



AfIDA

AFRICA INFRASTRUCTURE DEVELOPMENT ASSOCIATION

# Report on Private Infra Country Round-Table Discussions

December 2020



## AFIDA Action plan for 2021

## Key Issues For Sub Saharan Africa in 2021

## Sub-Saharan Africa Economic Outlook

### East Africa

- Ethiopia & Horn of Africa
- Kenya
- Uganda

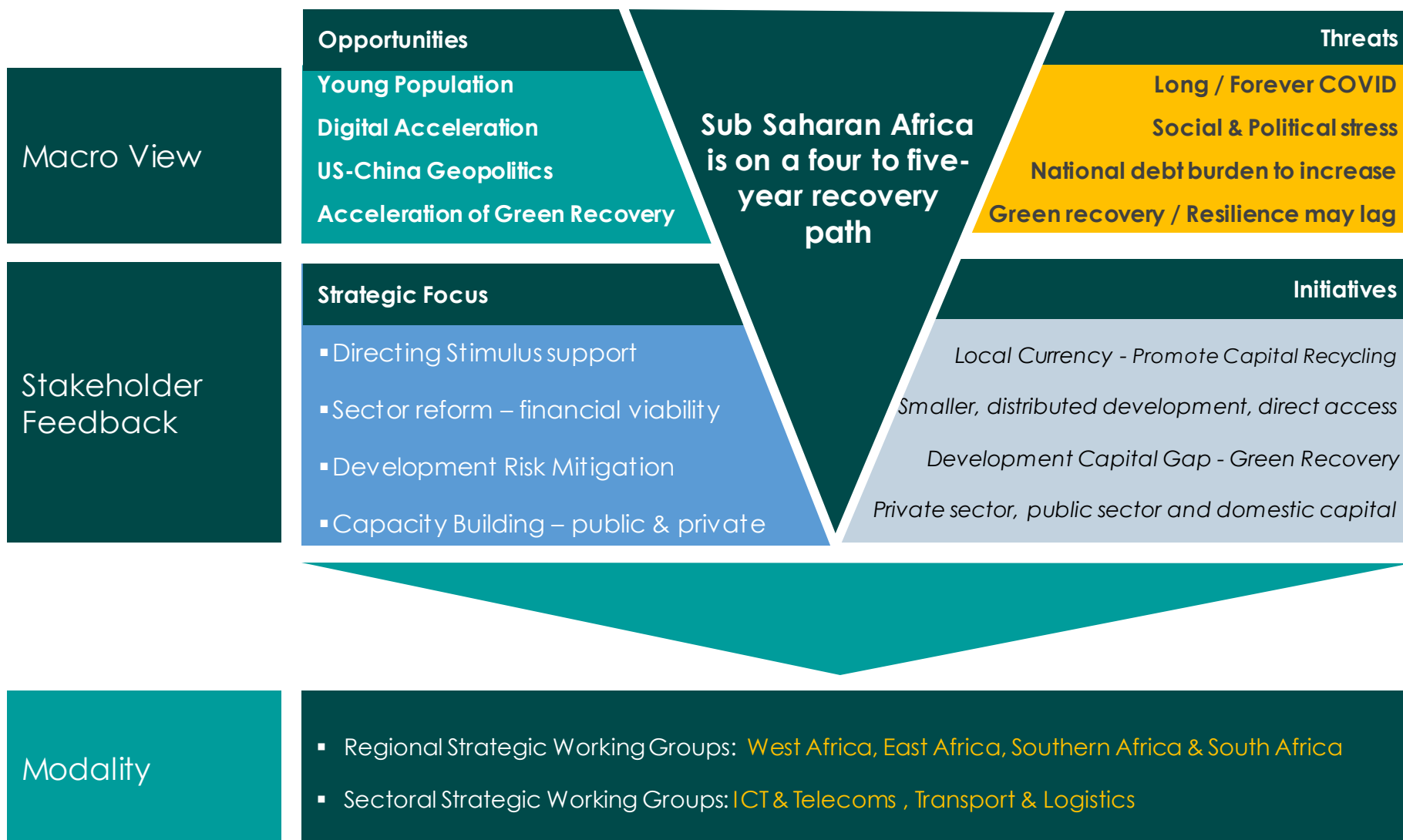
### Southern Africa

- South Africa
- Zambia

### West Africa

- Côte d'Ivoire
- Ghana
- Nigeria
- Senegal

## Participating Institutions



## Long Covid

2021 will be a year of uneven recovery as vaccine rollouts create a world of have and have nots, with pockets of forever Covid

## Acceleration of Green Recovery

SSA nations need to step up regulatory reform to benefit from more capital and incentives for green investment

## Digital Acceleration

Both opportunity for investment & threat for implementation

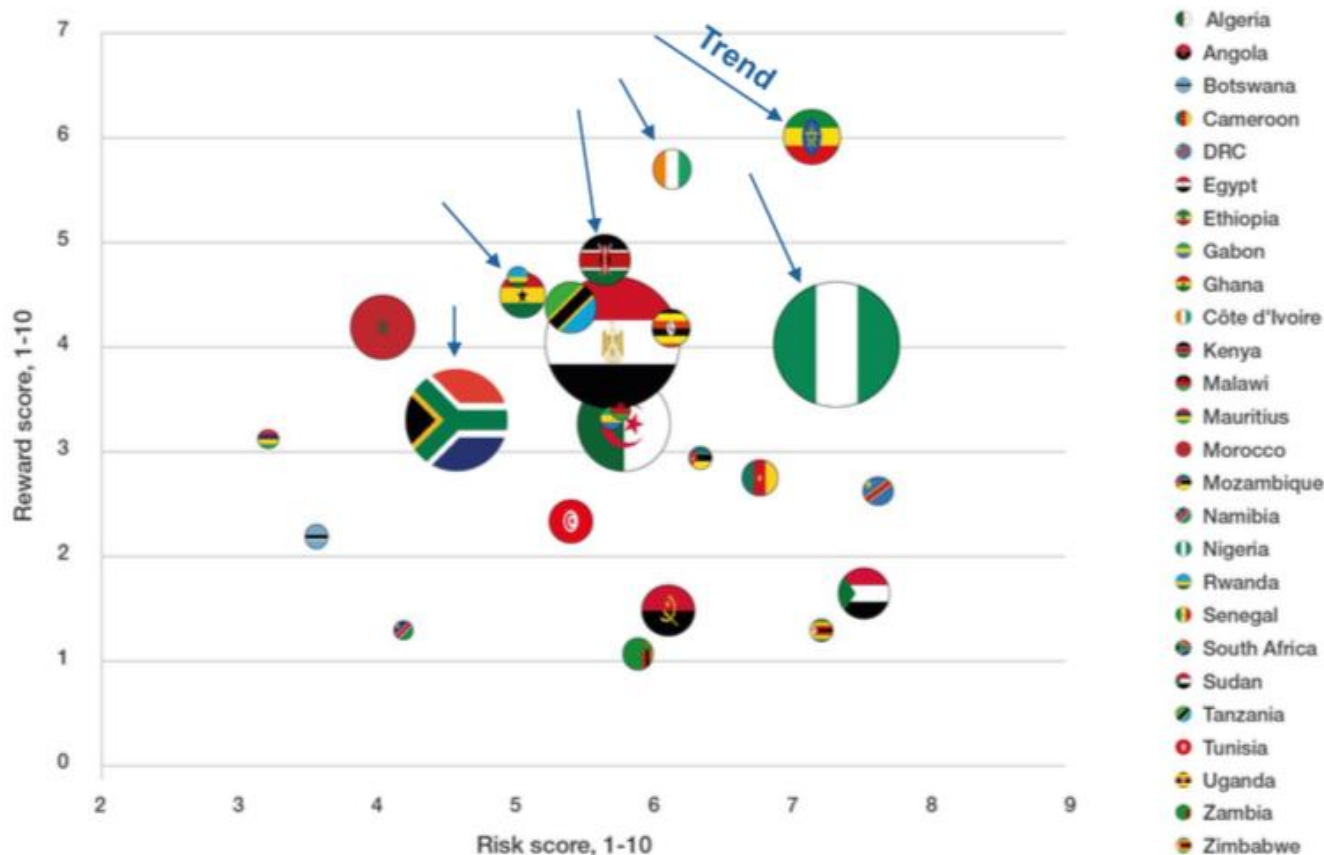
## Risk of Missing Out

Some SSA nations may not be able to match the policy and regulatory transformation required to capture the upswing in the global economic recovery

## US-China Geopolitics

Positives and Negatives for Africa

## Reward & Risk (change post COVID)



Map - Control Risks – Nov 20

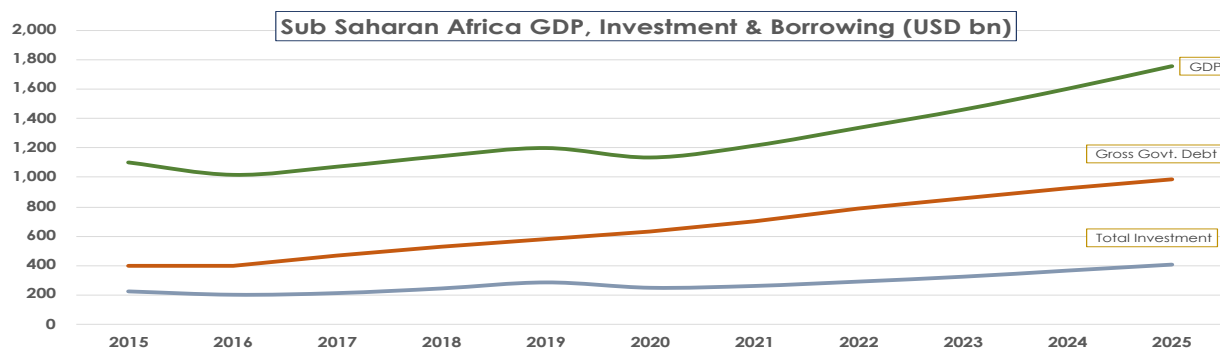
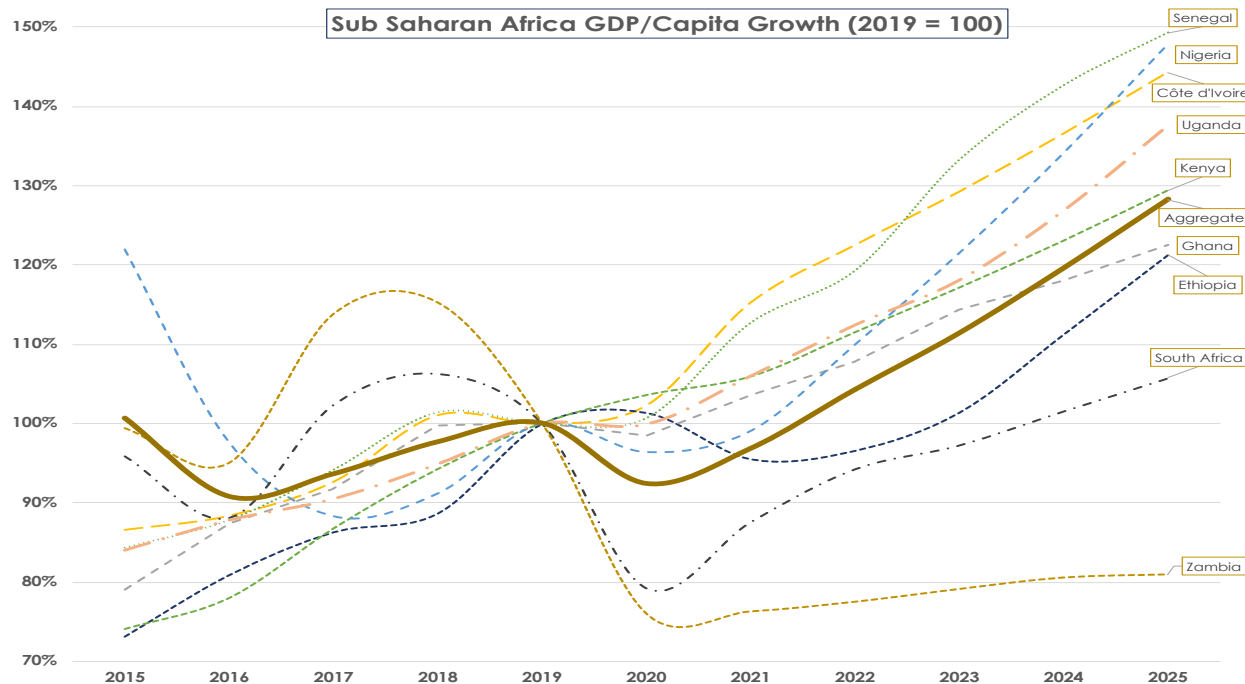
Comments drawn from Control Risks 2021 – RiskMaps conference

**The Nine leading SSA economies account for 50% of population and 70% of GDP**

**They are likely to recover to pre-COVID levels by 2022 (nominal terms) and 2024 (real GDP/Capital) – led by Uganda, Senegal and Côte Ivoire**

**Nigeria is likely reach 2015 levels by 2023, and South Africa’s recovery is expected to recover its 2018 peak only by 2025.**

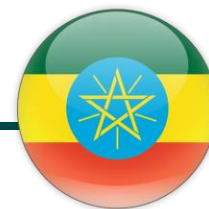
**On average, growth in gross external Govt. debt is likely to exceed GDP growth and investment growth, creating pressure on currency across these nine majors**



# East Africa



Country	Date	Chairperson	Presentations
Ethiopia, HoA	10-Nov-2020	Erik Kaleja, DEG	Patricia Rodriguez, Control Risk
Kenya	29-Sep-2020	Holger Rothenbusch, CDC	Per van Swaay, TCX
Uganda	06-Oct-2020	Marina Pannekeet, FMO	Francesco Napolitano, OECD



## The Big Ideas

- Sector Reform;
  - Direct Access to private off-take - monetisation of FX flows from Industrial park
  - Create Anchors for multi-infra plays
- Risk Mitigation & Capacity Building in Ethiopia
  - FX reform is needed. Dollarisation of 'The Horn' (eg Djibouti) has helped attract investment



## Lay of the Land & Challenges

- External debt at manageable levels (53%), but FX cover for imports is low
- High level of militarisation (and dollarization) of the Horn (e.g. Djibouti) enables infra-investments
- Governments are considered clean
- Inflation is high @ 20%
- Attitude towards privatisation in Ethiopia is a constraint
- FX – convertibility / transfer issues in Ethiopia are very different – can take up to 2 years



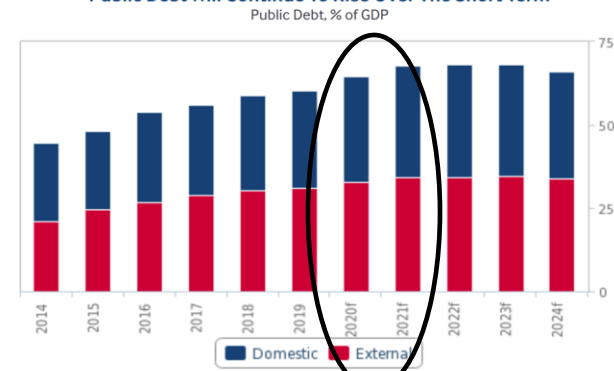
## The Big Ideas

- Energy sector recovery and reform (implementation of cost reflective tariffs)
  - Smaller Direct Supply deals / TPA
  - Simpler – smaller projects
- Multi-sector push - President's Big 4 agenda – food, affordable housing, domestic manufacturing, universal health care
- Innovation in procurement and finance
- Capacity Building in Government and inter department communication

### 3 year fixed hedge vs. USD LIBOR



### Public Debt Will Continue To Rise Over The Short Term



f = Fitch Solutions forecast. Source: CBK, Fitch Solutions

## Lay of the Land

- Mature financial sector, large agri sector – export focused
- Credit rating Fitch – B+ (neg)
  - Govt debt may reach 70% (>50% in hard currency)
  - China is largest import supplier – 24%, and holds 20% of public debt.
  - \$ 2 b borrowing from IMF, WB, AfDB
  - 3 year currency hedging – 8-12%
- Country faces significant Political and Social stress – Al Shabab risk
- The Government has been seen as using COVID as an excuse to backdown from obligations – delay in commissioning and Force Majeure
- Govt. of Kenya Letter of Support has been tested – which proves the rule of law
- Speed to regulatory reform of concern
  - Over-supply – 4000 MW of PPAs signed, which are not needed
  - KPLC's health is at risk due to lack of cost reflective tariffs
  - Transmission capacity risk is a major stumbling block
  - With regard to Off-grid –coordination between MoE, EPRA, County Govts, and KPLC needs to improve





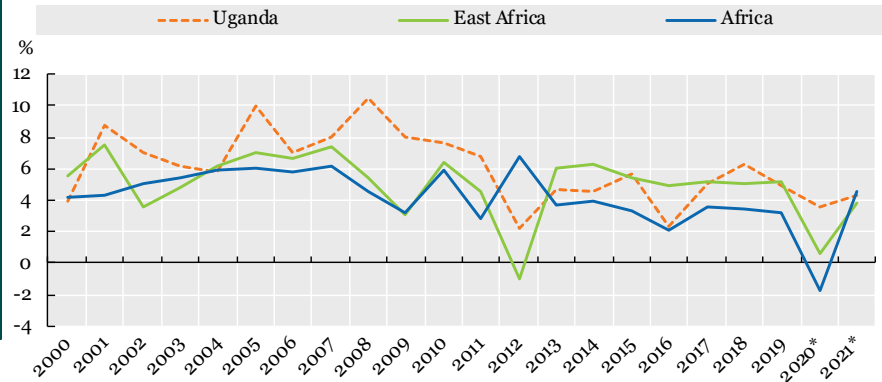
## The Big Ideas

- Risk Mitigation;
  - Distributed Generation from GETFIT – 17 projects, 10,000 jobs created
  - Industrial Parks – regional power pool – DRC, Tanzania, Kenya
- Sector Reform;
  - Make the case for good grid development
  - Local manufacturing – local capacity – decentralise industrial parks. Promote power generation, and de-pressure from migration to urban centres
  - Opportunities in deepening ICT
- Stimulus - promote business bank – along the lines of British Business Bank – corral domestic capital

### Data affordability is a strong constraint on digital adoption

**25% of Ugandans can afford 1GB of data monthly, compared to 31% in Tanzania and 55% in Kenya.**

Annual GDP growth (%)



## Lay of the Land & Challenges

- 75% of population is younger than 30 years, but higher education rates are lowest in East Africa – people are held in high regard - proud, hospitable, professional
- The Country is likely to weather the economic crisis well, though Infra investment under risk (21.4% of Govt budget);
  - Reduction in tourism, remittance and FDI – 3% GDP growth
  - Poverty rates 18.9% -> 26.8%
  - Limited Fiscal stimulus – 2% of GDP
  - Public Debt = 40% - 47,5% of GDP 20/21
- Access to energy (45%) and data (4G coverage @45%) are weak compared to neighbours with large disparity between urban and rural – in-spite of over 20 years of efforts to privatise
- Continue provide consistency and nurture reputation of keeping commitments
- Grid connection (capacity and upgrades) is an issue for both operational and construction projects, and creates a burden for the Government due to 'deemed generation' obligations
- Successful refinancing of Bujagali Hydro – extension of tenor, lower cost of debt is an innovative example, which complements the successful performance of Umeme (distribution).

# Southern Africa



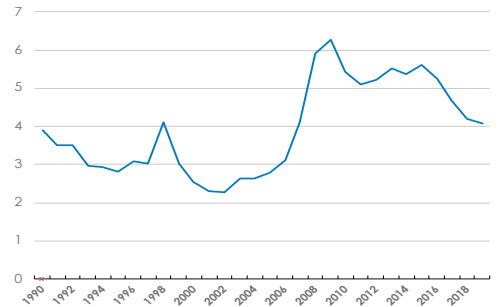
Country	Date	Chairperson	Presentations
South Africa	20-Oct-2020	Vuyo Ntoi, AIIM	Thang Nguyen, OECD
Zambia	13-Oct-2020	Dan Croft, IFC	Ayomide Mejabi, JP Morgan Raymond Strover, Chiansi Farming Company



## The Big Ideas

- **Capacity Building**
  - Cross pollination - encourage movement between private and public sector
  - Improve Muni -capacity to execute frameworks
  - Flexibility in procurement – with better risk allocation, less time
  - Promote institutional learning
  
- **Stimulus:** credit enhancement of muni-risk
  
- **Frameworks, Procurement & Targets**
  - Unlock - Imbedded generation and Direct Access
  - Proven areas such as RES can take larger steps – remove RES caps, and un-solicited bid mechanisms
  - un-proven areas – Water – need nurturing
  - Scale programmatic, repeatable, and predictable – e.g. student housing

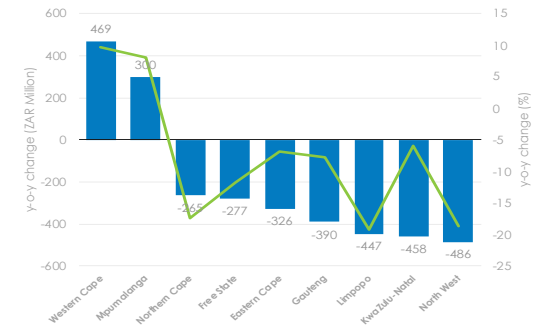
Public infrastructure spending declined since 2009 peak



Infrastructure investment by general government and public corporations (% of GDP)

Source: OECD Economic Surveys of South Africa, June 2020 and Stat SA (September 2020)

Provincial's infrastructure spending fell 5.4% in 2018/19



## State of Play & Challenges

- South Africa's RES program is amongst the most successful examples of private sector infra scale-up, though this has not been replicated 17 other strategic Infrastructure programmes.
- Low infra spend to date – 4% of GDP – poor involvement of private sector, attributed to; Inconsistency in policy, no credible pipeline of projects, need for PS to be involved early, and lack of institutional capacity in municipal entities - & water utilities has lagged, lack of creditworthy off-takers.
- The country has been amongst the hardest hit by COVID and the related economic crisis. Recovery is expected to be slow. Likely only by 2024 in prosperity terms.
  - 2.2 million lost jobs, 47% of households are out of money, and ZAR is 15% lower on the year.
- Stimulus Announced – 10% of GDP – 3x of African Avg / 33-67% of OECD avg. ZAR 1 T new infra (incl. 11.8 GW of new generation – 50% from RES)



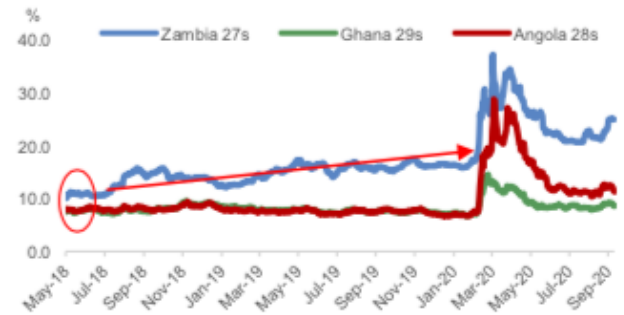
## The Big Ideas

- **Stimulus**
  - stabilize operating projects
- **Sector Reform & Risk Mitigation;**
  - Cost reflective Tariffs - restructuring ZESCO is crucial
  - Multi-Sector – third party / direct access projects – e.g. **Chiansi Farming Project by InfraCo**
  - There is a role for embracing Unsolicited bids
  - Expansion of Transmission

Leading to extremely high debt and an extremely constrained ability to service debt



... but Zambia's financial market stress has been 3 years in the making (Eurobonds)



Source: Bloomberg, JPMorgan

## State of Play

- Sovereign Debt \$ 1.38 billion (25% to China) – borrowed at 12-13% in USD.
- High Debt/GDP = 110%+; Interest/Revenue = 40%
- Zesco is not sustainable – unrealistic tariffs and high debt (15% of national debt)
- 25-35% haircut on debt – current yield at 25%
- 12-18 month to restructure and another 3.5 years to revert to a stable state

# West Africa



Country	Date	Chairperson	Presentations
Côte d'Ivoire	17-Nov-2020	Wale Shonibare, AfDB	Bakary [ ], OECD [ ], Konexa
Ghana	27-Oct-2020	Solomon Asamoah, GIIF	Elisa Saint Martin, OECD Harald Hirschhoffer, TCX Harbir Nat, Paix Data Centres
Nigeria	03-Nov-2020	Samaila Zubairu, AFC	Ayomide Mejabi, JP Morgan Pradeep Pursnani, Konexa Demilola Adesina, Rensource
Senegal	24-Nov-2020	Lisa Pinsley, Actis	Vincent Rouget, Control Risk



## The Big Ideas

### ▪ Risk Mitigation

- CDI is a good example of timely payment - Cash waterfall from utility

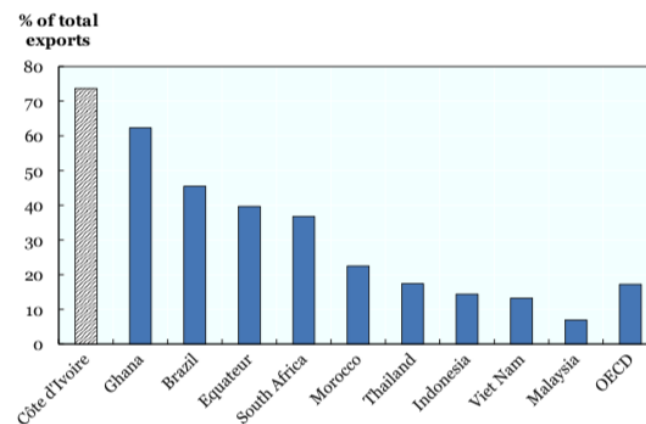
### ▪ Sector Reforms

- CDI could lead Regional interconnection project
- Opportunities in development of intermediary cities
- Opportunities in Logistics – roads, ICT

## Lay of the Land

- 3<sup>rd</sup> largest economy in West Africa – growing 7% p.a.
- 58% of population has 4G access
- Gas 67% power mix – hydro 33%
- One of largest exporters to neighbours
- Good example of Cost reflective tariffs
- High vulnerability to transport & logistics – only 9% of road network is paved.

A large proportion of Ivorian exports is sensitive to logistics



Source: OECD Latin American Economic Outlook 2014 and UN COMTRADE.

## Challenges

- Insufficient development activity
- Project Development is challenging



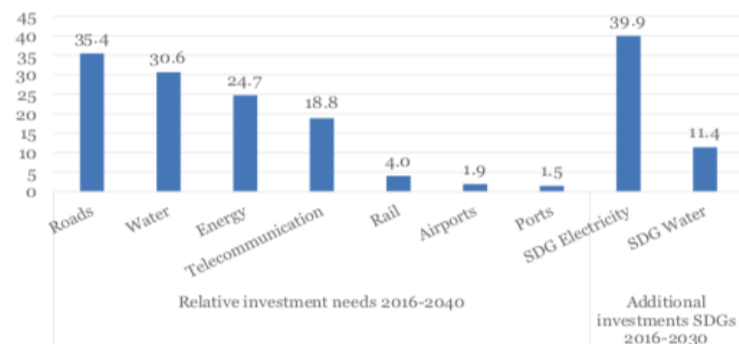
## The Big Ideas

- **Stimulus & Risk Mitigation**
  - Effective Sovereign Fund – e.g. GIFF
  - Serve as gate-way to land-locked countries – e.g. Data Centres by Paix
  - Innovation in Financing e.g. DBG, TCX
- **Capacity Building** in Government – nurture change makers

## Challenges

- Overcapacity in Power Sector – Take or Pay obligation of \$ 500-750 m pa on power capacity not being used.
- Good policy – poorly implemented
- Government needs better understanding of role of Private Sector

**Estimated investment needs by sector, 2016-2040 (in USD Billion, 2015 prices and exchange rates)**



Source: Oxford Economics, 2018 *Global Infrastructure Outlook : Infrastructure investment need in the Compact with Africa countries*

## Lay of the Land

- 2019 - 32 PPP infra projects worth \$ 1.9 b underway dominated by Transport. \$ 117 billion infra investment and \$ 51 billion of SDG investments - 2016-20
- Talented, ambitious and hospitable population
- Gateway to land-locked Africa and other coastal companies.
- Well-developed and competitive Telecom market: 25 Telcos – but last mile access is still expensive
- Modest GDP growth in 2021, but risk of high inflation persists



## The Big Ideas

- **Capacity Building**
  - Improve implementation capacity in Government
- **Risk Mitigation**
  - Local currency finance
- **Sector Reform**
  - Target innovative business models; including
  - Private Off-take
  - off-grid
  - Target smaller projects, to create scale fast e.g. **Konexa and Rensource**

## Lay of the Land

- Young population dominates – 40% is younger than 14 yrs. However, job creation is weak. Social & Political Unrest has affected mobility more than COVID.
- Market based tariffs are hard to implement, and power sector remains heavily 'dollarization' due to diesel fired self generation
- Reserves/External borrowing is deemed reasonable, though FX availability remains weak.
- Economic outlook is clouded by,
  - restricted access to refinancing and increased cost of borrowing,
  - limited capacity for Government Guarantee, and
  - weak outlook of non-oil sector 65% of economy

## FX reserves set to remain above US\$30bn ...



## Urgent Challenges

- Weak job creation and social challenges
- Public institutional public capacity to implement remains weak despite well conceived policies.
- Forex conversion and Transfer challenge for IPPs
- Long gestation of project development and planning – low Government capacity
- Skills shortage





## The Big Ideas

- Expected to enjoy amongst the strongest recovery
- Government is well regarded, and enjoys support of partner countries
- Sector Reform ideas
  - Direct Access to commercial off-takers
  - Opportunity to Lead Regional integration in power, transport and ICT

## Hoping for a V-shaped recovery GDP growth estimates, 2013-22 (proj.), IMF



## Lay of the Land

- Strong will of the Government and consistency of policy
- Strong Legal and Regulatory Framework
- Embedded in unstable neighbourhood
- 2020 GDP -0.7%.
- 6.1% GDP stimulus
- 85% of population has seen decline in living standards
- Debt to GDP is high at 70%

## Challenges

- Long gestation of project development and planning – low Government capacity
- Skills shortage

# Participating Institutions

<i>A.P. Møller Capital</i>	<i>Eleqtra</i>	<i>Juniper Globe</i>	<i>RVE.SOL S.A.</i>
<i>Actis</i>	<i>Elsewedy</i>	<i>Keystone Law</i>	<i>SAPVIA</i>
<i>AFC</i>	<i>Enel</i>	<i>KfW</i>	<i>SAVO</i>
<i>Africa Union</i>	<i>ESBI</i>	<i>Konexa</i>	<i>Solar Century</i>
<i>Africa50</i>	<i>FinnFund</i>	<i>Lekela</i>	<i>Standard Bank Group</i>
<i>African Development Bank</i>	<i>First Solar</i>	<i>Lions Head GP</i>	<i>Sterling &amp; Wilson Private Limited</i>
<i>African Trade Insurance Agency</i>	<i>FMO</i>	<i>Longi Solar</i>	<i>Stoa Infra &amp; Energy</i>
<i>AllM</i>	<i>Future Growth</i>	<i>Melec</i>	<i>TCX</i>
<i>Amaya Capital</i>	<i>GetFIT</i>	<i>Mettle</i>	<i>Tesla</i>
<i>AMDA</i>	<i>GIF</i>	<i>MIGA, World Bank Group</i>	<i>TIB</i>
<i>ARM-Harith Infrastructure</i>	<i>Globeleq</i>	<i>Multiconsult</i>	<i>Themis</i>
<i>ASISA</i>	<i>Green Investment Group</i>	<i>Nedbank</i>	<i>TM Geothermal</i>
<i>Azura Power</i>	<i>Gridworks Partners</i>	<i>NEK</i>	<i>Tonbofa Ashimi Law</i>
<i>Berkeley Energy</i>	<i>GuarantCo</i>	<i>Neoen</i>	<i>Trade &amp; Development Bank</i>
<i>Bowmans</i>	<i>Herbert Smith Freehills LLP</i>	<i>Ninety One</i>	<i>Trinity International LLP</i>
<i>Camco Clean Energy</i>	<i>IDB Zimbabwe</i>	<i>OECD</i>	<i>Trina Solar</i>
<i>CDC Group</i>	<i>IFC</i>	<i>Oriol Associates</i>	<i>Vega MX</i>
<i>CenPower</i>	<i>Indecs</i>	<i>PAIX Data Centres</i>	<i>Volitalia</i>
<i>Climate Fund Managers</i>	<i>Industry Capital</i>	<i>Phanes Group</i>	
<i>Control Risks</i>	<i>InfraCo Africa</i>	<i>Power Africa</i>	
<i>D1 Frontier</i>	<i>Inspired Evolution</i>	<i>Proparco</i>	
<i>DBSA</i>	<i>IRENA</i>	<i>Proton Energy</i>	
<i>DEG</i>	<i>JA SOLAR</i>	<i>Renewable EnergyHoldings (REH)</i>	
<i>DFC</i>	<i>JEFFERSON GROUP</i>	<i>Rensource</i>	
<i>Export Development Fund (MW)</i>	<i>JP Morgan</i>	<i>RMB</i>	

# The AfIDA Strategic Framework

*For the next 20 years, one in every two children born in the world will most likely be African born*

*Mission is to:*

*Address the **current challenges** to private infrastructure investments*

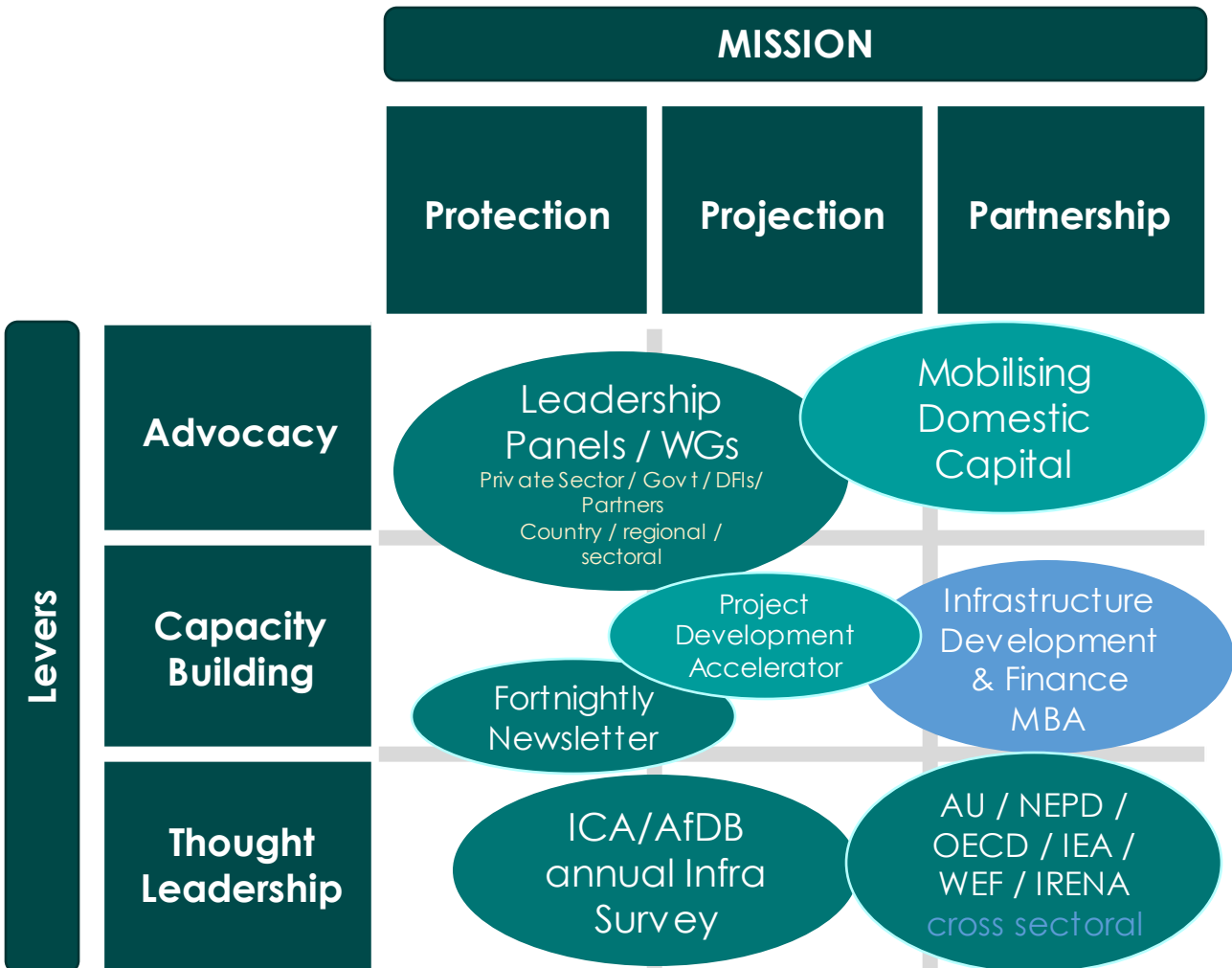
*Champion the development of **affordable and resilient infrastructure** in Africa which can **scale** to support its economic growth*

*Non-profit driven by membership fees*

*Drive to increase membership to 75 by 2021, and 150 by mid 2023*

*Build a team of seven (7) to server the membership, and appoint 'Ambassadors of Change'*

*US\$ 1.25 million grant for bridging buildout of team and funding initiatives*



How may we help you?

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