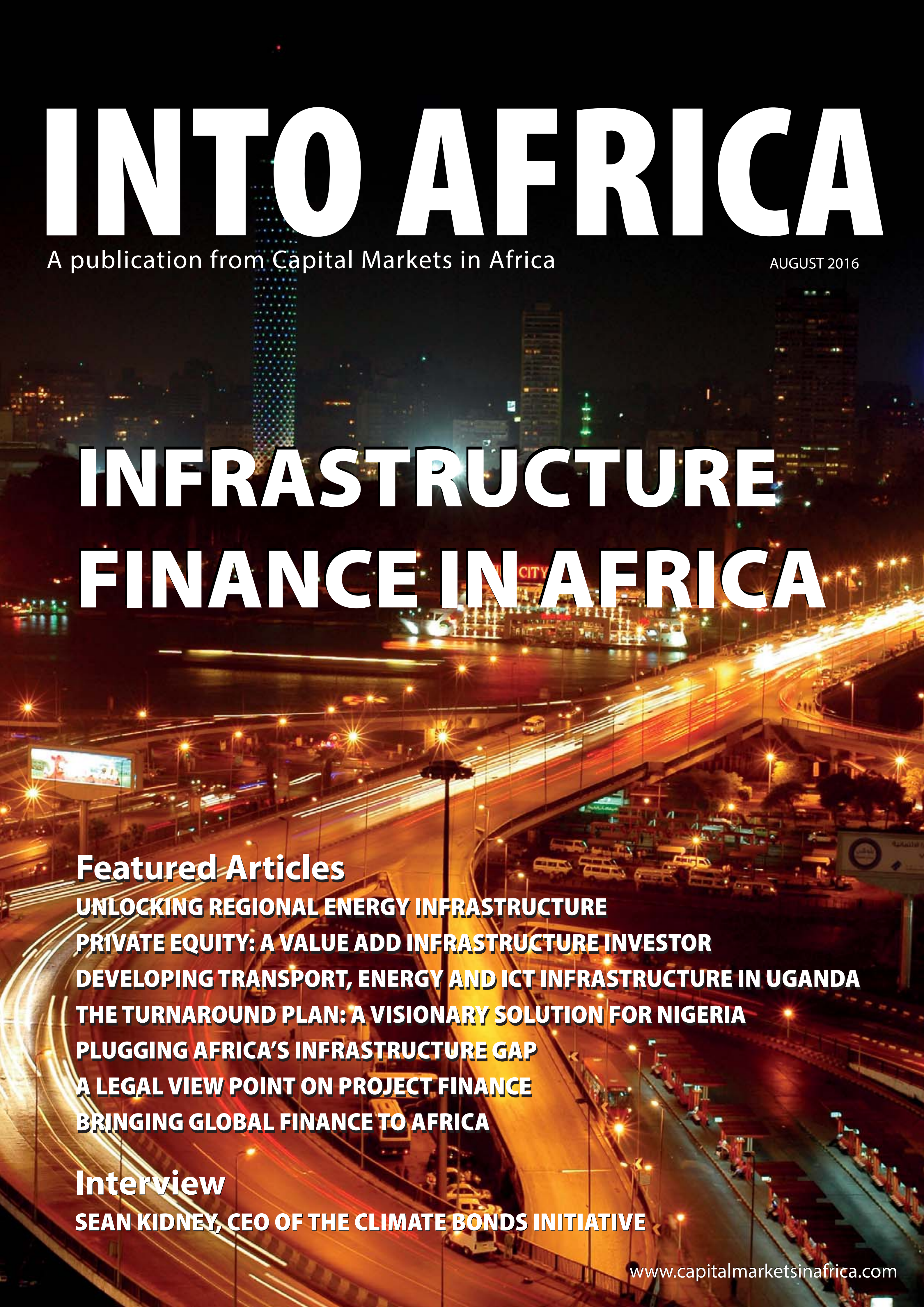

INTO AFRICA

A publication from Capital Markets in Africa

AUGUST 2016

INFRASTRUCTURE FINANCE IN AFRICA

Featured Articles

UNLOCKING REGIONAL ENERGY INFRASTRUCTURE

PRIVATE EQUITY: A VALUE ADD INFRASTRUCTURE INVESTOR

DEVELOPING TRANSPORT, ENERGY AND ICT INFRASTRUCTURE IN UGANDA

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CONTENTS

Cover Image : Cairo. Egypt's urban and industrial centre features a vibrant financial city to the north of Africa. Busy highways and an underground metro serve the bustling City and provide a transportation Infrastructure set to see growth as urbanization increases.

Welcome to the August edition of **INTO AFRICA**, a publication with fresh insight into Africa's emerging capital markets. This edition focuses on Infrastructure Financing in Africa.

Africa has experienced rapid and exponential economic growth in the last decade and a half. This growth has occurred despite the continent's huge infrastructure deficit, one of the reasons why economists and policy commentators question Africa's economic growth fundamentals. They argue that economic growth should bring about improvements in living standard (such as improved health care, shelter etc.) as greater economic stability and increasing levels of disposable income lead to a greater demand for goods and services.

The key constraint to economic growth in Africa is the lack of adequate infrastructure. A World Bank study revealed that the annual financial requirement for infrastructure in Sub Saharan Africa is about US$93 billion a year. Efforts are being made to finance this, however, only US$45 billion is being mobilized, two thirds paid for by African governments and citizens, 8% by multilateral and bilateral donors and the rest by the private sector in emerging economies. There is therefore an estimated funding gap of US$50 billion a year. This makes the need to concentrate efforts in addressing the infrastructure deficit one of the major public policy tasks of African governments today.

Clearly, public funding is a much needed resource but its availability is limited. The clamour for private investment to support infrastructure financing has gotten louder however to attract more private funds towards infrastructure financing, African countries will have to create a more conducive business environment for investors, Innovators and Entrepreneurs by enabling Engineering and Construction Firms to overcome obstacles such as unpredictable regulations, bureaucratic delays and struggles to secure land rights and encouraging impactful financing models.

To diagnose this subject we sought the opinions of a cross section of authorities in this area. We start the discourse with **Callixte Kambanda**, Chief Infrastructure Specialist, Infrastructure Consortium for Africa (ICA) who guides us through options for attracting more investment into Infrastructure Projects in *Unlocking regional energy infrastructure development through market integration*.

Michael Heyink, Lereko Metier Sustainable Capital Fund evaluates the quest to encourage Private Equity to participate in Infrastructure deals in *Private Equity: A Value Add Infrastructure Investor*.

In *Delivering Successful Infrastructure Projects through Public Private Partnerships*, **John Lotz**, Head Project Developments for Africa, Group Five Development outlines the crucial elements of delivering successful Infrastructure projects in Africa.

Brian Kalule, Senior Associate, Bowman Gilfillan Africa Group discusses how the Ugandan government has undertaken strategic funding in key sectors to ensure increased productivity in *Developing Transport, Energy and ICT Infrastructure in Uganda*.

This is followed by *African Infrastructure Funding: Mitigating Currency Risk* where **Per van Swaay**, TCX Fund and **Douglas Bennet**, GuarantCo, provide techniques for governments to control the negative impact brought on by currency depression in exchange rates.

Donna Nemer, Director for Capital Markets, Johannesburg Stock Exchange explains why optimisation and a regulated environment are some of the ways Listing can add value to businesses in *Why Listing on a Public Exchange adds value for Business and Investors*.

In *The Turnaround Plan: a Visionary Solution for Nigeria*, by **Abraham E. Nwankwo**, DG, Debt Management Office, Nigeria delves into the rationale of a well-crafted Turnaround plan and makes the case for Nigeria to embark on constructing one.

Tracey Austin, Director, Impact Investing and **Karen Ng**, Interim Associate, Impact Investing present clear examples of how Impact Investing can address immediate needs in *Impact Investing: an Innovative Tool for Infrastructure Financing in Africa*. We interview **Sean Kidney**, The CEO of Climate Bonds and **Christopher Olobo**, International Finance Corporation, takes a look at the dynamics of financing Infrastructure via PPP's in his article: *Plugging Africa's Infrastructure gap through Public Private Partnerships*.

In *Monetization of Gas to Power in Africa*, **Ebrahim Takolia**, Chief Strategy Officer, Monetizing Gas Africa Inc. explains the role of Gas to Power in Africa's transformation. In I*nfrastructure Finance In Africa: A Legal Viewpoint*, **Clive Ransome**, Partner and **Seyda Duman**, Senior Associate, Milbank examine the importance of a legal and regulatory framework for private sector involvement while in *Project Finance: Bringing Global Finance To Africa*, **Robert Futter**, Director and **Brad Miles,** Senior Associate, CRESCO Project Finance consider how project finance transactions perform and the considerations required for funding in Africa.

Finally, *Kenya's Corporate Governance Practices Code, 2015* by **Kamami Christine Michira Mweti**, Partner, Bowman Gilfillan Africa Group's Coulson Harney office, Nairobi, Kenya provides a review of the 2015 Code and how it aligns Kenya with international corporate governance standards.

Kind regards,

Michael Osu,
Associate Editor

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UNLOCKING REGIONAL ENERGY INFRASTRUCTURE DEVELOPMENT THROUGH MARKET INTEGRATION

By **Callixte Kambanda,** Chief Infrastructure Specialist, Infrastructure Consortium for Africa (ICA)

Regional energy infrastructure is a key enabler for regional energy markets. Africa has huge potential to grow its energy markets hence the need to develop robust regional energy infrastructure. To do this requires heavy investment in the production, transportation, and distribution of energy products to end users. Considering the existing high level of commitment by African countries and regional institutions, which have prioritized energy as a priority sector and the commitment to prioritize energy by major financiers, including donors; there is an opportunity to achieve desired results and unlock the development of regional energy infrastructure and regional energy markets in Africa. The current President of the African Development Bank (AfDB) has set up five strategic objectives for the Bank and at the forefront is the energy sector, "Light up and power Africa". Thus, the recently approved strategy of the "New Deal on Energy in Africa" has a strategic objective to achieve universal access by 2025.

This article focuses mainly on the power sub-sector. It explores what is needed to unlock the development of regional energy infrastructure in terms of investments, capacity development, the role of the private sector and that of the African governments and regional institutions as well as the benefits of energy markets integration.

Regional infrastructure and Energy markets in Africa

Current status

Currently, Africa has set up five regional institutions to facilitate regional power trading. Those are the four regional power pools: Southern Africa Power Pool (SAPP), Eastern Africa Power Pool (EAPP), Central Africa Power Pool (CAPP), Western Africa Power Pool (WAPP) and the Northern Association of Power Utilities in the Maghreb countries, COMELEC (Comité Maghrébin d'Electricité). Nonetheless, the only regional power market exists in the SAPP, where a competitive energy market in the form of a Day-Ahead Market (DAM) was introduced in 2003 (Short-Term contracts made anonymously through the power pool and where guarantees are required). In the other power pools, there exist power trade arrangements under bilateral agreements. There are many challenges African regional power pools are facing, among the key ones: lack of cross-border interconnections, low power production capacity (chronic power deficit) and weak institutional capacity.

A lot of effort have been made in the last two decades to interconnect African countries through regional power interconnectors. Almost all the power pools have projected to have energy markets in place before 2020. In SAPP, WAPP and EAPP the last miles to interconnect all countries, as well as reinforcement of existing power interconnectors are under construction. SAPP already has a functioning regional dispatch and market center while EAPP and WAPP have plans in place for the construction of the regional dispatch and market centers in their respective regions. The CAPP has also planned to interconnect its member countries. In COMELEC there are long existing bilateral trade agreements but there is no regional energy market planned. Notwithstanding the efforts made, a lot still needs to be done in terms of regional interconnection and of increasing the generation capacity. In addition, the weak institutional capacity will need to be addressed if proper regional energy market is to be achieved by 2020 as planned.

> *"The current President of the African Development Bank (AfDB) has set up five strategic objectives for the Bank and at the forefront is the energy sector, "Light up and power Africa"."*

Unlocking regional energy infrastructure development through markets integration

Due to the small size of economies of most African countries (see box 1 below) with the subsequent low energy consumption, the energy markets integration is not an option for all African countries, it is a must. Why?

Energy markets integration

The integration of energy markets will help the countries not only to benefit from economies of scale but also to attract more foreign investments since investors would look at the wider market access. Furthermore, these foreign investments are highly needed to meet the huge financing gap for infrastructure development.

Box 1

According to 2015 statistics:

GDP *(at Purchasing Power Parity)*
- 11 countries in Africa have a of more than US$ 100bn,
- 6 countries between US$ 60-95bn
- 21 countries between US$ 10-40bn and
- 13 below US$ 10bn.

In terms of **population**:
- 37 African countries have less than 20 million inhabitants.

Source : Wikipedia, 2015

According to the African Development Bank's study

1. PIDA (Program for Infrastructure Development in Africa) Outlook energy report 2010-2040, 2014

"PIDA Energy Outlook report, 2014[1]" , US$96.5bn of investments are needed per year for the energy sector to achieve 69% average access rate to modern energy services in Africa by 2040. Comparing this to the US$22.4bn of current total spending on energy sector (ICA Annual report 2014), the financing gap represents US$ 74.1bn alone for the year 2014. The same study concluded that the full regional integration scenario would help to save cumulatively by 2040 US$ 1,117bn (or US$ 43bn p.a.) and Energy efficiency policies are expected to save 139 GW (16.7%) of capacity needs. In addition, interconnecting the power pools will increase energy supply security since the peak demand of the different regions do not happen at the same time, henceforth allowing one power pool to import cheap power from another power pool, e.g. the time difference between WAPP-SAPP and WAPP-EAPP are respectively two and three hours. The regions have also different sources of energy, which will maximize the energy mix ratio. It has been recognized that sharing common interests contribute to enhanced peace stability among the countries, hence having common regional public goods, such as hydropower plants, regional interconnectors would contribute significantly to peace and security sustainability among the countries.

Those are very clear benefits of African energy markets integration, which demonstrate that the whole continent and its partners have benefits in investing in regional energy infrastructure.

What else needs to be done?
African countries need to enhance regional and national policies in order to attract more investments needed for generation, transmission and distribution projects. Some key examples of policies can be given:

(i) At the national level, improving the performance of the power utilities is key, particularly their balance sheets, reducing the level of losses and increase technical performance in general. It is also important to integrate agreed regional priorities into national priorities.
(ii) At theregional level, the countries and the Regional Economic Communities (RECs) need to strengthen the legal status of the power pools, e. g. allowing them to enter into power purchase agreements with Independent Power Producers (IPPs) to supply directly the power to the pool. This will reduce significantly the transactions costs for regional energy projects, since the IPP will deal only with one entity acting on behalf of countries involved in a given IPP.

The private sector is needed to contribute to filling the above mentioned financing gap. Therefore, enhanced dialogue with the public institutions is required to reduce the perception of the (high) risk associated with African business environment. It should not be considered that the public institutions alone need to approach the private sector. It should be both ways, then the private sector has also benefits in taping into the huge available opportunities for investments keeping in mind that the rate of return on investment in Africa is one the highest in the world.

Donors and all stakeholders need to conjugate their efforts to assist countries and regional entities to enhance the quality of project preparation. Thus, it is here suggested to consider the following:

(a) increase financing going to project preparation (PP) by both the donors and the African countries
(b) enhance the skills of the staff involved in PP
(c) undertake actions to increase local private sector participation in financing energy infrastructure. This would increase in turn the level of skills and capability of future O&M of the constructed infrastructure.

According to the PIDA projections on investment needs and considering the fact that project preparation takes 5 to 10% of the project investment costs (World Bank), the financing gap for PP can be estimated at USD 8.1bn per year (10% rate used) while the current level of financing for PP is estimated at around USD 1.2bn.

Finally, there is a growing appeal to governments to motivate national pension funds and central banks to use part of their reserves to invest in infrastructure development. The African Development Bank has provided opportunities for such investments by creating the Africa50 Infrastructure Fund (http://www.africa50.com/).

Contributor Profile
Mr. Callixte Kambanda is Chief Infrastructure Specialist at the Infrastructure Consortium for Africa (ICA), which Secretariat is housed by the African Development Bank in Abidjan, Côte d'Ivoire. He is a holder of an MBA in Project Management from the Maastricht School of Management and a Master's degree in Electrical Engineering from the University of Applied Sciences, Kaiserslautern, Germany.

Mr. Kambanda has an extensive experience working in the energy sector, particularly with African countries, Regional Economic Communities and Specialized institutions for the Energy Sector. He led the work on different ICA publications on Energy, especially on IPPs in Africa and on Power Pools. He coordinated the implementation of a number of power projects in his country Rwanda, while he was working with the Rwandan Power Utility. He led implementation of different key activities at the ICA, including the work on Project Preparation and the setting up of a Network of Project Preparation Facilities in Africa.

Before joining the ICA in January 2008, Mr. Kambanda was working as Executive Secretary of the Eastern Africa Power Pool (EAPP). He is member of different Professional Associations: Germany Engineer Association (VDI) and until July 2006, he was the chairman of the Rwanda Electrotechnical Committee for Standardization.

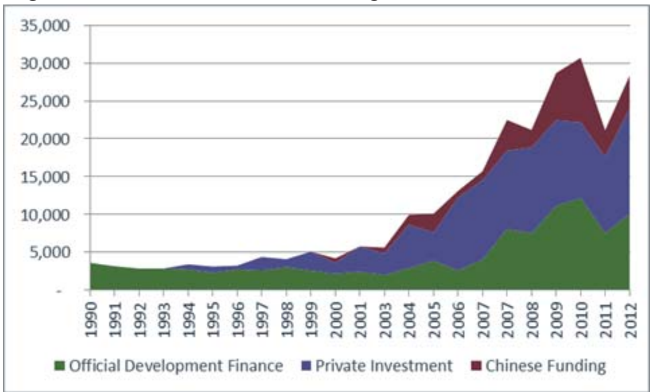
PRIVATE EQUITY: A VALUE ADD INFRASTRUCTURE INVESTOR

By **Michael Heyink,** Lereko Metier Sustainable Capital Fund

Infrastructure – the Largest Asset Class in Africa

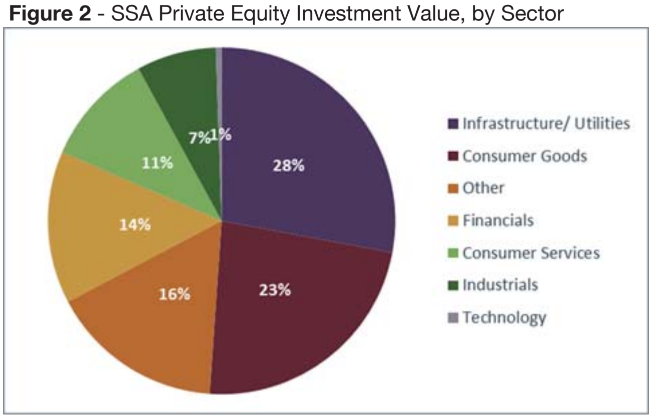
Sub-Saharan Africa's economies have shown impressive growth since the global financial crisis, outperforming the global average by 200 basis points. A critical underpin to this growth has been the flow of foreign capital from private sources into the continent's leading economies. In no other sector is this as prevalent as infrastructure. Infrastructure development in Africa has lagged behind population growth over the past fifty years, and governments have begun to turn to the private sector to catch up (see Figure 1 below).

Figure 1 - Sources of External Funding for Infrastructure in SSA



Private equity fund managers, who primarily manage the capital of institutional investors, have been at the forefront of this acceleration in infrastructure development. Institutional investors have good reasons for investing in this asset class in Africa and have found particularly good opportunities to do so. In 2015, more capital (28%) was channeled into African infrastructure than any other sectors by private equity fund managers.

Figure 2 - SSA Private Equity Investment Value, by Sector



Source: Emerging Markets Private Equity Association

The boom in Africa's mobile telecommunications sector is one opportunity which has caught the attention of PE funds. The private investment deployed in the rollout of mobile phone towers over the last two decades allowed African countries to leapfrog over traditional landline telecommunications. Private equity fund managers have backed many of the businesses instrumental in doing this and continue to provide the capital necessary to grow the networks and connect populations.

Private capital has also been deployed in the development of other types of infrastructure, previously the domain of governments and state-owned utilities. Substantial progress has been made in the energy sector, where privatization of transmission and distribution infrastructure has driven efficiency and increased access to electricity. The procurement of electricity from the private sector is enabling the much needed expansion of generation capacity. Cote d'Ivoire, Nigeria and Uganda have led the way on power sector privatization and the procurement of renewable energy in South Africa provides a model for the rest of the world. In both cases, private equity fund managers have seized the opportunities.

Uganda's national electricity distributor was privatized in 2005 and has been in the care of private equity since then. Poorly maintained infrastructure has been replaced, technical losses and theft have been reduced and collections markedly increased.

Lereko Metier Sustainable Capital Fund has focused on the energy generation opportunity in South Africa. Bokpoort, a 50MW concentrated solar power project provides a case study. Metier provided early stage capital to mature the development of the project towards bankability and later the Fund contributed equity to the capital structure to construct the project. Bokpoort commissioned successfully in early 2016 and is the world's first plant of its type with over nine hours of thermal storage and the ability to produce base load power. South Africa's competitive procurement process is driving down the cost of energy and providing tangible solutions to the country's electricity crisis and the movement away from environmentally damaging fossil fuels.

What do Private Equity fund managers like about infrastructure?

While infrastructure development is undoubtedly a catalyst for economic growth and the doorway to further investment opportunities, it is not only the positive developmental impact that encourages private equity fund managers to pursue these transactions. They offer specific benefits which attract investors including: stable cash flows, a variety of risk/return profiles and scale.

Stable cash flows are supported by an off-take agreement with a utility, government or both. Investors in energy projects will further secure their cash flows by insisting that these agreements be entered into on a take-or-pay basis, at a fixed or escalating tariff and backed by a sovereign state. While this by no means ensures consistent and predictable distributions, it forms the basis upon which other risk mitigants can be built into projects to provide a yield-type exposure for investors.

In the developed world, low risk infrastructure assets often generate very low yields. This is true in part because much of the infrastructure is well established and assets tend to be in their operating phase resulting in lower operational and default risk. In sub-Saharan Africa private equity fund managers have not been precluded from accessing investments with a range of risk/return profiles.

Investors can gain exposure to projects either at an early stage of development, alongside senior debt in greenfield projects, or in brownfield projects with an operating track record. Furthermore, more traditional private equity "value investing" is an option as infrastructure businesses offer equity in their companies to private investors in order to fund their development and expansion.

Risk and return also vary substantially between jurisdiction and across technologies. The strength of off-taker balance sheets and sovereign credit risk rating are key indicators for private investors when assessing the risks of an investment. These factors are considered alongside security issues, rule of law, construction complexity and the expected quality of cash flows emanating from a particular project. Private equity fund managers able to weigh these risks, put in place strong protections and with the vision to build where people have the greatest demand for infrastructure services provide exceptional long duration returns to their investors.

Finally, it is the scale of investments which is often considered a feature of this asset class. Many private equity fund managers are being tested to find good investment opportunities for the large sums of capital committed to sub-Saharan Africa. Recently it has been in infrastructure where these fund managers have found a home for their largest investments. As the backbone to economic growth, it is foreseeable that this trend strengthens as governments mimic the early movers in mobilising private capital to drive development.

Table 1 - Largest SSA Private Equity deals since 2014

Date	Target	Sector	Deal Size (USD mn)
Mar' 2014	IHS	Infrastructure - Mobile Towers	268
Feb' 2015	Lekela Power	Infrastructure - Energy	220
Jan' 2014	AES Sonel	Infrastructure - Energy	202
Jun' 2014	Afriflora	Food	200

Source: Emerging Markets Private Equity Association

What value-add do private equity fund managers offer as shareholders?

The best private equity fund managers are renowned for their active investment style and value-add. In certain cases infrastructure developers will look to these managers to fill a funding gap during the construction of a project, the savvy ones invite private equity fund managers into a partnership as they recognise the value they will bring.

The first way in which infrastructure developers benefit from partnerships with private equity fund managers or including private equity funds as shareholders in their businesses is through the new project opportunities they bring. The important role played by infrastructure financiers (both on equity and debt) ensures that private equity fund managers are tapped into networks of entrepreneurs, regulators and service providers. Being at the intersection of this nexus allows private equity fund managers to gain insight into market trends and exposure to a wide range of projects. The best ones are able to quickly assess early stage opportunities and feed a developer's pipeline with high potential projects.

Managers add further value through their ability to access capital of differing profiles. The majority of investors in private equity funds are institutional investors looking to diversify their portfolio. These institutional investors will allocate different pools of capital to equity, mezzanine debt and senior debt (and in the case of Development Finance Institutions to grant funding as well). Strong relationships with these institutional investors as well as the reputation of the private equity fund manager allow private equity-funded projects greater access to these complementary forms of capital. In particular, senior debt providers are comforted by the knowledge that a rigorous due diligence process is being undertaken alongside their own.

Strong financial partners are also valued by infrastructure players during the financial structuring of project financed infrastructure. Optimisation of the capital structure, re-financing of debt facilities post-construction and the arranging of preferential rates on guarantees and other facilities are some of the ways in which a strong financial partner can support their more technical counter-parts.

Many private equity funds in the infrastructure space include Development Finance Institutions in their pool of investors. Private equity funds of this profile have a strong focus on environmental and social governance and provide material input and guidance on these important aspects of infrastructure projects.

Perhaps the most undervalued aspect of partnering with a private equity fund manager is the opportunity to benefit from a mutual exit. The length of an infrastructure contract typically exceeds the investment time horizon of a private equity fund and as a result private equity investors will typically sell their ownership in a project which still has a long tail of secured cash flows attached to it. As the risk profile pre- and post-construction in infrastructure projects changes significantly, an investor with a lower risk appetite is more appropriate during the operating period. This sort of investor will typically accept a lower yield on their investment, allowing a seller to enhance returns through an early exit. Fund manager's expertise in the sale of assets, networks amongst buyers and the opportunity to exit a project as part of a diversified portfolio all provide immense benefit to partners upon a mutual exit.

While some publicly traded businesses may allow investors to gain exposure to certain features of the infrastructure asset class, they do not allow investors to cherry pick those secure cash flows most likely to yield a strong risk weighted return. As macroeconomic headwinds and unprecedented uncertainty dominate the global investment climate, well managed infrastructure investments in emerging economies are more relevant than ever to institutional investors. It may well be the key to unlocking the potential of the African continent.

Contributors Profile

Mike Heyink is a deal executive at Metier where he is part of the fund management team of the Lereko Metier Sustainable Capital Fund (LMSC). LMSC is an African resource efficiency fund, invested in seven utility-scale renewable energy projects. Previously Mike worked in strategy consulting for the Monitor Group, where he advised multinational clients in a range of sectors including infrastructure, energy, property development, agriculture and telecommunications.

DELIVERING SUCCESSFUL INFRASTRUCTURE PROJECTS THROUGH PUBLIC PRIVATE PARTNERSHIPS

By **John Lotz** Head Project Developments for Africa, Group Five Development

What are the challenges in implementing successful and sustainable infrastructure projects in Africa? Why do projects take so long to become a reality? Surely one of the biggest challenges for Government Authorities is the organization and administration of a framework that will reduce bottlenecks and facilitate project promoters to address risks appropriately, such that projects can proceed. Over the past ten years, more African countries have recognized the advantages of using Private Public Partnerships (PPP) to assist with the delivery of infrastructure. Using private sector resources enables greater efficiencies in delivering infrastructure. What are the options to encourage private sector developers to assist in the early stages of project development? What are the factors that are important to transform an initial concept to the final infrastructure project?

Africa's vast and current needs in terms of infrastructure are well documented and reinforced in all the national, regional and local development plans. Some of the Development Funding Institutions have attempted to put a value to this shortfall ($ 90 billion per year until 2020). The exercise is academic because the demand for infrastructure is fuelled by economic growth rates which remain above most global averages, a growing middle class and the critical function that infrastructure must fulfil to realize the economic value of new and rich resources.
The symptoms are evident to all who travel in Africa:-

- growing informal settlements;
- traffic congestion in all the major cities;
- inefficient ports with delays that have become the norm; and
- regular power outages directly inhibiting economic growth.

Road transport needs dominate with 90% of African commuters still reliant on road transport. The experience of sitting in a taxi for hours on the grid-locked roads and bridges in Lagos, the chaotic taxi motor cycles weaving through the lanes in Kampala in an attempt to shorten the commuters' travel time and the frustration of navigating around overloaded traffic circles in peak hours in the CBD of Nairobi are all tangible evidence of this need. Officials in Ghana have stated that there is a direct correlation between the lack of power and GDP growth and this has manifested itself in power protests in Accra. South Africa now has in excess of 10 service delivery protests daily! Urbanization also brings to the fore the importance of providing potable water to the urban dweller. Africa will, in the next 15 years have an additional 350 million urban residents. In arid countries such as Namibia and Botswana, these problems are accentuated by the lack of natural lakes and perineal rivers. Large water carrier projects to the cities are now pressing national priorities. Nelson Mandela Metro in South Africa recently launched a costly desalinization project based on future water demand projections.

What is driving Public Sector to look more towards Private Sector Involvement?

The Availability of Funds:
The recent economic downturn and the impact of reduced demand for commodities, primarily from the Chinese market, has dampened the high predications of growth that were so prevalent only four or five years ago and were boasted of at the start of almost every conference and discussion forum on Africa. The subsequent implications of the economic downturn are diminished capital expenditure on most national budgets. Countries like Zambia and Angola, whose economies were largely reliant on single resources viz. copper and oil respectively, now require drastic financial adjustment programs. The current liquidity problem in Nigeria was highlighted by major international airlines cancelling flights to Lagos. Yet many investors and lenders continue to affirm the availability of funding for infrastructure in Africa. The rapid growth of cell phones and even car ownership sometimes conflicts with our perceptions of affordability. The MPesa system of banking in Kenya has shown that there is no lack of financial ingenuity to supply appropriate solutions for African problems. So we must conclude that although funding at government level is constrained, private sector funding is available.

The Shortage of Technical Experience in Public Sector:
Technical skills are either locally available or can be readily imported. The trends on procuring public infrastructure in many African countries have demonstrated that there is no shortage of experienced individuals and companies who are willing to provide the technical expertise and skills to implement these projects. The prequalification processes used to identify suitable entities to tender infrastructure projects are often "over- subscribed". Early this year over 20 major international companies registered their interest and attended a bid conference for road projects in Zambia notwithstanding the relatively unfavourable economic environment. The dam projects recently launched in Kenya, have similarly attracted substantial interest with entities from Spain, Italy, Israel, USA, Turkey, China, India, Korea and South Africa recording their intention to be involved.

Some statistics have shown that large infrastructure projects take on average seven years from concept to implementation. From experience this period of gestation is probably longer for infrastructure projects in Africa. So why with available funding and sufficient technical capacity does the delivery of infrastructure still face so many challenges in Africa?

What are the fundamentals for Private Sector Involvement?

To understand this question we need to reflect on the fundamental criteria that any proposed infrastructure project should meet to make it attractive. Many factors are interrelated but the discussion below attempts to categorize the elements of a successful project. It highlights the measure of readiness to attract private sector partners.

Clear Rationale for Project and Political Support:

The project should have a definite economic benefit. This quantifiable element demonstrates the essential need for the project and is a clear measure that the direct or indirect benefits of the project outweigh the costs to the community. These projects are often part of a well-developed or a visionary master plan - at national or local level. Public sector projects that tend to ignore this factor are sometimes driven by a pure political agenda. Private sector investments supporting political priorities rather than public infrastructure priorities are generally related to short term returns.

However, political willingness to promote the project is a crucial element. So many successful projects and developments can be linked to a political champion who has promoted the development and implementation. This tends to become muddled during election times but ironically this political focus often has positive ramifications, where otherwise inert government officials are incentivized to meet election deadlines.

Legal and Regulatory Framework:

The next element is the legal and regulatory framework that allows for private sector participation. The Economist reported, in 2015 that in their analysis of 15 different African countries over 60% now have PPP-specific legal frameworks in place: South Africa, Kenya, Morocco, Egypt, Côte d'Ivoire, Tanzania, Tunisia, Cameroon, Nigeria and Zambia. Most other African counties have now prepared policy documents or they have draft PPP legislation.

A key assessment of private sector is the maturity of the public sector to interpret the legislation consistently and then to enforce these regulations in a manner that provides comfort to the long term investor. Market perceptions provide a real measure for risk assessments and ratings.

One element in the legislative framework crucial to infrastructure delivery is the procurement process. Numerous delays and disputes that inhibit the final implementation could easily be avoided by Authorities adhering to sound and transparent procurement rules from the outset. The importance of overall enforcement and supervision is not fully appreciated. The level of corruption and its impact on communities cannot be understated.

Financial Viability and Funding:

Private sector investors often cite project financial viability as their sole motivation for involvement. Two aspects require attention specifically in the African context. Government guarantees of payments, especially at local level, do not ensure bankability. Secondly, predictions of fast economic growth do not imply quick returns. The concept that the growth of the population (above world averages) translates to easily viable projects (because there will be shorter payback periods thus offering the opportunity to generate higher returns) is a myth.

Funding is related to the investment climate. This in turn takes into account all the factors discussed – economy, political stability, social unrest, business confidence, legal and environmental maturity as well as the project specifics.

Technical Appraisal:

The most common aspect often delaying projects is the inability of both politicians and officials to select or accept the appropriate technology or simply the appropriate level of service to efficiently meet the realistic demands.

The level of over-design and adherence to inappropriate standards is often a clear indicator of the lack of experience. This is a tangible area where private sector can substantially contribute by transferring skills and innovative solutions.

Institutional Capacity:

The lack of institutional capacity of public sector is often not perceived as the greatest risk to PPPs. Yet it is this capacity that is tasked with the conceptualization of the project to meet the demand, the selection of the appropriate solution and finally the administration of procuring the project and negotiating and supervising the implementation of a suitable solution. These tasks are crucial.

Experience in past projects is a good indicator. Private sector must assess this capacity at an early stage to avoid wasting resources. Public sector should seek the assistance of trustworthy and suitably qualified private resources and follow their advice.

Conclusion

In conclusion, there is no standardized solution for all countries in Africa. However, lessons learnt from successful partnerships with private sector internationally can provide a true sustainable mechanism to substantially meet Africa's pressing infrastructure needs. There are many elements to attract private sector involvement but surely one factor that stands out as the priority and as the major contributor. Authorities must provide public sector with an overarching framework and a system which creates an environment for long term investor confidence. Addressing this priority will enable Africa to, in turn, address its infrastructure needs.

Contributor Profile

John Lotz is currently with the Group Five Development Division as the Head of Project Developments for Africa. He has been involved throughout the Continent in numerous developments of major buildings and infrastructure projects in the PPP market. His experience incorporates both the technical and the financial aspects. As a Professional Engineer, he worked both as a Civil Engineering Consultant and a Contractor on major projects. Later, as part of a DFI, he obtained extensive experience in the funding of infrastructure projects and the assessment of project risks.

DEVELOPING TRANSPORT, ENERGY AND ICT INFRASTRUCTURE IN UGANDA

By **Brian Kalule,** senior associate, Bowman Gilfillan Africa Group

In his reading of the National Budget Speech 2016/17 on 8th June this year, Finance Minister Matia Kasaijia noted that funding strategic transport, energy and Information Communications Technology (ICT) infrastructure was a key priority of the Ugandan Government. Kasaijia said that infrastructure development contributed immensely to increased productivity by facilitating efficient connectivity and easing the movement of goods and the provision of services. Infrastructure funding currently comprises about 32.8% of the total Ugandan Government expenditure every year. Kasaijia noted that with this amount of investment, considerable progress had already been made. Projects involving agribusiness, transport (road, rail, sea and air) and telecommunications, for example, are all under way in the country.

China Uganda Agricultural Industrial Park

The Government of Uganda (government) has partnered with Kehong Group China for the construction of a $220 million China-Uganda Agricultural Industrial park, which was recently commissioned by the President. The Park is set on 1000 acres and will provide more than 25,000 employment opportunities on completion. There have also been outlines for plans to establish industrial parks in four other districts. Under the project, China will work with over a million farmers to improve rice farming, poultry, livestock, grain processing, and oil and food processing. The project will also focus on seed treatment, machinery and agricultural technology training.

Uganda National Roads Authority

In the 2016/7 budget, the government allocated more than Shs. 3,827.54 billion to the works and transport sector in order to improve the condition of transport infrastructure nationwide. Government intends to accelerate the construction and completion of on-going road projects and maintenance of the national, district, urban and community access road networks and numerous bridges across the country. The Uganda National Roads Authority (UNRA), the government entity charged with the construction and maintenance of roads, has also undergone a total overhaul of its management in a bid to fight corruption, waste and inefficiency in the construction of roads.

Inland water facilities - infrastructure

In the water transport subsector, the government has continued to prioritise the improvement of inland water facilities through the provision of ferry services and construction of landing sites on Uganda's major water bodies.

Ugandan rail network development

Under the railway subsector, emphasis is mainly on accelerating interventions to revitalise railway transport in Uganda. These will include the design and construction of the Tanga-Arusha-Musoma railway line and the New Kampala Port, as well as the acceleration of the rehabilitation of Tororo-Packwach and Kampala Kasese railway lines. The implementation of the joint Memorandum of Understanding signed between the government, Sudan and South Sudan is also underway. This involves plans for the joint design of the Gulu-Atiak-Nimule-Juba railway line. The redesign of the Kampala–Malaba railway line (251km) into a standard gauge line is also earmarked as a project to be accelerated.

The Standard Gauge Railway was launched in October last year with the route intended to connect Uganda, Rwanda, South Sudan and Burundi. Construction has already started in Mombasa under the operation of China Communication Company.

Kasaijia said in the budget speech that government had proceeded with the development of the railway network to reduce damage to roads, lower cost of freight especially for bulky cargo, and increase competitiveness of the economy.

Entebbe International Airport - upgrade

With regards to air transport; the government intends spending the next five years upgrading Entebbe International Airport, Uganda's principal international gateway, by improving the quality of operation and through maintenance. The scope of the upgrade includes, among other things, the construction of a new cargo centre, a new passenger terminal, the strengthening of runways, and the replacement of navigational aids. The cost of the airport rehabilitation is estimated to be around US$ 325 million. In addition, several regional aerodromes, including Jinja, and an airport at Kabale (Hoima) will be fast tracked to aid the development of an oil refinery.

Development of the Ugandan ICT sector

The government launched its Information Communication and Technology Sector Export & Marketing Plan in a bid to enhance economic development and the reduction of youth unemployment, with the aim of accelerating wealth creation.

This has been done through initiatives started by the National Information Technology Authority (NITA) of Uganda, which advanced the provision of infrastructure such as the National Backbone Infrastructure (NBI), Business Process Outsourcing (BPO) incubation centres and innovation hubs, which continue to carry out research on how to further support the sectors.

The government aims to export competitiveness and optimise the already existing resources through capacity improvement of companies and associations, as well as through creating opportunities for linkage with potential buyers and partners.

Kasaijia noted in his speech that ICT contributed 2.5% of Uganda's GDP (2015), employed approximately 1.3 million Ugandans and raised Shs. 484.4 billion in tax revenue collection in 2015. He said that telephone subscribers had increased from 19.5 million in 2013 to 23 million in 2015, while internet users grew from 8.5 million to 13 million in the same period. He noted that starting in the next financial year, the sector will improve access to high speed broadband services from 512 Kilobytes per second to 4 Megabytes per second and 30Mbps for rural and urban households respectively.

In addition, the volume of various value added services such as Mobile Money transfers and other data related services are increasing. The government has thus embarked on the operationalisation of the national backbone with over 30 public offices now connected to the National Backbone Infrastructure (NBI) and receiving high speed internet bandwidth. In addition, digital broadcasting migration, which increases the efficiency of the use of the broadcasting spectrum, has commenced with a pilot phase covering Kampala. Digital migration in broadcasting will soon be rolled out nationwide, under a Public Private Partnership arrangement.

Oil Pipeline

During the 13th Summit of the Northern Corridor Integration Projects held in Uganda, a $3.55 billion dollar pipeline deal was signed with terms that included the construction of an oil pipeline from Uganda to Tanzania. The project was awarded to the French Major Total SA which was in favour of constructing the pipeline through the southern route.

In order to enhance the oil development project, a 10 kilometre road was commissioned early in 2016 to provide access to the lone oil field in the Albertine Region. The road was constructed in partnership with the China Communication Construction Company. In addition to the Kingfisher Access Road, the government is currently upgrading other roads in the region to facilitate oil production and commercialisation.

Infrastructure development is clearly progressing rapidly in a country with much to offer in terms of investment and a government investing a significant portion of its budget into infrastructure projects.

Contributor Profile:

Brian Kalule is a senior associate in the Corporate and Commercial Department at Bowman Gilfillan Africa Group's AF Mpanga office in Uganda. He is a member of the International Bar Association where he is part of the corporate law M&A committee. He is also a member of the Uganda Law Society where he is part of the Research and Publications Committee, as well as being a member of the East African Law Society.

Foreign Investors Should Bear In Mind Exchange Control Regulations In South Africa

By **Lischa Gerstle**, Partner, Bowman Gilfillan Africa Group's Banking & Finance Department

Corporates seeking to do business in South Africa and/or with South African counterparties, whether in the context of cross-border financing transactions or otherwise, should take cognisance of the exchange control regulations that govern the inflow and outflow of capital from South Africa. They should bear in mind that their South African counterparts will be required to seek approval for such transactions under the Exchange Controls in terms of the Exchange Control Regulations, issued under the Currency and Exchanges Act, 1933 (Regulations).

South African residents (as opposed to a non-South African party) are subject to the Regulations. The Financial Surveillance Department of the South African Reserve Bank (FinSurv) is responsible for the day-to-day administration of exchange controls in South Africa. All of the major South African Banks have been appointed to act as Authorised Dealers in foreign exchange (Authorised Dealers).

The purpose of the Regulations is, amongst other things, to regulate inflows and outflows of capital from South Africa. South African residents are not permitted to export capital from South Africa except as provided for in the Regulations. No South African resident is therefore entitled to enter into any transaction in terms of which capital (whether in form of funds or otherwise) or any other right to capital is directly or indirectly exported from South Africa without the approval of FinSurv or an Authorised Dealer. Authorised Dealer can grant approvals under the Regulations within the conditions and the limits prescribed by FinSurv.

Exchange Controls do not apply to non-residents, but they may be impacted indirectly if they transact with a South African resident, who is required to seek exchange control approval under the Regulations. South African case law confirms that a lack of exchange control approval does not render an agreement void but that such agreement could be declared invalid by FinSurv on the basis that it contravenes the Regulations. FinSurv is able to grant the necessary approval after the fact, but this could lead to the imposition by FinSurv of penalties on the South African resident.

To the extent that a cross-border financing transaction is implemented pursuant to which a South African resident is either the borrower, lender and/or a security provider, the requirement of obtaining exchange control approval under the Regulations must be included in the list of conditions precedent of such transaction and be borne in mind in terms of the timing for closing of the transaction. If the exchange control approval is required from FinSurv one should allow for 3 to 6 weeks; if it is can be obtained from an Authorised Dealer once should allow for one to 2 weeks. Examples of finance transactions that will require exchange control approval include:

- a loan advanced by a South African corporate to a non-resident;
- a South African corporate, as security provider, providing security in respect of an off-shore loan advanced by a non-resident lender to the non-resident holding company of the South African corporate;
- in the case of a loan advanced by a non-resident to a South African corporate, for the remittance of interest and a repayment of the capital off-shore;
- a South African resident granting a guarantee in respect of off-shore loan; and
- an offshore investor acquiring shares in a South African company (in which case such approval takes the form of a share certificate endorsement by the Authorised Dealer).

AFRICAN INFRASTRUCTURE FUNDING: MITIGATING CURRENCY RISK

By **Per van Swaay**, Senior VP Structuring, TCX Fund and **Douglas Bennet**, COO, GuarantCo's Management Company

> "I did a lot of infrastructure development in my life, to fund them with foreign currency is madness. OK? Madness."
> Tidjane Thiam, Credit Suisse Group AG Chief Executive, 6 October 2015

The issue in principle

An infrastructure asset - any asset for that matter - should be financed in the same currency as that of the revenues that it will generate. Somewhat ironically, in Sub-Saharan Africa and in many emerging regions of the world, they typically are not, meaning they are funded in hard currency. Whether it concerns large scale power generation, transmission and distribution, waste-to-water and bulk water supply, toll roads or bridges, the prevailing model is that projects are structured to support hard currency debt. This is achieved by having the principal off-take contract for delivery of power, water or infrastructure, denominated in hard currency, typically dollars.

Consequently, the exchange rate risk in the form of currency volatility and depreciation, is transferred to the buyer, usually a government-owned utility. Often the off-take is backed up by a sovereign guarantee and on that basis developers and lenders are satisfied that exchange rate risk is properly allocated and the project is funded in dollars.

This model, in which host economies bear the exchange rate risk of hard currency project funding, has its limitations. As the magnitude of exchange rate risk from combined new projects grows, a government's ability to absorb or transfer volatility to taxpayers and consumers will decrease, possibly to the point that it no longer can, forcing it to either renegotiate or to default on its contracts.

So what to do about it?

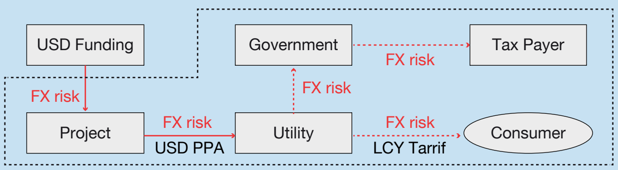
The preferred alternative is, obviously, to reduce dependency on external funding sources and to increasingly develop and utilize domestic funding sources. GuarantCo (see box) was created specifically to contribute to that purpose through the use of guarantees to support local debt. In many markets however, the depth of domestic savings and the development of debt and capital markets lags far behind the infrastructure funding requirements of the market, hence the reliance on external funding continues. However, the ability of external lenders to provide funding that is denominated in local currency, is dependent on the availability of suitable currency hedging instruments. In many emerging markets, hedging is scarcely available or not for the required tenors. To contribute to the deepening of hedging markets, precisely to support long term lending in local currency, TCX Fund (see box) was established.

The issue in practice

While initiatives like TCX Fund and GuarantCo are important for the necessary development of local currency markets, the reality of the matter is that dollar funding of African infrastructure will remain.

Governments, while conscious of currency risk, must balance the need to mitigate the project life-time exchange rate risk against the immediate need to deliver power and infrastructure. As dollar contracts are typically expected and required, that is what governments will mostly offer. This increases the risk on the utility's balance sheet and as more projects come on stream, the utility's ability to absorb or transfer currency risk will become increasingly constrained. Tariffs cannot be endlessly and randomly increased without substantial economic and social cost and exchange rate losses cannot endlessly be absorbed, given already stressed government and utility finances. The result is increased project risk and hence increased cost and, without mitigating measures, ultimately a brake on new project development.

In the off-take model, a project is developed on the basis of a USD power agreement, or other type off-take contract and financed with external dollar debt. The exchange rate risk introduced into the system is allocated to the utility, that either bears it or passes it on to the government or consumers.



So what to do about that?

If the risk cannot be dealt with at project level, then it can possibly be dealt with further down the chain, by managing currency risk at the level of the off-taking utility. The sister funds TCX Fund and GuarantCo, both development initiatives with a local currency development mandate, are cooperating closely to develop suitable products for that purpose.

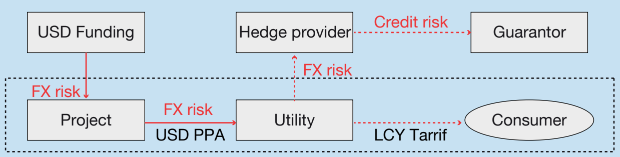
The solution for the utility is to hedge its dollar payment obligations against its local currency revenues. A hedge product can be designed to eliminate currency volatility on all or a portion of the utility's hard currency obligations, for shorter or longer tenors, as is most suitable for the situation at hand. TCX Fund offers such products. Its model is to manage currency risk in frontier markets in situations where traditional hedge markets fall short. Where possible, TCX will combine its hedging capacity with that of domestic and international banks to achieve larger volumes across different tenors.

Hedging currency risk at the level of the utility, instead of at project level, has the benefit of not disrupting the dollar off-take model and hence the flow of new project development. Another benefit is that it allows for a measured and incremental hedging strategy at utility level as it does not need to be tied to the cash flows of any specific project. Rather, the utility can hedge against a portfolio of hard currency obligations.

The counterparty credit risk

In any hedge transaction, parties must consider their counterparty credit risk. While a utility hedge in conjunction with the dollar liability that it covers represents a constant aggregate value (the purpose of the hedge!), the hedge and the liability will constantly vary, by the same measure but in opposing directions. As the hedge can move both ways, a hedge of the utility implies credit risk on the utility. That presents a challenge as African power and water utilities may not necessarily pose acceptable credit risk and they typically cannot be expected to provide hard currency collateral either, as is generally the norm in hedging transactions.

The exchange rate risk that is introduced into the system can be mitigated by hedging that task at utility level. The utility credit risk that the hedge provider is exposed to under the hedge, can be transferred to a guarantor, thus avoiding the need for cash and removing a key obstacle to the transaction.



In response to that issue TCX Fund and GuarantCo are developing alternative structures to manage the counterparty credit risk. Subject to the specifics of the counterparty, the TCX Fund and GuarantCo product offering would combine a medium to long-term currency hedge by TCX with a credit guarantee from GuarantCo for the same tenor to substantially cover the counterparty credit risk that TCX will run under the hedge, thereby effectively replacing the need for cash collateral.

Concluding: the benefits of utility hedging with credit risk guarantee cover

As long as local currency generating infrastructure assets are financed with dollars, on the back of dollar off-take contracts, hedging should be considered at the level of the off-taker. Currency hedging reduces exchange rate risk for the off-taking utility (and indirectly for taxpayers and consumers) and by extension reduces off-take risk for developer and lenders.

Because the hedge is done at utility level, it does not disrupt the dollar off-take model that developer and lenders are accustomed to. And because the utility can hedge on a portfolio basis rather than on a single-project basis, it has significant flexibility in shaping, sizing and timing of its hedging transactions.

An accompanying guarantee product can provide for an operationally light structure as it removes the need for cash collateral and, with it, a critical barrier to trade. The covered hedge product can, and whenever possible should, be expanded and strengthened by cooperating with domestic and international banks familiar with the sector and with the utilities concerned.

Contributors Profiles:

Per van Swaay is responsible for TCX business development activity in Africa, with a particular focus on supporting local currency funding structures for energy and infrastructure projects. Prior to joining TCX in 2010 he worked with FMO, the Dutch development bank, where he covered project finance transactions in Africa.

Douglas Bennet is the COO of GuarantCo's Management Company and has been involved with GuarantCo since 2007. Douglas started his career as a structured and project finance lawyer. He has almost 20 years emerging market experience, particularly in Africa, of structuring, arranging and financing transactions in debt and capital markets.

TCX FUND (www.tcxfund.com) provides currency hedging products in markets where such products are otherwise not or scarcely available. It operates globally, and in most African countries.
GUARANTCO (www.guarantco.com) provides local currency guarantee products with the objective of sourcing local currency funding for infrastructure products. Since May 2016, the fund management companies of TCX Fund and GuarantCo are united under the **CARDANO DEVELOPMENT** group (www.cardanodevelopment.com). The mandates of TCX Fund and GuarantCo are uniquely complementary. TCX Fund supports long term funding in local currency from external international by offering derivative products. Guarantco supports the funding of infrastructure projects out of domestic funding sources by offering structured credit guarantee products.

WHY LISTING ON A PUBLIC EXCHANGE ADDS VALUE FOR BUSINESSES & INVESTORS

By **Donna Nemer,** Director for Capital Markets, Johannesburg Stock Exchange

Africa has long been regarded as the 'last frontier' in terms of economic growth and investors have pinned their hopes on the latent potential of the continent. However, the tapering off of commodities prices following lower demand from China provides evidence that many countries have still been too dependent on oil and other commodities for export.

The reliance on commodity-related growth and lack of restructuring in many economies, have resulted in many investors being disappointed. Indeed, the International Monetary Fund (IMF) has lowered its growth forecast for sub-Saharan Africa to 3% for 2016, from 3.5% in 2015.

Now many are left wondering whether these emerging market economies will ever recover, and where the value is to be found. Similarly to several other frontier markets, the relatively underdeveloped state of the continent's capital markets have made it difficult to extract value – even for those investors with a very long-term view. A frustration over the years for institutional investors is that the formal capital markets are just not deep, liquid and regulated enough in order for them to consider allocating money to these markets.

Furthermore, many of the exchanges on the continent are not truly representative of their economic make-ups, with the handful of companies that are listed coming from smaller sectors of the economy. The challenge in many African countries is that their economies lend themselves to private equity (PE) investment rather than to public entities. Many of the biggest businesses on the continent are family-owned and therefore not within reach of public investors.

This is not necessarily a problem, though, and at the JSE we believe the PE sector plays a valuable role in unlocking value for businesses, and subsequently, economies. PE investment on the continent has grown significantly over the past 15 years, as many economies opened up more to foreign investors. PE investors have shown that healthy returns can be found in sectors that are underrepresented in the public sphere. For example, consumer-, technology and infrastructure- related sectors have grown significantly thanks to PE investment. These investors have shown the ability to add value to businesses and allow these firms to mature.

While the PE sector is doing well to add value to businesses, the continent still needs to see more development regarding exit strategies at the end of the investment period of typically five to seven years. We believe there exists more potential than we are seeing at the moment, for unlocking value that would benefit the business, exiting company, as well as investors seeking yield.

For reasons mentioned above, most notably the lack of liquidity on many exchanges, PE investors have tended to exit their investments through strategic private sales rather than via initial public offerings (IPO) listings. According to research by EY, approximately 53% of PE exits in Africa in 2014/2015 were done through selling to corporate buyers, while 18% were sold to other PE investors. Only 1% of exits were done through listings on stock exchanges. While PE investment gives businesses the ability to mature and optimise their structures, public offerings give these improved businesses a regulated environment for raising capital with which to grow their firms and economies.

A concern from some businesses prior to listing is the fear of losing control of the operations. However, listing does not necessarily mean a company should offer up its complete share capital. For example, viable companies can look into the dual-track exit process, whereby a company files for a listing, but also pursues an outright sale. This process may provide the selling company with more options. It could potentially obtain a better price as public markets remain volatile, and as regulations continue improving, making it easier for companies to consider listings.

There has also been a great deal of innovation and development globally in this regard, to address the challenges of PE exits, so that greater public participation in a business does not necessarily mean 'giving up control' to strangers. This includes the use of crowdfunding. Recently, the London Stock Exchange has turned to a crowdfunding platform to give small-time investors in the UK access to IPOs – a market which is largely the preserve of institutional investors and affluent individuals.

There is, of course, tremendous value accretion potential for businesses that do make the leap to listing. One of these companies is Botswana retailer Choppies, which now has a secondary listing on the JSE and successfully raised R575 million on its listing here.

Listing also provides investors with much sought-after exposure to greater parts of the underlying growth fundamentals of the continent. Most investors know that Africa is about more than oil, gold and copper, and have often found it frustrating not to have access to other growth areas such as sectors relating to consumption and telecommunications.

Furthermore, by listing a business, the capital markets of the continent become deeper and broader, and can so attract more investors, bringing about more liquidity. This is beneficial to the development of the overall financial services sector in Africa.

Even though the continent has a challenging short-term outlook, there are sectors that are still advancing. If more firms allow access to public shareholders, growth can be encouraged for the greater good of the continent.

THE TURNAROUND PLAN: A VISIONARY SOLUTION FOR NIGERIA

By **Abraham E. Nwankwo**, Director General, Debt Management Office, Nigeria

Nigeria (and, indeed, many a country badly impacted by the structural collapse in petroleum export revenues) needs a bold turnaround plan to achieve a more competitive and diversified-export oriented economy. Massive development of physical and social infrastructure is essential for such transformation needed to harness idle capacity in agriculture, manufacturing, solid minerals, ICT etc. Acute fiscal constraints and weakened macro economic conditions dictate the prudent line of action is to borrow significantly but strategically from external sources to fund the infrastructure transformation, which is inevitable for a turnaround. This is without prejudice to maximizing domestic and foreign direct investment.

Rationale

A Turnaround Plan (TP) is needed as the formal policy document narrating how the country will reverse economic decline. The TP is critical because it would respond to the following issues:

(a) clarity of policy direction;
(b) logicality of the defined route of escape from the crisis;
(c) plausibility of strategy; and,
(d) predictability of outcomes.

A credible plan would then engender confidence, positive expectations and positive perceptions from stakeholders, local and foreign, including investors. What would be expected from this atmosphere is a more favourable economic decision behavior towards the economy (See Figure I).

A robust macroeconomic model with detailed financial programming is perhaps the most important component of the plan document. The purpose is to build an integrated macroeconomic model that will elicit the trajectory of turnaround, breakthrough and self-sustaining growth that would result from the capital injection and structural reorganization. The model will highlight how cash flow will be generated to successfully service and repay the capital-injection debts; it will, of course, capture existing debt obligations and their implications. It will include projections of the gross domestic product and its components over the next 10 years – to be revised annually or bi-annually. In addition to sectoral details, including external accounts, the projections will include nominal macro indicators such as policy interest rates, exchange rate and inflation. It will show how the balance of payments and the reserve position will trend towards healthy conditions.

Impact of the Plan

Even before the implementation of the infrastructure projects start, a turnaround plan which projects a credible prosperous and self-sustaining economy in the next 5 to 7 years will positively influence the perception and response of the investor community in particular and the global community in general, in a number of ways.

First, it will reduce the risk profile of borrowing by the sovereign and lenders will be more willing to provide more amounts at more favourable terms. This will apply to both borrowing from multilateral and bilateral sources as one category and, borrowings from the international capital market (ICM) and other commercial windows, as another category.

Second, given a credible picture of future growing and a stable economic environment, private sector entities will be able to secure various forms of credit facilities and partnerships from both local and foreign financiers. This positive impact of positive future expectations in the present, will be re-inforced by the demonstration effect and benchmark effect of favourable access to credit by the public sector. In addition to their own corporate plans, private companies will use the national plan document as a useful prospecting and negotiating document: it is a document that shows that the business environment is conducive.

Third, in order to take advantage of the booming economy and profitable market projected by the plan, foreign direct investment as well as local direct investment, will be stimulated.

Fourth, portfolio investment in both sovereign and corporate securities will be attracted to the economy. This is because the plan will show that the trajectory of the economy's risk profile will be progressively more favourable.

It is important to note that much of the inflows of the four components of the Plan Effect will directly accrue to the foreign reserves, improve the balance of payments and help strengthen the exchange rate of the local currency.

Risk of Exchange Rate Exposure

Concerns about exchange rate risk and, generally, concerns about the ability of a country that is a weak player in the global market, to meet its external debt obligations are quite relevant, even under normal circumstances. For Nigeria, the prevailing circumstances which is the subject of this treatise, is certainly far from normal: The Naira has been officially devalued and is experiencing tremendous depreciation pressure. The price of crude oil which accounts for over 90 percent of the country's foreign exchange earnings has dropped drastically from an average of USD 110 per barrel for the four and half years before mid- 2014, to below USD 30 per barrel by January, 2016.

So how could one justifiably propose more foreign currency denominated borrowing under this condition? The answer lies in the Turnaround Plan: The essence of the financial and structural programming contained in the TP, is that within five to seven years, the implementation of the plan will have produced a sustainable and continuously strengthening economic recovery, and that from about year eight to year ten, the economy will start generating adequate public revenue with which the external debt will be serviced and repaid. That is why the external borrowing for the purpose of achieving the turnaround will be at favourable terms including, particularly, a moratorium period and a long tenor.

With the structural diversification, a diversified export sector would have been achieved. With the improving and sustained investor confidence generated by the noticeable transformation gains, capital inflows would have become favourable. The impact of the sectors individually and collectively would be to improve the country's reserve position, whilst improving the external value of the Naira. In essence, over the programmed period, the question mark would be removed: the country's foreign exchange reserve will rise and the exchange rate will become more favourable. For these reasons, the country will have the capacity to service its external debt.

Diversification And Competitiveness

The pursuit of diversification of sources of foreign exchange earnings will be driven along a number of routes. There will be diversification of public owned resources, notably, solid minerals, which would preferably, as early in the process as possible, be exported in processed form. There will be diversification of agricultural and agro-processed items. And, there will be diversification of manufactured exports. The choice of candidates for the export drive will of course be informed by considerations of comparative and competitive advantages.

Figure I: THE POWER OF A TURNAROUND PLAN

- ✓ Clarity of Policy Direction
- ✓ Logicality of Story of Route of Escape
- ✓ Plausibility of Strategy
- ✓ Predictability of Outcome

↓ CREDIBILITY

- ✓ Investor and general Stakeholder Confidence
- ✓ Positive Expectations
- ✓ Positive Perceptions

↓ CHANGE

Favourable change in Behavior on Decisions towards the Economy by Local and Foreign Stakeholders, notably Investors

It is important to emphasize that successful diversification strategy must be explicitly based on the pursuit of competitiveness. While investments are being deployed to provide adequate and efficient infrastructure services, other non-physical factors and conditions that affect the ease of doing business and the cost of production must be addressed. These would include legal, regulatory and procedure issues.

States Of The Federation And The Turnaround

Given that Nigeria is a federation – comprising the Federal Government, the State Governments (36 of them) and the Local Governments (774 of them) - a natural question is: where do States, in particular, which are constitutionally highly fiscally autonomous, fit into the TP? The popular unfavourable observation is that without oil revenue, which is statutorily shared among the governments of the Federation, most of the 36 States would not be economically viable because they do not have significant internally-generated revenue.

Overall, the success of the TP constitutes a turnaround for the States. The States are the beneficiaries of all the planned infrastructure development. All the physical infrastructure proposed for the revolutionary development will physically exist within the 36 States or the Federal Capital territory. There is no geographical space in Nigeria called the "Federal Government". Indeed, the entire plan for recovery and prosperity is a plan for recovery and prosperity of the 36 States and the FCT. With the provision of electric power and a network of transportation channels, ICT and social infrastructure across the country, the States will attract small, medium and large agro-based and mineral based investments. These will become the background for significant internally generated revenue and fiscal viability. Apart from taxes and levies on wholly private enterprises, State governments could enter into appropriate partnerships (public private partnership) with foreign and local direct investors for the purpose of harnessing some of their agricultural and mineral resources. Contiguous States could also cooperate to undertake regional projects in order to gain economies of scale and other synergies; the regional enterprises could also be undertaken in partnership with private investors.

From the foregoing opportunities identified for the federating States under the TP, it is obvious that each State is expected to design its own TP to take advantage of, and to synchronize with the national TP. With the 37 sub-plans of the 36 States and the Federal Capital Territory, and the National TP, the States would be adequately sucked into the economic change process and the momentum of the turnaround will be high.

With the existence of solid ICT infrastructure providing internet access to even the remotest communities of the country, the youth will be integrated into global e-activities (educational, commercial, entertainment) from their towns and villages. In this way every State of the Federation will have its fair share of the vibrancy associated with advances in ICT.

Conclusion

For a resource-rich country with significant idle capacity but facing recession, there is a ready-made solution for recovery and de-volatilized growth. That solution is a bold and visionary turnaround plan.

IMPACT INVESTING: AN INNOVATIVE TOOL TO DRIVE INFRASTRUCTURE IN AFRICA

By **Tracey Austin**, Director and **Karen Ng**, Interim Associate, The Palladium Group

Africa's infrastructure gap

It is a well-documented fact that there exists a significant infrastructure deficit in Africa[1] to support the continent's expanding economies, rapid urbanisation and surging trade levels. While total spending in infrastructure is growing at a rapid pace globally, Africa's share continues to remain stagnant[2]. As a result, economic growth in many African countries is constrained by poor infrastructure, particularly in energy and roads[3]. In addition, much more investment is required to provide access to and improve quality of health, education, water and sewage and information and communication technologies (ICT).

Before looking into the status quo of infrastructure financing in Africa and exploring new ways to bridge the current gap, it is important to note that the continent is often homogenised, but exceptions do exist. We should therefore be mindful of the differences across different countries and sectors while considering the most suitable infrastructure financing options, and indeed how impact investing is applied.

Focusing on peripheral parts of infrastructure financing

To address this infrastructure gap, governments are looking beyond finite amounts of public funding and aid to mobilise private investments into building power supply, roads, hospitals, schools and water supply systems. Established precedents of Public-Private Partnerships (PPPs) have been constrained by the nature of infrastructure investment itself and also by the region's "weak enabling environment that underpins infrastructure development"[4]. A few factors that present challenges to leverage private infrastructure investment in Africa include:

• ***Long investment horizon:*** infrastructure projects such as roads and power grids take years to complete, adding to complexity and uncertainty that dampen investor appetite.

• ***Mismatch with investors' returns expectations:*** project financing for infrastructure has been dominated by debt and debt-like instruments (alongside equity), which limits the universe of potential investors who have varying risk-return expectations. Some sub-classes of infrastructure suit private equity type funds, but are often have bespoke characteristics and requirements.

• ***Top-down approach:*** infrastructure projects are often state-led, which tend to be less efficient and adaptive to community needs compared to market-based and/or community-led approaches.

• ***Complex regulatory and policy frameworks:*** infrastructure projects are subjected to multiple layers of regulatory and policy frameworks, such as tariff setting and procurement. These frameworks are different across the region and can change abruptly due to political situations (most often extending beyond concession terms).

• ***High transaction costs:*** based on the above factors, infrastructure projects often incur high transaction costs, require high levels of human resources and relevant experiences from investors, which makes the investment only "worthwhile" if there is significant economies of scale.

Despite of these challenges, governments, multi-lateral agencies and Development Finance Institutions (DFIs) are working to attract private investments into building Africa's infrastructure by encouraging more PPPs, supporting policy reforms, improving governance and exploring innovative forms of financing.

Impact investing: complimentary, adaptive and empowering

While there is no universal definition of "impact investing", the term is widely used to describe investments "made into companies, organisations, and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return"[5]. Impact investing differs from traditional

Table 1: 4 core characteristics of Impact Investing

1. **Intentionality** to have a positive social or environmental impact through investments.
2. **Investments with return expectations** or at minimum a return of capital.
3. **Range of return expectations and asset classes** from below-market to risk-adjusted rate of returns, made across various asset classes including but not limited to cash equivalents, fixed income, venture capital, and private equity.
4. **Impact measurement** based on the investees' objectives and capacities to reflect investors' goals and intention

1. A 2009 World Bank estimate indicated that over US$90bn annually was required in Sub-Saharan Africa alone, a figure that is likely to have increased in the past seven years that have passed; World Bank Report (2009): http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/0,,contentMDK:22386904~pagePK:146736~piPK:146830~theSitePK:258644,00.html

2. For example, spending in the sub-Saharan region is projected to maintain its mere 2% share of the global market in the next decade; PWC analysis (2015): http://www.pwc.co.za/en/press-room/spend-infrastructure.html

3. For example, the 48 countries of sub-Saharan Africa (with a combined population of 800 million) generate roughly the same amount of power as Spain (with a population of 45 million); and only one-third of Africans living in rural areas are within two kilometers of an all-season road, compared with two-thirds of the population in other developing regions; EY report (2013): http://www.ey.com/GL/en/Industries/Government---Public-Sector/Dynamics---collaborating-for-growth_Addressing-Africasinfrastructure-deficit

4. Comment made by OECD in the "Mapping Support for Africa's Infrastructure Investment" report (2012): http://www.oecd.org/daf/inv/investment-policy/MappingReportWeb.pdf

5 Defined by Global Impact Investing Network (GIIN): https://thegiin.org/impact-investing/

commercial investing in a number of ways (summarised in Table 1). Although it is a relatively new discipline, impact investing is already gaining traction from individual and institutional investors, from banks, pension funds, and private equity firms to development finance institutions, private foundations, and High Net Worth Individuals (HNWIs).

Recent examples of impact investments have demonstrated a number of ways in which impact investing can address the immediate needs that conventional infrastructure financing may take a while yet to address:

• ***Adaptive to immediate needs on the ground:*** impact investing can mobilise different types of capital from an array of funders and investors within a short period of time, thus accelerating the response to immediate local needs.

For example, the Kenya-based company Sanergy builds a network of high quality branded toilets and franchises them to local micro-entrepreneurs. Within 5 years of establishment, Sanergy is providing affordable and accessible hygienic sanitation to 30,000 people on a daily basis. The business has attracted investments from international and local impact investors, such as Acumen and Novastar Ventures; as well as a mix of grant funding from USAID, Gates Foundation etc., and private capital from HNWIs and DFIs[6].

• ***Flexibility across different asset classes:*** impact investing can syndicate investors with varying degrees of risk-return expectations across different asset classes. "Blended finance", the complementary use of grant and non-grant financing, provides financing on terms that make projects financially viable and sustainable, and catalyses participation from private investors by mitigating risks and/or boosting returns.

For example, M-KOPA, a "pay as you go" solar energy supplier to off-grid homes in Africa, has adopted the use of blended finance in its funding round in 2014. The company raised US$20 million of investment, which consisted of debt from the Commercial Bank of Africa (CBA), equity investment from Gray Ghost, as well as grant funding from Bill & Melinda Gates Foundation, LGT Venture Philanthropy and UK Department for International Development[7]. The investment supported M-KOPA's expansion, and in just three years since its commercial launch, the company has connected more than 280,000 homes to solar power in Africa.

• ***Building capacity at grass roots level:*** impact investing is often made into locally owned and run businesses, thus empowering and equipping local communities to improve their own livelihoods.

For example, Living Goods operates a network of community health entrepreneurs who sell effective, essential health products at prices affordable to the poor in Uganda. In remote areas where hospitals and clinics are inaccessible, Living Goods trains local health entrepreneurs who go door-to-door to teach families how to improve their health and wealth by selling life-changing products such as simple treatments for malaria, safe delivery kits, water filters, and solar lights. Through the generation of retail revenue, Living Goods empowers local communities and reduces child mortality significantly for a yearly cost of less than $2 per person reached[8]. The business attracted support from impact investors, family and corporate foundations such as Omidyar Network, Jasmine Social Investments, and Cisco Foundation etc.

• Lower transaction costs and reduced complexity: impact investing typically operates within the private sphere and outside of the large-scale infrastructure regulatory and policy frameworks – hence projects tend to "get done" more quickly and are not usually influenced by changes in government.

Nonetheless, we should not view impact investing as a panacea to fill the infrastructure deficit. Impact investing seeks to address part of the wide gap between early-stage grant funding and late-stage commercial investment that still persist. Impact investors and intermediaries are still establishing successful cases with relevant cost structures, fund economics and realistic financial returns, which then can be applied to larger deals.

Although impact investments may be made within a shorter time frame compared to traditional infrastructure project financing, it is often referred to as "patient capital" where investment horizon is still longer than commercial investments to allow enough time to realise both financial and impact potentials, especially in emerging markets. In the case of infrastructure in Africa, we are also aware of the varying political and socioeconomic contexts across the diverse countries, which present different barriers for the development of impact investing.

Impact investing is a useful tool that complements the status quo of infrastructure project financing where adaptive, flexible and commercial solutions are needed to solve local needs in the immediate time frame – the perfect solution would be for these early stage, smaller components of infrastructure to link up with the large scale conventional infrastructure.

What's next?

The appeal of impact investing in emerging markets continues to grow. This sentiment is shared by speakers and participants of Palladium's Impact Investing in Emerging Markets Conference held in June 2016 in Oxford, UK. Representatives from Governments, aid organisations, DFIs, investment banks, venture capital

6. Sanergy website: http://saner.gy/about-us/partners

7. Shell Foundation website: http://www.shellfoundation.org/Our-News/News-Archive/M-KOPA-secure-$20-million

8. Living Goods website: https://livinggoods.org/what-we-do/sustainability/

funds and other investment firms convened to explore practical ways to bring investments, jobs, infrastructure and impact to Africa and other emerging market countries.

In response to the change in donor and investor landscape, Palladium became the first international development consultancy to create an impact investing arm that bridges the gap between aid and impact investing. We seek to provide an "exit strategy" for donor-funded projects and "investment pipeline" for impact investors. Leveraging Palladium's established global operational footprint across 90 countries and deep expertise in international development, our impact investing team adopts a three-pronged approach to source investable solutions globally from our projects, partners and proprietary tools.

About The Palladium Group

Palladium is a new kind of international management and project leadership consultancy with more than 2,500 Positive Impact professionals operating in over 90 countries, Palladium is in the vanguard of the impact economy, a vibrant new collaborative ecosystem of public, commercial and non-profit stakeholders.

Governments, corporations, investors and non-profit organisations have trusted Palladium for more than 50 years to develop and deliver positive impact solutions that improve economies, communities, businesses and the lives of millions of individuals across the globe.

Contributors' Profiles

Tracey Austin, Director, Impact Investing, The Palladium Group joined Palladium in March '15 to lead the Impact Investing proposition from the CDC Group plc. At CDC she was the acting head of the DFID Impact Fund and prior to that, she completed the research and co-drafting of CDC's initial Frontier Investment Strategy. With over 15 years of experience in investment banking, centred on infrastructure and natural resources —she spent her time across multiple emerging markets. Prior to CDC, she was a partner with BlueCrest Capital (special situations team), successfully managing and divesting distressed gold mines in remote locations (Western Australia & Colombia), before she left to pursue a career in impact investing.

Karen Ng, Interim Associate, The Palladium Group joined Palladium's Impact Investing team after pursuing an MBA at University of Oxford. Previously, Karen was the Associate Director of Investment at Social Ventures Hong Kong (SVhk), a venture philanthropic fund with impact investment across affordable housing, education, transportation and other sectors. Prior to SVhk, Karen was an Investment Banking Analyst at Deutsche Bank, specializing in IPOs. She is a Youde Scholar, and holds a BSc in Government and Economics from London School of Economics.

SEAN KIDNEY, CEO OF THE CLIMATE BONDS INITIATIVE TELLS US WHY GOING GREEN IS GOOD

Sean Kidney, CEO of the Climate Bonds Initiative talks to **Capital Markets in Africa** about the role of Climate Bonds in financing Infrastructure and how Governments can support their Issuance.

The Climate Bonds Initiative is an investor focused NGO working to mobilize debt capital markets for green investments. It works towards providing an ongoing platform for close interaction between governments, green infrastructure developers, development banks and the world's largest investors.

For Sean Kidney, Climate Bonds are vital to emerging markets growth and that for Africa "Green Bond markets actually start with Sovereigns providing liquidity and pricing. "This is a Demonstration Issuance, for example the Indian Minister of Energy has asked 8 State Energy Enterprises to issue Green Bonds. This attracts investors but, this also demonstrates liquidity. Next you need to look at your regulatory framework, the Capital Markets framework is always important for Bond Issuance, for example Kenya which has a very good Capital Markets Authority, has already done this".

Are there positives with using Green Bonds in Financing? Sean believes that Green Bonds are the future and Governments have a major role to play. "Governments need to start looking at things such as tax incentives. It is important that deal flow comes together; and then ensures that the deals get done. The Issuance of a Green Bond by a Government or by a Government associated entity like a Water Utility or a Transport Authority encourages investors. Once it's been done once or twice, every one follows." Sean is convinced that "once it gets going it can start getting to the detail which will show how it works, and then of course education will play a key role too."

Sean believes the outlook for the Green Bond-financed market is optimistic. "Based on our current work programmes we can see the market develop to $300bn USD in new Issuances in 2018 so a big part of our work now is working with Governments on deal flow design, for example how do we design Metro systems in Nairobi so that they can be more financially viable than the current model which is to Issue a Government Bond and just build the Metro! That is not very financially viable because the capital cost is so high. We need different models such as profit development over the Stations which if you kept to the value of the property you pay for your subway. That is where our work is taking us now."

At a recent Summit Institutional investors with $43 Trillion USD of assets were ready to invest. Governments have been called on to take action and Sean says "The Climate Bonds Initiative supports governments in figuring out how to make decisions which can get private capital to become involved too. In a way you've got to differentiate between the various types of PPP's." Private sector involvement could also play a pivotal role by encouraging the public sector to deliver more effective environmental agreements.

Sean leads the Climate Bonds Initiative whose aim is to increase the flow of capital to green infrastructure around the world. He is a regular public speaker on the subject and recently hosted the Green Infrastructure Forum Coalition, India Forum at the London Stock Exchange in June 2016.

PLUGGING AFRICA'S INFRASTRUCTURE GAP THROUGH PUBLIC PRIVATE PARTNERSHIPS

By **Christopher Olobo**, International Finance Corporation, Nairobi

Africa is widely acknowledged as being the 'preeminent emerging markets investment destination' attracting global investors across all sectors. Investors seeking relatively higher risk adjusted returns are appraising opportunities across the consumer sector, services and Infrastructure.

However, one of the key constraints to economic growth in Africa is the lack of adequate and well maintained infrastructure. Various studies on the infrastructure deficit have been carried out by multi-lateral agencies most notably a World Bank study which revealed that the annual financial requirement for infrastructure in Sub Saharan Africa (SSA) is about US$93 billion a year for both capital expenditures and maintenance. To finance this, only US$45 billion is being mobilized, two thirds paid for by African governments and citizens, 8% by multilateral and bilateral donors and the rest by the private sector in emerging economies. There is therefore an estimated funding gap of US$50 billion a year.

Financing the infrastructure deficit across Africa will involve collective innovation both across the public and the private sectors. Traditional funding sources such as government budgets and donors will no longer suffice but rather coopting in the private sector will provide the necessary platform on which to accelerate infrastructure growth.

Prior to 2008, the banking community was engaged in providing long term capital to the private sector sponsors undertaking public infrastructure projects. However, following the global financial crisis and the subsequent collapse of Lehman Brothers, long term financing became harder to get and the debate quickly focused on where the necessary infrastructure investment will come from. At the height of the credit boom, long term financing was available for bankable projects at about 100bps above LIBOR but after the crisis, a prominent UK highways bankable project reached financial close with margins rising up to 350bps above LIBOR. This erroneously led to many conclusions that a lack of financing was the key constraint to infrastructure development, but to the contrary, financing was actually available but at what cost? Across Africa, currently projects lucky enough to make it across the financial close line are seeing margins anywhere between 400 to 700 bps above benchmark rates.

Financing costs aside, the Un-invested Capital Ratio (UCR) across Africa ranges from 50 to 60% implying that for the right infrastructure projects, there is an over subscription and or commitment of private capital in excess of requirements by about 50-60%. Clearly when someone asks 'Can you show me the money?' The money will be shown but why is it not being invested to plug the infrastructure gap?

Answering the million dollar question of why money is not flowing into African infra at a quicker rate, one has got to examine and understand the dynamics and success drivers for the three key principals that stand to benefit if additional resources are mobilized for African infrastructure. The three principals in no particular order of priority are:

a. The Government: Many governments across Africa have ambitious visions to turn their countries into middle income countries within the next 20 or so years. To achieve these visions and deliver infrastructure to their electorates, governments need to involve the private sector. Success from a government's perspective is measured through delivering priority infrastructure.
b. The Citizens: Africa is averaging economic growth at about 5% and population growth about 1-2%. Affluence growth and population pressures demand that infrastructure is delivered to expectations. Citizens who pay taxes will therefore be looking to the government to deliver infrastructure that accelerates their growth ambitions.
c. The Private Sector: International private players from developed economies who have seen their return expectations at home shrink (Nominal Internal Rates of Return less than 10%) are pursuing emerging markets like Africa for higher risk adjusted returns. National private players in African countries are also looking to tap into this opportunity and grow their businesses and they too need to be involved. Success from the private sector's perspective will hinge on the right balance between risk and reward.

Public Private Partnerships (PPP) which are gaining traction lately with governments are in their basic form a procurement method that seeks to utilize the private sector to deliver a service that has traditionally been delivered by the public sector. But for the PPP to work, the partnership must not forget the end users who typically are the citizens because when the service is delivered, the key issue that remains is the ability to pay for the service that the infrastructure is providing. Government financing is challenging, especially in fiscally constrained environments, end user financing is a politically sensitive issue depending on the ability and willingness of the general public to pay for new infrastructure investment. The private sector that is being relied upon to plug this financing gap is not entirely charitable and at the macro level, for the PPP to work, a country needs to demonstrate that the following are present in-country:

- Political stability
- A continuous pipeline of bankable projects;
- Transparent and efficient procurement;
- Enforceability of contracts;
- Equitable sharing of risks with the public sector; and
- Certainty of the envisaged future cash flows.

Generally PPP projects would be financed using project finance where lenders and investors rely mainly on the future cash flows of the project. Such arrangements if well-structured would ensure that project debt doesn't sit on the government's balance sheet thereby providing opportunity for the government to meet its other core obligations with the limited budget resources.

Attractive as it may seem, PPPs are certainly not for all projects, sectors or indeed countries. The upstream work required to enable a long lasting successful PPP is often underestimated by governments and in so doing, the projects never reach financial close. The procurement and preparation of a PPP project is expensive and time consuming (particularly for first time projects in a country). Based on my personal experiences of structuring projects in Africa, for a project to make it across the line, it is essential that the following fall into place at the right time:

1. A credible pipeline of projects- mobilizing for PPP projects from a private sector perspective is quite expensive both at the procurement and implementation stage. For key players to invest the time and resources there has to be a credible and consistent pipeline within a country to justify costs and also refine key contractual provisions in subsequent projects.
2. Real demand for the service- if the end users are going to directly pay for the service, then the demand and willingness to pay for the service must be real and not perceived. If however government is the payer, then the contracts must not be ambiguous in addition to an actual demand being there for the service because if the demand is false, it won't be long before the government gets 'bored and tired of paying the private sector for a service with no demand'.
3. Environmental & Social considerations- responsible and sustainable investing is a consideration that has gained priority amongst many international investors and quite rightly so because we all have an obligation to preserve the environment for future generations. Many projects have stalled because of a halfhearted attempt at mitigating Environmental & Social issues. As a good start, governments should review and incorporate key provisions of the Equator Principles within their national environmental and social guidelines.
4. Multilateral Development Bank Involvements- quite often, the affordability and bankability of projects is difficult and multilateral development agencies often play a critical role in providing viability gap funds, political/credit guarantees and a very unquantifiable confidence boost to crowd in capital from private investors.
5. Currency fluctuations- majority of projects in the energy and transport sector have a currency mismatch brought about by loans & their repayment being in hard currency whilst project revenues and government revenues/taxes being in local currency. Over the life of projects, local currencies typically depreciate against the hard currencies and very quickly, this along with other factors will lead to African projects defaulting leading into termination. Strong consideration must be given to local currency financing, service/off take payments in local currency and the inclusion of local capital markets (e.g. pension funds, insurance funds) that are highly liquid and looking for long term assets to match their long term liabilities.
6. Local content- across many African countries, governments/private sector and the public are increasingly pushing for local companies to be supported into building their requisite capacity to handle the infrastructure drive across Africa. Though this must certainly be considered, the challenge is always in how you prescribe local content and the right proportion of it into projects. Done wrongly, it only promotes the interests of a few savvy investors but done rightly, it builds a nation's capacity to compete globally.

As governments continue their pursuits of visions to become middle income countries, it is clear that the funding of infrastructure remains the greatest constraint and this only increases the need to diversify the sources of funding available and consider able local capital markets. Within funding, the role of the citizens who are the end users must be recognized and the cost of infrastructure should be shared with the end user. Governments must be clear in articulating the benefits of infrastructure investment to citizens who will finance a large part of it. Through PPPs which certainly will help, governments should put in place an enabling environment for private capital to flourish in the market.

Contributor Profile

Chris Olobo is an infrastructure financing professional with over 12 years of progressive, substantial and relevant experience in analyzing projects, developing commercial solutions and building partnerships that have successfully delivered projects in Europe and Sub-Sahara Africa.

Having started his career as a civil engineer with Mott MacDonald in the UK before moving into project finance with PwC London and finally to the IFC in Nairobi, Chris offers insights into project financing from both technical and financial perspectives.

Currently working with the IFC in Nairobi, Chris is supporting regional governments to develop and deliver bankable and value for money PPP projects.

Chris holds a bachelors and Masters in Engineering from the University of Southampton, UK.

MONETIZATION OF GAS TO POWER IN AFRICA

By **Ebrahim Takolia**, Chief Strategy Officer,Monetizing Gas Africa Inc.

Gas to power offers African countries the quickest route to significant mid-merit and base load Grid and Distributed electricity, keeping generation close to demand centres to support economic growth and development.

In order to understand gas-to-power and its place in the African energy mix we need to assess global trends in energy, with natural gas now widely regarded as the transition fuel to a future characterized by low-carbon energy production.

Natural gas can be used to produce heat and electricity; as a feedstock in manufacturing; and can also support renewable electricity production.

Additional factors supporting the uptake of gas in Africa is the significant amount of proven gas reserves on the continent, calculated at more than 600 trillion cubic feet in 2015, which is geographically well spread across the continent in many countries, notably Nigeria, Ghana, Tanzania, Mozambique and Egypt. In addition, South Africa could have significant offshore gas resources estimated at 60 trillion cubic feet and onshore shale gas potential resources conservatively estimated at 40 trillion cubic feet.

In order for African countries to be placed onto a sustainable economic growth path, a stable electricity supply is required to enable the development of the manufacturing and service sectors. The recent history of economic development, most notably in Asia, has shown that development cannot happen without a stable electricity supply.

"Natural gas has the potential to develop the significant base load and mid-merit power needed to propel African electricity generation," says Mr Ebrahim Takolia, Co-founder and Chief Strategy Office of Monetizing Gas Africa, Inc.

"Gas-to-power can facilitate greater uptake of renewable energy by enabling electricity grid stability."

In recognition of the economic benefits that can be realized from gas-to-power in Africa, many countries have developed or are developing gas master plans focused on enabling gas utilization and gas-to-power.

"The move to include gas in the energy mix of many African countries is part of a global trend to include gas as a significant source of primary energy. Globally, natural gas is expected to provide on average 25% of the primary energy of many countries, and Africa has a long way to go before it reaches this level of energy provision," says Mr Takolia.

"Natural gas produces up to 50-60% less carbon (CO2) than coal, and 24% less than diesel. Electricity from renewable energy and natural gas plants are expected to increase due to the lower carbon emissions, against a backdrop of declining production from carbon intensive coal and diesel power plants as countries move to lower carbon energy generation sources.

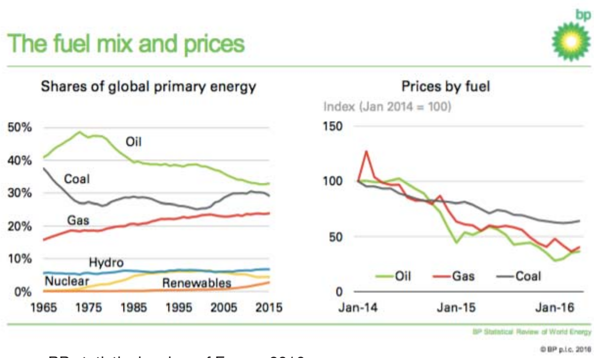
"Natural gas is also seen as an intermediate power back-up source until smart grids and electricity storage are able to replicate the utility-scale, base load and peaking power characteristics of natural gas power plants.

"Monetizing Gas Africa is one of very few companies established purely to solve the energy challenges facing Africa by focusing on the transport and delivery of natural gas from multiple sources to uses across Africa. The company has embarked on an ambitious strategy to buy, build and operate key gas transportation, delivery, processing and power assets in several top-tier countries," says Mr Takolia.

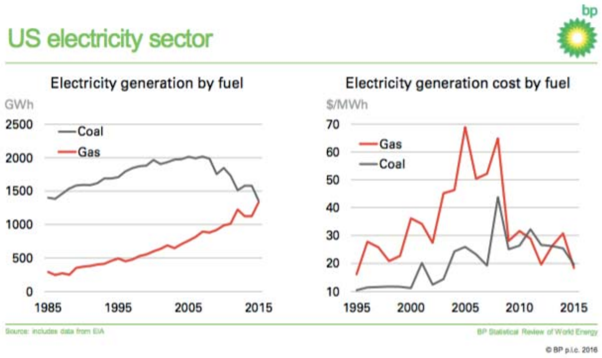
While electric power generation is probably the most compelling need and use for gas, there are many other important uses that gas serves well.

Such uses include Compressed Natural Gas (CNG) which is a ready fuel for transportation, cooking and heating fuel, Gas-to-Liquids (GTL), whereby gas is converted to fuels like diesel, chemical manufacturing feedstocks, methanol, and fertilizer for agriculture.

Gas compressed down to liquid state (LNG) is fast becoming plentiful on the world market, making it cheap



Source: BP statistical review of Energy 2016



Source: BP statistical review of Energy 2016
(http://www.bp.com/en/global/corporate/energy-economics/statistical-review-of-world-energy.html)

to buy and import.

"This makes the timing of many government initiatives to build up the gas market in Africa well-chosen and augurs well for its success, though it will take several years to reach scale," says Mr Takolia.

Contributor Profile

Ebrahim Takolia, Chief Strategy Officer, Monetizing Gas Africa Inc. Ebrahim brings an impressive mix of relevant skills and background. Past CEO of the South African Oil & Gas Alliance, the industry body for oil and gas in Sub-Saharan Africa. Previously executive at Deloitte in management consulting and specialist in engineering consulting.

Advised leading global resource, oil and gas companies, tier one global financial institutions and fund managers on management, operational strategy, project management, mergers and acquisitions; valuations; and equity/debt funding.

ABOUT MONETIZING GAS AFRICA

Monetizing Gas Africa (MGA) is an investor, operator and developer of gas infrastructure in Africa. MGA maximizes the commercial availability of natural gas to end-users through investment in targeted infrastructure.

Mission:

- To monetize the vast supplies of undeveloped African gas reserves profitably and in a sustainable manner.
- To meet high demand across the continent for clean energy and feedstocks: for power, petrochemicals, transport, and consumers.
- Thus to capitalize on the many opportunities from the growing gas sector in Africa by building the missing infrastructure to connect producers to consumers.
- Neither coal, oil, nuclear or renewables can deliver what gas can and will provide, more rapidly and cleanly, to the Africa energy markets beginning now. The relatively few companies investing in midstream value chains do not offer enough supply to meet the demand for such assets. MGA answers that demand. In its first decade, the company offers long-term stable returns to energy and infrastructure investors without the risk profile of exploration and production.

Context

- African gas is abundant: proven reserves total over 600 trillion cubic feet, with significant further potential to add to reserves.
- Less than 10% of Africa's gas reserves are monetized. Much of the gas that is produced daily is wasted by flaring.
- 22 African countries (out of 55) have gas reserves, and exploration for gas continues across the continent.
- LNG has made gas fungible, enabling a global market to develop which will grow substantially, with Africa as a key player.
- Consumer demand is expected to grow by as much as 40% by 2030.

Action

- Put gas to work across Africa by investing in the infrastructure that links gas resources to consumers.
- Optimize infrastructure of gas, energy, power, fuels, materials and capital through our skills and experience in global energy and on-the-ground history in Africa.
- Develop intellectual capital around gas technologies and infrastructure - for competitive advantage and the greater good.
- Power the growing demand for energy in Africa through providing infrastructure which enables a route to market for Africa's significant gas resources.

INFRASTRUCTURE FINANCE IN AFRICA: A LEGAL VIEWPOINT

By **Clive Ransome**, Partner and **Seyda Duman**, Senior Associate, Milbank, Tweed, Hadley & McCloy LLP

The key to unlocking Africa's growth potential

The continued downturn in global commodities prices has, according to the World Bank's Africa's Pulse April 2016 report, reduced Sub-Saharan Africa's economic growth to 3% in 2015 from 4.5% in 2014. Despite this fall, Africa's economic growth of 3% for 2015 is higher than the global average growth rate. It is undeniable that developing the continent's road, rail, power and urban infrastructure would further improve the economic growth rate - closing the infrastructure funding gap (currently estimated at USD 30 million by the World Bank) would help make this possible.

Closing the gap

Development of access to power and transportation in Africa is crucial to the growth of the economy. The availability of electricity is, according to McKinsey & Company's Powering Africa report, at an average grid access rate of 20% in 48 out of the 55 African countries – the impact of this being that countries with electrification rates of less than 80% of the population consistently suffer from reduced GDP per capita. Growth also relies on being able to bring commodities to market, which requires the development of road, rail, port and air infrastructure in Africa. Ghana, for example, is improving access to power by focusing on LNG, which goes hand in hand with development of its port infrastructure and regulatory regime.

Private sector spending is crucial to improve infrastructure and close the funding gap identified by the World Bank. The international appetite for investments into Africa, however, needs to overcome initial hurdles for investors and commercial debt financiers, including political risk, legal and regulatory uncertainty, counterparty risk, corruption, currency risk and an under-developed local skilled workforce. These considerations are key to bankability analyses for project financings generally and are not unique to Africa – however, we set out below some key common themes to mitigate the perceived hurdles in the context of project financings in Africa generally.

Legislative and regulatory certainty

Equity and debt investors alike seek legal stability and prefer to invest into jurisdictions with legal systems that they are familiar with. At first glance, understanding the different legal systems governing the 55 African countries is daunting. In recognition of this concern, key African governments have worked to establish legal frameworks that international investors are accustomed to:

- the majority of Northern and Central African states have based their legal systems on the French civil code;
- the Lusophone African countries have sought to base legislation governing their financial and regulatory sectors on existing Portuguese and Brazilian examples;
- the English common law system forms the basis of legislation enacted in much of East and West Africa; and
- 17 African states have now adopted the Organisation pour l'Harmonisation en Afrique du Droit des Affaires, created with the objective of fostering economic development in West and Central Africa with a view to improving the investment climate so as to attract funding in order to foster more growth in this market.

In addition to the above, the creation of institutional frameworks and the adoption of enabling legislation and framework legislation are essential to mitigate legislative and regulatory uncertainty.

The establishment of relevant agencies, governmental departments and authorities goes side by side with the adoption of relevant legislation to create a regulatory framework for private sector involvement in the key infrastructure sectors. In the context of road infrastructure, enabling legislation may include the enactment of laws relating to procurement, concessions and PPPs. The International Bank for Reconstruction and Development / World Bank report "Africa's Transport Infrastructure: Mainstreaming Maintenance and Management", observes that countries in Africa with established road funds and specific road agencies have consistently better road funding and have been better at implementing road maintenance requirements than those which do not.

In the power sector an example of the positive influence of enabling legislation and creation of appropriate institutional and regulatory frameworks can be seen in the success of the Renewable Energy Independent Power Producer Procurement Programme of South Africa. The authorities utilised a series of consultations with private sector counterparts to structure the programme, which includes clear procurement procedures, detailed documentation and negotiated exceptions to existing legislation (e.g. an exemption was obtained from the Public Preferential Procurement Framework Act in order to maximise economic development objectives), in each case facilitated by access to and utilisation of domestic and international advisers.

Counterparty risk

Creditworthiness and political reliability of governments and project counterparties such as state owned or controlled off-takers is a common concern for investors and financiers. To mitigate such concerns, financing structures commonly include export credit agencies, multilateral agencies and development funding institutions as these institutions share their wealth of knowledge and experience to provide governments in developing countries assistance in establishing appropriate legislative and institutional frameworks, as well as (in certain circumstances) providing political risk or export credit insurances or guarantees.

We have advised multilateral agencies, export credit agencies and development funding institutions in relation to many energy and infrastructure projects in Africa: including Proparco, FMO and DEG, whose knowledge and experience was critically important to the success of the Bujagali Hydropower Project in Uganda; the World Bank in relation to the partial risk guarantee backed refinancing of Kenya Power; and UK Export Finance in relation to the Offshore Cape Three Points project in Ghana involving the development of oil and production facilities in the offshore Sankofa and Gye Nyame gas fields and the Sankofa East oil field.

A further example, is the International Finance Corporation's Scaling Solar project which offers, amongst other things, fully developed templates of bankable project documents and credit enhancement products, all of which improves investor confidence in the relevant project.

Security structures
The lenders to a project commonly insist on receiving a comprehensive security package from the borrower, other obligors and over the project assets and revenue streams. Whilst advising sponsors and financiers in relation to projects in Africa, we have encountered some common security structuring issues.

In developing bankable security structures in projects that involve borrowing entities controlled or owned (wholly or partially) by a World Bank borrower state, lenders and project counterparties will need to be mindful of the restrictions imposed by the World Bank Negative Pledge. Such structures may include closely controlled bank accounts of borrower entities and (where a conventional security package is unavailable) granting defensive security to the extent permitted by exceptions under the World Bank Negative Pledge.

Lenders may also consider whether to establish intermediate holding companies in a different jurisdiction to that of the borrower entity to ensure ease of enforcement of the share pledge over the borrower entity. This structure may also be adopted in financially troubled projects, with an intermediate holding company and a new share pledge as part of a restructuring of the transaction.

In certain jurisdictions, the amount of stamp duty payable in relation to security documents can be disproportionate to the value of the security. The parties may agree to perfect the security interest to cover a percentage of the total debt obligation and postpone the perfection of the total amount until the occurrence of a trigger event such as a potential event of default, where this is the case the lenders may require a stamp duty reserve amount to be held on an offshore account secured in favour of the finance parties. This is quite frequently a heavily negotiated point.

Exchange control regulations
Exchange control restrictions are not uncommon in Africa. South Africa, Mozambique and Ethiopia are just a few of the African countries which have exchange control requirements in place; some of these are more restrictive than others. Examples of restrictions include forbidding the opening of offshore bank accounts by entities incorporated in certain jurisdictions, requiring specific central bank permissions in order to transfer payments offshore and requiring any amounts being held in offshore bank accounts to be repatriated every three months. The financiers, investors and their professional advisers will analyse such exchange control restrictions in order to structure a transaction acceptable to all counterparties. Mitigating the risks for financiers may involve including specific covenants in the finance documentation obliging the borrowers to maintain any relevant permits, or making payments into escrow accounts in the event restrictions are imposed on transferability of funds and the inclusion of a mechanism acknowledging the preferred creditor status of certain institutions. Where possible, corporate structures may be organised with a view to avoiding the incorporation of borrower entities in jurisdictions with exchange control restrictions: an example of this is the Moma mine transaction (with Absa, the African Development Bank, the Emerging Africa Infrastructure Fund, the European Investment Bank, FMO and KfW as lenders to the project since 2004 including through a lengthy restructuring process), where the borrower entities are Mozambican branches of companies registered in Mauritius, which has a comparatively relaxed exchange control environment.

Surmounting the hurdles

Many of the legal or commercial issues discussed above are not unique to Africa and they are not insurmountable, but as with other developing economies and legal systems, quite complex legal and financial tailoring may be required before key hurdles can be cleared.

Contributors Profile

Clive Ransome is a partner in the Global Project, Energy and Infrastructure Finance Group of Milbank, Tweed, Hadley & McCloy LLP. He has also worked extensively in the Far East, having been based in Hong Kong for six years, and whilst at his previous firm was based in Paris for two years.

Clive focuses on energy financing, projects, project finance, export credit and banking law. Clive has extensive experience of major power, infrastructure, and oil & gas financings; advising ECAs, banks and borrowers on major international cross-border financings; and advising key multilaterals (and borrowers from key multilaterals) including EBRD, IFC, EIB and MIGA on major international cross-border financings.

Seyda Duman is a Senior Associate in the London office of Milbank, Tweed, Hadley & McCloy LLP.

Seyda has extensive experience advising commercial banks, export credit agencies, other multilateral finance institutions and project sponsors, on a variety of cross-border project financings in various industries and sectors with a particular focus on major energy and infrastructure projects.

PROJECT FINANCE: BRINGING GLOBAL FINANCE TO AFRICA

By **Robert Futter** Executive Director and **Brad Miles** Senior Associate, CRESCO Project Finance

On a global scale Africa is lagging behind in sheer number of project finance transactions, constituting 3% of total project finance transactions in the latest 32 years.

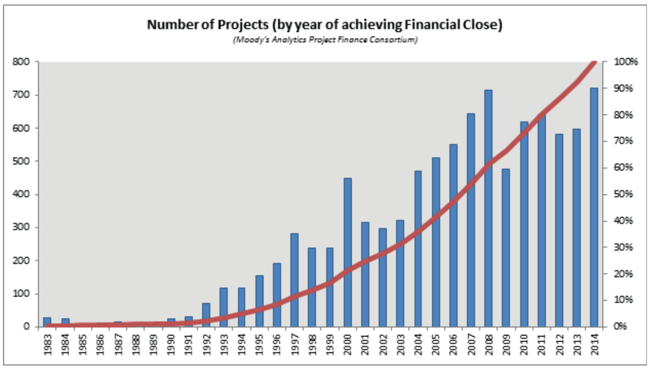
Project finance is a resilient class of specialised corporate lending that inherently considers numerous tools and processes that mitigates the associated risks, notably the risk of default, and proves to reassure success based on "accurate and predictable cash flows projections" – success which is sorely needed in Africa.

This article considers Project Finance as an Asset class, the prevalence, resilience, risk allocation and opportunity for Project Finance in Africa.

Project finance as an asset class

CRESCO Project Finance has considered external data provided by Moody's Investor Service Moody's Investor Service latest Global annual study, "Default and Recovery Rates for Project Finance Bank Loans, 1983 – 2014" considers a dataset of all global project finance transactions originating between January 1983 and December 2014, transactions achieving financial close in the 32 year period.

This constituted just fewer than 9,500 projects, of which it should be noted that 50% were birthed in the last 7 years of the period, 2007 – 2014.

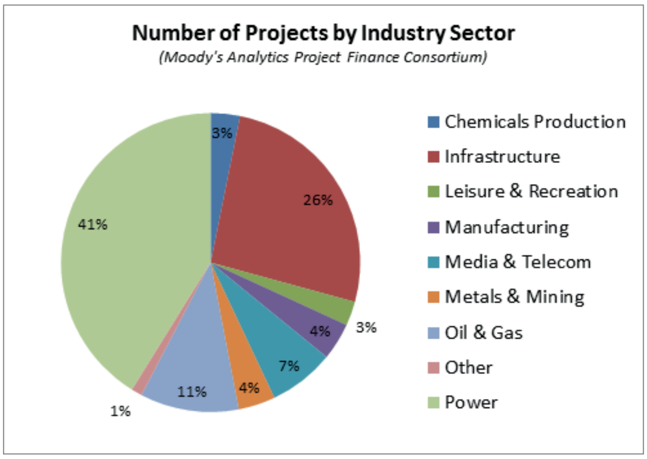


Upon further inspection of the project dataset the industry sector medal podium consists of the following players:

Gold	Power	3,093 projects
Silver	Infrastructure	2,473 projects
Bronze	Oil and gas	1,012 projects

Power coming in first with 36% more projects than second place of General Infrastructure.

4th	Media and telecom	674 projects
5th	Manufacturing	381 projects
6th	Metals and mining	378 projects
7th	Chemicals production	300 projects
8th	Leisure and recreation	248 projects
9th	Other	111 projects



Prevalance | How big is project finance in Africa?

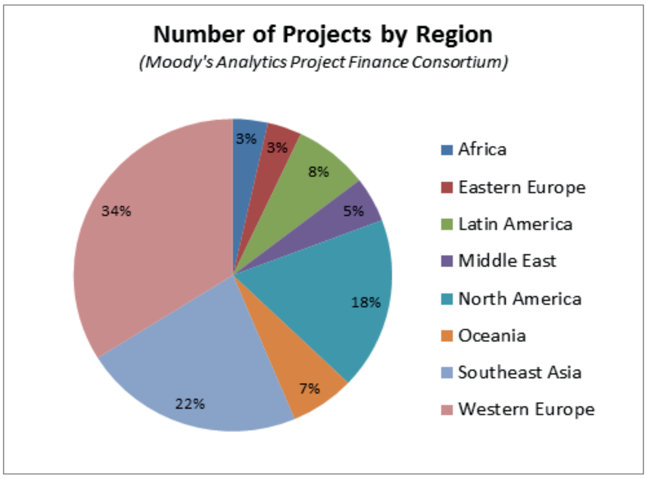
On the continental playing field, the medal podium includes these players:

Gold	Western Europe	3,212 projects
Silver	Southeast Asia	2,129 projects
Bronze	North America	1,690 projects

Looking at the remaining leader board:

4th	Latin America	719 projects
5th	Oceania	621 projects
6th	Middle East	443 projects
7th	Africa	335 projects
8th	Eastern Europe	331 projects

Africa is not coming in last based on a technicality, by splitting the European continent into West and East.

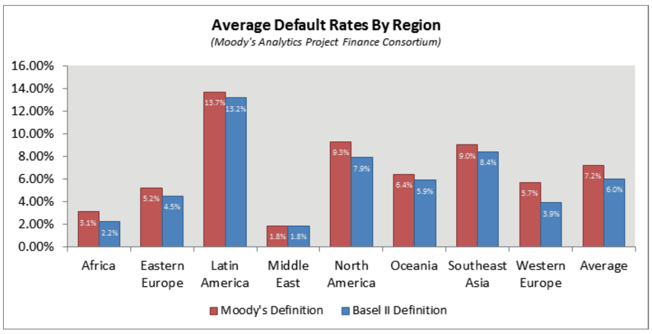


Nonetheless, the number of African projects account for a meagre 3% of the global projects.

A significant opportunity exists to increase the number of transactions.

Resilience | How do project finance transactions perform?

The Moody's study notes that default rates for project finance loans have reduced and continue to improve relative to the 10-year cumulative default rates from earlier studies, demonstrating default and recovery performance attractive to long-term lenders.



The average default rates by region vary expressively – ranging from 1.8% the Middle East and 2.2% in Africa to 13.7% in Latin American, under Basel II default definition. The former being less than ten defaults in each region for the dataset. Even so, considering the total average default rate is 7.2%

The study shows that project finance is a resilient class of specialised corporate lending whereby the 10-year cumulative default rates for project finance bank loans are consistent with 10-year cumulative default rates for corporate issuers of low investment grade credit quality.

The marginal annual default rates have proven to improve significantly over time, trending towards marginal default rates consistent with single-A category ratings by year 6 from financial close; this is a behavioural characteristic of project finance loans that differentiates from corporate loans. Thus the very nature and structuring of project finance transactions has proved effective.

Risk allocation | What tools mitigate the project risks?

The following characteristics have been identified which mitigate the risk of default for projects*:

Construction risk	Construction contract to transfer the construction risk to a construction contractor to deliver a functional asset with an agreed timetable, agreed fixed cost and set to performance parameters.
Resilient revenue	Long term revenue stream is predictable via an offtake contract detailing pricing and escalation thereof (such as a Power Purchase Agreement).
Detailed operating costs	Detailed consideration of operating and maintenance costs as well as ongoing capital expenditure for maintenance for the life of the project. Operations & Maintenance pricing and technical terms set out contractually with service provider.
Cash flow protection	Funding packages include forward-looking covenants, reserving mechanisms (for debt service, maintenance, and/or rehabilitation costs), trapping of cash which mitigate liquidity risk allowing the project to withstand cash flow strain.
Detailed Due Diligence Processes	Detailed due diligence is performed by the lenders' advisors including technical, legal, insurance, accounting & tax advisors and economic/market consultants. To assist the process and manage the project Sponsors, the Sponsors may appoint financial advisors .
Detailed Financial Modelling	A detailed - normally excel based -financial model sets out the capital expenditure, revenue and operating cash flows and funding terms along with the above mentioned features including input and sign-off from the due diligence advisors to create a detailed lenders' base case financial model.
Detailed appraisal by lenders	Lenders assume a highly active role in the appraisal of the project ensuring key risks are identified, allocated and mitigated such that any residual risk is within acceptable parameters and thus the project is bankable.
Pro-active monitoring	Enhanced reporting and monitoring requirements ensure controls are triggered at an early stage if not eradicated (e.g. ongoing financial covenants compliance)

**CRESCO Project Finance uses a proven 16 project risk methodology when evaluating projects and working towards financial close*

Application | How has financing evolved in recent years to encourage project finance transaction?

Along with the risk allocation, structural features, underwriting disciplines and incentive structures salient to project finance transactions; so have the funding options evolved in recent years.

Whether under competitive bidding programmes* or as a means to alleviate cash flow pressures in the early years of a project's life post construction, the ramp up years, or the need to incorporate additional cover for lender comfort: senior debt loans have evolved from the typical project finance term loans.

Traditional senior debt loans have evolved from the typical project finance term loans.

**such as South Africa's Renewable Independent Power Producer Procurement Programme (REIPPPP)*

The following considerations have been factored into the funding structures – specifically for Africa:

Credit enhance-ments & Political risk insurance	Credit enhancements such as export credit agency covered funding provide an arrangement within project finance to extend repayment tenors and greater flexibility for repayment terms. The export credit agency will provide cover either by means of insurance to the exporters or bankers or by means of a direct guarantee of payment to the bank covering a loan to an overseas borrower to finance the supply of goods and services (including commercial and political risk), providing appropriate cover when commercial lenders are more reluctant to take these risks. Examples of country agencies include: Compagnie Francaise d'Assurance pour le Commerce Exterieur, France (Coface) Euler Hermes Kreditversicherungs AG, Germany (Hermes) Export Credit Insurance Corporation of South Africa, South Africa (ECIC)
Partial risk guarantee	These guarantees cover private lenders against the risk of a public entity failing to perform its obligations with respect to a private project; ensuring payment in the case of default resulting from non-performance of contractual obligations undertaken by governments and public sector entities. Being used more extensively linked to energy projects with 20 year Power Purchase Agreements.
Capital grace periods	Capital grace periods typically extend for the period of construction; these can be extended into operations to manage debt service ratios. However, this would artificially inflate the average cover ratio. Extending the grace period depends on length of construction and level of risk of the project.
Ratcheted minimum ratios	Term sheets have introduced ratcheted minimum debt service ratios with a reduced minimum ratio for a number of periods, to ease pressure during the ramp up period of the projects. Risk coverage may include changes in law, failure to meet contractual payment obligations, obstruction of an arbitration process, expropriation and nationalisation, foreign currency availability and convertibility, and, failure to issue licences, approvals and consents in a timely manner – such risks being prevalent in Africa.
Sculpted debt repayment profiles	Debt repayment calculation methods traditionally including annuity (equal total repayments) and linear (equal capital repayments) have introduced sculpting whereby the repayment profile is optimised to meet debt service ratios, align repayment profile to seasonality of cash flows (e.g. summer vs winter revenue for Solar PV project) and thus redistributing the repayments to the middle or back-end of the loan. The loan life cover ratio and weighted average loan life metrics keep the sculpted profile in check to manage that the loan is sufficiently repaid over time.

Natural hedging & back-end debt repayment profiles	There has been an increasing trend in South Africa to include Inflation-linked debt in the funding packages of renewable energy projects. This debt facility has a back-ended repayment profile which allows the project to achieve an increase in the average loan life of the facility, having the same effect as extending the tenor, as well as alleviates pressure on the cash flows in early operating periods, allowing for earlier dividends. Inflation-linked debt is naturally hedged as a fixed rate instrument, moving along with the inflation of other project cash flows.

Opportunity | What is working in African context?

In the African context, applying these characteristics may be easier said than done. Questions of creditworthiness of the off-taker (the likes of utilities in a power project), foreign exchange and hyperinflation environments and political certainty are always posed at the forefront of doing business in Africa.

Market and sector champions provide significant insight and efficiency in entering the African market; the champions being the likes of financial advisors that can facilitate the unlocking of the African continent's opportunity and bridge the gap between various stakeholders – lenders, off-takers, governments and of course investors and a successful project. It is evident that there is scope for investment in Africa and project finance provides the necessary and prudent tools and avenues to facilitate successful projects.

Given Africa's lag behind the rest of the world there is no shortage of funding as a place for significant development. Thus with this opportunity for funding, investment and need for projects in Africa these tools should also provide an efficient and effective path to fundable and bankable projects.

CRESCO provide specialist financial, commercial & project management support and utilises its considerable expertise and skilled resources to support the entire project development process. CRESCO provides a broad range of services to clients engaged in the acquisition, development and financing of projects across all industry sectors. CRESCO has experience in working in most Sub Saharan Countries in Africa.

KENYA'S CORPORATE GOVERNANCE PRACTICES CODE, 2015

By **Kamami Christine Michira Mweti**, Partner and Head of the Banking and Finance Practice, Bowman Gilfillan Africa Group's Coulson Harney office, Nairobi, Kenya

The Kenyan Capital Markets Authority (the Authority) has issued a code of corporate governance known as the Code of Corporate Governance Practices for the Issuers of Securities to the Public 2015 (the 2015 Code). The 2015 Code has replaced the Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya, 2002 (the "2002 Guidelines"). It applies to all companies that issue both debt and equity securities to the public regardless of whether or not they are listed ("Issuers").

Through the 2015 Code, the Authority advocates the adoption of standards of governance that go beyond the minimum standards set in legislation, including in the new Companies Act 2015. Boards of Issuers are required to formulate additional internal policies and strategies that not only enable their companies to grow but that also protect the interests of shareholders, stakeholders and the community at large.

The 2015 Code came into force on 4 March 2016. Issuers are required to implement the 2015 Code within a year of its publication or disclose the reasons for their non-compliance as well as the strategy they intend to implement to come into compliance.

Good governance remains paramount for the sustainable success and progress of a company. The 2015 Code will undoubtedly move corporate governance standards in Kenya one step closer to international standards.

The 2015 Code has significantly enhanced the 2002 Guidelines and addresses some of the shortcomings of the previous Guidelines. For example, undefined terms such as conflict of interest and stakeholders are now clearly defined. It also provides for previously unmentioned but important issues such as stakeholder engagement and governance, legal compliance and ethical compliance audits to supplement financial audits.

It more thoroughly provides for conflict of interest arising at all management levels and the roles and duties of directors. It also requires more disclosure by Issuers improving transparency. It is more comprehensive in the issue of efficiency and effectiveness of Boards as it introduces mandatory professional training and development for directors and mandates frequent evaluation of the Board across various areas.

However, there are some issues that the Authority needs to address. Enforceability will remain a challenge because some of the provisions of the 2015 Code do not, by their very nature, lend themselves to enforcement. For example, Boards are required to be of a "sufficient size". What constitutes a "sufficient size" cannot be prescribed as it will vary from Issuer to Issuer depending on several considerations such as the size of the Issuer and the nature of the Issuer's business.

There is also need for clarification on some of the provisions of the 2015 Code. It would be useful for the Authority to provide templates or further guidelines for board policies such as the evaluation toolkit and sections of the code that the annual work plan must adhere to. The Authority will also need to specify the institutions from which it shall recognise Board training programmes. The Authority shall need to clarify the consequences of noncompliance and the instances in which an explanation by an Issuer for non-compliance shall be sufficient. There is need to harmonise the various corporate governance guidelines being issued by the various authorities because the codes have conflicting provisions. For example, the Central bank of Kenya Prudential Guidelines for Institutions Licensed under the Banking Act, 2013 prohibits directors of such institutions from holding more than two (2) concurrent directorships while the 2015 Code allows them to hold three (3) concurrent directorships.

"The 2015 Code will undoubtedly move corporate governance standards in Kenya one step closer to international standards."

In conclusion, good governance is to key to exemplary and sustainable performance of a company. The 2015 Code has moved corporate governance standards in Kenya one step closer to international corporate standards. Issuers need to understand the 2015 Code to enable them to implement the necessary processes and policies so as to improve their performance and ensure the sustainability of this performance. This is ultimately in the interest of both the company and the stakeholders.

Contributor Profile

Christine heads the Banking and Finance Team at Bowman Gilfillan Africa Group's Coulson Harney office, where she provides legal counsel to a wide portfolio of clients. Christine has recently been recognised as a Leading Lawyer (Capital markets, Financial services regulatory and Private equity) by IFLR1000 for 2016. She was rated by Chambers and Partners 2015 as one of the Up-and-Coming banking and finance lawyers in Kenya.

AFRICAN CAPITAL MARKET UPDATES

AFRICAN EQUITY MARKET INDICATORS AS AT 29-JULY-2016

Country Name	Index Name	Index at 29-June	1-month % Δ	YTD % Δ	1-Year % Δ	1-Year Low	1-Year High	30 Days Volatility %
Botswana	BSE DCI	10,191	-1.05	-3.88	-2.98	10,168	11,097	2.699
BRVM	IC Comp	306	-4.06	0.59	14.08	266	321	13.334
Egypt	EGX 30	7,484	-3.73	6.82	-14.79	5,526	8,953	20.725
Ghana	GSE ALSI	1,758	-3.85	-11.86	-25.58	1,757	2,390	6.941
Kenya	FTSE NSE15	144	-2.26	-1.43	-11.42	136	164	6.847
Malawi	MSE ALSI	12,814	-0.36	-12.01	-20.61	12,478	16,142	8.408
Mauritius	SEMDEX	1,747	-1.99	-3.56	-10.53	1,741	1,988	5.187
Morocco	MORALSI	9,758	-2.18	9.32	0.48	8,790	10,235	12.699
Namibia	Local	987	-3.59	14.07	-11.86	767	1,135	22.882
Nigeria	NIG ALSI	27,671	10.41	-3.39	-19.35	22,331	34,333	24.035
Rwanda	RSEASI	130	-0.05	-0.14	-4.14	130	162	0.416
South Africa	JSE ALSI	53,905	1.79	6.34	3.13	45,976	54,761	13.055
Swaziland	SSX ALSI	358	0.01	9.30	16.96	306	358	3.508
Tanzania	DAR ALSI	2,457	-4.00	5.28	-9.51	2,173	5,005	19.261
Tunisia	TUNIS	5,489	2.46	8.85	-2.79	4,812	5,781	6.457
Uganda	USE ALSI	1,768	-0.91	0.26	-6.21	1,712	2,053	12.813
Zambia	LuSE ALSI	4,964	-0.92	-13.43	-16.18	4,960	5,919	5.353
Zimbabwe	IDX (USD)	104.70	-1.03	-8.84	-31.55	97	154	12.854

SELECTED AFRICAN CURRENCY EXCHANGE Vs. US DOLLAR AS AT 29-JULY-2016

Country Name	Currency Name	Index at 29-June	1-month % Δ	YTD % Δ	1-Year % Δ	1-Year Low	1-Year High	30 Days Volatility %
Algeria	Dinar	110.31	-0.02	-2.90	-10.23	98.95	111.32	3.558
Angola	Kwanza	169.22	-1.34	-20.09	-25.39	125.37	169.42	15.240
Botswana	Pula	0.09	3.38	6.29	-4.73	0.08	0.10	14.447
CFA Franc	CFA Franc	595.36	0.33	3.89	0.32	564.04	633.62	9.956
Egypt	Pounds	8.89	-0.08	-11.92	-11.88	7.77	8.96	5.950
Ethiopia	Birr	22.15	-1.22	-4.37	-6.33	20.36	22.21	7.552
Ghana	Cedi	3.81	2.82	-0.07	-2.95	3.43	4.38	24.554
Kenya	Shillings	101.40	-0.15	0.89	0.28	100.18	106.67	1.154
Malawi	Kwacha	720.00	-1.06	-7.25	-32.57	509.80	757.03	2.553
Mauritius	Rupee	35.41	0.06	1.24	-0.11	34.61	39.86	4.436
Morocco	Dirham	9.77	0.21	1.69	0.66	9.31	10.20	6.343
Mozambique	Metical	68.25	-6.90	-29.67	-43.95	31.28	68.75	13.044
Nigeria	Naira	319.75	-11.57	-37.67	-37.71	196.48	320.50	23.891
Rwanda	Franc	788.78	-1.30	-5.55	-12.08	630.44	810.50	14.756
South Africa	Rand	13.90	6.46	11.32	-9.76	12.58	17.92	24.731
Tanzania	Shilling	2,187.00	0.14	-1.72	-3.52	2,032.00	2,220.00	2.332
Tunisia	Dinar	2.21	-0.19	-7.74	-11.06	1.88	2.25	8.812
Uganda	Shilling	3,376.00	1.01	-0.12	0.86	3,302.50	3,705.00	6.279
Zambia	Kwacha	10,250	-1.7444	7.3171	-25.56	7,331	14,605	38.410

SELECTED AFRICAN GOVERNMENT INTERNATIONAL BONDS AS AT 29-JULY-2016

Country Name	Maturity	Price at 29-July	Mid-Yield at 29-July	1-month Yield Chg (%)	YTD Price Change (%)	Price 1-Year Low	Price 1-Year High	Amount Outstanding (US$ M)
Angola	12-Nov-25	95.688	10.226	0.569	2.725	78.535	101.892	USD
Cameroon	19-Nov-25	105.864	8.568	-0.728	13.577	81.683	107.072	USD
Congo	30-Jun-29	72.244	9.553	0.092	-8.397	70.324	89.875	USD
Cameroon	19-Nov-25	105.864	8.568	-0.728	13.577	81.683	107.072	USD
Egypt	30-Apr-40	93.677	7.445	-1.090	14.115	79.322	98.422	USD
Ethiopia	11-Dec-24	95.889	7.288	-0.381	7.984	82.037	99.431	USD
Gabon	16-Jun-25	91.345	8.348	-0.675	14.260	69.735	97.595	USD
Ghana	14-Oct-30	109.377	9.528	-0.559	7.446	87.092	112.378	USD
Kenya	24-Jun-22	95.121	7.710	-0.401	8.209	83.919	98.798	USD
Ivory Coast	31-Dec-32	96.539	6.262	-0.494	8.178	83.659	98.005	USD
Morocco	11-Dec-42	114.683	4.539	-0.444	18.517	92.194	114.711	USD
Namibia	29-Oct-25	104.837	4.601	-0.417	12.032	88.524	105.989	USD
Nigeria	12-Jul-23	97.730	6.790	-0.231	10.992	84.651	99.711	USD
Rwanda	02-May-23	99.350	6.744	-0.454	3.628	92.349	102.722	USD
Senegal	30-Jul-24	98.638	6.471	-0.495	9.978	84.764	99.458	USD
South Africa	24-Jul-44	108.928	4.792	-0.261	20.345	85.773	112.717	USD
Tanzania	09-Mar-20	103.252	6.094	-0.108	8.959	92.702	103.483	USD
Tunisia	19-Sep-27	108.437	7.137	-0.716	4.364	96.272	116.285	USD
Zambia	30-Jul-27	88.285	10.817	-0.270	11.326	65.003	97.539	USD

Compiled by Capital Markets in Africa