

A New Year Message From The President & CEO Africa Finance Corporation

Lagos, January 2017. Last year African countries faced challenging economic headwinds, both global and domestic. Sustained low commodities prices and slow growth in the global economy resulted in disappointing and sluggish growth across huge swathes of the continent. Foreign direct investment globally and in Africa is on a downward trend. African economies need to do even more to be competitive.

As we enter the New Year the outlook for commodities, especially oil prices, is more positive. After years of losses, OPEC has moved to restrict supply and some investors are making bold predictions for 2017. This could be good for Africa, but it should not deter governments from making essential reforms needed to reduce dependence on natural resources and encourage diversification and investment in core infrastructure.

In 2017, the global economy remains an uncertain place. The United Kingdom's decision to leave the European Union and a new administration in the United States kept political and economic analysts and commentators busy throughout the last year.

It is still too early to tell what a Trump presidency will mean for the global economy and for Africa. President-elect Trump has said he will pursue protectionist policies, including the scrapping of free trade agreements and the introduction of import tariffs.

The US is a major investor in development initiatives and infrastructure projects across the continent, as well as an advisor to African governments on economic reform. USAID has, for example, played a crucial role in building capacity through technical assistance and has provided grants for new infrastructure projects across the continent. The AFC hopes that the US will continue to be an active contributor and supporter of projects with strong social and economic development impact in Africa.

To face the challenges of 2017, our strategy has been to ensure the Corporation remains competitive by reducing the cost of infrastructure financing through a number of new initiatives. In such a challenging economic environment, the AFC has set out to shorten the time it takes to bring vital major infrastructure projects that will drive competitiveness to fruition.

Much of Africa's growth potential is dependent on growing power generation capacity to support industrialisation. In June, AFC and Harith General Partners merged their power sector assets, expertise and experience to create a new energy partnership. The joint venture's near term portfolio supplies reliable energy to over 30 million people in 10 African countries and has a combined gross operational and under-construction capacity of 1,575 MW. The new venture will be in a position to develop and finance projects through corporate finance transactions and project finance, significantly reducing the lead time to bring power projects to fruition. It will also have the benefit of a team of dedicated advisers that bring a wealth of development and operational experience in the African power sector.

In Africa, it is often not a lack of available capital to invest that prevents infrastructure projects from reaching financial close, it is ensuring projects are 'bankable', when financiers and investors are comfortable to provide financing. Project development, the road to bankability, is usually a long and expensive expedition, especially in Africa, and could cost as much as 5% to 10% of the total project cost.

In November, AFC and its partners launched the Africa Infrastructure Development Association (AfIDA). AfIDA is a think tank and network of project developers that will leverage its experience to improve capacity in Africa. AfIDA will do this by providing template agreements, advising regulators, and developing industry standards, amongst other initiatives.

During the course of 2016, AFC has continued to focus on diversifying our funding sources. For example, in June AFC accepted a US\$150 million 15 year loan facility from KfW Development Bank (KfW). In July, AFC issued its debut senior unsecured Swiss Franc (CHF) denominated bond, raising CHF 100 million. In December, the Corporation also secured approval for an up to US\$150million Sukuk bond issuance.

In 2016, AFC continued to grow its external borrowings and diversify the geographic spread of its lenders. This effort has been supported by the international credit ratings agency Moody's reaffirming AFC's A3/P-2 credit rating with stable outlook for the third consecutive year.

Other achievements in 2016 include:

- In April, AFC announced it would invest up to US\$140 million in the Gabon Special Economic Zone (GSEZ). The GSEZ was created in 2010 to accelerate Gabon's economic diversification and development and is a joint venture vehicle between Olam International, a leading agricultural business, and the Republic of Gabon.
- In June, we announced our role as lead arranger for an up to US\$425 million senior mezzanine facility for New Age, a privately held oil and gas exploration, development, and production company. AFC is investing US\$75 million in the deal.
- AFC was invited to be a key participant to the second cycle of the Global Innovation Lab for Climate Finance, a global initiative that aims to drive billions of dollars of private investment into climate change mitigation and adaptation in developing countries. The Lab supports the identification and piloting of cutting edge climate finance instruments that can drive this investment and unlock new opportunities.
- In July, Djibouti became the 14th country (and the third in East Africa) to join AFC. Djibouti offers some great investment and advisory opportunities and AFC is delighted to be assisting the government to meet its full growth potential and to create jobs for its citizens.
- In November, an international consortium, including AFC, signed a US\$350 million deal to finance the 80 MW Hakan peat to power project in Rwanda. AFC is arranging total senior debt facilities of US\$225 million, contributing US\$75 million in loans and providing an underwriting commitment of US\$35 million. The project is expected to reduce Rwanda's cost of electricity generation by 35-40%.

AFC's total cumulative investment now stands as US\$4.5 billion across 26 African countries. Our near term strategy is to be a US\$5 billion Corporation in the next few years. With our unique position as both financier and project developer, we continue to be able to attract international capital to African infrastructure projects and deliver real social and economic dividends across the continent.

Despite the challenges, at the AFC we believe that the current global economic environment opens up many new opportunities, prospects, ventures and the chance to be creative. The AFC is in a unique position to support African governments and to advise on policy and improvements in governance.

I would like to take this opportunity to thank all of our shareholders, board, partners and staff for making 2016 a commendable year for AFC despite the difficult economic environment. As we move into the year of our 10th anniversary, we are all excited about what 2017 has in store.

I wish you all a very happy and prosperous New Year.

Andrew Allii
President & Chief Executive Officer

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150
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