INFRASTRUCTURE:

THE CATALYST FOR AFRICA'S POST-PANDEMIC RECOVERY

Before the Covid-19 crisis, Africa needed massive investments to close its infrastructure gap. This has become even more urgent now with the health crisis. Any post-pandemic stimulus plan should include an infrastructure component and ways to increase the participation of the private sector in development and implementation.

This all means that there is an even greater need to mobilise capital for infrastructure. The extra challenge that we are facing as a result of the crisis is that there has been massive capital flight away from emerging markets. According to the International Institute of Finance (IIF), the first quarter of 2020 saw the largest capital flight ever recorded from emerging markets, exceeding the global financial crisis.

Usually during crises and external shocks, capital seeks safety and gravitates back to home markets. Once the crisis dies down, investors will again look for opportunities, and Africa presents a plethora of such prospects to invest in. In the short term, however, Africa needs substantial fiscal stimulus to compensate for the capital flight and rising debt levels. Governments need the fiscal breathing space to focus on dealing with the pandemic and its aftermath. African finance ministers have estimated this need at around a minimum of $100bn a year. This should include a large infrastructure component, that has a strong multiplier effect on employment and business formation.

Part of the stimulus should also include debt moratoriums and restructuring with international financial institutions, and where possible, commercial lenders. African governments must also lessen dependence on foreign lenders by mobilising domestic resources. This should send a positive message to the world that the continent is proactively contributing to its recovery and not just relying on others.

LEVERAGING ASSET RECYCLING

There are several ways of mobilising domestic capital for infrastructure, especially from institutional investors. The assets under management of African institutional investors are expected to rise to $1.8 trillion by 2020, which has increased from $1.2 trillion in 2017 according to the African Development Bank. Mobilising just a fraction of this capital for infrastructure could make a tremendous difference.

Africa50 has taken a leadership role in promoting asset recycling, whereby governments grant private sector investors concessions over infrastructure that is mostly already revenue generating. It enables governments to unlock capital tied up in assets that they already own, which would be more productively managed by private sector investors. By offering these assets through concession schemes to credible private sector investors, governments could free up funding for critical new projects. Such concessions promise long-term revenue streams and new infrastructure investment opportunities that should attract more investment capital to Africa.

"Aside from the immediate benefits, asset recycling in Africa could attract a new class of infrastructure investors. In Australia, a combination of sovereign wealth funds, pension funds, and several private investment funds participated in such projects. Attracting similar investors by leveraging existing assets would reduce African governments' dependence solely on donors and development finance institutions," says Alain Ebobissé, Chief Executive Officer at Africa50.

AFRICA50

In 2012, African heads of state, through their Declaration on the Program for Infrastructure Development in Africa, called for innovative solutions to accelerate infrastructure delivery.

Following a broad consultation with African stakeholders, the African Development Bank established Africa50, a new investment vehicle designed as an independent infrastructure fund that focuses on high-impact national and regional projects in the energy, transport, ICT and midstream gas sectors, with particular emphasis on increasing the pipeline of investment-ready projects on the continent.

Africa50's strategic vision is organised around three pillars; first, developing a strong pipeline of bankable projects which are ready to receive investment. Second, investing in projects already developed by other parties that require additional funding from Africa50. Finally, mobilising funds from public and private shareholders, including long-term savings from within and outside Africa.

Africa50's 12-member board of directors is chaired by Dr. Akinwumi Adesina, the President of the African Development Bank. It includes four women and representatives drawn from various African regions and internationally.

Funded by African governments (28 and growing), the African Development Bank, and two central banks in Africa (BCEAO and Bank Al-Maghrib), Africa50 has over $878m of committed capital. The infrastructure financing deficit in Africa is estimated at about $68bn to $108bn annually, according to the African Development Bank.

Africa aslo urgently needs regional infrastructure to speed up implementation of the African Continental Free Trade Area – which is expected to boost intra-Africa trade by more than 52% by 2022 according to the UN Economic Commission for Africa – since many of Africa's development challenges require cross-border solutions.

PROJECT DEVELOPMENT AND PROJECT FINANCING UNDER ONE ROOF

Africa50 focuses on medium to large-scale projects that have development impact while offering an appropriate risk-adjusted return to investors. Bringing project development and financing together in one platform, Africa50 seeks to provide support at every stage of the project cycle.

PROJECT DEVELOPMENT PERSPECTIVE:
Koffi Klousseh, Managing Director, Head of Project Development

What difference does it make to have a separate Project Development function in Africa50's strategic effort to bridge the infrastructure gap in Africa?

Project development has been identified as the most challenging phase of project implementation and is where most projects fail. A lot of investment is needed in studies, structuring, contracting, and engagement with public authorities without assurance that projects will get to financial close. Thus it requires dedicated funding as well as a specific skill set. This is where Africa50 comes in. Project Development is a core activity and we allocate funds or early stage risk capital to projects. We get involved, as investors, in all aspects of project development, to steer projects toward financial close, executing the important mandate that was given by our shareholders to strengthen the pipeline of well-structured bankable projects.

– We fund, execute or supervise project feasibility studies; economic, social, technical, and environmental studies; and financial structuring. We also negotiate commercial and financial contracts to ensure a balanced risk allocation; drive the selection of strategic partners; manage relationships acting as a bridge between public and private stakeholders.

– We are investors, and do not offer grants since we have a mandate to operate commercially, but we may facilitate the mobilisation of soft financing through other partners.

– We follow the venture capital model, where development activities are funded as early-stage equity investments with appropriate financial return prospects, along with the right to invest equity in the project at financial close. We can provide up to $10m of such capital to get a project off the ground.

We also act as a convener of potential partners and work with other institutions, notably the African Development Bank, for project preparation, transaction support, guarantees, public and commercial funding.

What unique set of skills does Africa50's Project Development team possess to create projects that have attracted private and public sector investments?

While we may sometimes be at the origin of certain projects, more often, we support projects originated by governments and private sponsors. Our role is to make them become a reality so they can fulfill their objectives of providing affordable services to Africans. Our success in project development is based on (1) engaging directly with our 28 African governments to overcome the regulatory and administrative hurdles that may delay projects; (2) nurturing a strong network of partners (financial, operational and institutional) to develop innovative solutions; (3) sourcing promising projects which can be developed into bankable investments and (4) attracting quality staff necessary to deliver on our mission.

PROJECT FINANCE PERSPECTIVE:
Raza Hasnani, Managing Director, Head of Infrastructure Investments

What is the unique selling proposition of Africa50's Project Finance function, which allows the organisation to act as the go-to partner for the continent's infrastructure projects?

First, we have unrivaled local knowledge and presence. Most of our team members are either from the continent or have extensive experience investing here.

Along with this local knowledge, we bring world class expertise and processes to infrastructure investing. As they say, 'history does not repeat itself, but it rhymes'. Having team members that have done investments in other emerging markets around the world where they have gone through the same sequence of development that Africa is experiencing allows us to make better investments.

Many stakeholders on the continent consider us more of an honest broker as we are part of the local ecosystem. For example, we insist that our counterparts have world class representation so that their rights are well represented. This protects the investee but is also better for the investor in the long run. Thus, our presence in the capital structure leads to reduction in the overall cost of capital, and thus lower costs for the ultimate users of the infrastructure

What parameters inform the decision and investment amount Africa50 commits to a project?

We prefer reputable and experienced partners that have a track record of successful investments in developing countries - partners who have a well-thought out business model that is simple and defensible. We look for partners who have skin in the game and are not looking to monetise in the short-term.

For instance, in the ICT sector, our corporate priorities are improving access to the internet and mobile services. We look at traditional projects such as internet backbone infrastructure and data centers and at innovative projects tailored to the continent.

We do not provide concessional finance, so all projects must have attractive risk-adjusted returns while having a development impact. The bottom line is there should be significant increase in infrastructure delivery, while giving investors a commercial return.

While we normally prefer mid-to-large scale projects with a value over $100 million, smaller projects that have an innovative nature and strong development impact may be considered on a case-by-case basis.

Africa50 currently has 11 equity and project development investments covering the four priority sectors it focuses on.

PORTFOLIO INVESTMENTS

Rwanda	Kigali Innovation City: A mixed-use, master planned innovation city to be situated on 60 hectares of land in Kigali. Africa50 is co-sponsoring the project with the Rwanda Development Board.
Guinea	Gbessia Conakry International Airport: Construction and operation of a new terminal for international and domestic passengers and related infrastructure, including a cargo terminal, aprons, and taxiways, under a 25-year concession agreement.
Madagascar	Volobe Hydropower Project: A 120 MW hydropower plant on the Ivondro river. The project also includes the construction of a transmission line, refurbishment of the access road and infrastructure for the neighboring villages.
Nigeria	Azura-Edo project: The first large privately financed Independent Power Plant (IPP) built in Nigeria since the reform of the country's power sector. It sells power under a 20-year purchase power agreement to the Nigerian Bulk Energy Trader.
Ghana	Genser Energy Project: A locally owned IPP that provides captive (localized) power to gold mines in Ghana. The company has built three operational power plants with an aggregate installed capacity of 108 MW, as well as a gas pipeline.
Senegal	Malicounda Power Plant: A 120 MW combined-cycle thermal power plant, designed to produce at least 956 GWh a year.
Senegal	Tobene Power: A 115 MW baseload power plant which has been designed for conversion to natural gas from local gas fields.
Cameroon	Nachtigal Hydropower Plant Project: Construction and operation of a 420 MW hydropower plant, as well as a 50-kilometer transmission line to Nyom.
Pan-African	Room2Run: A Risk Protection Agreement related to a US$1 billion portfolio of seasoned pan-African loans held by the African Development Bank. Structured as a synthetic securitization by Mizuho International. Africa50 invested into Room2Run alongside Mariner Investment Group, a US investment firm.
Egypt	Scatec Benban Solar Power Plant (below): A 400 MW portfolio of utility scale solar power plants, developed under Round 2 of the Egyptian feed-in tariff program.
Upcoming projects	Africa50 also has a strong pipeline of projects, which include a rail-road bridge linking the cities of Kinshasa and Brazzaville, and power transmission lines in Kenya.