OUR WEBINAR WILL START SHORTLY ...
MFW4A WEBINAR SERIES

Outline

HOUSEKEEPING
MFW4A PRESENTATION
INTRODUCING SPEAKERS
INFRASTRUCTURE FINANCING TRENDS
LOCAL CURRENCY
DISCUSSION
CONCLUSION

“INFRASTRUCTURE TRENDS IN ARICA”

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LOCAL CURRENCY FINANCING
DISCUSSION
CONCLUSION
Today’s session is scheduled to last 1 hour including Q&A

To ensure the highest quality of experience, all participants will be muted.

QUESTIONS can be submitted via the “Chat” or “Q&A”

For live questions / Comments, click on “Raise Hand” icon to speak (Lower Hand and mute after)

Slides and a recording of this presentation will be circulated after we conclude. They will also be available on MFW4A.ORG.

Message the organizers for any issues

Don’t forget to fill out the survey that appears automatically after the session
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- G8 initiative launched in October 2007
- Common platform for the harmonization and facilitation of financial sector development and knowledge sharing in Africa.
- Donor partners, African governments, the private sector, and other financial sector with the aim of unleashing the full potential of Africa's financial sector in order to drive economic development and reduce poverty across the continent.
Our work program encompasses three inter-linked strategic pillars:

<table>
<thead>
<tr>
<th>Financial inclusion</th>
<th>Long-term finance</th>
<th>Financial stability and regulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Digital finance</td>
<td>• Capital markets</td>
<td>• Community of African Banking Supervisors (CABS)</td>
</tr>
<tr>
<td>• Agriculture finance</td>
<td>• Pension systems</td>
<td></td>
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<tr>
<td>• SMEs finance</td>
<td>• Housing finance</td>
<td></td>
</tr>
</tbody>
</table>

Knowledge Management and Advocacy

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- DISCUSSION
- CONCLUSION
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HOUSEKEEPING
- MFW4A PRESENTATION

INTRODUCING SPEAKERS

INFRASTRUCTURE FINANCING TRENDS

LOCAL CURRENCY FINANCING

DISCUSSION

CONCLUSION
MFW4A WEBINAR SERIES

Speakers

Carvalho De Melo Epifanio
The Infrastructure Consortium for Africa (ICA)

Per van Swaay
SVP Structuring
TCX Fund

Moderator

Oliver Vidal
Financial Sector Advisor
Making Finance Work for Africa

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MFW4A PRESENTATION

INTRODUCING SPEAKERS
INFRASTRUCTURE FINANCING TRENDS
LOCAL CURRENCY FINANCING
DISCUSSION
CONCLUSION
Carvalho De Melo Epifanio
The Infrastructure Consortium for Africa (ICA)

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**Genesis**
Launched during the G8 Summit in Gleneagles (UK) in July 2005. The ICA Secretariat is hosted within the African Development Bank.

**Mission**
To strive to increase finance for sustainable infrastructure development in Africa, to help improve the lives and economic well-being of Africa’s people.

**Current Members**
All G8 countries are members of the ICA (Canada, France, Germany, Italy, Japan, United Kingdom and The United States, Russia).

European Commission (EC)

G20 countries South Africa, Spain

**African Countries / Institutions**
South Africa, African Union Commission (AUC), African Union Development Agency (AUDA)

**Multilateral agencies:** The African Development Bank (AfDB), African Export-Import Bank (AfreximBank), European Investment Bank (EIB), International Finance Corporation (IFC), The Islamic Development Bank (IsDB), The World Bank

**Regional DFI’s / Bilaterals:** Agence Française de développement (AFD), Banque Ouest Africaine de Développent (BOAD), Development Bank of Southern Africa (DBSA).

The Regional Economic Communities participate as observers at ICA meetings.

**Activities**
- Provide platform to accelerate infrastructure financing
- Advocate for better governance in infrastructure development (Quality and Sustainable Infra)
- Deliver Strategic Analytical Work to support financing in infra
- Pool capacities for project preparation through PPFN
- Help mobilizing funding through Fund Finder
- Produce Data and Statistics on infrastructure (AIKP, etc.)

**Value**
- Unique platform for major actors in infrastructure space
- Advocating for critical investment and development of infrastructure in Africa.
- Promote high level dialogue for enabling environment for Infrastructure financing.
- Generate useful knowledge (Energy Atlas, Infrastructure Financing Trends in Africa Report, etc.)

**Achievements & Impacts**
- A trend setter for high level dialogue - G7-G20 and Africa
- Helped to increase investments into projects
- Produce flagship reports for policy makers and industry (Energy Atlas report, infrastructure financing report, etc.)
- Initiated innovative instruments for better coordination (PPFN, Fund Finder, etc)
- Possess a unique database, on infrastructure sectors.

**Governance Structure**
One ICA Members meeting by year
The Big Picture 2018 - Financing on the rise

The financing of infrastructure in Africa has never been as high as in 2018. It reached $100.8bn, thus passing the $100bn mark for the first time. This level is 24% higher than in 2017, 50% since 2016 and 33% higher than the 2015-2017 average.
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Local currency financing

Per van Swaay
SVP Structuring
TCX Fund

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A shared commitment to local currency
TCX and exposure to infrastructure

- TCX
  - A DFI partnership with the AfDB as a founding shareholder
  - To providing currency hedging instruments (swaps) in 110 currencies worldwide
  - Covering *(nearly)* all SSA currencies at any required tenor and *(mostly)* any required volume
- TCX exposure to infrastructure over the past decade
  - Transactions in telecoms, social infrastructure, off-grid sector and utility finance
  - However, USD dollar financing continues to dominate; why is that?
  - To some extent a supply constraint (and we will come to that)
  - But very much also a **structural demand issue !**
Structural demand for USD

• Public sector funded infrastructure:
  • funded through the sovereign channel; domestic savings limited (that is changing, take Nigeria!) and hence a reliance on external funding, where USD is the norm: but even that can change!

• Private sector funded infrastructure:
  • Since the WB encouraged the Independent Power Project model, currency risk has been placed on the utility and the population; it has become the norm; but that also can and should change
  • In an immature market, operators (take telecoms!) had plenty pricing power, that does change
  • Fact: USD is the norm, local currency the exception: that must change, as it did elsewhere
  • To get there, the perception around supply of local currency and its cost, will need to change
With USD comes currency risk

- Funding infrastructure that generates local currency like energy, water, toll-roads, social infrastructure etc., with USD debts, exposes the economy and the population to currency risk.

- That risk materializes in volatility, uncertainty, ballooning debt, shocks, financial loss and weak infrastructure, less growth etc.

- Managing open currency risk is costly; painful tariff increase, a need for more capital buffer, more expensive financing terms, the cost of restructurings and worse.
Nigerian naira vs USD 1995 - 2020

USD 10m borrowed in 1995
NGN 220m then
NGN 3.880m now
Average depreciation: 14% p/a
Mozambican metical vs USD 1995 – 2020

USD 10m borrowed in 1995
MZN 6m then
MZN 70m now
Average depreciation: 12%
the choice of currency: It is all about choice!

- **Infrastructure generating local currency should be funded in local currency, why?**

- Because economic theory says that over time the difference between USD and local currency interest rates *SHOULD, DOES, WILL, MIGHT*, correspond to the cost of depreciation.
- Because the cost of “cheap” USD debt + the cost of depreciation + the cost of managing risk may *WELL EXCEED* the cost of borrowing in “expensive” local currency debt.
- Because, irrespective of cost, not doing so exposes the sector, the country and its population to severe and *PRACTICALLY UNBEARABLE CURRENCY RISK*.
- Because we/you *CAN* fund in local currency, the supply is there.
Supply side constraints? Not really...

• In 1995, supply of local currency finance suitable for infrastructure, requiring large volumes and long tenors, was virtually non-existent; but this HAS changed:
  o Domestic local currency markets are naturally limited by their volume of domestic savings, but these markets are deepening and developing (take Nigeria, South Africa, Kenya)
  o International local currency markets are virtually unconstrained: TCX and other willing bodies can harness the capital and innovative design to accommodate practically (any?) volume
  o TCX offers tenors at any required length in any SSA currency (> 30 years) , and so could others
• Steps in demand will trigger steps in supply, will trigger steps in demand, will trigger steps…
• Governments, regulators, utilities, developers and development lenders, all have a role to
Two great examples, featuring...

• Afe Babalola University, Nigeria
  • university expansion and small-scale hydro
  • USD20m equivalent fixed rate Nigerian naira loan
  • 8 year tenor
  • supported by a fixed rate naira-USD cross currency swap

• Zambia National Building Society, Zambia
  • capacity building and affordable housing
  • USD14m equivalent floating rate Zambian kwacha loan
  • 14 year tenor
  • supported by a floating rate kwacha-USD cross currency swap
Thank you

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CONCLUSION
Send us your questions using the chat and / or question and answer features. If you want to ask your question directly, please click on the “Raise Hand” button or send a message to the organizers.
CONCLUSION

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