AfIDA Insider
AFRICA INFRASTRUCTURE DEVELOPMENT ASSOCIATION

BLENDED FINANCE & LOCAL CURRENCY FINANCING AS DRIVERS FOR INFRASTRUCTURE DEVELOPMENT

INSIDE THIS ISSUE

BLENDED FINANCE AS A DRIVER FOR NEW INVESTMENTS IN INFRASTRUCTURE

" We see the application of blended finance on a strong upwards trajectory as transactors and project developers look for alternative ways of financing projects, and investors look for less risky ways to gain access to new markets with strong returns potential

Andrew Johnstone
CEO, Climate Fund Managers

LOCAL CURRENCY FINANCING STRATEGIES FOR INFRASTRUCTURE DEVELOPMENT

" Reliance on foreign denominated borrowings and the risks related to currency mismatch increases the overall risk profile not only of the individual projects but also for the host country

Ziyaad Sarang
Managing Director, Fieldstone Africa

THE ART OF THE PROJECTS - PUTTING THE MONEY WHERE THE PROJECTS ARE

" I am biased of course, looking at this question from the perspective of my industry or sector. We see attractive return in three areas;
Countries with sound fundamentals and early stage, markets (e.g. Zimbabwe), Captive Solar Solutions, Utility substitute plays

Martin Haupts
CEO, Phanes Group

AfIDA
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Welcome Note

Dear AfIDA members and potential members.

It's a pleasure to introduce this third edition of the African Infrastructure Development Association (AfIDA) Newsletter, which I hope you will find informative. As another successful meeting of the Africa Energy Forum winds down the common, and unfortunately recurring issues are lack of execution on deals and absence of sufficient early stage capital. Despite considerable resource and expertise being applied to project development activities, progress on moving through the permitting processes and into construction remains frustrated by ever-changing expectations on the buy-side in respect of tariffs, lack of clarity on the process and general lethargy and weak political commitment on the part of implementing authorities to "implement."

Despite that, optimism remains high, and the resilience and commitment to the sector is still very tangible in the community of developers, financiers, professional service providers and the many other important players in the sector. Buoyed by the positive developments such as the next round of financial closing on the South Africa program, the emergence of new and innovative financing instrument and the early stage impacts of the Green Climate Fund, momentum in project development is widening into other sectors outside of power, such as transport. Along with this the role of AfIDA is also becoming clearer.

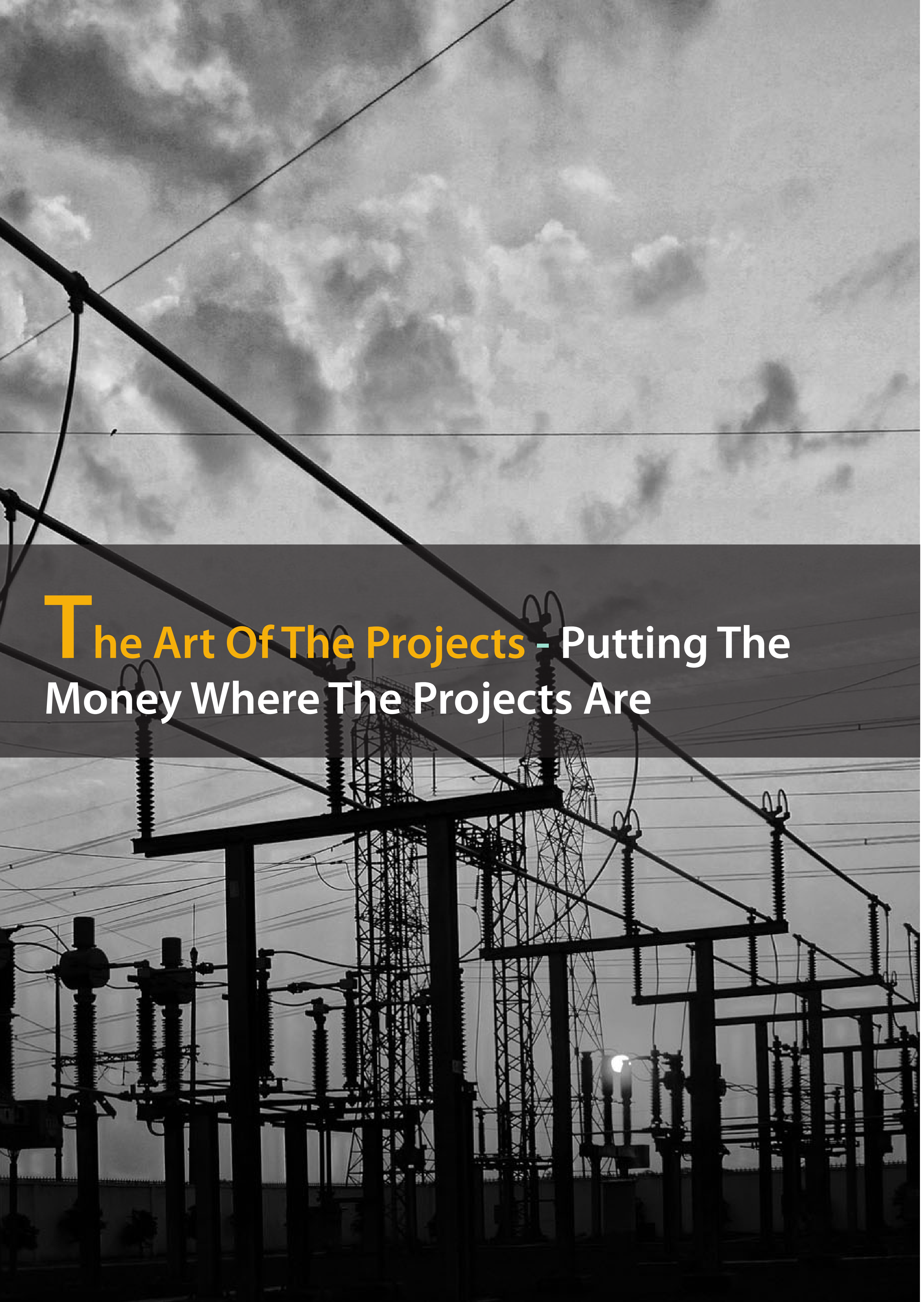
The recent introduction of legislation in Ghana which is prejudicial to the efforts of many of the project developers in that country has served as a rallying cry for AfIDA to respond and facilitate dialogue with the government of Ghana. The association's efforts will aim to be coordinated, agnostics to specific party individual interests, credible and focused, such that it delivers value to its stakeholders. In the articulation of this purpose, AfIDA has recently attracted new members from private sector developers, large and small, and it's indeed gratifying to witness the relevance of the association taking hold.

As the power sector's demand moves more towards distributed generation and smaller off-grid solutions, tradition financing models will be tested, transaction cost will come under pressure and risks will need to allocated differently. It's in this new world that blended finance solutions will gain traction and better assist projects get to implementation. The need for power remains an overwhelmingly characteristic of the Africa continent, and despite its challenges, the opportunity for reward to solution providers remains compelling, as does the application of development skills to other sectors.

The AfIDA board took the opportunity to meet in Mauritius on the fringes of the 2018 Africa Energy Forum and discussed the associations approach with the Ghana intervention, other focus countries, membership engagement including what other issues our members feel the AfIDA platform should, and is equipped, to address. The meeting also discussed the need for continued collaboration with other like-minded associations.

So much to be done and good momentum underway. Remember that this is your association, and the delivery of its purposes is very dependant on it addressing the real issues. Therefore, the association needs active and engaged members, which we are fortunate to have at this early stage of the association's life. And naturally the more stakeholders participate, the better, so tell your colleagues and business associates and let's get things done.

Andrew Johnstone



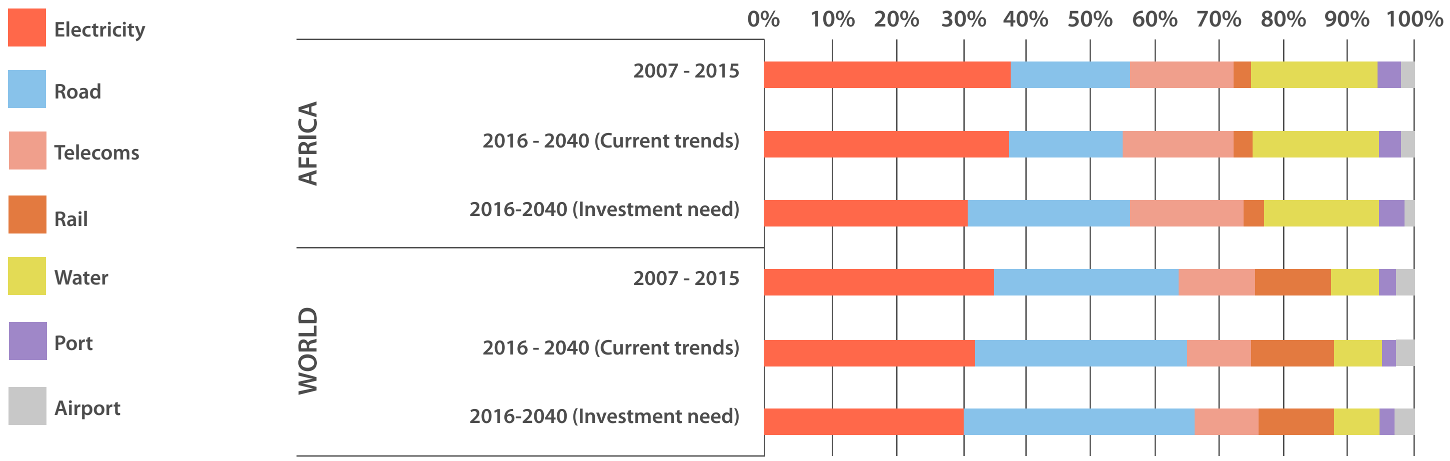
The Art of The Projects - Putting The Money Where The Projects Are

According to Project Finance International, in 2015, an estimated USD75 bn was raised through syndicated loans from regional and international banks directed at investments in the energy, transport and resources sectors. The rate of urbanisation and growth in population in developing countries has given rise to the need for increased investments in infrastructure sectors like energy, transport, water and sanitation.

The Global Infrastructure Outlook estimates that since 2007, 38% of infrastructure investment in Africa has been directed towards electricity and 20% towards water. The reports further add that while investments in Africa have been focused on utilities, there have been declining investments in the transport sector with only 27% invested in transportation between 2007 and 2015.

Conclusions can be drawn from efforts on the continent to drive intra and inter African trade through the development of regional transportation projects that would foster sustainable economic hubs. Initiatives like NEPAD's Move Africa aimed at opening Africa's borders by developing regional transport projects. According to a PwC report, an estimated US$2.2 billion investment annually could be saved in logistics costs if the average throughput at the major ports in sub-Saharan Africa doubled.

AFRICA SECTORIAL PATTERN OF INFRASTRUCTURE INVESTMENT, 2007 - 2040



Source – Oxford Economics

Oxford Economics argues that an estimated 4.3% of GDP totals investments into Africa's infrastructure between the periods 2007 and 2015.

ANALYSIS OF INVESTMENT TRENDS BY SECTOR

Projects by sector (Number of projects)	Number of Projects	Share of projects by number (%)	Value of projects (US$bn)	Share of projects By value (%)
Energy & Power	58	19.1%	67.4	21.9%
Transport	109	36%	71.6	23.3%
Real Estate	68	22.4%	42.3	13.8%
Water	14	4.6%	3.8	1.2%
Mining	10	3.3%	7.8	2.5%
Oil & Gas	13	4.3%	76.9	25%
Shipping & Ports	24	7.9%	36.3	11.8%
Social Development	2	0.7%	0.4	0.1%
Health care	3	1%	0.4	0.1%
Education	2	0.7%	0.6	0.2%

Source - Deloitte analysis, 2017. May not total to 100% due to rounding

Continued on page

ELEQTRA on Investing in Ghana & Mozambique's Renewables.

ELECQTRA

ELEQTRA

www.eleQtra.com

ABOUT ELEQTRA

EleQtra is a leading player in the development, investment, management and operation of private infrastructure in Sub-Saharan Africa with a particular expertise in power generation. eleQtra has a 10 year track record of delivering greenfield infrastructure projects in multiple sectors in Sub-Saharan Africa and managing them through the full development cycle. eleQtra led the development of the award-winning Cabeólica wind farm in Cape Verde – the first large scale PPP for wind power production in Sub-Saharan Africa – which became fully operational in 2011 and remains the only operating wind farm in West Africa. In Ghana eleQtra led the development of the Cenpower IPP in Ghana which completed its $900m project financing in 2014 and was awarded the 'PFI African Power Deal of the Year'.

ELEQTRA AND ENGIE SIGN AN AGREEMENT FOR THE DEVELOPMENT OF A WIND PROJECT IN GHANA

ENGIE and EleQtra, a developer of power and transportation projects in sub-Saharan Africa, signed a Joint Development Agreement that defines the terms and the schedule for the development and construction of the 50 MW Ada Wind power project in the Greater Accra Region in Ghana. The project is expected to require an investment of approximately $120 million and to start operations early 2019. ENGIE will enter as a 40% partner in the project.

The Ada Wind power project is located in the eastern part of the Greater Accra region. The combination of strong wind resources, availability of open land and good access to transmission infrastructure make this an excellent location. The project was initiated by EleQtra Limited. Initial studies have already been completed and demonstrate the project's viability.

The Ada Wind project will contribute to the Ghanaian Government's objective of generating 10% of its electricity from renewable resources. It is also in line with Ghana's ambition to become a power generation hub in West Africa with the benefit of exporting power to its neighbours in the West African Power Pool.
EleQtra Partner Ebbe Hamilton said:
"EleQtra is delighted to have ENGIE joining the development of what we believe will be the first wind energy project in Ghana. We will now start the next phase of the development in order to bring the project as soon as possible into operation."

Philippe Miquel, Regional Manager Western & Central Africa for ENGIE said:

"The Ghanaian Government is looking to strengthen its renewable energy industry and is putting in place a regulatory framework that should encourage the development of the country in an affordable and sustainable manner. The Ada Wind Project will be instrumental in the diversification of Ghana's energy portfolio. Our partnership will bring the technical experience, the local knowledge and the funding required to develop, construct and deliver this competitive 50 MW wind project."

THE US TRADE AND DEVELOPMENT AGENCY (USTDA) HAS AWARDED A GRANT TO ELEQTRA MOCAMBIQUE LIMITADA FOR A FEASIBILITY STUDY INTO A 120MW WIND FARM IN MOZAMBIQUE

The proposed project would be built in two 60MW phases in the African country's southern district of Namaacha. EleQtra has selected US company WorleyParsons Group to carry out the study. USTDA regional director for sub-Saharan Africa Lida Fitts said: "USTDA is pleased to support this project, which will help diversify the electricity supply in Mozambique through the addition of 120MW of capacity.
"At the same time, this project will create opportunities for US businesses in a growing sector in Mozambique."
EleQtra regional manager Lauren Thomas said: "We hope that this support will lead to the strengthening of the Mozambican power supply with the first wind IPP in the country and bring new opportunities to the communities of Namaacha.
"We look forward to working with Worley Parsons and Mozambique's Energy Fund to complete this essential feasibility study."

FMO's Funding as a Catalyst for Uganda's Green Energy Sector.

FMO AND PROPARCO FINANCE THE PRODUCTION OF GREEN ENERGY FROM SUGAR RESIDUE IN UGANDA

Proparco has arranged a €40 million financing to SCOUL, Uganda's third largest sugar manufacturing company, to finance a new 26MW cogeneration power plant. This new power plant will allow the company to produce green electricity at a competitive price to meet its own needs and to be sold to the national grid.

This facility was announced during a signature ceremony attended by the French Ambassador to Uganda, Stéphanie Rivoal. For this operation, Proparco granted a €20 million loan and catalyzed funds from the Dutch development bank FMO, which contributed a similar amount to the project.

The cogeneration unit will be fed by bagasse –a fibrous residue from the grinding of sugar cane. It illustrates the company's environmental approach, which is committed to recycling by-products and waste at each stage of its production. In recognition of its good environmental management, the company is ISO 14001 certified.

The production of green electricity from biomass will directly contribute to the UN Sustainable Development Goal #7 (Affordable and clean energy) in a country suffering from a low electrification rate.

This is Proparco's second operation with SCOUL after an initial $23 million loan granted in 2012 that allowed the sugar company to increase its production capacity and expand its technical assistance to smallholder farmers. It testifies to Proparco long-term commitment to a company recognized for its environmental and social practices and to the development of agribusiness in Uganda.

Netherlands Development Finance Company

FMO
Entrepreneurial Development Bank

www.fmo.nl

ABOUT FMO

FMO was founded in 1970 and is a public-private partnership, with 51% of our shares held by the Dutch State and 49% held by commercial banks, trade unions and other members of the private sector. FMO has a triple A rating from both Fitch and Standard & Poor's

FMO is active in an international environment and is aware of the importance of being open to the needs and wishes of each stakeholder, while taking into account its own integrity and social responsibility.

FMO strives for a flawless reputation for integrity. Accordingly, we expect all employees, irrespective of their position, to behave beyond reproach. They should act, and in certain cases refrain from acting, fully as FMO expects a good employee to do.We have created an open culture based on respect, integrity and social responsibility. Our employees are engaged, want to make a difference and cooperate to create excellence.

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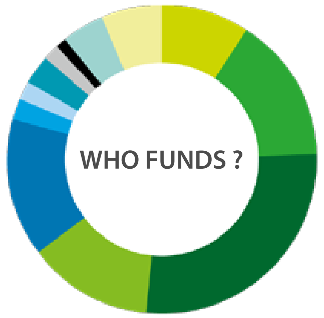
According to the 2017 edition of the Africa Construction Trends Report published by Deloitte, Governments continue to own the largest share of projects with an estimated 72.9%, seconded by Private Domestic firms that own 12.5%. Firms domiciled in the United States (2.3%), the United Kingdom (2%) and China (1.7%) own seven, six and five projects respectively.

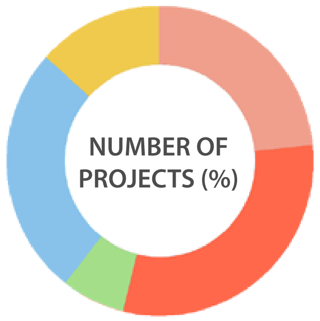
The report describes entities that own, finance and construct projects are defined as the country where the owner, funder or builder is originally domiciled.

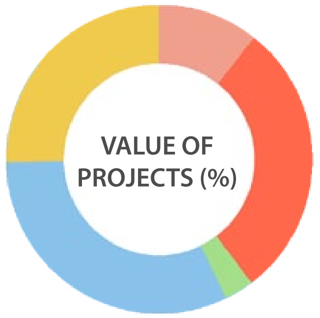


Source – Deloitte analysis, 2017. European countries include Germany, Italy, Netherlands, Portugal, and Switzerland. Single countries include Australia, Canada, India, Kuwait, Macau, Namibia, Nigeria, Qatar, Turkey, and the UAE

The Africa Construction Trends report shows that in 2017, China funded 47 projects and Private Domestic firms funded 44, whereas International Development Finance Institutions (DFI) financed 40 projects. African DFIs funded 28 large-scale projects.

An important driver for infrastructure spending will be driven by financing and increased investment allocation to key infrastructure sectors that underpin economic growth and sustainability. There is a need for continued partnerships and capital allocation into infrastructure from all development stakeholders. Government participation, financing and facilitation remain a key determinant of future spending prospects into infrastructure in Africa.





Source – Deloitte analysis, 2017. May not total to 100% due to rounding

Martin Haupts on Managing the Perception Of Market Risks

"A high proportion of local currency financing is desirable if the revenue streams, i.e. the PPA, is denominated in the same currency"

TELL US ABOUT PHANES GROUP AND YOUR ROLE IN THE ORGANISATION?

I am the Founder and CEO of Phanes Group. Phanes Group is an end-to-end solar developer with an IPP strategy and focus on sub-Saharan Africa and MENA. Beyond large scale solar in more than ten markets in sub-Saharan Africa, Phanes Group actively pursues off-grid electrification and hybrid solutions for captive off-takers.

WHAT ARE YOUR THOUGHTS ON THE BENEFITS OF BLENDED FINANCE IN THE RENEWABLE ENERGY SECTOR? WHERE ARE THE CURRENT OPPORTUNITIES?

We find ourselves in an environment of compressing margins and ever tightening commercial conditions. Blended Finance can be an enabler for projects within demanding return characteristics. E.g. in Egypt, only the intervention of blended financing instruments saved the solar program. Initiatives such as GetFit in Zambia can open new markets and new segments for renewables. Of course, the risk always is that the availability of blended instruments distorts the view on the proper pricing of risk of a market and fosters artificially low risk premia. Keeping the balance right is essential..

> " Of course, the risk always is that the availability of blended instruments distorts the view on the proper pricing of risk of a market and fosters artificially low risk premia. "

MARTIN HAUPTS
PHANES GROUP - CEO

WHAT ARE YOUR THOUGHTS ON LOCAL CURRENCY FINANCING INSTRUMENTS AS A MEANS OF ATTRACTING MORE INTERNATIONAL FINANCING INTO INFRASTRUCTURE PROJECTS? IS MARKET BASED LOCAL CURRENCY INSTRUMENTS THE WAY TO GO?

It's a complex topic. A high proportion of local currency financing is desirable if the revenue streams, i.e. the PPA, is denominated in the same currency. I can see issues with this being acceptable for Equity investors in the majority of sub-Saharan markets. Exceptions are major currencies such as ZAR.

Also, in Nigeria I can see a market in the captive segment for Naira based capital structures. Another problem results from the trend to tightly price PPAs that offer only little cushion for big swings in FX volatility that are common for emerging currencies.

I therefore see capital structures in major currencies such as USD or EUR preferable. Complementing these structures with a smaller local portion can make sense to support emerging capital markets and also cover local cost portions during the construction and operation phase of a project.

WHAT WOULD YOU REGARD AS THE 3 KEY SECTORS WHERE DEVELOPERS AND FINANCIERS HAVE BEEN YIELDING HIGHER RETURNS? WHERE IS THE SMART MONEY GOING?

I am biased of course, looking at this question from the perspective of my industry or sector. We see attractive return in three areas:

- Countries with sound fundamentals and early stage markets (e.g. Zimbabwe)
- Captive solar solutions
- Utility substitute plays

PHANES GROUP OPERATES IN A LARGELY SHARIA COMPLIANT REGION, HOW EFFECTIVE IS THE BLENDED FINANCE APPROACH?

Blended finance has not really taken off in the GCC area. Most of the countries are higher income markets that do not fully qualify for blended instruments.

Also, the utility scale dynamics (very large volumes with record-low PPA prices) do make the markets here more conducive for innovative structured finance with low debt cost as opposed to blended finance.

Trinity on Understanding Major New Updates to FIDIC Forms.

THE FIDIC SILVER BOOK – IMPACT FOR PROJECT FINANCED EPC CONTRACTS

The Fédération Internationale Des Ingénieurs-Conseils ("FIDIC") published updated editions of its Conditions of Contract for Construction (the "Red Book"), Conditions of Contract for Plant and Design-Build (the "Yellow Book") and Conditions of Contract for EPC/Turnkey Projects (the "Silver Book").

The new versions are the first major updates to the FIDIC forms since the First Editions released in 1999. Trinity reviewed the changes and it's our view that, overall, the changes made by FIDIC do not represent major shifts in respect of the basic risk allocation set out under each of the Red Book, Yellow Book and Silver Book. However, the changes do provide some welcome clarity on certain provisions and they also include some procedural and administrative modifications.

A notable change is the presence of increased reciprocity in the rights and duties of both parties. A key example is in relation to Employer and Contractor claims (including the reciprocal time bar on claims that was absent in the 1999 Edition).

Given that the risk allocation under the Silver Book has always intentionally passed more risk to the contractor, the recent changes by FIDIC seem to apply more readily to the other forms.

The Silver Book is a popular starting point in project financed transactions, given, amongst other matters, the nature of the risk allocation. It is Trinity's view that users will be slow to adopt the 2017 edition of the Silver Book in relation to project financed deals. The broad reasons for this are as follows:

- The 1999 edition has typically needed provisions to be amended in order to create a 'bankable' contract. These relate to matters such as site risk, direct agreements and performance security to name but a few. Such amendments do not feature in the updated edition.
- In recent years, there have been developments in the market (driven by evolving technologies) which required amendments to the 1999 edition of the Silver Book. This includes changes relating to performance testing for example. The updated edition does not appear to provide for these.
- A number of provisions have been expanded, mostly relating to claims, disputes and notice requirements. This means the contract is potentially more onerous in terms of its' administration. Project finance deals often require the inclusion of additional layers of administration in any event but the changes in the most recent edition do not readily address the same areas.
- FIDIC's "Golden Principles" of risk allocation have limited applicability for project finance transactions. This is because risk is intentionally transferred to the contractor (and priced accordingly) so that the SPV is insulated from as much construction risk as possible.

Trinity International LLP

www.ifc.org

ABOUT TRINITY

Trinity International LLP is a niche projects, finance, corporate and commercial law firm focusing on emerging markets, notably Africa but also the Middle East, Latin America and Asia. We have wide sector experience including in power, energy/renewable energy, resources, transport infrastructure, industry and agriculture.

Trinity offers an innovative approach to providing legal advice and the structuring of its fee arrangements. The firm is able to offer financial flexibility and encourages an approach that is not focused on hourly rates. As an example, Trinity is able to share transaction risk alongside its clients.

AIIM'ing to Power Nigeria.

AIIM AND HELIOS INVESTMENT PARTNERS JOIN FORCES TO BUILD OUT MARKET-LEADING NIGERIAN ENERGY SERVICES COMPANY, STARSIGHT POWER UTILITY LTD.

African Infrastructure Investment Managers (AIIM), one of Africa's leading infrastructure equity investment managers and a member of Old Mutual Alternative Investments (OMAI), today announces an investment in Starsight Power Utility Ltd (Starsight). AIIM has acquired its stake through its African Infrastructure Investment Fund 3 (AIIF3), as part of a $30m equity round, together with one of the largest Africa-focused private investment firms, Helios Investment Partners, acting on behalf of funds it advises.

Starsight is a Nigeria-based energy services company offering solar-diesel-battery hybrid and efficient cooling and lighting solutions to its commercial and industrial clients. The company is in the process of rolling out its services to a number of core clients in the financial services and energy sectors, and has a target pipeline of over 1000 sites in the medium term. AIIM's investment in Starsight is financed through its AIIF3 fund which invests primarily across the power, transportation and energy infrastructure sub-sectors in sub Saharan Africa.

Olusola Lawson, Investment Director and Head of West Africa at AIIM, commented: "As long-term infrastructure investors, we want to make both a positive and sustainable impact, as well as targeting investments with attractive return profiles. Nigeria must address its significant power supply deficit to spur the economic growth required to create
jobs for its fast-growing population. Starsight is offering a unique solution for companies that will reduce their cost of power and improve their ease of doing business."
Tony Carr, CEO of Starsight, commented: "Starsight is pleased to welcome AIIF3 as a significant shareholder. Our offgrid energy-saving and cooling solutions are focused on delivering clean power to our customers while reducing waste through innovation; we see AIIM as a long term partner with extensive local knowledge that will help us drive future
growth, further expand our customer base and ultimately deliver value to our shareholders."

Including Starsight, AIIM has made five investments on behalf of the AIIF3 fund. Other investments are AIIM Hydroneo, a pan-African hydro power development platform, DSM Corridor Group, a specialist dry bulk terminal operator in Tanzania, Albatros Energy Mali, a 90 megawatt (MW) thermal power station and Amandi Energy Limited, a 200MW thermal power station in Ghana.

Africa Infrastructure Investment Managers

www.aiimafrica.com

ABOUT AIIM

AIIM, a member of Old Mutual Alternative Investments, has been investing in the African infrastructure sector since 2000 with a track record extending across seven African infrastructure funds. AIIM currently manages USD2 billion in assets across the power, telecommunications and transport sectors with operations in 15 countries across East, West and Southern Africa. AIIM's power portfolio extends across renewable energy and thermal power assets with a combined generation capacity of over 2,250 MW.

As a leading infrastructure manager across Africa, central to AIIM's investment objectives and processes is its commitment to responsible investment. AIIM is committed to fulfilling fiduciary duties as the custodian of shareholders' and beneficiaries' long-term interests. In this regard, AIIM considers the incorporation of environmental, social and governance (ESG) factors into its investment and ownership processes to support the pursuit of creation of positive futures and obtaining sustainable, superior risk-adjusted returns for its clients.

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