Innovation in Infrastructure Financing

Project Development in AFC
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PROJECT DEVELOPMENT AT AFC
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**BACKGROUND**

**About AFC**
Africa Finance Corporation ("AFC" or the "Corporation") is a multilateral USD 3 billion finance institution that specializes in investments in African infrastructure, with a focus on natural resources, transportation, heavy industries, power and telecommunications.

As one of Africa’s leading investment grade development finance institutions, AFC’s mission is to help address Africa’s infrastructure development needs whilst seeking a competitive return on capital. AFC has successfully created the building blocks required to achieve its mandate of providing financing solutions to infrastructure projects on the continent.

Based in Lagos, Nigeria, the Corporation offers a triad of specialties with international-standard financing, industry-specific advisory services and project development expertise accompanied by cultural insights to all project solutions. These offerings ensure a tailored approach to the development of the dynamic African market, with the project development aspect being key to the successful completion of projects.

Since inception in 2007, the institution has approved USD 4.5 billion in investments and disbursed approximately USD 3.5 billion to projects across 22 countries in Sub-Saharan Africa.

AFC currently has 14 member countries and these countries give AFC preferred creditor status, preferential access to foreign currency, tax exemptions, and immunity from the confiscation of assets, all of which reduce the investment risk for the Corporation and allow for more competitive financing solutions.

**AFC is focused on originating and executing transactions in the following sectors:**

- **Natural Resources**
  - Infrastructure, B2B
  - Shared Services

- **Power**
  - IPPs, Emergency Power, Gas-to-Power, Coal, Transmission, Distribution

- **Heavy Industry**
  - Fertilizer, Cement, Manufacturing, Refining

- **Transport Infrastructure**
  - Roads, Rail, Aviation, Maritime, Logistics

- **Telecoms**
  - Infrastructure, B2B

**Our Project Development Approach**

As an asset class, project development was conceived out of AFC’s investment thesis that it is the scarcity of bankable projects, and not initially a lack of finance, that represents the key bottleneck to infrastructure financing in Africa. It is ironic, therefore, that one of the main reasons for projects not being bankable is a lack of finance (as well as expertise), resulting in a “Catch 22” or vicious cycle. This is where AFC plays a role.

Our project development unit drives projects from conception to financial close, working jointly with the project partners to provide early stage capital that is required to make projects bankable, i.e. to reduce the risks associated with projects, thus making them more attractive for financing. The unit is comprised of specialist project developers, financial, legal and technical sector experts.

Our project development expertise spans across the aforementioned key sectors, as these are best positioned to offer significant developmental impact, whilst still providing attractive returns on investment.
The Challenge of Bankable Projects

Large infrastructure projects have extensive development periods and often require the completion of complex feasibility studies and expert transaction advice. Often, the financial resources and technical expertise to ensure the completion of these early stage activities is not available due to the low risk appetite that is typically encountered at this stage.

From our experience, early stage project development costs for infrastructure projects could be as high as 5% - 10% of the total project cost. This sort of finance is typically not readily available on the continent, and certainly not without a guarantee of significant returns. AFC provides this finance and technical expertise on commercial terms, making it possible for sponsors to achieve the desired objective of mitigating the project risks and, importantly, making the project more attractive to investors.

Early stage development projects also typically find it difficult to obtain financing due to these 2 main factors:

i. Uncertainty of revenue stream:
Infrastructure projects typically do not generate revenue until operations begin, and this can take between 1 – 5 years to be reached. Without a certainty of a revenue stream and accurate forecasts, investors are usually hesitant to contribute millions or even thousands of their funds to a fledgling project.

ii. Lender protection and security:
Investors/lenders will typically want some form of guarantee that their contributions are safe and that they will receive the expected returns for their contributions. Early stage development projects are characteristically high-risk projects, especially in developing countries, which can cast vast shadows of doubt in the minds of even the most risk-friendly investor. Warranties and other undertakings are usually desired by investors in order to reduce the risk exposure that they face.

Our Investment Criteria

The projects we select for investment are guided by 2 main criteria:

1. Private Sector Led Projects
   Note: Public Private Partnerships (PPPs) and concessions may be considered if the project would be controlled/substantially controlled by private sector entities

2. Project Development Stage
   Investments will only be made in projects at the development stage that have a business plan or have conducted a minimal level of assessment that demonstrates the viability of the project
   A project is classified as being in the project development stage when there is a significant level of coordination and structuring required to take the project from concept to bankability.

Eligible Uses of Funds

Funds must be used for third party advisory services and project expenses required to take the project from concept to bankability, covering items such as:

- Financial feasibility, assessment and structuring
- Environmental scoping and impact assessments
- Documentation and negotiation of project and financing agreements
- Financial modelling
- Market and commercial feasibility assessments
- Technical design and advice
- Resource assessment reviews
- Legal advice
Construction & Completion Risk

AFC ensures that the emphasis placed on completion risk can be measured objectively as set out in the construction contract, usually in the form of a turnkey, date setting or fixed price EPC contract. AFC works with project sponsors to ensure that EPC contractors provide the appropriate liquidated damages (LDs) relating to delays and plant performance, which is embedded in the contractual structure. The projects are structured on a turnkey, fixed price, date certain basis executed by experienced and well capitalised EPC contractors.

Political & Regulatory Risk

We collaborate with third party institutions such as MIGA (Multilateral Investment Guarantee Agency, a member of the World Bank Group) and other institutions, to provide political risk guarantees to projects. As an integral part of our process, we follow the constitutional procurement provisions, follow due process and secure sign off by the highest regulatory authorities. We also work with other development agencies such as USAID to provide support through capacity building initiatives geared towards regulatory agencies and other government institutions.

Operating & Maintenance Risk

Operating risks are mitigated through reputable operations and maintenance (O&M) providers who typically provide liquidated damages (LDs), where performance targets are not met. Additionally, long term service agreements (LTSAs) are established, while other operating risks are addressed through operating insurances.

Environmental & Social Risk

AFC ensures that environmental and social requirements, as set out in applicable laws and regulations, are met by complying with the environmental management plan. Projects must comply with either IFC performance standards or the equator principles. To alleviate social risks, AFC embarks upon projects that strengthen local communities and improve the quality of life of key stakeholders to the projects.

KEY AFC SUCCESS STORIES

The Kpone Independent Power Plant (IPP) is a landmark USD 900 million energy project that aims to transform the generation of electricity across West Africa. AFC is the lead project developer, mandated lead arranger and largest equity investor in Kpone IPP, which reached financial close in December 2014. Cenpower Generation Company Limited, a Ghanaian Special Purpose Vehicle created to develop the plant, is implementing the project. Kpone IPP represents a number of financial firsts, such as being the first licensed IPP project in Ghana and the first Greenfield project finance IPP in Ghana. The project was also largely indigenous to Africa, with the construction being done by an African company, 67% of equity being held by African entities, and 83% of senior debt being issued by African lenders.

Notably, the project has also won an array of awards such as:

- “African Power Deal of the Year” – Thompson Reuters Project Finance International Awards 2014
- “Energy Project Developer of the Year 2015” – Africa Investor
USD 90 million Wind Farm Power Project in Cape Verde

AFC provided equity financing for Cabeolica SA, a Special Purpose Vehicle, for the development of the 26MW wind farm in Cape Verde. The project entailed the construction of 30 wind turbines on 4 out of the 7 inhabited islands of the mid-Atlantic archipelago.

AFC played an active role as the anchor investor, providing equity financing and ensuring that the project was driven to financial close within the accelerated timeframe agreed by all parties involved. The wind farm project currently provides the country with about 20% of its total power supply.

The Project has also won numerous awards, including:
- “Renewable Energy Award” as the first privately financed commercially operational wind farm in Sub Saharan Africa - Africa Energy Award, 2011
- Leadership in Sustainable Investment in Africa – African investor, 2011

Cape Verde
A significant bottleneck in unlocking Africa’s infrastructure is the development of viable projects that meet the viability and bankability tests of financiers. African project development itself is a proven asset class, with an increasing number of projects successfully reaching financial close: Azura, Nigeria; Cenpower, Ghana; Cabeolica, Cape Verde; Henry Konan Bedie Bridge, Cote D’Ivoire.

The challenges experienced by developers require the establishment of an innovative and collective approach to addressing the issues. The average project development time span from concept to financial close is 7 years. If Africa is to make an impactful difference and meet its developmental aspirations, a think tank such as the Africa Project Development Initiative, is an imperative for project developers.

APDI  Africa Project Developers Initiative

- Fosters continuous dialogue
- Standardises project development documentation
- Develops market benchmarks
- Facilitates independent research & serves as a policy advocacy forum for the industry
- Enables knowledge transfer

The APDI Platform objectives

AFC alongside its development partners, launched the Africa Project Developers Initiative (APDI) in 2016. APDI is a think tank and network to promote and enable project development in Africa. It creates a platform that fosters continuous dialogue amongst members, standardises project development documentation, develops market benchmarks, enables knowledge transfer, leads and facilitates independent research and serves as a policy advocacy forum for the industry.