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
AFRICA INFRASTRUCTURE DEVELOPMENT ASSOCIATION

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Welcome Note

ANDREW JOHNSTONE

CLIMATE FUND MANAGERS - CEO

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

" Driving Project Bankability in Africa.

AfIDA: Who We Are

The Africa Infrastructure Development Association ("AfIDA" or "the Association") is a network of project developers and development stakeholders whose goals are to drive project bankability and enhance the vibrancy of project development (PD) activities in Africa.

The association aims to create an eco-system and platform that will foster continuous dialogue amongst its members, benchmark project development template documents and serve as a policy advocacy platform for the industry, with a view to ensuring that more projects on the continent achieve bankability.
The common goal amongst all members is to have a developmental impact in Africa by the enhancement of infrastructure development on the continent.

AfIDA ON PREP'ing AFRICA'S PROJECT DEVELOPMENT

AfIDA AIMS TO:

PROMOTE
The development of power and infrastructure assets in Africa; capacity building in the industry through training and knowledge sharing; transparency through information sharing and dialogue between members; and ethical and professional standards amongst its members.

REPRESENT
A common voice for developers on a wide range of development interests in a manner as inclusive as possible; the industry by facilitating advocacy and sector representation; the views of its members by being an industry interface to the market; and the African power and infrastructure sector to all stakeholders.

ESTABLISH
Tools for information gathering and dissemination between members; standardised templates for basic agreements between members; standardised templates for basic agreements between stakeholders; norms, guidelines and codes of conduct to govern project development in Africa; and regular meetings, conferences and workshops to further AfIDA's objectives.

PROPOSE
Recommendations for improvement in the legal and regulatory environment for project development and finance in Africa to the relevant authorities within governments; greater participation from government to be able to deliver bankable projects; benchmarks for market terms in certain key areas of development; and reports and results of industry research following market analysis of key indices.

WHY YOU SHOULD JOIN AfIDA

01 Country Engagements and Policy Advocacy
Participate in AfIDA's country engagement efforts aimed at driving advocacy and inclusiveness through collaboration between public and private sector developmental stakeholders. The country engagements are aimed at addressing project development bottlenecks and identifying opportunities for development.

02 Skills Transfer
Participate in workshops and conferences where industry issues and market norms are developed.

03 Thought Leadership
Gain access to AfIDA's Industry data, analyses, research and share your input on key discussion topics in the associations newsletter.

04 Capacity Building
Access to specialised resource hubs that assist members with expertise on deal structuring, project finance, legal documentation, health and safety and other identified developmental gaps.

05 Platform for Dialogue and Information Sharing
Network with leading industry influencers and stakeholders.

06 Market Benchmarks
Participate in the development of market standards, industry benchmarks and industry template document.

Meet The AfIDA Board of Directors

OLIVER ANDREWS
AFC
EXECUTIVE DIRECTOR & CIO

ALEX KATON
INFRACO AFRICA
EXECUTIVE DIRECTOR & CIO

DAVID DONALDSON
IFC
HEAD INFRUSTRUCTURE AFRICA

GAD COHEN
ELEQTRA
CEO

MARINA PANNEKEET
FMO
INVESTMENT OFFICER

STEVEN WYNTER
THEMIS ENERGY
DIRECTOR ENERGY

VUYO NTOI
SOUTHERN CENTRAL AFRICA, AIM
REGIONAL DIRECTOR

RAGNAR GERIG
AFRICA & LATIN AMERICA, DEG
DIRECTOR ENERGY

ANDREW JOHNSTONE
CLIMATE FUND MANAGERS
CEO

JASANDRA NYKER
BIOTHERM ENERGY
CEO

THE AfIDA OPERATING STRUCTURE

MEMBERS OF AfIDA
Guarantor Members

AfIDA

AfIDA BOARD OF DIRECTORS

Finance & Compliance Committee

Events & Programs Committee

Country Relations & Advocacy Committee

CO-ODINATOR

WORKING COMMITTEES AND VENDORS
Standardise Document Templates
Website developers, Content providers, Media partners

SECRETARIAT
Research/Newsletters/ Journals/Special Reports
Conferences, Training & Workshops

The ultimate objective of the AfIDA is to create the capacity to foster and develop market norms across the Project Development spectrum

PAUL BIGGS
TRINITY
SENIOR PARTNER

SUZANNE GUJADHUR BELL
INTERNATIONAL PROXIMITY
MANAGING DIRECTOR

The Co-odinators Report Back

PRECIOUS NKANDU
AfIDA - CO-ODINATOR

Precious oversees the management and operations of AfIDA, supported by the board of directors. In this role, she provides a vital link between the members, the secretariat and the working committees, and other parts of the association.

Precious brings a wealth of experience to the role, having worked in the past with infrastructure project developers and governments and a wide range of investors – including institutional investors, sovereign wealth funds, pension funds and family offices – to facilitate partnerships and investment opportunities.

She has also worked closely with African development finance institutions and other organisations seeking to gain access to international capital by providing them with investor relations, communication and media support as well as business development services. The knowledge gained from this background puts her in an ideal position to help AfIDA make progress with meeting its objectives and ensuring that Africa's project development space remains vibrant.

"I'm excited to be part of a team of industry leaders who are already playing a catalytic role in driving Africa's projects to achieve bankability, helping with skills transfer and serving as a collective voice of developers on the continent" she says.

AfIDA Events and Advocacy Programs

KENYA TO HOST AfIDA COUNTRY ROUNDTABLE

NAIROBI, KENYA

AfIDA, in partnership with the government of Kenya, Kenya Investment Authority and other key stakeholders will be hosting a roundtable to explore investment opportunities in the transport, energy and industrial infrastructure sectors. The roundtable will host project developers, financiers and policy makers.

AfIDA CHAIRS MEETING OF NIGERIA SOLAR POWER DEVELOPERS

ABUJA, NIGERIA

AfIDA's Chairman, Mr Oliver Andrews (Executive Director & CIO, AFC) presided over a meeting of Solar Developers held on 22 February 2018. The developers agreed that to be effective partners of the government and its various relevant agencies in their efforts to power Nigeria, open and transparent discussions among all relevant stakeholders will be vital.

To join AfIDA and for more information, please contact Precious Nkandu on:
precious.nkandu@afida-africa.org

Blended Finance As a Driver For New Investments in Infrastructure

MINDING THE INVESTMENT GAP

Africa's infrastructure development is set on the backdrop of the need for economies of scale. The rate of growth in both developed and developing economies in Africa requires investments for the expansion of new infrastructure, maintenance and refurbishment of existing ones. Research reports show that Africa's infrastructure deficit will require billions of dollars every year to bridge the funding gap.

It is evident that various investment approaches can be applied to finance Infrastructure that incorporates different financial structures and instruments. These instruments may include listed stocks and bonds, which are predominantly market-based tools that are backed by well-established governing frameworks. Historically, Development Banks and Development Finance Institutions (DFI's) have been significant infrastructure financiers. There are concerted efforts today to develop new financial instruments and techniques for infrastructure finance that will de-risk projects and merge both public and private capital.

Several research findings highlight the success achieved by these efforts and show that advances in the equity market for infrastructure investments signify an upward trajectory. These conclusions establish that the formation of liquid markets for project bonds, securitisation of bank loans, and transparent local capital market instruments could support Blended Finance models for infrastructure investments.

Conclusions drawn from several reports show that there is still a need for more investment instruments that facilitate direct investments in infrastructure projects for wide-ranging investors. While institutional investors like pension funds and sovereign wealth funds require co-investment opportunities to de-risk investments, they are prone to excessive fund management fees, mismatches between asset life and fund vehicle, and extensive leverage mean which often results in little to no allocation to the infrastructure asset class in Africa.

For local and international funders to participate in infrastructure development, assets need to be structured as attractive investment opportunities, commercially viable and are backed by diverse funding structures which provide risk-return profiles that are aligned with investor return expectations and liability structures to attract private sector capital.

BANKROLLING AFRICA'S INFRASTRUCTURE

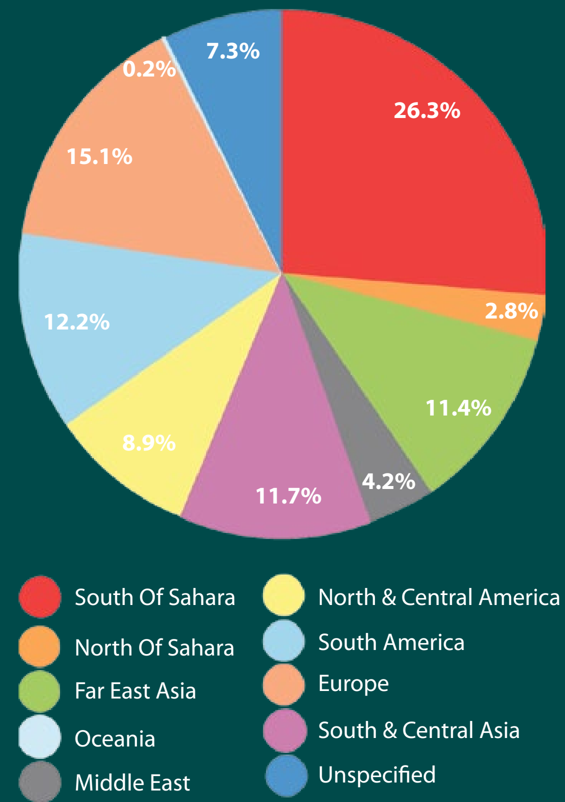
Co-investments as a De-risking Mechanism- Feedback from research respondents and industry reports highlight the need to create mechanisms that facilitate direct investments in infrastructure. These instruments would support the development of co-investment platforms that leverage private sector capital into projects.

The rise in co-investment platforms has set the rails for Blended Finance mechanisms with Africa leading the pack in attracting private capital for project development in sectors like energy and industrial infrastructure.

Although global research analyses show increased investments in high-value economies, Development Finance Institutions (DFI's) continue to provide guarantee instruments which act as tools for de-risking that could benefit low to medium income economies in Africa.

Pooling Capital to Bridge the Investment Deficit – Different financial instruments can target diverse risks which mobilise commercial capital to attain sustainable outcomes. Advantages of pooled funding mechanisms like blended, Project and structured finance is that they lend themselves to sophisticated and diversified resources. These mechanisms also provide development stakeholders with the required expertise to evaluate the project risk/return profiles and in so doing match the demands and investment needs of co-investors.

SUB-SAHARAN AFRICA RECEIVED MORE PRIVATE INVESTMENT MOBILISED THROUGH BLENDED FINANCE THAN ANY OTHER REGION BETWEEN 2012 AND 2014



Source – Development Initiatives based on OECD survey 'Amounts Mobilised from the Private Sector by Official Development Finance Interventions'.

> **"For local and international funders to participate in infrastructure development, assets need to be structured as attractive investment opportunities, commercially viable and are backed by diverse funding structures which provide risk-return profiles that are aligned with investor return expectations and liability structures to attract private sector capital"**

DEFINING BLENDED FINANCE

Several inferences can be made from reports by the World Economic Forum and OECD which define Blended Finance as linking "the strategic use of development finance and philanthropic funds to mobilise private capital flows to emerging and frontier markets." Blended Finance is centred on the need to attract additional private sector financing to scale up project development capacity and can include wide-ranging financial mechanisms like grants, investment guarantees, market rate or concessional loans, or equity.

Andrew Johnstone, CEO, Climate Fund Managers emphasises the need to clarify the meaning of Blended Finance and its differentiating attributes from similar mechanisms applied to structured and project finance. "We use the definition coined by Convergence, one of the leading proponents of Blended Finance which is "the tactical use of the public finance, to mobilise private finance, at scale". The operative words here are public plus private and scale."

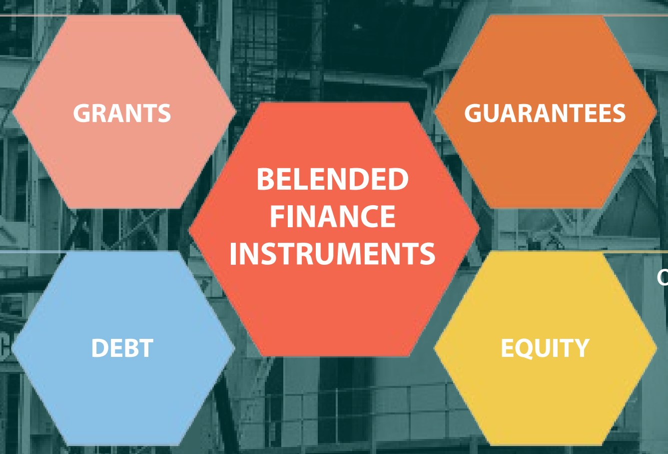
"In fact, the definition of Blended Finance is broad. It can be used for 1) tenor extension; 2) taking on front risk; or 3) mezzanine debt to de-risk the project for senior lenders 4) full financing for projects which are not bankable for senior lenders 5) margin reduction. At the same time, it is important that the use of Blended Finance does not distort the market and is applied transparently and only in cases where the blended approach is really necessary and hence additional to the market. It should be applied to projects with high risks and high development impact.
In the past couple of years, one can see increasing use of Blended Finance which on the one hand results in lower cost to the project, the off-taker and potentially lower end-user tariffs. At the same time, it has resulted in some occasions, unrealistic expectations by governments on the level of tariffs applicable in their particular countries following which developers are discouraged and will either not bid or withdraw from bidding processes or even do not participate or have to accept very low returns not reflecting the risks that are being taken. This may in fact also result in less IPP type of projects being developed."

Like Public Private Partnerships (PPPs) and impact investing mechanisms, Blended Finance aims to mobilise private capital into projects and attempts to mitigate risk by blending the varied investor needs and expectations.

SPOTLIGHT: THE BUILDING BLOCKS OF BLENDED FINANCE

The innovation of Blended Finance comes from the deliberate use and structuring of financial instruments to catalyse private capital. The three defining pillars of Blended Finance – Leverage, Impact, Returns – influence why and how development and philanthropic capital providers use financial instruments. Mobilizing private capital to new markets or sectors can require support, either by reducing risks or increasing returns when the risks are high. For example, providing grants to absorb transaction costs or certain risks can improve investment viability, while incorporating debt or equity into the capital structure with highly flexible or favourable terms can unlock financial returns. On the other hand, development actors investing on the same terms as private investors can attract increased capital to development projects by signalling viability or leveraging preferred creditor status to increase the speed at which funds can be committed.

Basic financial instruments include debt, equity, grants and guarantees, all of which are familiar to and regularly applied by development finance and philanthropic funders.



A financial award with no expected repayment or compensation over a fixed period of time.

Protection from various forms of risk intended against capital losses for investors.

Money lent for repayment at a later date, usually with interest.

Market Rate Debt, when rates and terms are determined based on capital markets prices and tenors but can be subordinate to senior debt (i.e. mezzanine)

Flexible (Concessional) Debt, with favourable terms or rates for the borrower relative to market pricing.

Ownership in a company - value determined at time of investment.

Junior Equity accepts higher risk for lower financial returns in exchange for social, environmental and economic impact, typically in a position to take the first losses.

Source – Blended Finance Vol. 1: A Primer for Development Finance and Philanthropic Funders www.weforum.org

> **"Blended Finance is attractive to development finance stakeholders because of its ability to identify the structural needs of individual projects/companies at diverse phases of their life cycles and market maturity.**

MOTIVATIONS FOR BLENDED FINANCE – WHY BLEND?

According to the Blended Finance Task Force, an estimated $6 trillion every year will be required to deliver the Sustainable Development Goals (SDGs) which are set out to end poverty and protect the planet. The findings establish that Investment in sustainable, climate resilient infrastructure could be catalytic in achieving SDGs. The task force further adds that Blending could be a significant way to "tip the scales", making assets like sustainable infrastructure in emerging markets "investable" by large-scale mainstream capital.

IS THERE A GROWING NEED FOR BLENDED FINANCE MECHANISMS?

"Yes. Donors and DFI's / concessional funding providers / and credit enhancement providers need to focus on how they are being additional and enabling private sector participation. There is a growing need in the sense that the infrastructure deficit on the continent is growing as the population grows."

To sustainably invest in Africa's infrastructure development there is a need for combined resources from public/private sectors, domestic and international stakeholders. The required capital for development could be mobilised through financing mechanisms like Blended Finance which provide risk-adjusted returns in line with investor requirements.

Blended Finance is attractive to development finance stakeholders because of its ability to identify the structural needs of individual projects/companies at diverse phases of their life cycles and market maturity. Blended Finance also plays a fundamental role in addressing development finance bottlenecks and thereby facilitating improved risk-return propositions for the private sector.

"Blended Finance has the potential to leverage the blend of grants and loans to mobilise Development Finance Institutions (DFI) to increase lending for projects that may not be deemed bankable by commercial financiers due to the perceived project and country risks."

The Benefits of Blending - "Capacity levels in Sub-Saharan Africa (SSA) vary and wrapped/enhanced deals are complex so there would be a need to provide technical assistance and training to build up both the private and public sector."

In addition to encouraging private-sector participation, Blended Finance could be beneficial to development stakeholders for driving Resource Mobilisation, Knowledge Exchange, and Development Effectiveness.

A report by the European Fund for Sustainable Development argues that the specificity of blending lies in designing financial instruments to attract additional project financing from other sources. Because Blended Finance involves multiple components that resemble other financial and technical assistance instruments, the assessment of the added value of a given mixture should distinguish the extent to which the combination of elements – rather than individual components – generate development benefits.

Scaling up Blended Finance- For Blended Finance to be effective as a core operating practice, activities that will promote its scalability need to be engrossed in the blending instruments and mechanisms adopted by development stakeholders. Several reports show an upward trajectory in the application of Blended Finance as an effective instrument for driving infrastructure investments.

Conclusions can be drawn from the 2015 guide for Blended Finance report by the World Economic Forum and the OECD which argues that Blended Finance offers the opportunity to scale up commercial financing for developing countries towards investments with development impact which could support the realisation of the Sustainable Development Goals. The report further adds that Blended Finance could contribute to development objectives by increasing capital leverage, enhancing the investment impact and delivering risk-adjusted returns

BLENDED FINANCE SUPPORTING MECHANISMS

TECHNICAL ASSISTANCE Technical/ Operational Expertise	Technical Assistance addresses the risks in new, uncertain and fragmented markets for investors. Costs and risks associated with exposure to new markets, technical uncertainty, and the inability to build a pipeline can be reduced through this mechanism, lowering the high transaction costs for investors and operational risks which often dissuade a commitment of funds.
RISK UNDERWRITING Capital Preservation	Risk Underwriting reduces specific risks associated with a transaction. This Mechanism provides direct compensation or assumes losses for specific negative events, addressing concerns of private capital providers related to macro and project/company specific risks to ensure capital is preserved.
MARKET INCENTIVES Results-based Financing/Price Guarantees	Market Incentives address critical sectors that do not support market fundamentals. This helps new and distressed markets that require either scale to be commercially viable or reduced volatility, by providing fixed pricing for products for private capital to justify committing to the sector.

Source - ReDesigning Development Finance Initiative A joint initiative of the World Economic Forum and the OECD - A How-To Guide for Blended Finance

BLENDED FINANCE ACTORS

01 Private Sector Capital Providers/Investors

Diversified financial institutions and intermediaries, institutional investors (such as pension funds, insurance companies, sovereign wealth funds) and high net worth individuals.

02 Development & Philanthropic Funders

Development and philanthropic funders include donor agencies, development finance institutions and public and private philanthropic foundations.

03 Financial Intermediaries

An institution that facilitates the channelling of funds between investor and investee company or project and between lenders and borrowers.

Source- Blended Finance Vol. 1: A Primer for Development Finance and Philanthropic Funders, World Economic Forum

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Andrew Johnstone on Alternative Ways To Finance Projects

"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 way to gain access to new markets with strong returns potential"

WHAT ARE YOUR THOUGHTS ON THE ESCALATION IN BLENDED FINANCE DEALS IN AFRICA OVER THE LAST DECADE? HAVE THE TRENDS CHANGED?

To begin with it is important to clarify what one means by blended finance. The term is being increasingly used to describe the combination of capital types from different sources, but it needs to be differentiated from structured finance or project finance which also brings in capital of different types into a combined financing structure.

We use the definition coined by Convergence, one of the leading proponents of blended finance which is "the tactical use of the public finance, to mobilise private finance, at scale". The operative words here are public plus private and scale.

In this context "public" is also quite specific being capital provided by governments. This sometimes takes the form of Development Assistance ("ODA") but is increasing being made available in the form of returnable grants. Development Finance Organisation ("DFI") are often confused with governments, due to their shareholding, but typically their participation in a blended finance structure is more akin to the private capital, as opposed to the public capital.

As to the application in Africa of blended finance as defined above, it is still very early days as the concept has only been around for approximately two years and arose as a response to the massive funding gap identified from the setting of the Sustainable Development Goals in 2015. However we see the application of blended finance on a strong upwards trajectory as transactors and project developers look for alternative ways to financing projects, and investors look for less risky way to gain access to new markets with strong returns potential.

ANDREW JOHNSTONE
CLIMATE FUND MANAGERS - CEO

DO YOU THINK BLENDED FINANCE IS EFFECTIVE ACROSS ALL INFRASTRUCTURE SECTORS? DO THE CHALLENGES AND OPPORTUNITIES VARY FROM SECTOR TO SECTOR?

Yes, it is. The strength of blended finance is that in designing the blend one can define which risk is to be carried by the public-sector capital, and to what extent. If a risk exists in one sector which is absent in another, it can be recognised and allocated in one structure and not the other. The key is to understand how that risk could materialise and how it would affect the cashflows associated with the project. Blended finance works on the same risk definition principles as projects finance, it just shares the risks differently. This allows it to be very versatile across multiple sectors.

BLENDED FINANCE REQUIRES BANKERS, LAWYERS AND DONOR OFFICIALS TO RUN THROUGH COMPLEX BLENDED FINANCE STRUCTURES. IS THERE CAPACITY ON THE CONTINENT TO EXECUTE THIS?

It is true that blended finance structures are more complex than the traditional investment vehicle such as a private equity fund. However they are significantly less complex than some project finance deals with multiple financing parties all seeking special accommodation, resulting in large volumes of documentation, bilateral agreements, security regimes and a multitude of specific requirements, which is both time consuming and expensive to execute and resource overwhelming.

Blended finance sits between the two. It seeks to simplify the finance at project level by dealing with some of the risk allocation between investors at a level above the project, and in a manner that does not require redefinition for each projects. This leads to faster transaction times and faster deployment of capital.

RESEARCH FINDINGS ARGUE THAT A LACK OF ACCOUNTABILITY AND EVIDENCE OF PROVEN SUCCESS PRESENTS A WEAKNESS FOR BLENDED FINANCE, WHAT ARE YOUR THOUGHTS ON THIS? HAVE THERE BEEN SOME SUCCESS STORIES?

As with anything innovative, lack of track record is always a challenge. Having said that, many aspects of the philosophy draw on tried and tested models. In the case of Climate Investors One, the technologies financed are proven, the project definition and risk assessment is the same as project finance and infrastructure investment thesis remain the same, as does the role of active asset management.

So the different really lies in the bringing together of different types of investors to sit alongside each other, in pursuit of a common macro objective, but with clear rules in respect of operations and outcomes. This scalable alignment is what leads to faster implementation.

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Climate Change and Impact Investing provide the overarching common objectives, with risk allocation and the structure delivering the outcomes.
All alternative investment vehicles, regulated or not, such as investment funds need to have an acceptable level of governance, transparency and accountability otherwise it simply will not attract capital.

The same applies to blended finance vehicles, but perhaps the hurdle is higher due to the much wider investor community interests involved which range from qualitative and impact outcomes to financial and quantitative outcome, both of which are equally important.

RESEARCH CLAIMS THAT BLENDED FINANCE REQUIRES THE AMALGAMATION OF REGULATORY AND PRICING REFORMS. DOES THE REGULATORY LANDSCAPE IN AFRICA PROVIDE AN ENABLING ENVIRONMENT? WHAT IMPACT HAS THIS HAD ON THE RATE OF DEVELOPMENT?

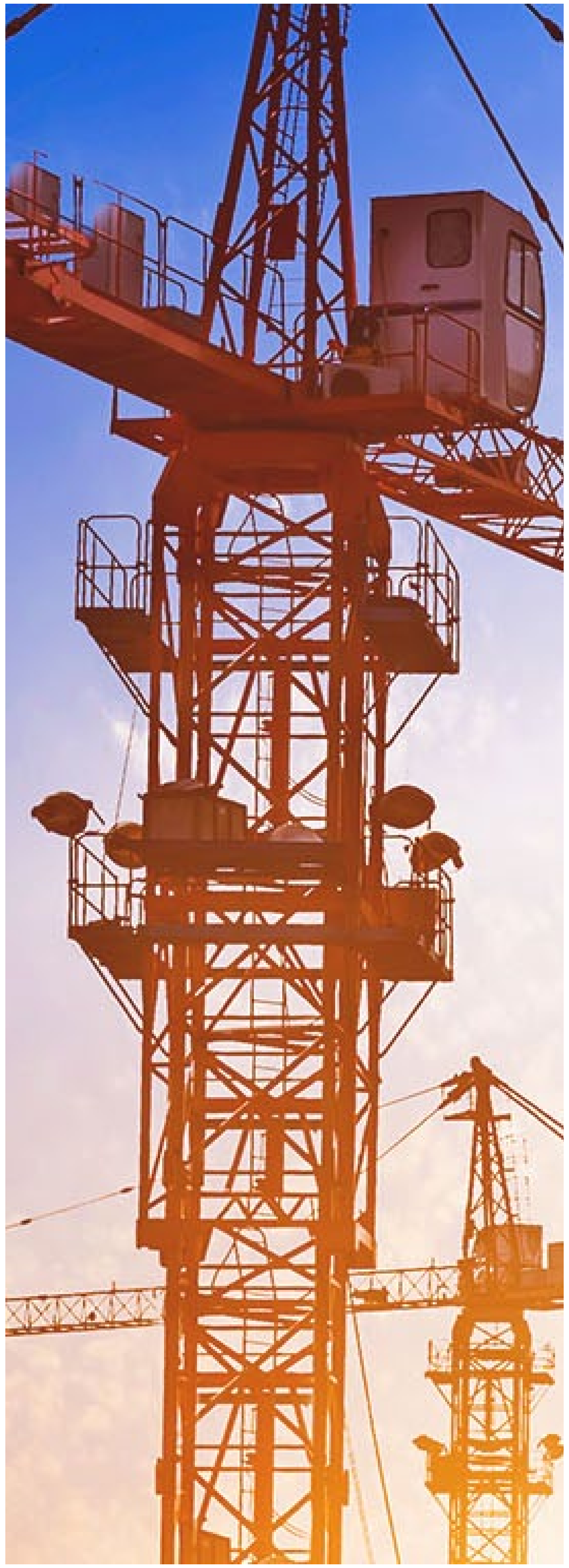
Typically the words "regulation" and "reform" are used in the context of project preparation, such as a power sector reform, or regulation allowing a national utility to do certain things. The need for this is well understood and the barriers presented by frameworks designed around a world where infrastructure was financed by the public sector are progressively coming down.

I think Africa is advancing well in this respect. In the context of blended finance however "regulation" and "reform" also mean the rules governing how money can be applied – public or private – its cost, and how much is available.

Regulation is increasing in this respect and important pieces of global legislation such as IFRS, Basel III, Solvency II, plus regulation on the supervision of financial institutions such as FAIS (South Africa) and AIFMD (Europe) means that capital is generally operating within tightly defined space.

Scarcity of capital at scale for illiquid, local currency assets remains one of the biggest challenges to the financing of Africa infrastructure, and we believe that blended finance structures can take some of the rough edges off the perceived risk, provide some flex to the way capital moves, lower the hurdle on investment decisions, and get more capital flowing - quicker.

> " The strength of blended finance is that in designing the blend one can define which risk is to be carried by the public-sector capital, and to what extent. If a risk exists in one sector which is absent in another, it can be recognised and allocated in one structure and not the other. "



Ragnar Gerig on The Need For Increased Capacities For Project Developers

WHAT ARE YOUR THOUGHTS ON THE ESCALATION IN BLENDED FINANCE DEALS IN AFRICA OVER THE LAST DECADE? HAVE THE TRENDS CHANGED?

We notice three significant changes in the use of blended finance in Africa over the last decade. First a strong increase of the number of different funds for blending alongside a growing donor society. Second a strong growth of blended capital flooding Africa especially Sub Saharan Africa. And third a shift of blending finance targets from high impact non-commercial deals to more and more (close to) commercially viable deals where only single financing risks or structural elements are addressed to promote deal flow.

DO YOU THINK BLENDED FINANCE IS EFFECTIVE ACROSS ALL INFRASTRUCTURE SECTORS? DO THE CHALLENGES AND OPPORTUNITIES VARY FROM SECTOR TO SECTOR?

The main focus of blended finance in the infrastructure sector is for sure on renewable energy where capital costs dominate esp. If compared to conventional energy projects. Within the renewable energy sector we see blended finance instruments focussing on reducing financing costs and providing longer tenors to allow for affordable tariffs and some kind of guarantees for weak off-takers to crowd in private capital into frontier markets.

RAGNAR GERIG

DEG, AFRICA & LATIN AMERICA - DIRECTOR, ENERGY

In other sectors other types of blending /public private partnerships are more common like guaranteed utilization ratios / numbers of users or blended finance that reduces overall financing costs to make projects financially viable f.e. in sectors of basic services.

BLENDED FINANCE REQUIRES BANKERS, LAWYERS AND DONOR OFFICIALS TO RUN THROUGH COMPLEX BLENDED FINANCE STRUCTURES. IS THERE CAPACITY ON THE CONTINENT TO EXECUTE THIS?

Good point. That is exactly what we experience. More and more blended finance programmes ask for more experts in running those programmes and require increasing capacities on the project developers side. In our view many blending programmes lack of these implementation capacities resulting in time and resource consuming processes. Development Finance Institutions experienced in private sector finance might help creating lean structures for blended finance and help surpass this hurdle.

> "More and more blended finance programmes ask for more experts in running those programmes and require increasing capacities on the project developers side."

RESEARCH FINDINGS ARGUE THAT A LACK OF ACCOUNTABILITY AND EVIDENCE OF PROVEN SUCCESS PRESENTS A WEAKNESS FOR BLENDED FINANCE, WHAT ARE YOUR THOUGHTS ON THIS? HAVE THERE BEEN SOME SUCCESS STORIES?

There are some success stories especially in the field of new technologies, innovative project structures and first-of-a-kind projects where blended finance enabled projects that opened up opportunities for additional private investments. In other fields it might be a more ambivalent experience with sustainable and additional projects on the one hand and a weaker project pipeline on the other.

RESEARCH CLAIMS THAT BLENDED FINANCE REQUIRES THE AMALGAMATION OF REGULATORY AND PRICING REFORMS. DOES THE REGULATORY LANDSCAPE IN AFRICA PROVIDE AN ENABLING ENVIRONMENT? WHAT IMPACT HAS THIS HAD ON THE RATE OF DEVELOPMENT?

Regulatory reform is key for promoting private investment and the quality of reforms directly correlates with development success and an increase in private investments. Compared to several successful reform stories in Africa blended finance can only be a second best solution, but it might speed up the time until fruits of well-structured reforms can be harvested.

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BLENDED FINANCE – THE GAME CHANGER?

Several examples of successfully closed blended financing deals like the first climate financing facility launched by the Climate Fund Managers (Climate Investor One) are evidence of the strengthening case for Blended Finance.

Based on reports by Receiving Depository Financial Institutions (RDFI), an estimated $25.4 billion has already been invested in over 74 Blended Finance funds and facilities, with further Blended Finance funding invested in projects in frontier and emerging markets. This is evidence of private capital mobilised for infrastructure projects.

Recent reports show a steady increase in the rate of Blended Finance deals in the periods 1980 through 2016. The reviews highlight the role institutions like the International Finance Corporation (IFC) as leading the efforts in merging donor funding with its investments to attract private-sector funding partners.

ABENGOA KHI - IFC blended $15 million in concessional funds from the CTF to support the construction of a 50 MW CSP project in the town of Upington. IFC invested $69 million from its own account alongside CTF's contribution. As a result of this project, 174,000 metric tons per year of GHG emissions are expected to be avoided, the equivalent of taking 35,000 cars off the road each year.

ABENGOA KAXU - FC invested $75 million from its own account alongside CTF's contribution. Located in the Northern Cape Province, the Abengoa projects are the first CSP plants to be constructed in sub-Saharan Africa and among the first independent power producers in the country. As a result of this project, 268,000 metric tons per year of GHG emissions are expected to be avoided, the equivalent of taking 54,000 cars off the road each year.

Source – www.ifc.org

Other institutions like The Netherlands Development Finance Company (Dutch Development Bank or FMO), multilateral development banks, regional development banks and bilateral Development Finance Institutions, continue to be catalytic players in the Blended Finance ecosystem.

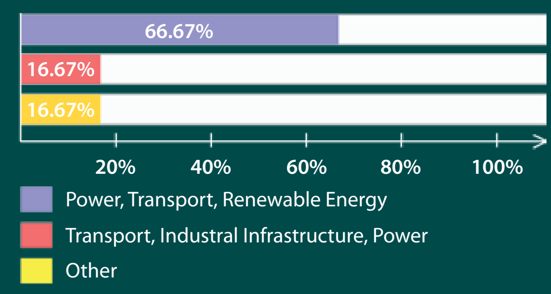
IS BLENDED FINANCE EFFECTIVE ACROSS ALL INFRASTRUCTURE SECTORS?

According to industry reports, significant private capital mobilised through Blended Finance between 2012 and 2014 was directed towards the energy, industry, mining, construction and banking sectors. Several sectors prioritised by the Sustainable Development Goals (SDG's) like water and sanitation continue to experience funding deficits which raises the argument that Blended Finance could be more relevant to some sectors than others.

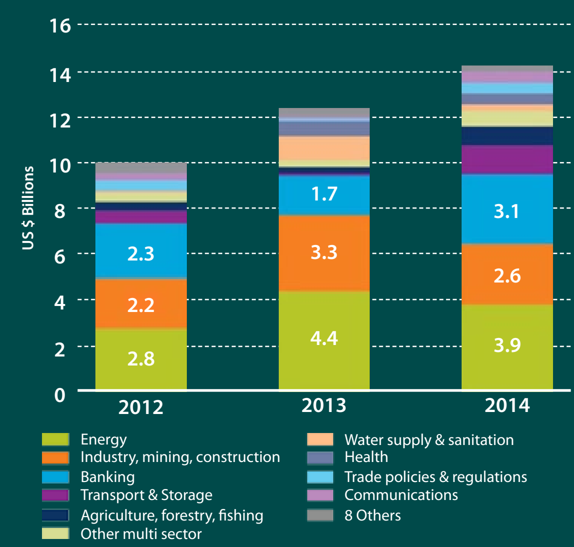
"I can only confirm that the trends in the Energy Sector have changed in the sense that there are more sources of concessional funding. Hence Blended Finance options have become available. Because of (government) expectations on low tariffs, in fact, more blended funding is required to make the projects bankable, both from a bankability and return perspective."

Blended Finance is attractive to development stakeholders because of its inherent ability to shift the perception of risk against possible returns. However, reports by the OECD argue that evidence of its effectiveness remains limited. There are still difficulties in interpreting development effectiveness principles into Blended Finance practice as blending instruments are commonly evaluated in isolation from other development collaboration mechanisms.

In a recent survey by the Africa Infrastructure Development Association (AfIDA) to establish key infrastructure sectors attracting the most funding, respondents highlighted a 67% interest in the Power, Transport and Renewable sectors.



INFRASTRUCTURE & PRODUCTIVE SECTORS RECEIVE MOST PRIVATE INVESTMENT MOBILISED THROUGH BLENDED FINANCE



Source – Development Initiatives based on OECD survey 'Amounts Mobilised from the Private Sector by Official Development Finance Interventions'.

> **"No amount of Blended Finance can make up for a poor investment environment, but accelerating its use will play an outsized role in mobilising private investors for the SDGs (along with a push for the right policy and regulatory improvements). Tackling just one part of the financial system or one set of actors will not do the job. It will not turn the billions of development capital into trillions of commercial investment flows. What we need is a comprehensive, coordinated plan of attack – one which profoundly integrates the voice of investor alongside the development community."**

Source –https://www.blendedfinance.earth/about/

AFC Leadership Recognised for Championing Infrastructure Finance.

Africa Finance Cooperation

AFRICA FINANCE CORPORATION

www.africafc.org

ABOUT AFC

AFC, an investment grade multilateral finance institution, was established in 2007 with an equity capital base of US$1 billion, to be the catalyst for private sector-led infrastructure investment across Africa. With a current balance sheet size of approximately US$4.2 billion, AFC is the second highest investment grade rated multilateral financial institution in Africa with an A3/P2 (Stable outlook) rating from Moody's Investors Service. AFC successfully raised US$750 million in 2015 and US$500 million in 2017; out of its Board-approved US$3 Billion Global Medium- Term Note (MTN) Programme. Both Eurobond issues were oversubscribed and attracted investors from Asia, Europe and the USA.

EMEA FINANCE BESTOWS ON AFC PRESIDENT & CHIEF INVESTMENT OFFICER 2017 CHAMPION OF FINANCE AWARD

Champion of finance awards bestowed on Africa Finance Corporation (AFC) and its leadership. These awards are given to those individuals whose lifetime contributions to finance and the EMEA region have demonstrated excellence and provided an impactful result for shareholders and clients alike. Additionally, the Corporation received recognition in EMEA Finance's Achievement Awards 2017 for success in accessing international capital markets. The Corporation won the following accolades: Best Supranational Bond, Best Supranational Sukuk, and Best Supranational Borrower.

R- L : Christopher Moore, CEO & Publisher ,EMEA Finance; Andrew Alli President & Chief Executive Officer, Africa Finance Corporation(AFC)

Andrew Alli, who has served as Africa Finance Corporation's President and CEO since 2008, was awarded the Champion of Finance Award for his outstanding achievement in, and lifetime contribution to, the field of Finance, and for relentless contributions to the sustainable development of Africa's infrastructure. This is demonstrated through projects that have transformed the continent, particularly in countries that traditional investors have typically shied away from.

Andrew has previously worked for organisations – International Finance Corporation, Coopers & Lybrand (now PricewaterhouseCoopers), that have reflected and built on his driving passions: To use financial innovation and expertise to develop Africa and to unlock the continent's vast and unrealised potential, and to build African financial institutions that can effectively deliver that focused investment. He has concentrated on delivering this during his term leading Africa Finance Corporation.

Under Andrew Alli's leadership, AFC has, over the last ten years, evolved from a US$1 billion start-up into an institution that is a powerful force on the continent with a balance sheet of US$4.2 billion. It currently has a membership of 20 countries, an A3 Credit rating by Moody's Investor Services (the second highest rated African lending institution), and has invested in various capacities in the following landmark African projects:

- The 1,786MW power joint venture with Harith General Partners - Anergi Holdings, which provides electricity to 30 million people across 5 countries in Africa.

- The US$205 million project to develop Alufer Mining's Guinea-Conakry high grade bauxite reserves, the largest investment of its kind to take place in the country following the 2014 Ebola crisis that brought the country's economy to a standstill. With bauxite accounting for up to 30% of the country's exports, the impact to the population of this investment is tremendous.

- The US$240million Main One Cable Company which provides innovative telecommunications services, network solutions and wholesale Internet services for people and businesses in West Africa. Main One provides direct connectivity to over 10 million users, with several more millions benefitting indirectly.

R- L : Oliver Andrews, Chief Investment Officer, Africa Finance Corporation(AFC); Christopher Moore, CEO & Publisher, EMEA Finance

Oliver Andrews, AFC's Chief Investment Officer, previously a strategic advisor to the World Bank, the African Development Bank, the Economic Community of West African States (ECOWAS)and CEO TCI Infrastructure, has served in various capacities at AFC. Oliver has provided leadership to multi- disciplinary teams in the areas of end-to-end deal origination, investments, technical advisory and project development, translating the organizational vision into business development leadership and a robust pipeline of projects. He has been responsible for the completion of investments worth about US$4 billion in various infrastructure projects across continental Africa.

Oliver Andrews was also recognised as a Champion of Finance at EMEA Finance's Project Finance Awards 2017: The award underscores his hard work and relentless innovations in the creation of infrastructure as a standalone asset class in Africa. During the awards ceremony, EMEA Finance highlighted Oliver Andrews' significant contributions in putting infrastructure investment and financing in Africa on the global map, having been the Chief Architect for the majority of AFC's landmark transactions including the:

- US$900 million Cenpower Kpone IPP in Ghana, which will increase the electric power available by 350MW to the country's 28 million people – an increase of nearly 10% of Ghana's total installed power capacity.

- US$90 million Cabeolica wind power project in Cape Verde, Africa's first commercial wind farm, which provides the country's half a million people with 20% of their energy needs whilst simultaneously making our contribution to the biggest challenge of our time: combating climate change.

- US$365 million Henri Konan Bédié Bridge in Abidjan. Today, as many as 2 million vehicles traverse the bridge every month, saving time and fuel and doubling parent-child contact time.

- Development and launch of a US$15 million project development facility with the Dutch Development Bank (FMO) and the accreditation of AFC in the Green Climate Fund.

In addition to recognising AFC's leadership, EMEA Finance also recognised the Corporation with the following awards:

- Best Supranational Bond, for the successful issuance of the US$500 million Eurobond which was 5 times oversubscribed.

- Best Supranational Sukuk, for the successful issuance of the US$150 million Murabaha Sukuk, the first Sukuk ever issued by an African supranational entity.

- Best Supranational borrower, following a series of successful capital raising activities aimed at closing Africa's infrastructure funding gap. Currently, Africa requires an estimated US$100 billion per annum for the development of its infrastructure.

Andrew Alli commented on the announcement: "Africa faces many challenges, which impede its development. However, very few are as significant as the infrastructure deficit we see across the continent today. I am humbled to have been recognised for my role in attempting to surmount these challenges, and grateful to the AFC family and shareholders, who have made all these achievements possible, for the opportunity to serve."

Oliver Andrews, also commented on the announcement: "My passion for infrastructure stems from my deep commitment to the sustainable development of Africa. As I look back on my experiences in the sector, what I am most proud of has been the ability to demonstrate that projects in vital African infrastructure can be both bankable and have a developmental impact. There is no greater honour than to be recognised by one's own peers and colleagues. I am therefore grateful and humbled to have been bestowed with this award".

> **"Across Africa, we have seen a steady rise in the innovations around infrastructure financing solutions, which have gone a long way to improving Africa's Power, transport and industrial sector to name just a few. Without a doubt, Oliver and Andrew, particularly through the AFC platform, have emerged over the years as being amongst the most significant actors in the infrastructure space. EMEA Finance is therefore delighted to present these very richly deserved awards"**
>
> **Christopher Moore**
> CEO & Publisher, EMEA Finance

Local Currency Financing Strategies for Infrustructure Development

MOTIVATIONS FOR LOCAL CURRENCY FINANCING

For lenders, Local Currency Financing allows local investors like banks to improve project creditworthiness by producing returns in local currency and avoiding forex risks. Local institutions can maintain liquidity in the economy and support unhedged currency mismatches on the balance sheets of both corporate and household sectors. Local Currency Financing also allows indigenous investors to create transparent market indices and extend the maturity of existing local currency credits.

Local Currency Financing promotes transparency in domestic pricing which allows borrowers to diversify investor portfolios and plays a pivotal role in managing currency allocation risks.
Historically, financing of infrastructure projects in Africa is mobilised through foreign currency derived lending instruments which have resulted in increased interest rates due to currency mismatches and a rise in repayment defaulting. Local Currency Financing presents an opportunity to stimulate and encourage the development of local capital markets and thereby creating sustainable pools of capital to finance infrastructure.

According to the International Monetary Fund (IMF), Deepening the financial market in a country offers numerous benefits which could include reduced reliance on foreign borrowing and the risks linked to currency mismatch and could alleviate the need for large precautionary reserve holdings.

International Finance Institutions (IFI's) and governments alone cannot absorb the funding demands in emerging markets; it is, therefore, important to mobilise private and institutional investor capital to finance urgently needed infrastructure.

LOCAL CURRENCY FINANCING MECHANISMS

Does Local Currency Financing in Africa Benefit both Indigenous and International Development Partners?

"Yes, if there is such market liquidity for Local Currency Financing it's the best for all. Financing projects in a country's own currency is the only long-term and sustainable (provided you build up local capital markets capacity) way to avoid currency risk and create a market for funding a country's infrastructure."

Financing Mechanisms

Although Local Currency Financing is a significant development objective, the instruments through which the local currency is provided are also pivotal.

- Market-based mechanisms for enabling Local Currency Financing which include the use of local swap markets and structured product solutions help clients gain access to local and international banks, and capital market funding.
- Market-based instruments promote the development of local capital markets. In the long-run, these markets enable developing economies to finance their own investments.

Sources of Local Currency - According to the International Financing Corporation (IFC), local currency is sourced through currency swaps with market counterparts and issuance of bonds in local markets.

LOCAL CURRENCY FINANCING FOR HEALTH CARE IN NIGERIA

In Nigeria 74 percent of health expenditures are private, mostly taking the form of out-of-pocket payments. The inefficiency of out-of-pocket spending for health care and the potentially impoverishing effects of such spending on individuals without health insurance are well known. Hygeia Nigeria Limited, a private provider of hospitals and Health Maintenance Organization (HMO) services in Nigeria, was founded in 1984 as a multi-speciality hospital in Lagos.

Over time, the company has evolved into an integrated health care services group with an HMO, three hospitals in Lagos, 25 worksite clinics and a network of over 200 clinics across the country. In 2006, Hygeia was interested in borrowing money to finance an expansion and renovation of its hospitals and to improve its HMO business. Historically, Hygeia has borrowed in dollars and was exposed to significant currency risk. From 2000 to 2003, the Nigerian naira depreciated by over 40 percent relative to the U.S. dollar. Since 2003, it has appreciated over 15 percent relative to the U.S. dollar.

As currency markets can be extremely volatile, it is important to link a company's revenues and liabilities to the same currency. Hygeia was seeking long-term local currency debt, which was scarce in a market where sources of any kind of long-term debt financing are limited. Using derivatives, IFC provided Hygeia with a loan of 390 million Nigerian naira (US$3 million). The swap used to fund this loan was the longest maturity currency swap in the Nigerian naira market to date and is expected to pave the way for more long-term naira/dollar swaps, leading to more local currency investments.

Source – www.ifc.org

> " It makes more sense today to borrow and payback in local currency by linking a company's revenues and liabilities to the same currency.

CURRENCY RISK IS EXPENSIVE

Hedging against currency risk is the most significant challenge addressed by Local Currency Financing instruments. While developers and investors cannot control fluctuations in exchange rates, several risk management mechanisms can be applied to alleviate the currency risks. Even though currency risk could sometimes present a windfall for both developers and investors, lenders are indemnified of any significant currency risk with the expectation that the developer ensures any currency risk the project may assume does not affect the debt service.

For instance, a power plant in Zambia may be financed in dollars, but if electricity tariffs are in Kwacha, this creates an asset-liability currency mismatch. If the Kwacha depreciates against the dollar by 10 per cent, revenues could remain unchanged, but the liabilities would be 10 per cent higher. A fundamental challenge in financing projects in frontier and emerging markets continues to be the allocation of currency risk. Although the risk allocation in PPP's has historically been assigned to the party with the capacity to manage the risk at the lowest costs, currency risk allocation is not so forthright. The uncertainties associated with currency risk allocation could present a challenge during negotiations between the private sector developer and the government.

"For investments in projects to be sustainable going forward, investments made in emerging markets need to address currency mismatches. If a Dollar based loan is expected to match returns earned in Naira or Shilling, it will be a continuous struggle for developers; it makes more sense today to borrow and payback in local currency by linking a company's revenues and liabilities to the same currency."

According to the McKinsey Global Institute, the risk mitigation approaches available in the market today are fragmented and lack a standardised approach to unlocking private funds. The risk mitigation instruments available are also deemed to be costly, complex and not easily accessible. There is need to develop effective local debt markets in Africa that can develop effective risk mitigation instruments.

MAKING LOCAL CURRENCY FINANCING WORK BY MANAGING CURRENCY RISK

Conclusions can be drawn from reports by the OECD which highlight the mismatch between the current infrastructure deficits in emerging markets and the available capital in the world economy. The reports argue that there is a disconnect between the risk-averse investor levels and the risk level of infrastructure projects. The reports add that investors' risk appetite and the risk level of infrastructure projects can be aligned through Risk Mitigation instruments.

Though several strategies can be applied to manage currency risks, these strategies are expensive, and often the costs would be absorbed by either the project developer, financier, or government. It is therefore recommended that when negotiating contracts, a review of the cost of hard currency financing, which comprises both the cost of capital in hard currency and the cost of currency risk that the developer is expected to assume is discussed.

CURRENCY RISK MANAGEMENT INSTRUMENTS

Partial) Natural Hedge

To reduce the asset-liability currency mismatch that occurs when using foreign currency financing for local service delivery, a developer may choose to sell a portion or all of the project's output to a country with the same currency as its liabilities.

Local Currency Swap

Under a currency swap, two parties agree to exchange principal and/or interest payments of a loan in one currency for an equivalent loan in another currency. Such swaps allow lenders/borrowers and investors to hedge (a part of) their loans/investments. However, for some emerging and many frontier markets, currency swaps are not commercially available. The IFC can provide currency swaps for a number of these markets. Furthermore, the Currency Exchange Fund (TCX) is a special purpose fund that can provide currency hedge products for local borrowers in frontier and less liquid emerging markets.

Exchange Rate–Indexed Contracts

If a project's revenues are indexed to the exchange rate, a currency swap is effectively built into the contract. As a result, the currency risk is transferred to the buyer, often a state utility or government entity. While this strategy solves the currency risk for the developer and financiers, it does not solve the issue for the buyer/ government

Foreign Currency Loan Under Peg

As currency markets can be extremely volatile, it is important to link a company's revenues and liabilities to the same currency. Hygeia was seeking long-term local currency debt, which was scarce in a market where sources of any kind of long-term debt financing are limited. Using derivatives, IFC provided Hygeia with a loan of 390 million Nigerian naira (US$3 million). The swap used to fund this loan was the longest maturity currency swap in the Nigerian naira market to date and is expected to pave the way for more long-term naira/dollar swaps, leading to more local currency investments.

Source – www.iisd.org

FROM AID TO INVESTMENTS- THE GAME CHANGER

There is a need for a transition in the investment approach from aid to investments. International Finance Institutions (IFI's) need to direct their investments into supporting and strengthening local capital markets by partnering with domestic banks so that they can have the capacity to be local currency lenders and provide long-term liquidity for infrastructure investments.

To support local financial institutions, International Finance Institutions need to provide the required guarantees that address the long-term financing issues and also encourage local financial institutions to build in-house capacity while improving their credibility. Guarantees provided by International Finance Institutions will be catalytic in managing projects' residual risk profiles (dealing with project, currency and political risks) to ensure participation from commercial financiers who would also address the missing markets and/or market failures associated with commercial partners.

INNOVATIVE SPECIAL PURPOSE VEHICLES (SPV'S) TO ENHANCE LOCAL CURRENCY FINANCING FOR INFRASTRUCTURE

According to a 2018 report by the Overseas Development Institute (ODI), securitisation can be defined as the process by which financial institutions use a collection of loans on their books as backing for issuing a bond (security) that can be sold to external investors. The report adds that securitisation involves legally removing loans from a bank's balance sheet and transferring ownership to an external SPV that issues bonds.

The risk associated with infrastructure loans by financial regulators is as a result of their large size, and long maturity which makes them capital intensive. Securitisation eases capital constraints and allows financial institutions to expand infrastructure lending, while also engaging institutional investors, which are major buyers of securitised products. Securitisation provides a sufficient model/vehicle for allowing initial bank investors to exit after a project's construction is completed and have their place taken by institutional investors not inclined to take on construction risk.

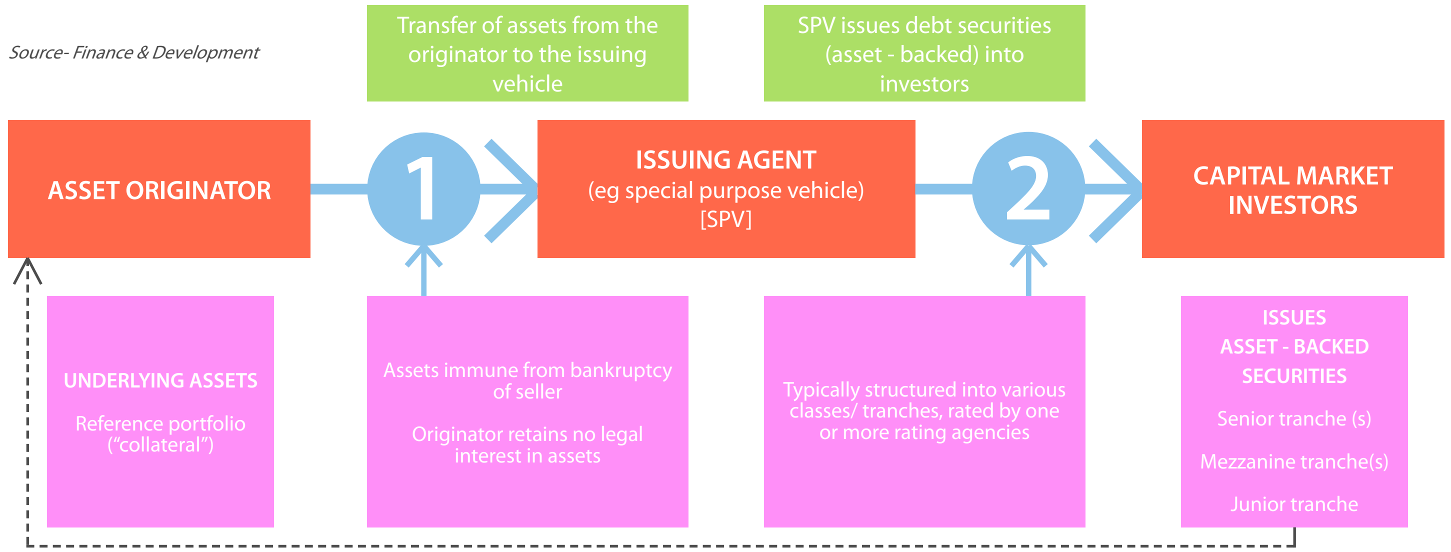
For instance, the African Development Bank (AfDB) and its partners have facilitated the first large-scale local currency financing structure using the securitisation technique for the off-grid renewable energy sector in Africa. In response to the electricity challenges in remote parts of Africa, the Local Currency Loan valued at $28 million is earmarked to make energy more accessible to low-income households in Africa.

Société Générale de Banque has arranged the loan in Côte d'Ivoire (SGBCI) and Crédit Agricole Corporate and Investment Bank (Crédit Agricole CIB). The AfDB will provide a partial credit guarantee covering part of the guaranteed loan facility as a catalyst.

NEoT CI, the special purpose vehicle currently being created to mobilise the receivables-backed senior loan is sponsored by NEoT Offgrid Africa (NOA), an investment platform focused on distributed energy in Africa, managed by NEoT Capital, with Meridiam and EDF as investors.

Additionally, the Grameen Crédit Agricole Foundation will participate in the financing of ZECI and will monitor environmental and social norms for the duration of the transaction.The project will pilot a local currency receivables-backed financing structure to allow ZECI - a 50/50 joint venture between Off-Grid Electric (OGE) and EDF - to provide access to approximately 100,000 rural households with pay-as-you-go solar home systems by 2020. ZECI's business model, which consists of selling solar kits that meet international quality standards, under lease-purchase agreements for a three-year period (creation of predictable receivables payable with mobile money), makes it easier for low-income customers to access clean energy.

HOW SECURITISATION WORKS



Source- Finance & Development

While dollar and euro financing instruments are a useful alternative in the near term, the long-term focus needs to be on local currency capital markets and institutional investors. Mobilising local capital markets eliminates currency risk, channels domestic savings into development and has knock-on effects for development through the diversification of domestic financing options.

Although Individual Multilateral Development Banks (MDBs) can move ahead with securitisations on their own to address capital constraints, mobilising collective efforts with multiple MDBs could be more instrumental in creating securitisation facilities. Such efforts would pave the way for structured securities with broader geographic and sectoral diversification to provide the greatest capital relief to MDBs. This collaborative approach could pool in private- and public-sector MDB loans due to reduced risk through diversification.

"Currently capital markets in Africa are shallow but building these up will be key to supporting infrastructure finance on the continent.

DEVELOPING LOCAL CAPITAL MARKETS AS A CHEAPER SOURCE OF FUNDING

In addition to increasing the financial resources available to local financial lenders, effective local capital markets mobilise access to long-term, local-currency finance, and are the stepping stone for a sustainable, thriving private sector. Efficient local capital markets shield economies from capital-flow volatility and reduce dependency on foreign debt. Mobilising local currency through local banks or bond markets allows domestic borrowers to reduce or eliminate the exchange-rate risk associated with borrowing in foreign currency.

How Effective are Local Currency Bond Markets, Capital Markets and Structured Products in Strengthening Infrastructure Finance?

"Currently capital markets in Africa are shallow but building these up will be key to supporting infrastructure finance on the continent." "Depends on which country you are dealing with. Some debt/capital markets are deep and strong enough while others are either non-existent or weak."

Developing local capital markets eliminates investor and borrower dependencies on banks by introducing competition and providing alternatives for institutional investors by improving regulations, reforms, governance and disclosure requirements.

What Economies Have Stable Currencies that Could Support Local Currency Financing Instruments?

"South Africa - albeit volatile, there is sufficient market liquidity in ZAR to fund much of SA's infrastructure in ZAR, and there is a well-developed banking sector and regulatory framework. Kenya is getting there, and we have seen the beginnings of Shilling denominated capital raises and bond issuances. More work needs to be done to engage local investors and financiers. The CFA zone is also a good candidate for local currency finance given its pegged to the EUR. They do need to resolve availability of EUR issues and rules restricting holding of offshore accounts."

AFRICAN DEVELOPMENT BANK (AfDB) TO CATALYSE LOCAL CURRENCY FINANCING

OPIC contributed US $40 million to the Fund while the African Development Bank is providing a Senior Loan of ZAR 140 million ($10 million) to support the development of local currency corporate bond markets in Africa.

The latter loan was the first local currency financing obtained by the African Local Currency Bond Fund (ALCB Fund) to enhance the fund's portfolio of local currency bond issuers and develop domestic capital markets across the continent.

The Fund is designed to promote local currency bond issuers in high-impact sectors by providing technical assistance to facilitate corporates bond issuances and champion best practice across various domestic debt markets. Geographically, the Fund is expected to invest in all African countries where local currency bonds are possible. It has invested in Botswana, Ghana, Kenya, Zambia, Lesotho, Senegal, Côte d'Ivoire, Nigeria, Uganda, Malawi, Gabon and Togo. As of December 31, 2017, the Fund had made 27 investments across 19 companies and in 10 currencies.

The products and services offered by the ALCB Fund are designed to improve access for non-sovereign issuers to long-term funding in local currency, reduce currency and maturity mismatches and increase local financial intermediation. The transaction also provides an opportunity to leverage the Bank's financing through ALCB Fund's co-investments with local institutional investors such as pension funds and insurance companies; thereby amplifying the scope and impact investments

The Bank's contribution to the Fund will complement existing initiatives to mobilise domestic institutional savings and stimulate non-sovereign local debt capital markets development across Africa. This will ultimately help grow private sector financing through capital markets.

Source – www.ifc.org

MORE INFRASTRUCTURE INVESTMENT ALLOCATION FROM LOCAL INSTITUTIONAL INVESTORS IS NEEDED

According to Preqin and OECD reports, Pension funds, sovereign wealth funds, mutual funds, insurance companies, dedicated infrastructure funds, and portfolio investors have low exposure to unlisted infrastructure with an average allocation less than 4% of funds under management. Although additional allocation may be directed through equity investment in listed stock, future infrastructure investments by institutional investors may be limited in the medium term with impediments on both the demand and supply sides of the transaction.

Initiatives like InfraCredit, pioneered by the Nigeria Sovereign Investment Authority (NSIA) in collaboration with GuarantCo provides local currency guarantees to enhance the credit quality of debt instruments issued to finance creditworthy infrastructure assets in Nigeria that conform with its eligibility criteria. Initiatives like these are vital because the guarantees they provide would act as a catalyst to attract the investment interest from pension funds, insurance firms and other long-term investors, thereby deepening Africa's debt capital markets.

Similarly, in 2017 the NEPAD Agency launched the 5% Agenda campaign which highlights that only a collaborative public-private approach can efficiently tackle Africa's infrastructure deficits. The 5% agenda is aimed at mobilising allocations of institutional investors capital to African infrastructure to be increased to 5%. The agenda is aimed at; (I) Unlocking notable and measurable pools of needed capital to implement regional and domestic infrastructure projects on the continent, (II) Broadening and deepening the currently very shallow African capital markets, while at the same time contributing significantly to regional integration and job creation, (III) Promoting the development of innovative capital market products that are specific to the continent's challenges and potential in regards to infrastructure development and (IV) Raising the investment interest of other institutional and non-institutional financiers that so far have been hesitant to include African infrastructure projects as an asset to their investment portfolio based on specific, concrete next steps and project suggestions.

Co-investments platforms, direct and co-direct investment in infrastructure can also align the long-term investment interests of institutional investors, with long-term liabilities, with that of the management of infrastructure assets. Some large pension funds and sovereign wealth funds have looked at pooling their financial and internal resources to invest jointly in infrastructure projects to benefit like-minded investment horizons, lower fees, better control of the characteristics of the investment, larger commitments, local knowledge, and a spreading of risk.

" Yes, if there is such market liquidity for local currency financing it's the best for all. financing projects in a country's own currency is the only long-term and sustainable (provided you build up local capital markets capacity) way to avoid currency risk and create a market for funding a country's infrastructure. "

Ziyaad Sarang on Managing Local Currency Financing Risks

WHAT ARE YOUR THOUGHTS ON THE BENEFITS OF LOCAL CURRENCY FINANCING OF PROJECTS IN AFRICA?

Local currency financing is essential for sustainable private sector investments in projects. 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. In times of volatile capital flows, local currency financed projects are not exposed to the lack of access of foreign currency to service its debt obligations. Countries that have a large proportion of projects that are funded in local currency have demonstrated a deepening of domestic capital markets with more resilient and stable individual projects


ZIYAAD SARANG
FIELDSTONE AFRICA - MANAGING DIRECTOR

HOW EFFECTIVE ARE LOCAL CURRENCY BOND MARKETS, CAPITAL MARKETS AND STRUCTURED PRODUCTS IN STRENGTHENING INFRASTRUCTURE FINANCE?

Tapping the capital markets debt is key for infrastructure financing. Since the Global Financial Crisis, traditional long-term bank debt has been reduced because of stricter banking regulation. The bank's lending requirements now mean that infrastructure projects can no longer be funded by traditional debt. Particularly in Africa, the financing gap has been taken up my multilaterals. Reliance on

multilateral funding is not sustainable as they also have human resource, liquidity and capital constraints. The capital markets can provide a wider and deeper source of funding for infrastructure. Capital markets can be a cheaper source of financing.

WHAT FRAMEWORK WOULD MAKE LOCAL CURRENCY FINANCING SUCCESSFUL IN AFRICA? HAVE THERE BEEN SUCCESS STORIES?

For local currency financing to succeed the right environment needs to exist for local investors to participate in infrastructure financing. The key conditions include: sufficient capital outside of the bank system; well-structured projects that support credit quality; well informed asset managers and trustees; an enabling legal and regulatory environment that allows investment in infrastructure projects and ideally a growing institutional investor base. The South African road, PPP and Renewables Energy projects have been successful in attracting all local currency financed debt. Until recently this has primarily been from banks and now innovative ways of local currency non-bank funding is being considered.

> "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."

Continued on page 25

WHAT ECONOMIES IN AFRICA HAVE STABLE CURRENCIES THAT COULD BE LEVERAGED?

I don't think that the answer is as simple as the stable currency being leveraged. Local currency financing needs to come from the local investor pool.

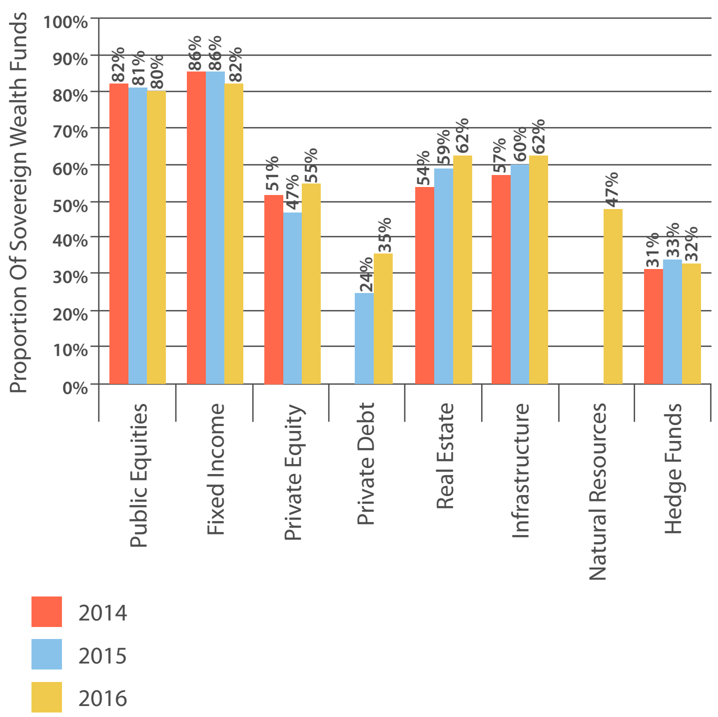
The institutional investors such as the pension funds, insurance companies and hedge funds are already looking at alternative investments such as infrastructure. More focus should be on delivering bankable deals into an environment that well informed institutional investors are able to participate in.

CAN LOCAL CURRENCY FINANCE MECHANISMS IMPACT BLENDED FINANCE APPROACHES TO FINANCING INFRASTRUCTURE?

For markets where projects have not yet accessed local financing for infrastructure, it makes sense to include blended financing.
This also creates a path to greater involvement by local investors. This approach has been used in Kenya recently. The result has been a positive interest from local institutional investors wanting to understand the "new" asset class.

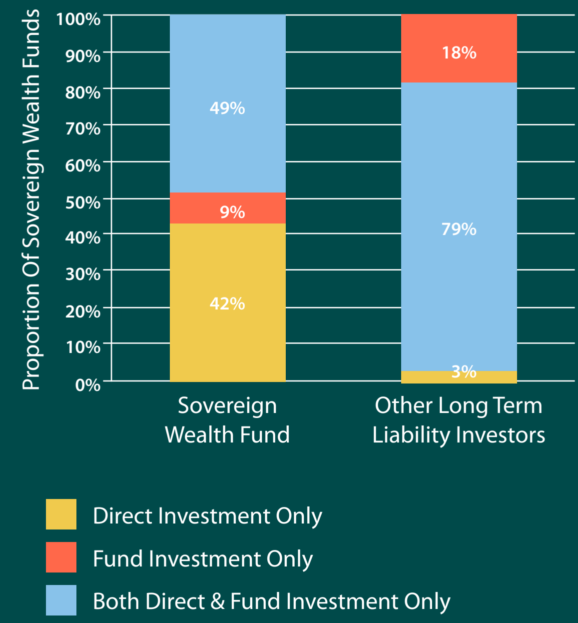
Institutional investors are not inclined to invest directly by taking an equity stake or making a loan. Therefore project bonds could be catalytic instruments with which they can finance infrastructure. Project bonds are issued to raise financing for specific infrastructure projects. For developers, project bonds could mobilise access to larger and diversified pools of investors and reduce costs.

SOVEREIGN WEALTH FUNDS INVESTING IN EACH ASSET CLASS, 2014 - 2016



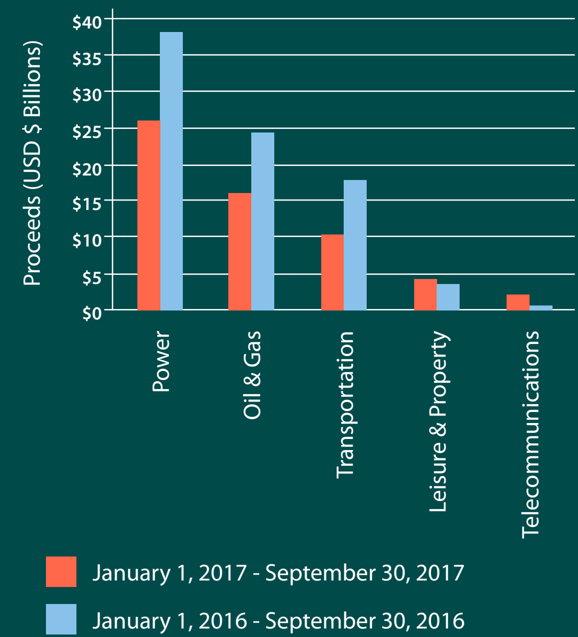
Source- 2016 Preqin Sovereign Wealth Fund

PREFERRED METHOD OF EXPOSURE TO INFRASTRUCTURE: SOVEREIGN WEALTH FUNDS vs. OTHER LONG TERM LIABILITY INVESTORS



Source- Preqin Infrastructure Online

EMEA PROJECT FINANCE LOANS TOP FIVE SECTOR



Source- Source - http://dmi.thomsonreuters.com

InfraCo Africa Scales up Zambia Irrigation Infrastructure.

InfraCo Africa

www.infracoafrica.com

ABOUT INFRACO AFRICA

Over the last ten years we've received US$126 million in funding and have developed projects that mobilised US$2 billion of investment, from the private sector and from Development Finance Institutions (DFIs). This investment has provided new infrastructure for approximately 13 million people, improving living standards and powering economic growth. Our projects employ over 8,000 people either during construction or once new services are operational.

We are actively deepening our pipeline and growing our business, with the result that each year we commit support to more early-stage projects. The dependency between power and economic development is just one reason why power will continue to be a focus for us. However, we are also increasing our interest in water and marine transport: seeking innovative ways to incorporate water initiatives into power projects and so attract investment into frontier markets. We continue to focus on innovative or pioneering projects and will increase the volume of pilot projects we provide capital and support to, getting projects operational sooner and demonstrating their viability.

INFRACO AFRICA SCALES-UP SUCCESS IN ZAMBIA'S KAFUE DISTRICT

InfraCo Africa, part of the Private Infrastructure Development Group (PIDG), has signed a Share Sale and Investment Agreement (SSIA) with private investor SUDECO to deliver the Chiansi project in Zambia's Kafue District. The agreement transfers InfraCo Africa's equity stake in the project to SUDECO and commits up to US$12.5m in a convertible loan to the project company. InfraCo Africa has also secured US$6m in grant funding from the Dutch ORIO infrastructure fund and US$5m from PIDG's Technical Assistance Facility (TAF). Collectively, this financing will enable the Chiansi project to begin construction of bulk water infrastructure and establish an irrigated commercial farm and community market gardens. The financing will also enable InfraCo Africa's Chanyanya project to extend existing irrigation infrastructure on its farm and local smallholder market gardens.

In 2006, InfraCo Africa launched a pioneering pilot, Chanyanya, in Zambia's Kafue district. The project pooled smallholders land and established a cooperative to enable development of irrigation infrastructure for a 148ha commercial farm and 126 market gardens. The Chiansi project will apply lessons learnt from Chanyanya and irrigate land in the neighbouring communities of Chikupi and Demu North and South.

Executive Director of InfraCo Africa, Alex Katon said, 'Chanyanya enabled us to successfully prove an innovative concept in irrigation and land management. Our capital, expertise and established relationships with the Government of Zambia and local communities has now enabled us to attract grant funding to expand the project and establish the much larger Chiansi initiative with a new private sector partner and our own US$12.5m commitment.'

Initially, InfraCo Africa worked with the Government of Zambia (GoZ) to secure ORIO grant funding to extend existing bulk water infrastructure and deliver sufficient canal capacity to irrigate up to 3,500ha of land within the Kafue District. Leveraging ORIO grant funding allows ownership of bulk water infrastructure to revert to the GoZ, meaning that benefits can be shared across the region.

Project advisor Kris Okker of ORIO said, 'To develop a project like this, which does not only provide improved access to irrigation water for local communities, but also looks at how the sustainability in the long run is best secured, turned out to be more difficult than we had expected. However, with the strong commitment from all stakeholders and the lessons learned from the Chanyanya pilot we have been able to structure the project in such a way that we are confident that local communities and SUDECO will mutually benefit from this project and that is exactly what ORIO aims for, human and private sector development.'

Now, InfraCo Africa will work with SUDECO to establish a 1,336ha irrigated commercial farm. The project will also provide the infrastructure needed to irrigate market gardens for local smallholders and facilitate the establishment of Market Garden Committees. These committees will enable agricultural knowledge and technical knowhow to be shared across the local community, improving land productivity and so household incomes.

IFC on Bankrolling Mozambique and Uganda Energy Sectors.

IFC SUPPORTS EDM AND SASOL IN MOZAMBIQUE POWER PROJECT FINANCING

IFC, a member of the World Bank Group, today announced an investment in Central Térmica de Ressano Garcia (CTRG), a 175 MW gas-fired power plant in Mozambique. IFC provided $55 million on its own account together with a syndicated loan of $42 million from the Emerging Africa Infrastructure Fund and FMO. Proparco and ABSA Bank Ltd (as arranger) provided parallel loans. The club of lenders disbursed debt facilities amounting to a total of $189 million.

CTRG, which is located about 100 kilometers from Mozambique's capital Maputo, and close to the South African border, is the country's first gas-fired power plant to reach commercial operation. It is one of its first independent power producers. Completed in early 2015, the plant provides highly reliable and competitively priced power to Mozambique's national utility Electricidade de Mocambique (EDM) under a 20-year power purchase agreement.

CTRG is owned by EDM and Sasol of South Africa, which provided bridge financing for the plant's construction up to the project financing stage.

Adérito Sousa, Chairman of CTRG Shareholders General Meeting, said, "The conclusion of the project financing for CTRG marks an important milestone not only for EDM and Sasol, but for the entire electricity sector of Mozambique, who targets to attract more private sector capital to fund its substantial needs going forward. IFC played a central role in getting this complex transaction across the line."

Cheikh Oumar Seydi, IFC Director for Sub-Saharan Africa, said "IFC is committed to bridging the infrastructure gap in Africa. CTRG uses Mozambique's natural gas resources to generate power for the country's economic growth and to increase access to electricity. By supporting projects like CTRG, IFC, Proparco and ABSA Bank seek to encourage other private investors to engage in Mozambique's power sector"

IFC AND MIGA BOARDS SUPPORT BUJAGALI REFINANCING PACKAGE TO REDUCE UGANDAN ELECTRICITY COSTS

The Board of Directors of IFC and MIGA have approved a plan to refinance more than $400 million of loans to Bujagali Energy Limited and provide up to $423 million in guarantees in support of the Bujagali hydropower project, with the aim to help reduce electricity costs in Uganda, where only one in five people have access to electricity.

Bujagali, a run-of-river hydropower project on the Victoria Nile, is one of the largest power-generation plants in Uganda, contributing 45 percent of the country's annual electricity generation. It provides clean, reliable base-load energy. Its commissioning in 2012 significantly reduced Uganda's reliance on costlier thermal power generation.

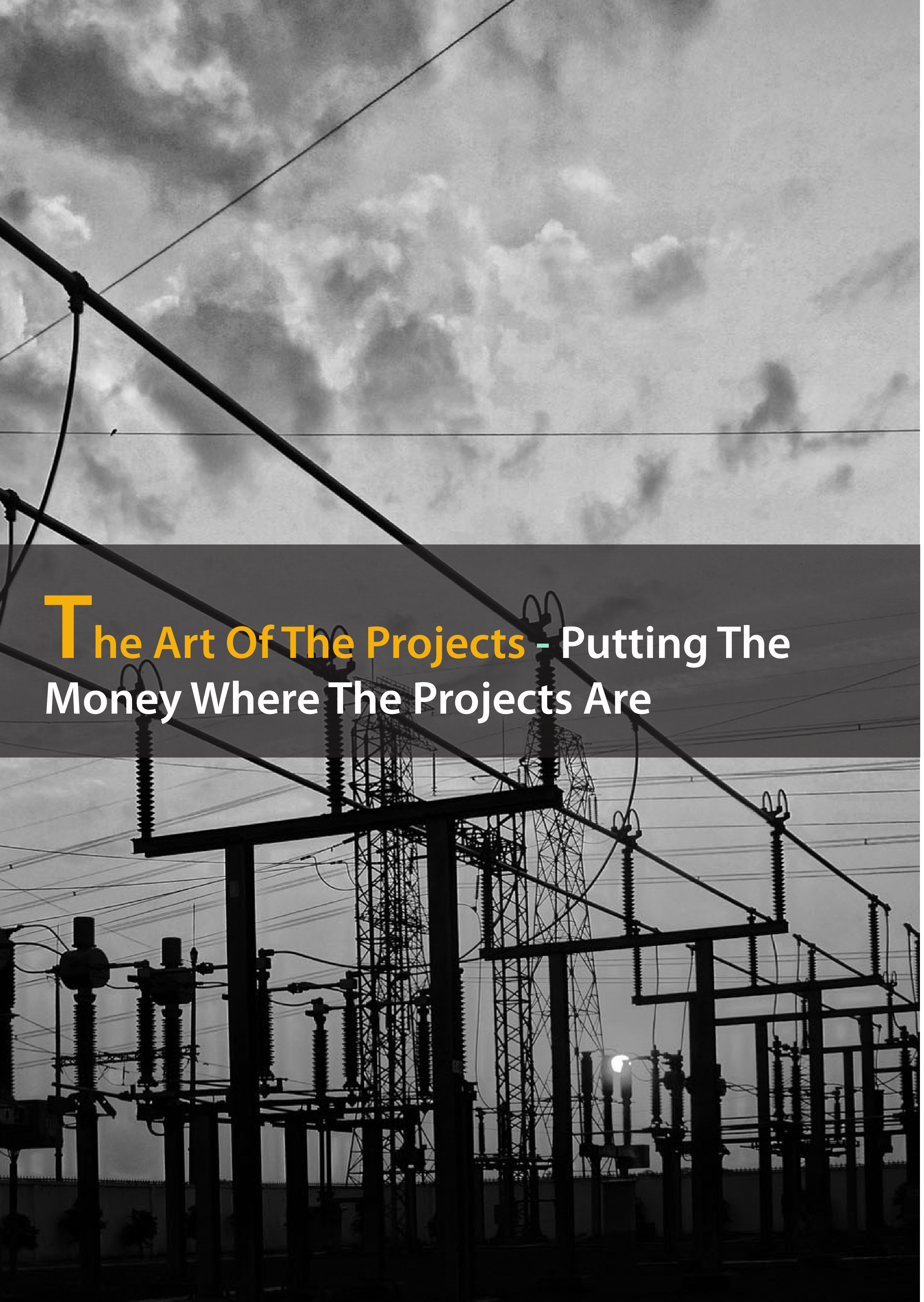
The refinancing package will extend the tenor of senior and subordinated loans originally provided in 2007 by IFC, the African Development Bank (AfDB), the European Investment Bank (EIB), the Netherlands Development Finance Company (FMO), France's Agence Francaise de Developpement (AFD) and Proparco, Germany's DEG and KfW, and four commercial banks (ABSA, BNP Paribas, Nedbank and Standard Chartered Bank).
This extension in tenor will reduce Bujagali Energy Limited's annual debt-servicing payments and make it possible for the company to reduce the cost of electricity produced by the hydropower plant over the next five years. The Government of Uganda has committed to fully pass on these cost savings to consumers, in support of their goals to spur economic growth and expand access to energy

International Finance Cooperation

www.ifc.org

ABOUT IFC

IFC, a member of the World Bank Group, is the largest global development institution focused on the private sector in emerging markets. Working with more than 2,000 businesses worldwide, we use our capital, expertise, and influence to create markets and opportunities in the toughest areas of the world. In FY17, we delivered a record $19.3 billion in long-term financing for developing countries, leveraging the power of the private sector to help end poverty and boost shared prosperity.



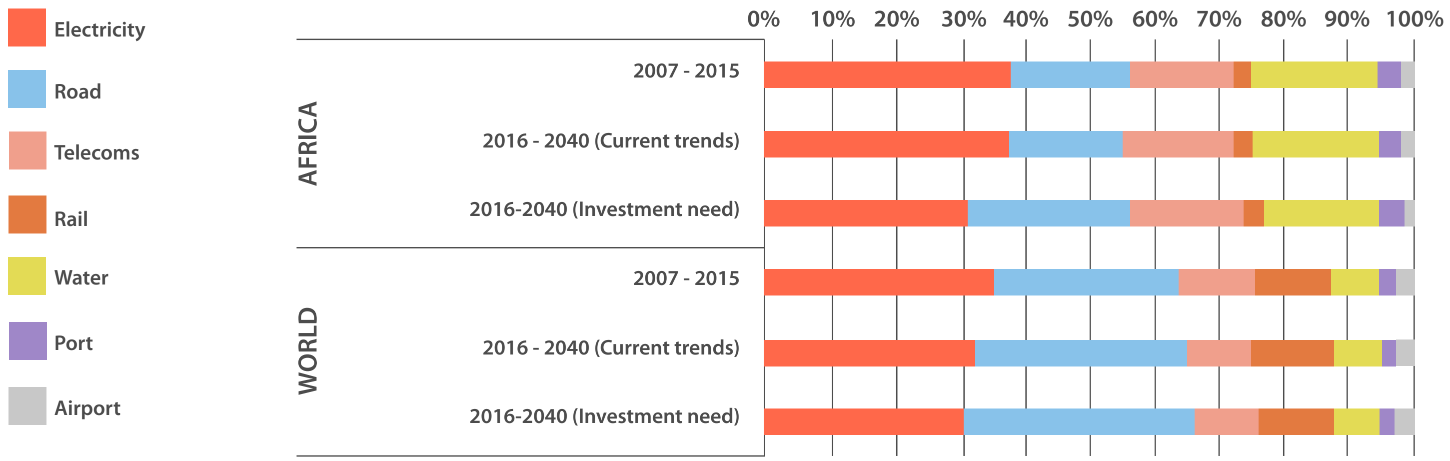
The Art of The Projects - Putting The Money Where The Projects Are

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

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

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

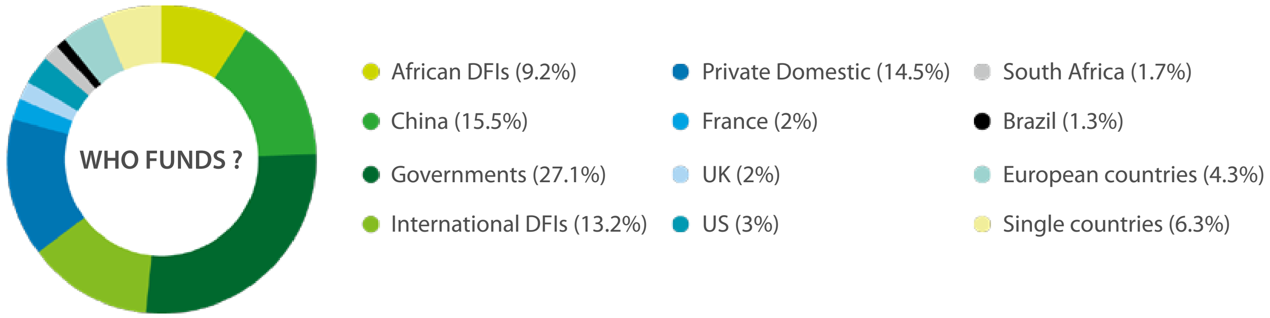
FMO is active in an international environment and is aware of the importance of being open to the needs and wishes of each stakeholder, while taking into account its own integrity and social responsibility.

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.

Continued from page 29

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.

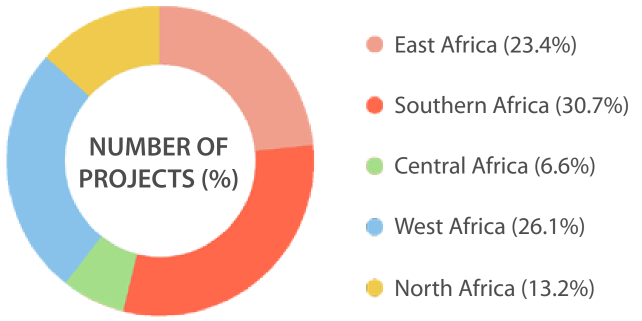
The report describes entities that own, finance and construct projects are defined as the country where the owner, funder or builder is originally domiciled.

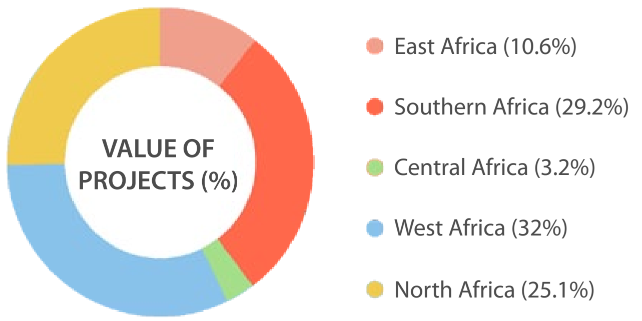


Source – Deloitte analysis, 2017. European countries include Germany, Italy, Netherlands, Portugal, and Switzerland. Single countries include Australia, Canada, India, Kuwait, Macau, Namibia, Nigeria, Qatar, Turkey, and the UAE

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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