



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

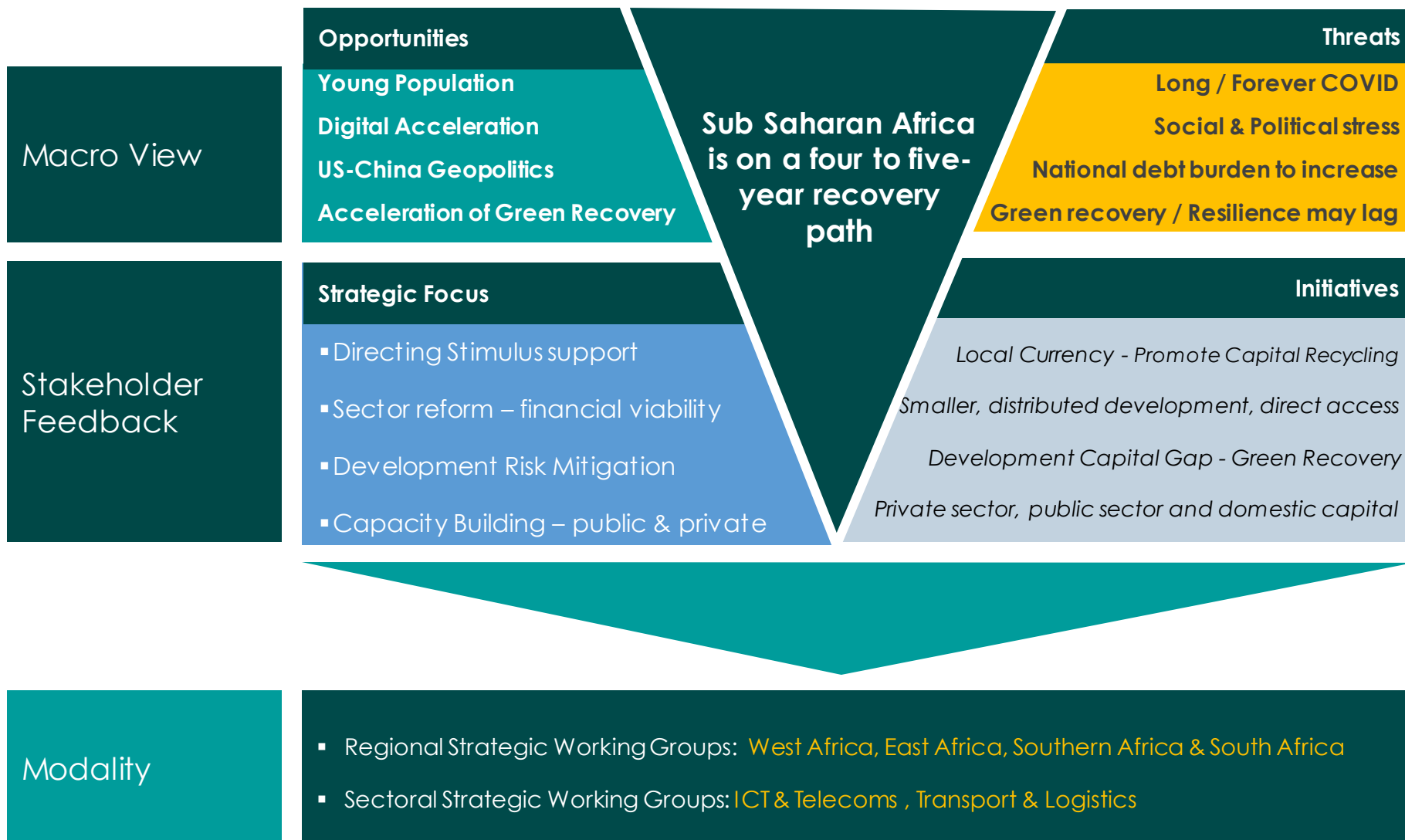
Southern Africa

- 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

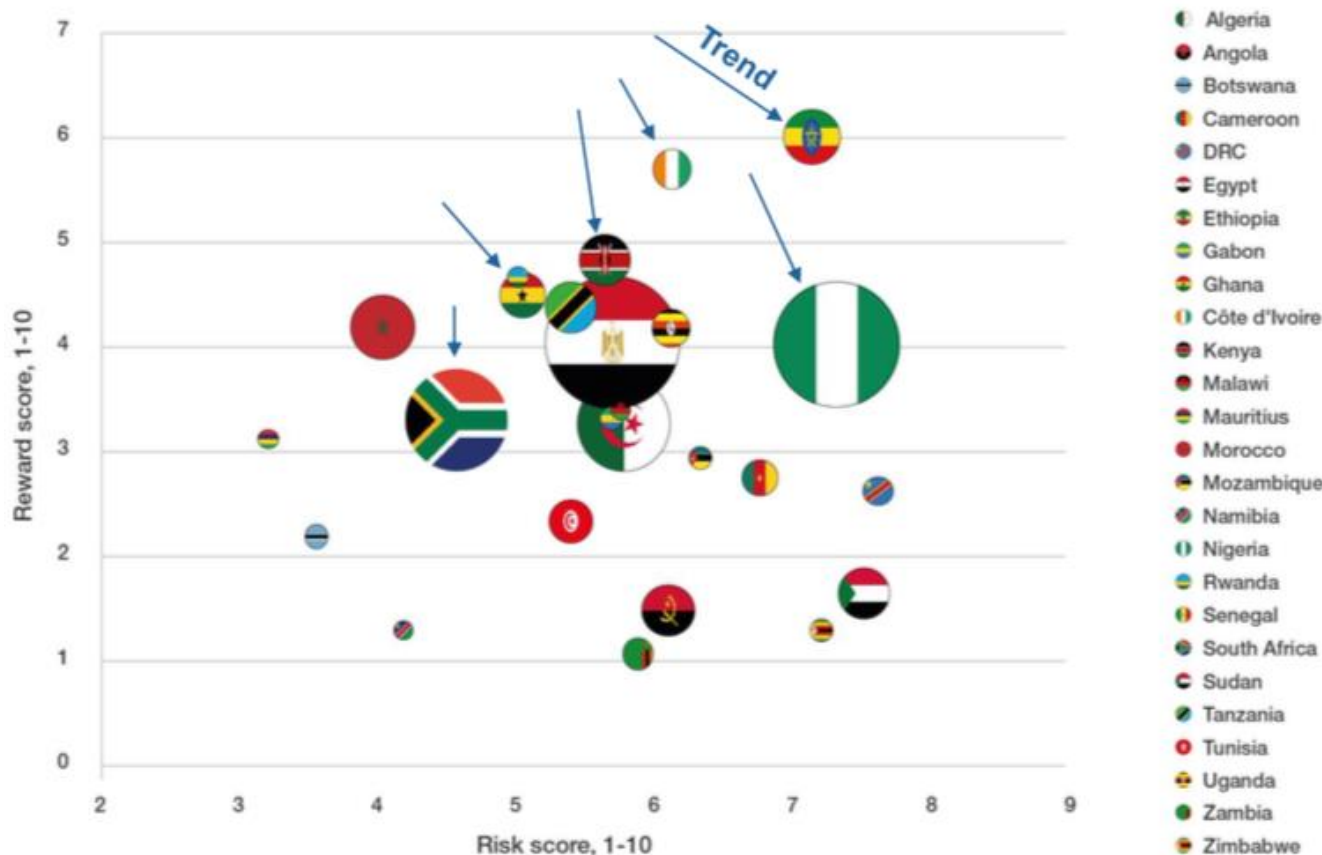
Risk of Missing Out

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)



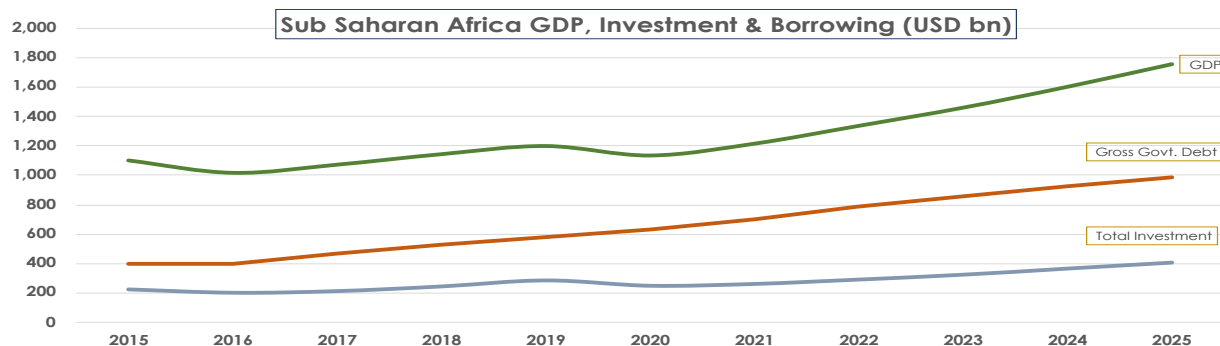
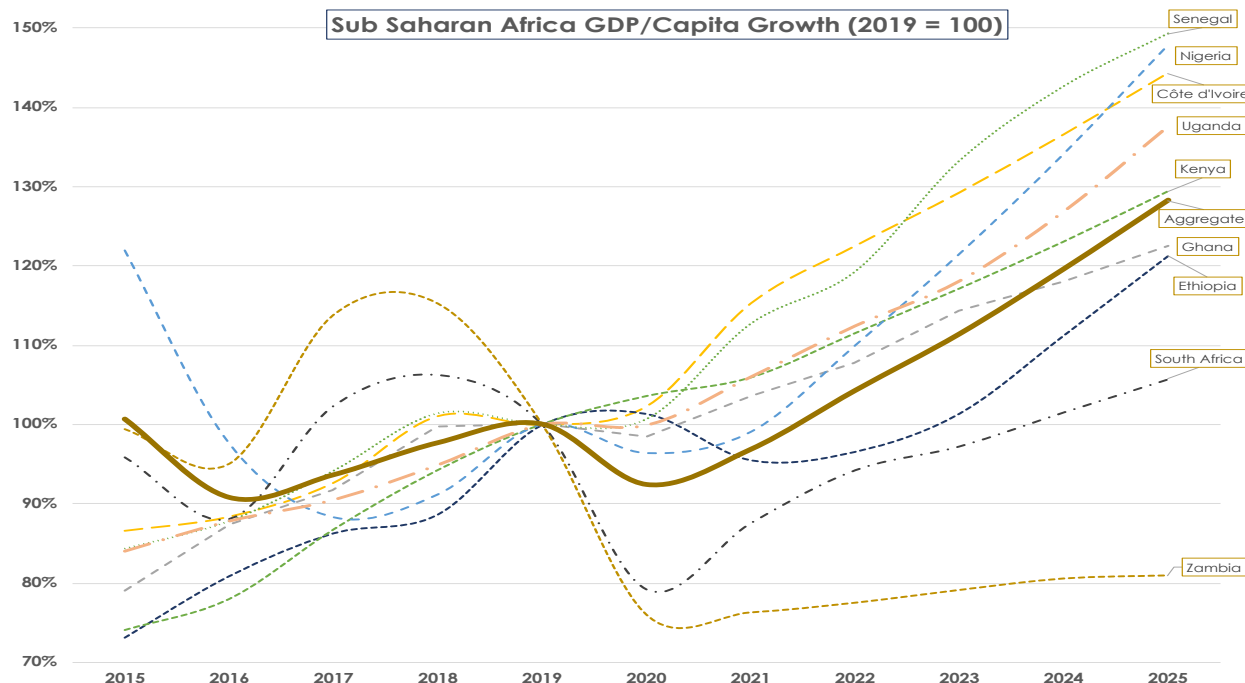
Map - Control Risks – Nov 20
Comments drawn from Control Risks 2021 – RiskMaps conference

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.

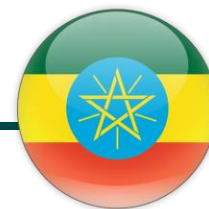
On average, growth in gross external Govt. debt is likely to exceed GDP growth and investment growth, creating pressure on currency across these nine majors



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



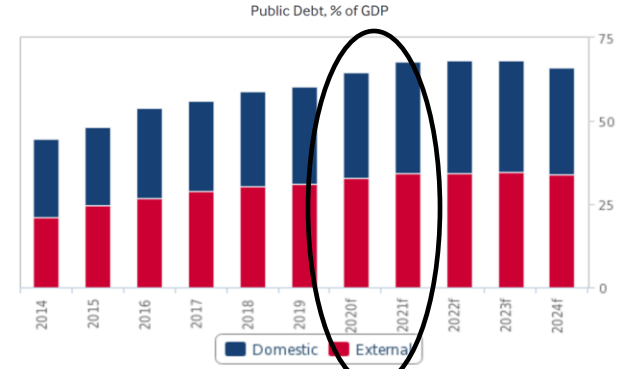
The Big Ideas

- 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



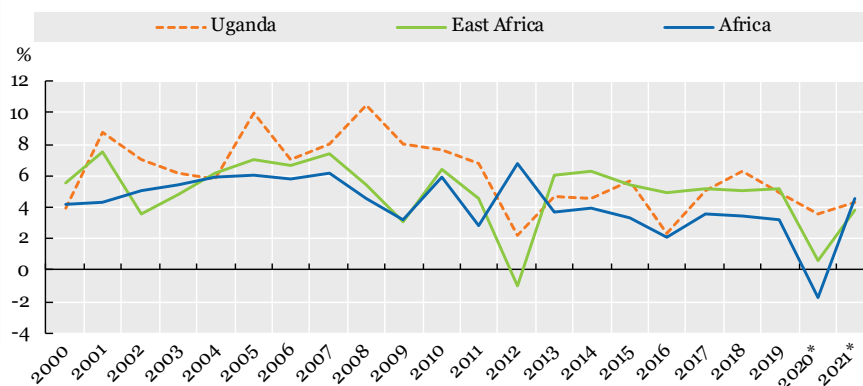
The Big Ideas

- 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



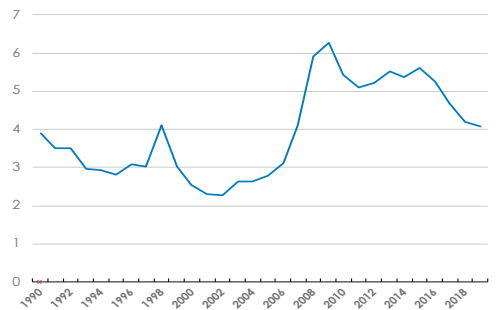
The Big Ideas

- **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

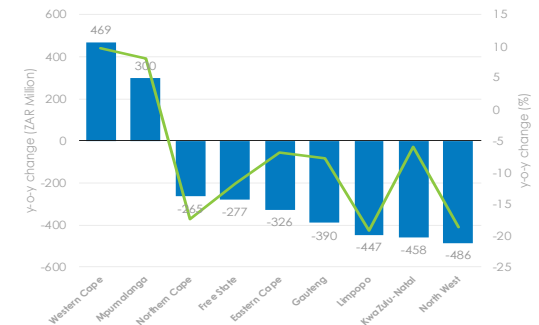
Public infrastructure spending declined since 2009 peak



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)



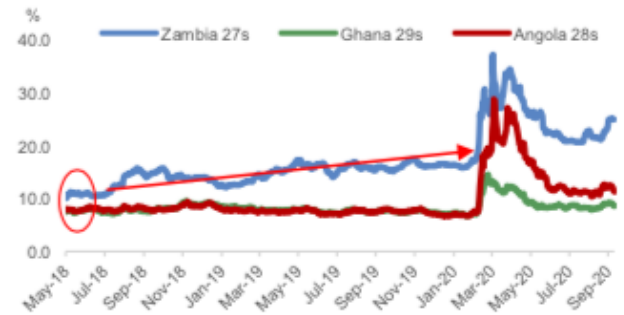
The Big Ideas

- **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

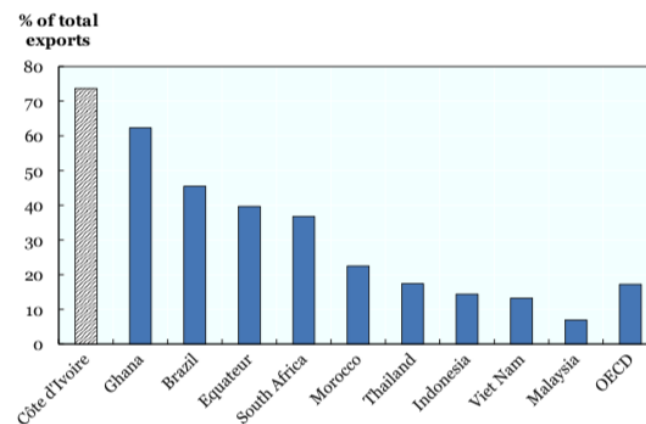
▪ Sector Reforms

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

Lay of the Land

- 3rd 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



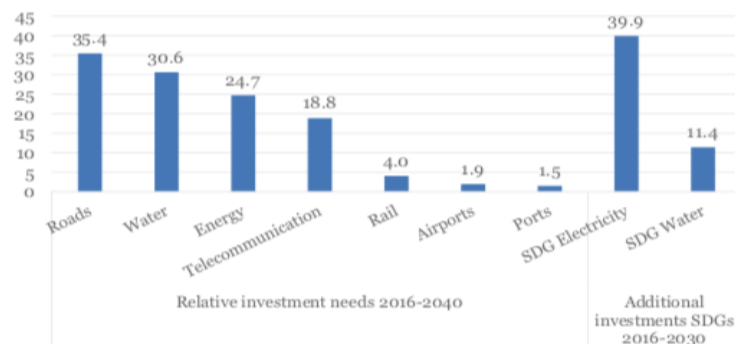
The Big Ideas

- **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 & Wilson Private Limited</i>
<i>African Trade Insurance Agency</i>	<i>FMO</i>	<i>Longi Solar</i>	<i>Stoa Infra & 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 & 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*

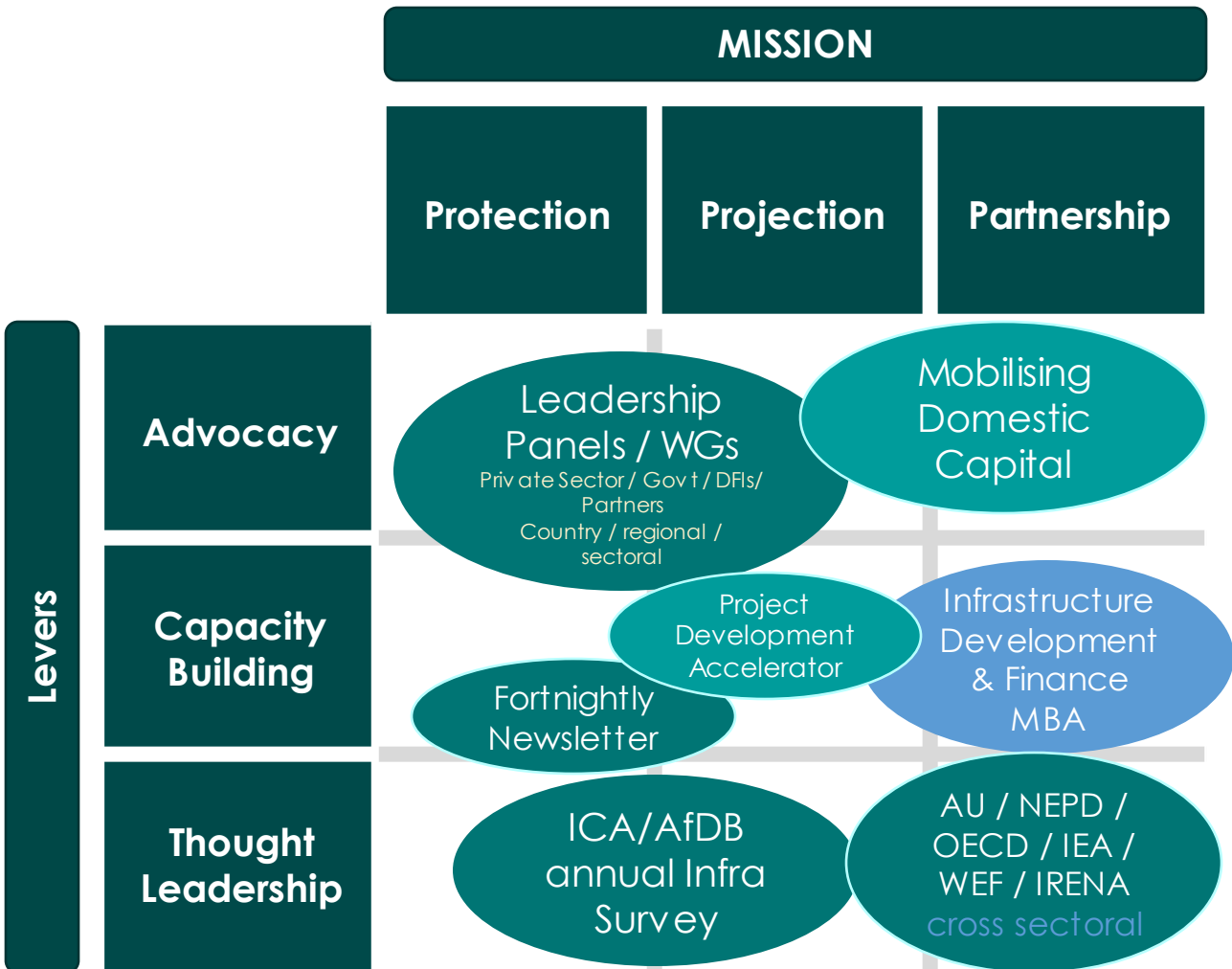
*Champion the development of **affordable and resilient infrastructure in Africa** which can **scale** to support its economic growth*

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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