Making Finance Work for Africa

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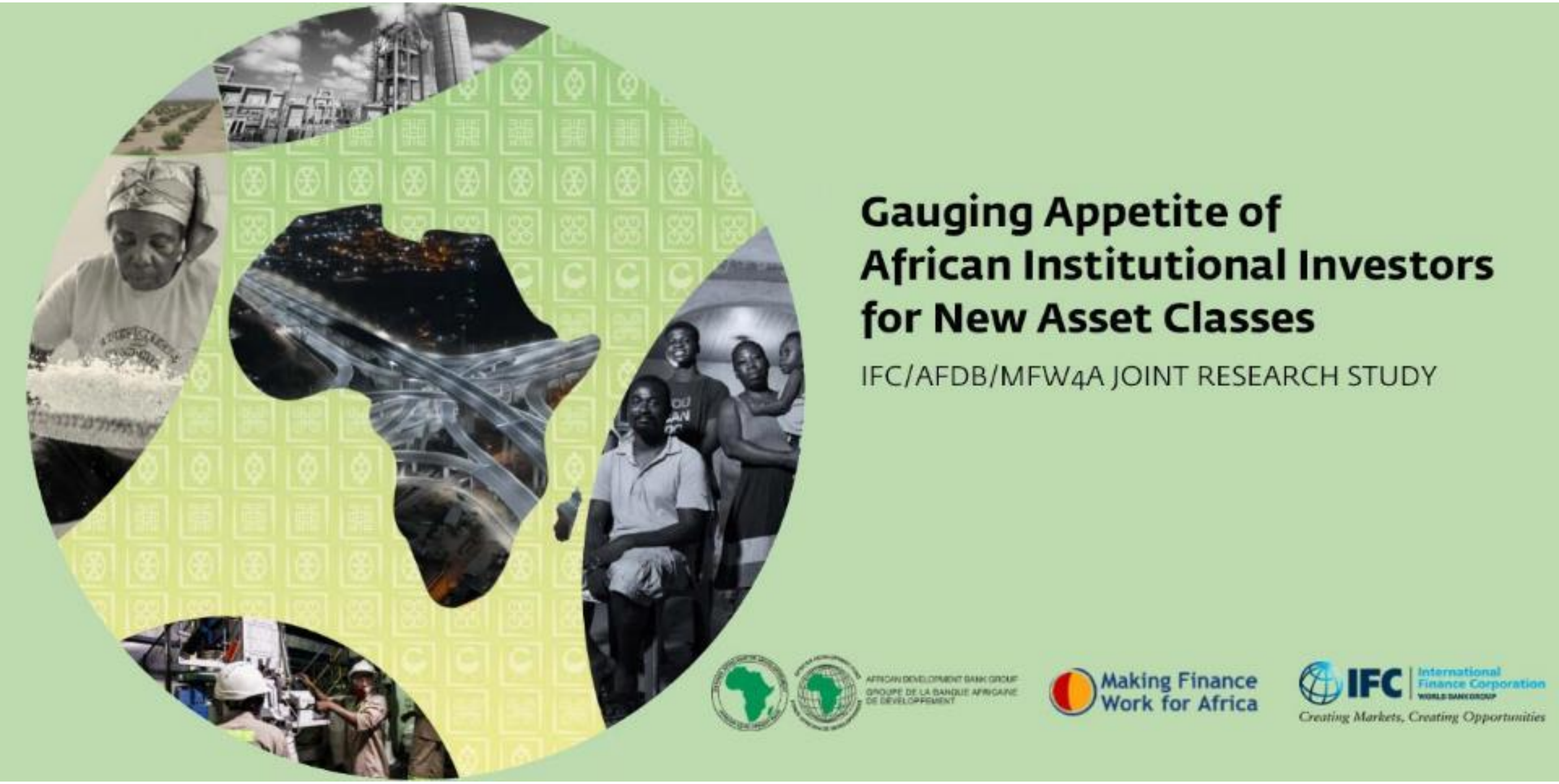

Presentation of joint study findings with focus on green assets

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Overview of aims and methodology

Overview of Study Focus on Alternative Assets:

Typically considered investments that fall outside of categories of “traditional” or standardized asset classes such as listed equities, “plain vanilla” bonds, short-term debt securities, and cash/relatively liquid assets.

Acknowledging lack of a common, consistent definition, we considered the following as “alternative assets” for purposes of this study:

- Securities, funds, and other investment vehicles designating proceeds for:
  - infrastructure financing;
  - Affordable housing
  - Green and sustainable financing purposes;
- Private equity and venture capital (PE/VC);
- Real estate investment trusts (REITs);
- Asset-backed securities (ABS)
- Exchange-traded funds (ETFs) and related products
- Foreign/offshore assets

Overview of Methodology

We selected 7 African markets to ensure focus on markets of sufficient size, some variation in development level, geographic representation:

Botswana, Ghana, Kenya, Namibia, Nigeria, South Africa, and WAEMU

I. For each focus market, team prepared country market data and regulatory profiles on portfolio asset allocation—with focus on alternative assets.

II. We held structured discussions in each focus market:

- Analyzing how and why the pool of active local institutional investors' investment strategies in the 7 focus markets have been evolving over time

- Testing their appetite for specific kinds of instruments/structures

Overview of Study Research Program Aims

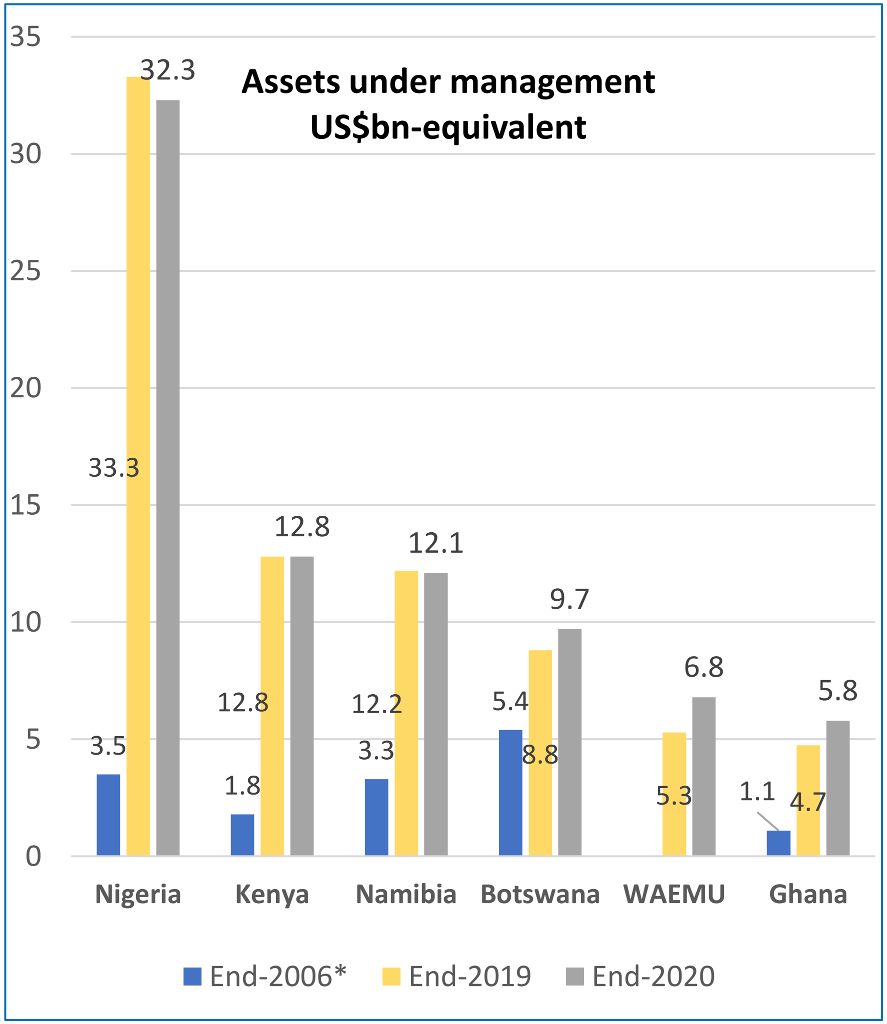
The study's cross-market findings are intended to help:

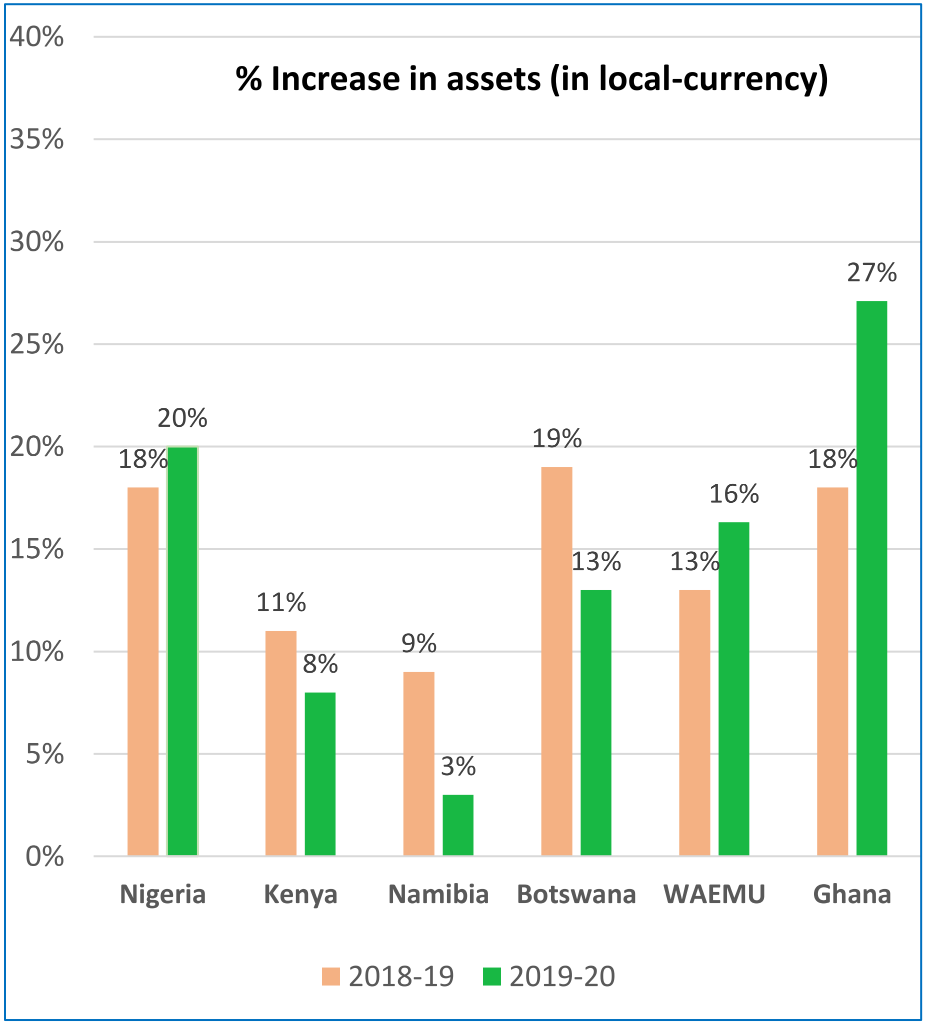
- National capital market stakeholders and DFIs **identify potential market interventions that could develop new asset classes** and provide new ways to mobilize private finance for development

- National policy makers and regulators **identify reforms that would further develop local institutional investors as longer-term asset managers**, while safeguarding their fiduciary role--and by implication further develop local capital markets

Asset allocation trends

Total assets grew strongly over the past decade and a half

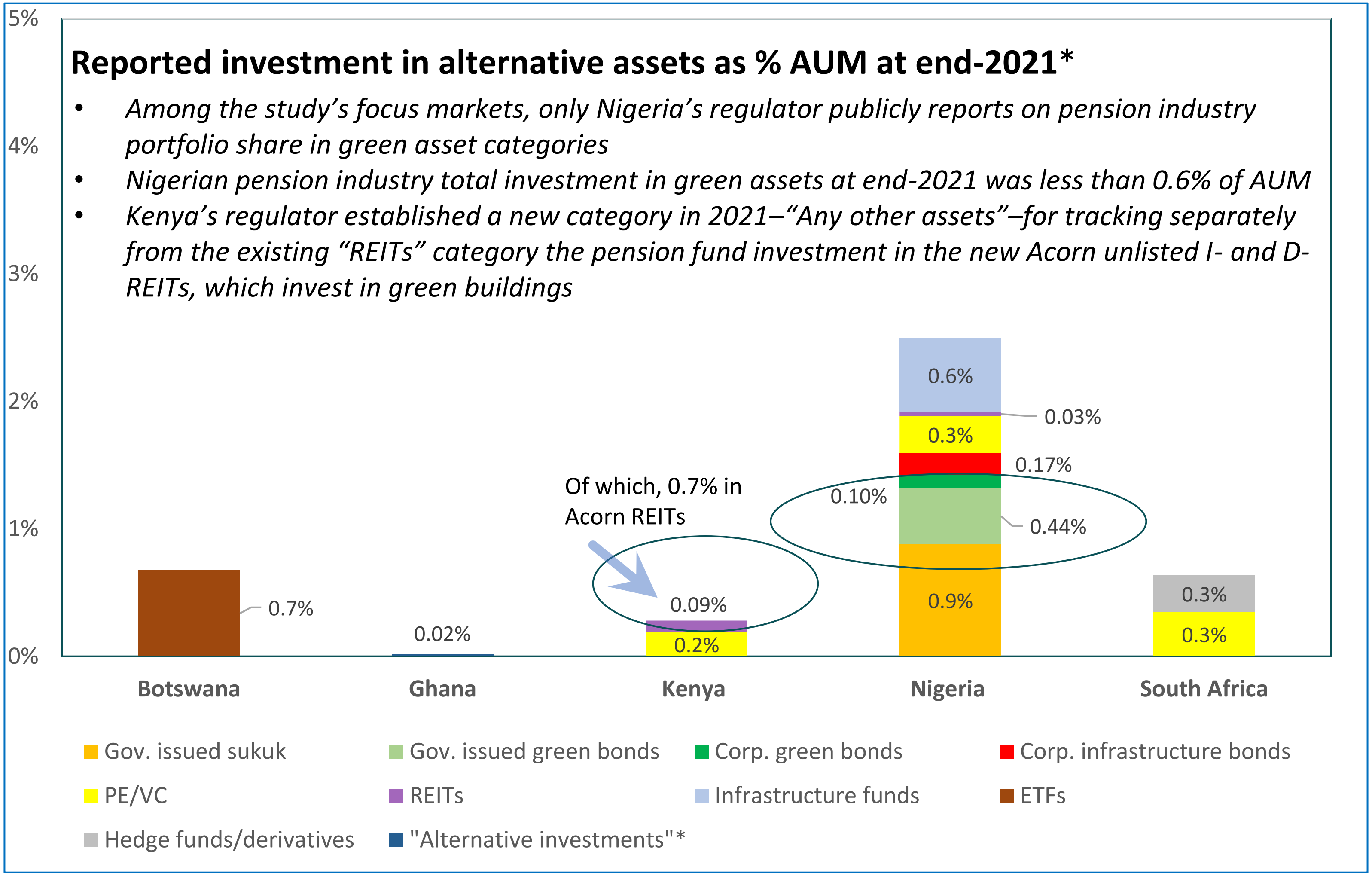




Sources: Based on data and information sourced from national pension fund regulators' periodic reports.

*End-2010 for Botswana pension industry; WAEMU data for end-2006 unavailable.

Pension industry investment in green and other alternative assets is very tiny share



Sources: Based on data and information sourced from national pension fund regulators' periodic reports.

*End-2020 for Ghana and South Africa. "Alternative investment" allocation is defined by Ghana's regulator, NPRA, as including REITs, PE, and external (cross-border) investment.

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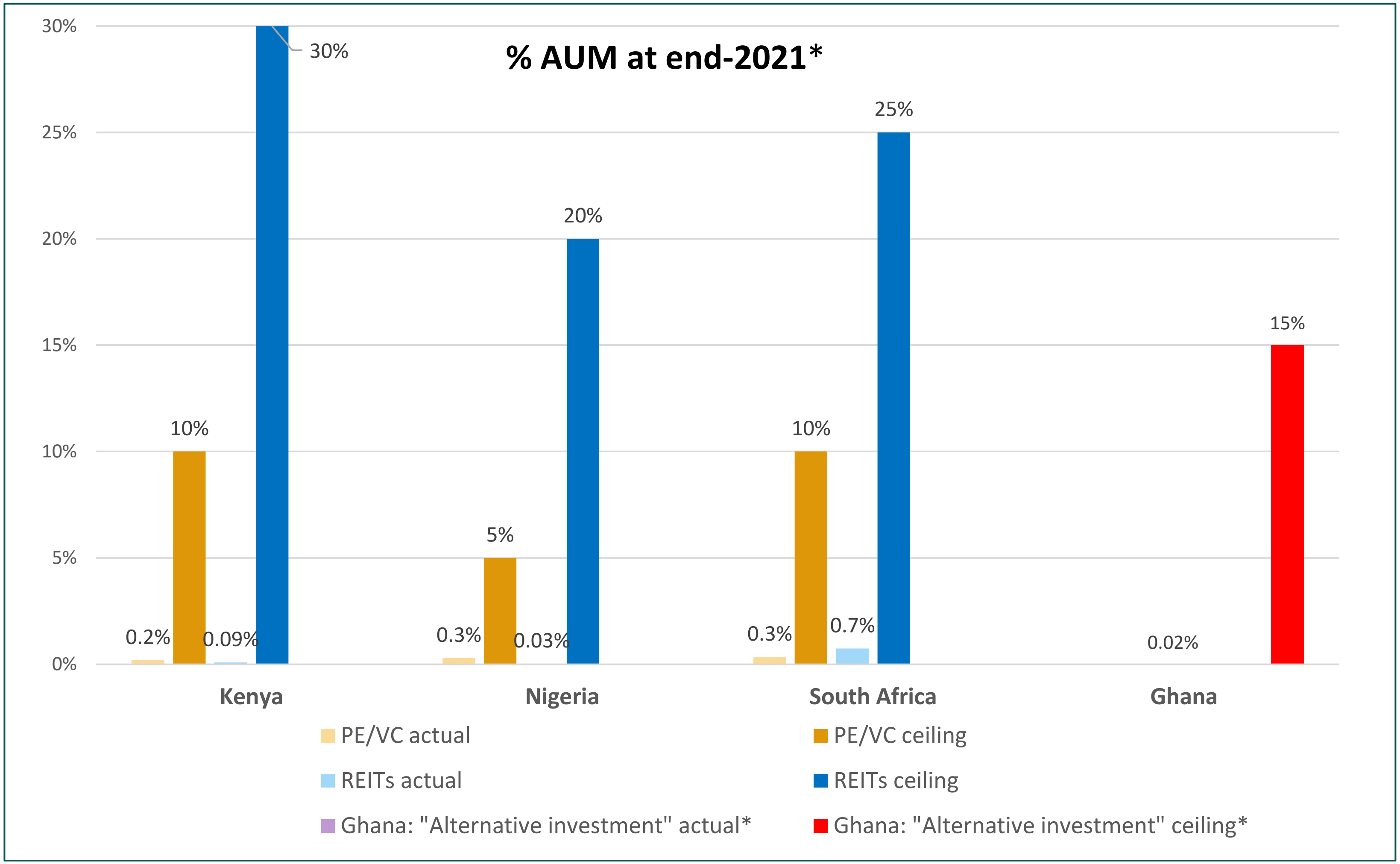
Yet allocation to alternative assets remains well below regulatory ceilings



Sources: Based on data and information sourced from national pension fund regulators' periodic reports.
*End-2020 data for Ghana and South Africa. The "alternative investment" allocation is defined by Ghana's regulator, NPRA, as including REITs, PE, and external (cross-border) investment. South Africa tracks a broader "property (investment and owner-occupied properties)" asset category.

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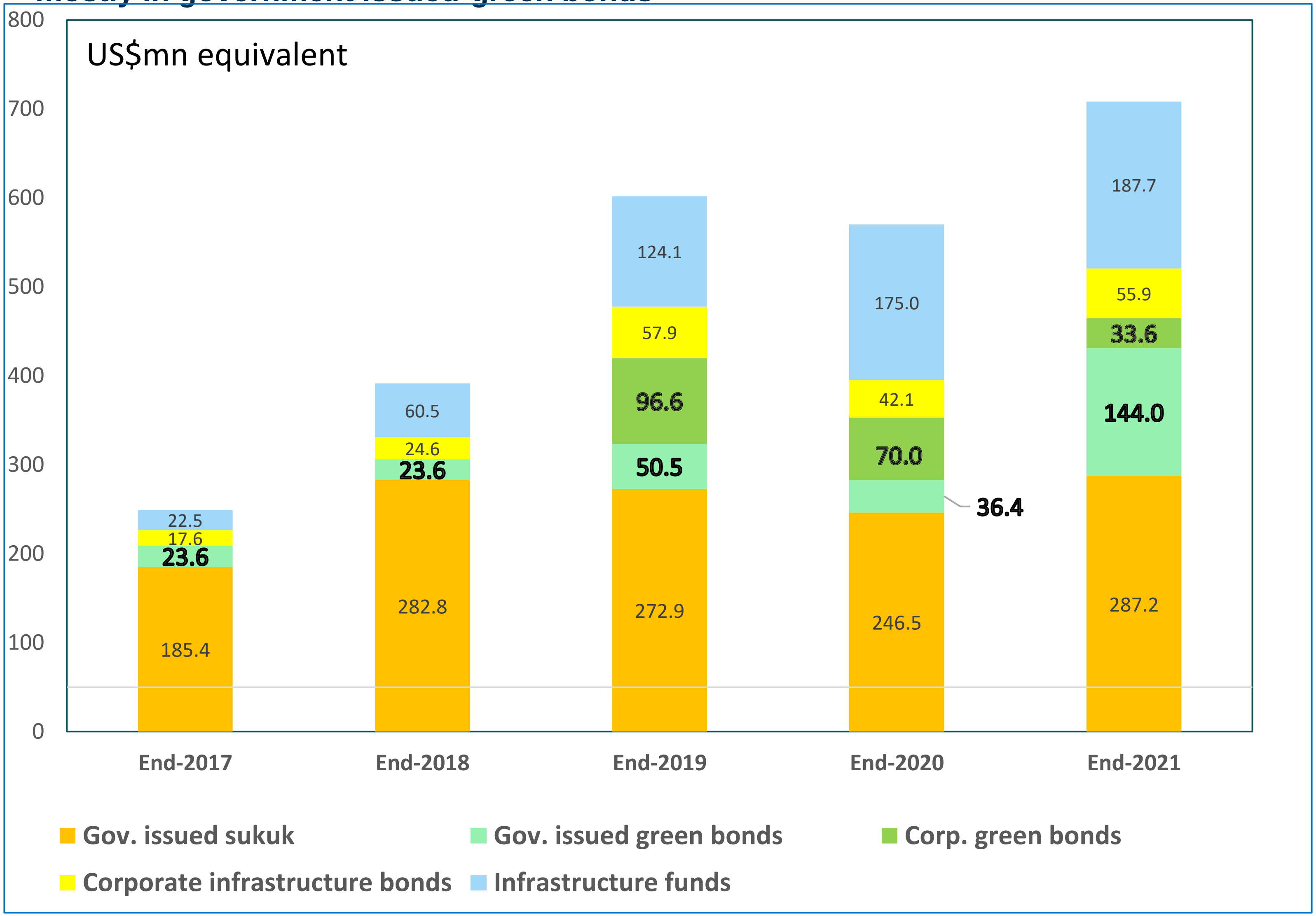
Available data shows Nigeria's pension sector has increased investment in green assets—mostly in government issued-green bonds



Sources: Nigeria PenCom periodic reports.

Available local green product has been limited, particularly outside South Africa

(Green and other thematic debt issues by focus markets exc. South Africa as of March 2022)

Issuer domicile	Issuer	Sector	Type	LCY value (mns)	Equiv. in USmns	Tenor (yrs)	Year of issuance	Use of proceeds
Kenya	Acorn Holdings	Real estate	*	4,262	40.9	5	2019	Green buildings
Kenya	Acorn Holdings	Real estate	*	2,096	18.5	5	2021	Green buildings
Namibia	Bank Windhoek	Banking	**	66	4.6	3	2018	Energy, buildings, land, transport, water, waste
Namibia	Bank Windhoek	Banking	†	277	19	5	2021	Green buildings
Namibia	First National Bank	Banking	**	353	24	3-5	2022	Green buildings/RE
Nigeria	Sovereign	Sovereign	*	10,690	26	5	2017	Energy
Nigeria	Access Bank	Banking	*	15,000	36	5	2019	
Nigeria	North South Power	Power	***	8,500	21	15	2019	Energy
Nigeria	Sovereign	Sovereign	*	15,000	41.4	7	2019	Conservation, energy, transport
Nigeria	OneWatt Solar	Renewable Energy	††	586	1.4	7	2021	Off-grid solar energy
Nigeria	OneWatt Solar	Renewable Energy	*	2,414	5.8	7	2021	Off-grid solar energy

*Green bond **Green private placement ***Infrastructure bond
† Sustainability private placement ††Green sukuk

Main findings by asset class

Green and other thematic assets

- Lack of investible product: potential issuers' ability to comply with reporting expectations remains a challenge
- Regular, clear and credible reporting around issuer use of proceeds is very important: Pension fund managers must be able to show their own board that they can properly monitor every green asset in which they invest
- Market players anticipate interest may grow and develop with further clarity on taxonomies, reporting procedures and standards, and niche subasset classes
- Green bonds and other thematics would benefit from more engagement, education and awareness-raising around the risk-reward tradeoff—including with trustees
- So far, there has been a shortage of green product opportunities in the focus markets that would be attractive to investors compared with corresponding traditional assets

Green and other thematic assets

- Longer-term asset managers emphasized that the starting point for these assets must be the potential to generate adequate returns and reflect “fair pricing”

- A few asset managers—in Ghana, Kenya, Namibia, and Nigeria—stated they would be willing to trade off some returns for sustainability—or at least weight them equally:
  - Focusing on the sustainable, longer-term nature of these investments, some investors may be willing to take slightly lower premium
  - The sustainability of the instrument's cash flows is also taken into account

- In Nigeria, one of the largest pension fund markets although with limited local product and de facto restrictions on investing offshore, where there is an offer that provides risk-free returns plus a premium and is structured well, local pension fund managers indicated they would invest

- In South Africa’s pension market, there are visible signs of pension fund portfolio investment strategy incorporating green and sustainable finance investment objectives

Private equity

- PE domestic markets are small
- Lack of PE exit can keep markets underdeveloped and impede investor interest
- Access to foreign asset classes may provide diversification opportunities
- Regulators’ PE allocation ceilings not a barrier; other regulatory aspects may be
- Larger investors seek to diversify PE exposure across industries and sub-asset classes
- Hybrid vehicles providing features of PE and debt appeal in some markets

Infrastructure

- Still-large infrastructure gaps mean a larger potential role for private capital, particularly in context of more severely limited fiscal space

- Appropriate structures are lacking or could be improved, however

- Participating market players in Ghana, Kenya, Nigeria, and South Africa overall favored energy and private market infrastructure assets over transport—due to:
  - ➢ relatively easier deal assessment
  - ➢ better understanding of transaction “economics”
  - ➢ more limited public-sector role

- Direct earmarking of sukuk proceeds for road construction in Nigeria have made this instrument attractive to investors

Real estate-based assets

Affordable housing:

- Structures for financing **affordable housing** tend to be scarce

- Investors across focus markets identified niche underserved property segments inked to affordable housing as of interest:
  - affordable tertiary student housing in Kenya
  - land located close to mines where affordable housing is scarce in Botswana
  - social housing in Dakar suburbs
  - affordable housing designated for the national police in Cote d'Ivoire
  - rural township shopping centers in South Africa

Real estate investment trusts:

- For newer asset classes such as **REITs**, more engagement with pension fund trustees from earliest stages is important

- Overall, REITs with sufficient scale to take a diversified approach rather than target specific subsectors are more attractive

- Generally, pension market players view REITs' cost and risk-reward tradeoff as high, however, and existing structures and associated policies as lacking clarity

Study recommendations

Main recommendations

National policy makers, regulators, and local pension industries:

- Include pension funds in forums discussing evolving asset class taxonomies could help develop products trustees want to see and participate in
- Provide regulatory clarity where needed and more education and awareness raising around risk-reward tradeoffs, particularly in green and sustainability space
- Ensure regulatory/market context conducive to encouraging local pension fund and other market stakeholders to take the initiative in engaging with regulators early in devising innovative products
- Project promoters should be active and present in enabling clear understanding of newer asset classes across different market players—from policy makers, to trustees, to fund managers—from earliest stages of consideration
- Improved data collection and dissemination would help gauge and better understand the market gaps in available longer-term finance. More granular periodic reporting of asset allocation by asset class would help inform policy making

Main recommendations

Larger, more experienced local asset managers:

- Provide hands-on guidance for smaller funds on due diligence for newer asset classes as well as sharing of their own asset management experiences

Market players and DFIs:

- Provide more "live" transaction support that could enable asset managers to better understand newer structures' associated opportunities and risks

- Work with pension industry and other market players to devise vehicles that bring together co-investors, to pool and channel capital of multiple investors toward meeting longer-term development finance needs

- DFIs and other co-investors participating with smaller pension funds could enable them to take ticket sizes more appropriate for their size, particularly in energy sector

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