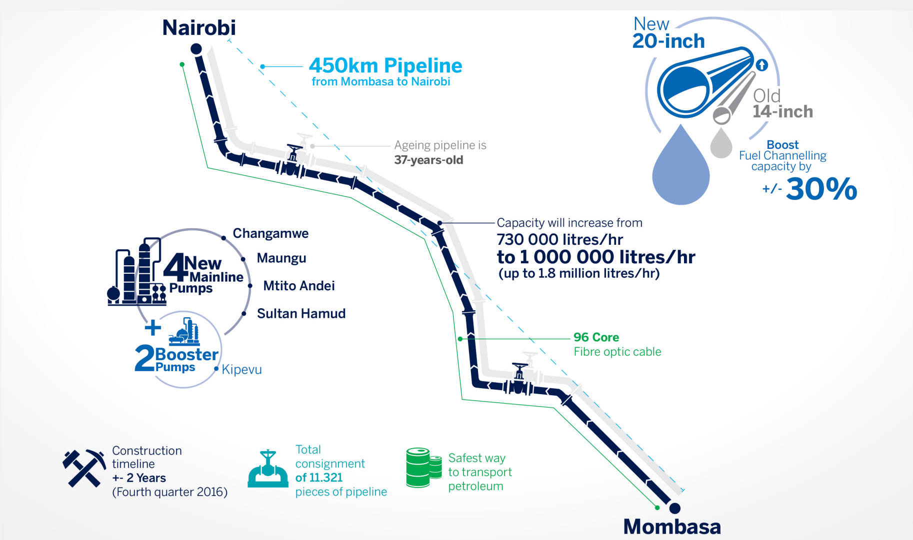
These trends are playing out in Kenya where Standard Bank, through CfC Stanbic, was the Co-Mandated Lead Arranger and Underwriter, with several other commercial banks, of a $350m syndicated term loan facility to finance the construction of the 450km replacement pipeline for the Kenya Pipeline Company (KPC), the parastatal responsible for transporting, storing and delivering Kenya's petroleum products.

As a bank that calls Africa its home, we want to continue supporting her growth and enabling companies to achieve their growth potential. We believe powering Africa and its regions is crucial if these higher levels of growth are to be achieved. This is why a deal like this is so important, as power and transport are intertwined with economies, regions and the continent as a whole. For example, the capacity of this new pipeline is designed to meet the projected petroleum products demand for the East African region through to the year 2044.

The pipeline will complement and eventually replace the existing 14-inch diameter petroleum products pipeline that has been in operation for the last 36 years. The length of this new state-of-the-art 20-inch pipeline will be 450km, and it will run alongside the existing one.

The new wider-diameter pipe is required to transport fuel from the terminal at Mombasa port to the distribution hub in Nairobi. This is the backbone (primary) pipe off which other pipes will be built and there is currently no better technology to get fuel inland, as transport through the likes of trucks and trains is comparatively expensive and requires additional road and rail infrastructure. The solution utilises the latest pipeline technology, which increases the safety and efficiency of large-volume transport of fuel. The original pipeline does not have the cubic litreage capacity to meet the projected demand over the next decade and beyond.

It is not only in Kenya where solutions like this will be increasingly needed to move goods at competitive prices. With intra-African trade and regional growth and diversification set to become a major trend



Source: Standard Bank

in the years ahead, innovative financing, supported by good partners with an in-depth knowledge of these industries will become even more crucial and sought after.

Flexibility and experience in arranging complicated financing that suits specific projects and environments is key to ensuring that optimal outcomes for all parties are achieved. KPC, for example, was a unique transaction in the market as it had the features of a green field project as well as corporate financing and so nimbleness had to be employed to craft a quick turnaround for the transaction.

The theme of having the right partners by your side with a deep understanding of these markets will continue to gain in importance, as further expansion takes place. It is only through close ties with a region and its markets that financing partners will be able to make sure a deal can make sense for other lenders to come in. For example, with KPC, the deal has already received commitments for distribution in the secondary market.

This is good for Kenya, Kenyan parastatals and for the infrastructure story in East Africa in general, in that it introduces more international investors to the risk and gets them comfortable with it, creating a precedent that paves the way for greater future appetite.