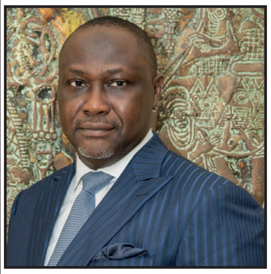

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African infrastructure: The CEOs' Vision

Africa is moving! Over the next 30 years two in every five children in the world will be born there. It has dynamic and enterprising people and it is rich in natural resources. With the world's largest reserve of arable land, it also has a tenth of the planet's oil, and a third of its mineral reserves. Africa needs affordable infrastructure for a resilient future and for prosperity of its citizens. The Africa Infrastructure Development Association (AfIDA) is focused on building consensus between private and public stakeholders towards this objective.

At a recent roundtable, six private sector leaders set out their vision for scaling up quality infrastructure in Africa.

Opportunities and Challenges

Samaila: Africa has a significant energy deficit, and this should be our highest priority, given the great impact energy has on development. By most estimates, we need to invest around $50 billion per year in energy across the continent. From 2020 to 2030, we need to invest about $160 to 170 billion per annum in all infrastructure and the private sector gap is $25 to 30 billion. For example, the minerals and metals required in electric vehicles and their batteries are in Africa. I am looking at how to enhance the production of these in a sustainable way. We want to promote value addition. One of our special economic zones, is already looking at producing electric motorbikes.

Kim: Africa offers a great opportunity for investors. The population is young and eager to learn, which makes for a productive labour force and a growing middle class. However, the lack of infrastructure is a big constraint and needs to be addressed for realising the potential.

Andrew: Infrastructure supports trade, it supports livelihoods, and it represents an interesting investment class for a certain type of investor for its fundamental characteristics of longevity and predictability. Now all three of these things are changing at an unprecedented pace. As developers we need to start creating new products, new projects, new relationships, in a new way. The way the world is trading and evolving will continue to change. There are profound dynamics like digitization, like climate change and energy transition. Whether it is the physical asset due to weather conditions, or the use of the asset due to people being relocated, or whether it is business which is responding to climate change. These are absolutely key dynamics. We see it coming through policy to reporting, through insurance, through everything.

Oliver: The pandemic has taught us how weak our health infrastructure and digital infrastructure is in Africa.

The Covid Crisis

Mohan: One of the additional themes we are seeing is that African governments are facing significant amounts of fiscal stress. This is creating more investment opportunities for the private sector. However, at the same time we are seeing a pullback of private capital deployed in African infrastructure. So I think the Covid crisis has created an even greater role for Development Finance Institutions (DFIs) like ours.

Oliver: I think, the pandemic has shown genuine areas of opportunity if we can grab them. It requires us to rethink and redesign our approach and develop new perspectives on infrastructure development.

Risk Perception of African projects

Martin: It is worth asking why can one raise money relatively quickly for a large offshore energy project in Mozambique, but smaller onshore projects are much harder to develop and finance.

Samaila: Let us show them. Let us demonstrate to international investors through the use of innovative insurance, that African infrastructure is not as risky. We are developers and de-risking infrastructure investment is key to our work. We should consider using insurance as a key instrument towards this.

'ALARM' is the Solution

Vivek: If we want sustainable infrastructure for all in Africa, there needs to be a combination of risk mitigation, aggregation and localisation. That spells '**ALARM**'

Sustainable Infra for ALL = Local content + Aggregation + Risk Mitigation

Risk and Reward

Oliver: Perception is one thing, but the numbers and analysis just don't support it. Let's look at the metrics, and then let's look at the risk of how African infrastructure compares to other parts of the world in terms of default rates. Having said that, African governments don't make it easy for us to make that argument. Some countries want to change the nature of contracts. These headlines get picked up and reinforce the perception of risk.

Samaila: Moody's report is an independent assessment of unrated bank projects financing from around the world. It found that the Middle East is the only area with a lower default rate than Africa, which stands at 5 per cent.

Mohan: Default rates in Africa are low because of the highly structured nature of projects. To get a project to a bankable stage on the continent is going to take much longer and more instruments than in a different part of the world. One of the reasons an investor is going to require a higher return is the amount of the time it takes and the size of the transaction.

Kim: Any business is about risk. For us in Africa, the key is to find and create good, long-lasting partnerships. We believe in being on the ground, rolling up our sleeves and working alongside our partners. This is an effective way to minimize risk.

Andrew: This is critical. One of the biggest issues around risk perception is how long you are locked in for. The only reason you have trillions of dollars sitting in negative interest rate accounts versus 15% for infrastructure in Africa, is because you cannot get out. If you could offer them a credible exit, then money will flow more vibrantly in that direction.

Role of Governments and DFIs

Kim: It is for governments to deliver frameworks that work. They have to articulate a master plan, which the private sector can relate to. There needs to be clear legislation, privatisation, and a fair understanding about what a fair return means.

Mohan: Let me maybe share a real-world example of what DFIs and government can do to reduce this risk premium. With reference to the South African renewable energy program, in Rand terms, solar photovoltaic and wind energy tariffs have come down drastically. A significant contribution to this reduction is from reduced return expectation on both the debt and equity, because the government was able to provide investors with consistency, certainty and clarity and ran a transparent process. We, as DFIs, provided support and funding to the government to establish this, to give them the technical skills and advisors to design this framework. The Independent Power Producer's Office established a process of predictable and repeatable projects, which has delivered clean energy at scale and at competitive tariffs. The challenge now is to apply this success to other sectors such as municipal broadband, education, student accommodation, hospitals and social housing, as well as private and municipal water and waste treatment works.

Aggregation

Oliver: With a platform company you can actually have a replication effect. When you have developed a free trade zone in one country, you can now take it to the next. Like we have done in Togo, taking it across to Gabon. You can train staff and move them around. From an exit point of view, a platform is much more attractive than a standalone project. At another level, by displacing diesel energy for mining, we can create anchors, which can serve local communities near them.

Andrew: If we can break the reliance on sovereigns (or government guarantees) as the off-taker, we can focus on the community the project serves and we can then think of bringing in different tranches of capital to serve them.

Local Content

Samaila: The 300 MW Cap des Biches gas fired power project in Senegal will use natural gas from the country and displace imported HFO and diesel generation, and in doing so, the project will reduce tariffs by 27 per cent. It will reduce carbon emissions and greenhouse gas emissions significantly.

Martin: For the Nachtigal project in Cameroon, sponsored by EDF, who we advised, we were able to get $200 million of local currency debt in Cameroon. And there were guarantees around the refinancing of that local debt every seven years, so the mini-perm or short-term funding was effectively guaranteed into a 21-year, long-term debt instrument.

Sustainability 2.0

Andrew: This is critical for our future success. There are two sides to Environmental, Social and Corporate Governance (ESG). There is 'do no harm', which is what the performance standards do. And there is also 'do good', what community engagement programmes are meant to do. As we emphasise local content and project finance, there is a risk of losing these objectives. And we also heighten the risk of accidents on site. It is just how it is. So concomitant with that pursuit of local beneficiation needs is a support structure. Be that education, be that policies and procedures that deal with occupational health and safety.

Martin: Under the current methodologies, there is zero rating for the benefits that accrue from the projects. No scoring is given for health benefits, education benefits, or growth in the tax base. When we start from a zero baseline, and all that one can do by analysing the project is to degrade it to a point of failing the ESG hurdle. There is an opportunity to save time, cost and reduce development risk if we factor in benefits.

The Way Forward

Samaila: Let us build on insurance. Let us build on risk mitigation. We can build on the mobilization of additional capital for investments on the continent and build on the metrics for sustainability. Going forward, we can also build on the aggregation to platform companies, not only as aggregators for opportunities but also as a way of providing exits.

Andrew: We have got to increasingly think beyond infrastructure as simply bricks and mortar, but also through the lens of climate.

Kim: Infrastructure is key to levelling the playing field and helping lift people out of poverty, which has increased as a result of this pandemic.

Oliver: I would like to think this is what AfIDA is all about, after all those years, when Andrew and I and others conceived it. With thought leadership, we are moving the conversation forward.

Access the full podcast and article at www.afida-africa.org, and take part in a short survey and challenge to create a better acronym than 'ALARM', for a chance to win a bottle of 15-year old Macallan's Scotch Whiskey or nominate your favourite charity for a donation of $200.

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SCAN ME