



Alathian Group Structur

#### Funding Partners:











#### Strategic Partner:





# INFRASTRUCTURE CAPACITY BUILDING PROGRAMME REPORT

Catalysing Sustainable Development Impact



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AND EVENTS



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#### CHAPTER

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# Macro Context

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www.infracredit.ng



#### **About InfraCredit**

Infrastructure Credit Guarantee Company
Limited (InfraCredit) is a specialised
infrastructure credit guarantee institution
established by the Nigeria Sovereign
Investment Authority (NSIA) and GuarantCo
to provide local currency guarantees to
enhance the credit quality of local currency
debt instruments issued to finance eligible
infrastructure assets in Nigeria.

InfraCredit has been accorded a 'AAA' rating by both GCR and Agusto, a first for a local currency guarantor in Sub-Saharan Africa. InfraCredit closed its first transaction in December 2017.

As at first quarter of 2019, InfraCredit, through its guarantees, facilitated first-time access to local currency finance for up to 15-year tenor from the domestic bond market for two infrastructure companies totalling N18.5 billion. The issues were oversubscribed by up to 60%.

InfraCredit acts as a catalyst to attract the investment interest from pension funds, insurance firms and other long-term investors, thereby deepening the Nigerian debt capital markets. InfraCredit operates on a commercial basis and benefits from private sector governance. This is in conformance with the overall objective of NSIA and GuarantCo to facilitate private investment in infrastructure to support sustained economic growth in Nigeria.

## Sponsors & Investors









## Development Partners













QUICK FACTS

RATINGS

\*\*\* Agusto&Co. / AAA (NG)
Research, Credit Ratings, Credit Risk Management / July 2018

GCR / AAA (NG)
July 2018

CAPITAL

200 minitial target

CAPITAL MOBIL 17FD

COMPANIES

2019 VALUE OF FIRST TIME ACCESS TO LOCAL CURRENCY FINANCE FOR INFRASTRUCTURE COMPANIES

5 billion NAIRA

CAPACITY **TRAININGS** 

**TRAININGS** 

SPENT ON CAPACITY BUILDING TRAININGS 48 S NAIRA

PARTICIPANTS 250 &

**INFRACREDIT PROMOTES** 

#### **FINANCIAL INCLUSION**

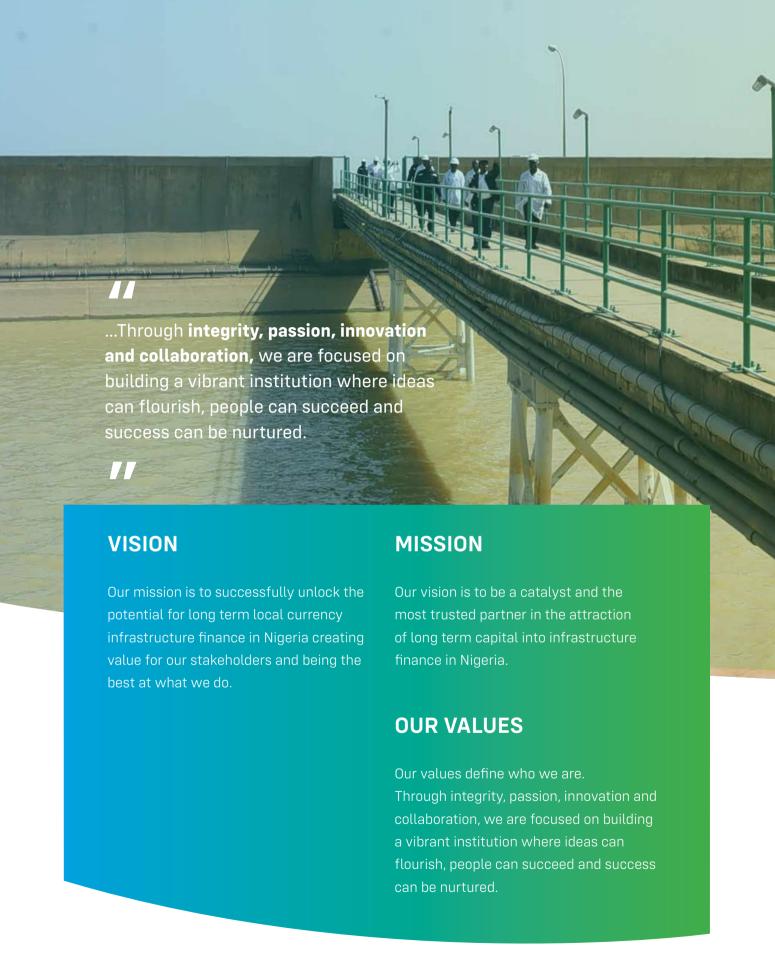
By bringing first-time issuers to the domestic bond market

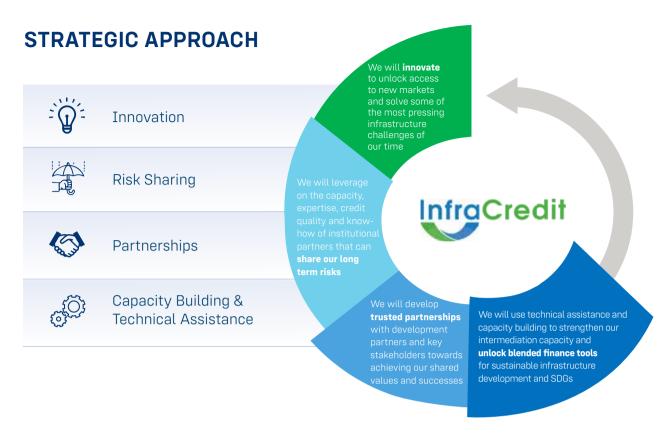
#### **FINANCIAL DEEPENING**

By extending bond tenors for corporates, and by broadening pension fund investor bases

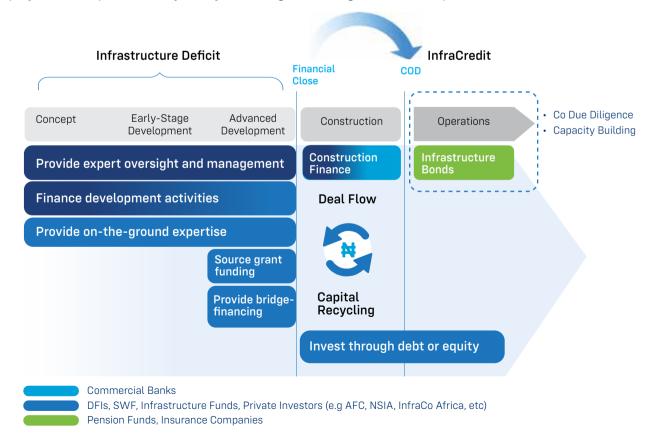
#### **FINANCIAL** INNOVATION

By introducing new fixed income instruments such as green corporate infrastructure bonds and the ISPO contracted offtake payment





Our strategic aim is to catalyze an integrated financial market across the infrastructure project development life cycle, by crowding-in funding across the capital structure.





...we believe that improving the technical and financial capacity to analyze and invest in bankable infrastructure projects is a fundamental part of sustainable good business practice.

#### Chinua Azubike.

Chief Executive Officer, InfraCredit

finance creditworthy infrastructure assets in Nigeria that conform with its eligibility criteria.

This entity is necessary because longterm capital required by infrastructure entities/projects to be commercially successful is not available from the domestic banking market.

Its successful operation will address the constraints facing the Nigerian pension market and motivate their involvement in investing in long term bonds to finance infrastructure assets.



#### **OUR GUARANTEE**

InfraCredit's guarantee is irrevocable and unconditional (and waives all defenses, including fraud) and results in the guarantor stepping into the shoes of the issuer by guaranteeing payments in accordance with the original transaction schedule on a timely basis under a Deed of Guarantee entered between InfraCredit and the Trustee.

InfraCredit's guarantee obligations will be secured with a right to reimbursement of any amount paid against the Issuer under a Recourse Agreement entered into between InfraCredit and the Issuer; and further secured with a first fixed charge (legal mortgage) on specific property/ assets of the Issuer, and/or a first floating charge over the rest of its assets under a Security Deed (or Security Sharing Agreement and/or Intercreditor Deed).

#### **OUR RESPONSIBILITY**

In issuing guarantees, we are committed to promoting sustainable development which contributes to economic growth, capacity building, social development and environmental conservation. As part of our approach to being a responsible business, we believe that:

- (i) improving the technical and financial capacity to analyze and invest in bankable infrastructure projects, and
- (ii) the consideration of environmental and social issues

is a fundamental part of sustainable good business practice.

#### Overview

According to the Nigeria Integrated Infrastructure Master Plan (NIIMP) 2014, Nigeria needs to invest c. US\$3 trillion to deliver quality infrastructure across different asset classes, including energy, transport, ICT, housing, water, agriculture, mining, social infrastructure, vital registration and security over 30 years.

.....Nigeria requires an investment of US\$127 billion over the five year period to 2018, translating to an average of **US\$25 billion** per annum.

To close the gap, Nigeria requires an investment of US\$127 billion over the five year period to 2018, translating to an average of US\$25 billion per annum.

In the accelerated growth path, Nigeria would need to increase investments in infrastructure from circa. US\$10 billion in 2013 to US\$51.1 billion in 2018, averaging US\$33 billion p.a. (5.4% of GDP) for the 5-year period 2014-18. Thereafter the investment rate is required to further increase to 7.9% of GDP by the 2019 – 23 period and remain above or close to 7% of GDP for the rest of the 30-year plan until 2043.



Source: National Integrated Infrastructure Master Plan, 2014.



The stage appears to be set for the emergence of pension and sovereign wealth funds, and life insurance funds for financing infrastructure development.



udgetary resources alone, averaging c. US\$6 billion per annum for capital expenditure, will be inadequate to meet Nigeria's infrastructure requirements. Significant private sector participation is required if any progress will be made.

While the constraints facing the market for infrastructure finance are largely due to a combination of political and macro-economic constraints, limited technical and financial capacity to develop and finance bankable projects is critical to a sustained private sector participation in infrastructure development in Nigeria.

Major infrastructure investment projects are generally financed by

the issuance of long-term bonds. Publicly owned infrastructure may be paid for from taxes, tolls such as toll gates on some roads, or metered user fees such as the electricity bills paid on prepaid meters.

Private infrastructure on the other hand is generally paid for by metered user fees, such as the telecoms service providers in Nigeria.

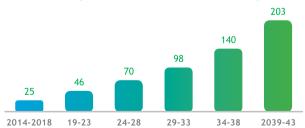
Public funding of infrastructure in developing countries accounts for 70%, while private sources and multilateral development agencies account for 20% and 10% respectively.

Due to contracting global macroeconomic conditions, the traditional public funding of infrastructure is being squeezed.

#### INFRASTRUCTURE DEFICIT IN NIGERIA

In contrast to international benchmarks of 70%, Nigeria's core infrastructure stock Is estimated at only 20-25% of GDP

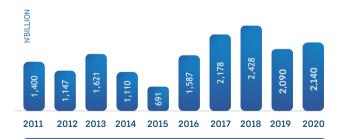
AVE. ANNUAL INFRASTRUCTURE SPEND, 2014 TO 2043 (USD' BILLION, 2012 CONSTANT PRICE)



Between 2019 and 2023, the estimated average annual infrastructure requirement is put at US\$46billion per annum. It is also estimated that c.US\$3trillion is required to bridge the infrastructure deficit over the next 30 years whilst infrastructure stock is to increase from 25% to 70% of GDP

Source: NIIMP & Budget Office

NIGERIA'S CAPITAL EXPENDITURE BUDGET



Nigeria's capital expenditure budget has remained flat in recent years whilst the infrastructure requirement continues to remain unaddressed. Capex budget for 2019 stood at N2.1 trillion representing 23% of the estimated annual spend. Historically, the average budget implementation rate is 37.6% within the last 3 years.

Source: NIIMP & Budget Office

Funding from Development Finance
Institutions is unlikely to fill the financing gap,
due to capital limits and asset allocation caps
in their risk management framework, and
perceived unwillingness of some developing
countries to show satisfactory improvement
in fiscal prudence as conditions precedent to
funding / investing. Long-term funding from
commercial banks is also being constrained
by tighter financial regulations such as the
BASEL III Accord.

The stage appears to be set for the emergence of private institutional investors, pension and sovereign wealth funds, and life insurance funds for financing infrastructure development. The long-term nature of

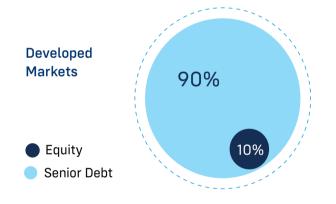
infrastructure cash flows enables pension funds and insurance companies to better match their assets and liabilities. With low correlation to the macro environment and traditional asset classes (equity and fixed income), infrastructure investments would insulate and diversify investor portfolios.

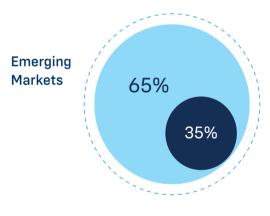
Infrastructure debt is a complex investment class earmarked for sophisticated institutional investors who can gauge jurisdiction-specific risk parameters, assess a project's long-term viability, understand transaction risks, conduct due diligence, negotiate (multi) creditors' agreements, make timely decisions on consents and waivers, and analyze loan performance over time.











PPIAF report, 2014

#### Pension Funds' infrastructure portfolios structure

Country	Total AUM (US\$'Bn)	Infrastructure Investments (US\$'Bn)	% Of Portfolio
Brazil	310.00	62.60	21.00%
Columbia	51.00	9.50	18.70%
Chile	158.00	14.40	10.30%
Mexico	121.00	10.80	8.90%
Peru	24.00	3.40	11.10%
Nigeria	2.40	0.05	2.10%
Total	666.00	100.80	15.10%

PPIAF report, 2014

### **CEO's** Opening Remarks

It has been said that "if infrastructure was perceived by investors as a truly stable, risk-adjusted investment, it would already be able to attract the financing it needed. There would be no gap." 1

To put this in context, in Nigeria, as at Q1 2019, assets under management of domestic pension funds was estimated at N9 trillion (growing at 15% per annum), of which 35% (i.e. US \$8.7bn) can be allocated to corporate debt securities to finance infrastructural development that will create jobs, protect the environment, reduce poverty and promote local economic growth. Currently less than 0.1% of this allocation is invested in infrastructure.

Therefore the evidence is conclusive that institutional investments in infrastructure cannot increase significantly unless there are improvements in:

- (i) the capacity of institutional investors to invest in infrastructure assets, and,
- (ii) the quality of infrastructure assets.

Whilst institutional weaknesses and missing markets also act as barriers to matching large-scale capital with sustainable investment opportunities, international private capital will only participate at scale if complemented by sizeable amounts of domestic private capital.

At InfraCredit we recognize the critical importance of building local investor capacity to unlocking barriers to capital flows in a programmatic manner by strategically using development finance through technical assistance and capacity building to mobilize long term local currency private finance from domestic pension funds towards sustainable infrastructure development.

What have we done? We initiated the Infrastructure Capacity Building Programme in collaboration with our Development Partners as we commenced operations in 2017, to set the path for continuous engagement that will build local capacity, engender market confidence, develop market awareness and maintain an alignment of interest with domestic institutional investors.

As at December 2018, under the programme, seven (7) training programmes have been implemented including one (1) investor roundtable workshop, three (3) investors' trainings and three (3) due diligence exercises targeted at participants at different levels of executive management, investment and risk teams of the target institutional investors.

These programmes attracted a total of two hundred and fifty (250) participants from thirty-four (34) institutions including twenty-one (21) Pension Fund Administrators, five (5) Closed Pension Fund Administrators, five (5) Life Insurance Companies and three (3) Regulatory bodies.

Jordan Schwartz, "Institutional Investment in Infrastructure: A view from the bridge of a development agency," http://blogs.worldbank.org/psd/institutional-investment-infrastructure-view-bridge-development-agency

**Chinua Azubike,** Chief Executive Officer, InfraCredit





**0**7

**Trainings** 



34

Institutions



48.5<sup>m</sup>

**TA Spent** 



250

**Participants** 



 $18.5^{t}$ 

Private Capital Mobilized

Over the same period with co-funding from GuarantCo and PIDG TAF, we invested up to N48.5 Million (USD equivalent) in administering these training programmes.

94% of the participant's feedback affirmed that the learning outcome from the capacity building programme motivated them to invest in the infrastructure bonds guaranteed by InfraCredit, catalysing up to N18.5 Billion (USD equivalent) of corporate infrastructure investments of first-time investments mobilized from participating private institutional investors in the programme.

If we measure leverage by the amount of commercial capital (i.e. c.N18.5 Billion) invested by pension funds which was mobilized by each naira of development grant funds we spent in technical assistance towards capacity building (i.e. N48.5 Million), we can only begin to conceive the degree of catalytic impact of the effective use of blended finance in stimulating efficient mobilisation of private capital.

It is now very apparent that donors will need to evolve their role from mere funders of programmes to catalysts, using their capital strategically to drive private investment and action towards SDGs. Therefore, in this new era, InfraCredit's strategic goal is to work with aligned donor organizations to begin to shift away from traditional funding models to increasingly focus on catalyzing, incentivizing and derisking markets, and supporting multi-stakeholder initiatives such as this programme.

This aligns with our strategic plan, as we strengthen existing technical assistance support collaborations with PIDG, KfW, GuarantCo, German Government (BMZ) whilst continuing to build new partnerships with other donors and development institutions towards our mutual goals.

The proven success of this programme firmly demonstrates we can achieve even more impact with a better aligned and coordinated use of blended finance approaches with donors and development partners.

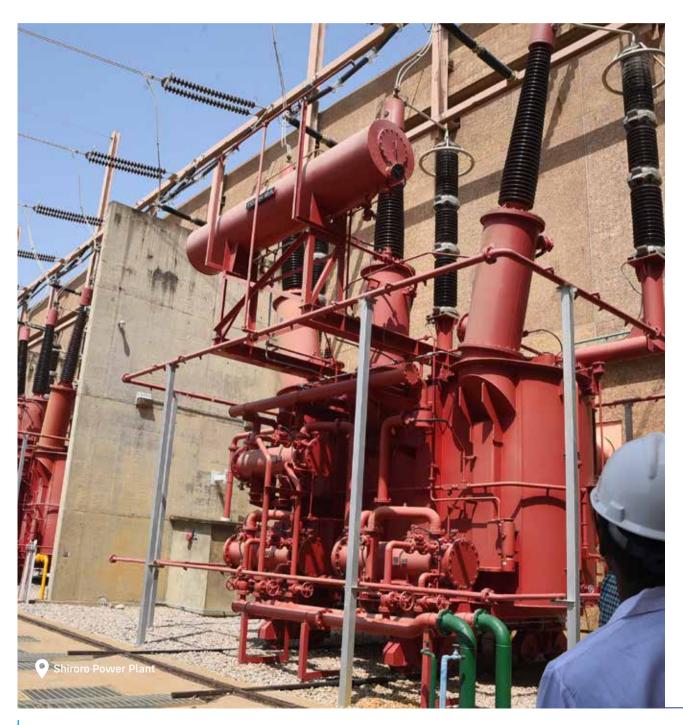
We remain very grateful to our Board of Directors, PIDG, PIDG TAF and GuarantCo for the continuous support; we believe the catalytic use of technical assistance to stimulate markets and fill fragmented market gaps will require building better, more impactful partnerships with the global development community.

Chinua Azubike,

Chief Executive Officer, InfraCredit

### Message from Our Development Partners

"GuarantCo, the guarantee arm of the Private Infrastructure Development Group (PIDG), is one of the founding sponsors for InfraCredit, alongside the Nigerian Sovereign Investment Authority, providing capacity, experience and grant funding to bring InfraCredit from concept to reality.



Our involvement provided InfraCredit with the opportunity to start operations allowing for further growth as it builds its own experience and track record. Together with InfraCredit, we believe that improving technical and financial capacity to analyse and invest in bankable infrastructure projects is fundamental in achieving their objective to unlock long-term funds for infrastructure.

InfraCredit came up with an infrastructure capacity building programme that was designed to build capacity of institutional investors by helping them to understand and evaluate the risks associated with infrastructure financing and thereby increasing their risk appetite and confidence to invest. GuarantCo, through the Technical Assistance Facility (TAF), another PIDG company, provided grant funding to InfraCredit to co-finance the workshop programme to help crowd-in private capital for infrastructure development in Nigeria.

Since their inception in 2016, InfraCredit's work has been catalytic in unlocking the potential of long-term local currency financing by building the capacity of investors to appraise infrastructure projects thereby, increasing their risk appetite and confidence to invest in infrastructure projects.

#### Lasitha Perera,

Chief Executive Officer, GuarantCo

Lasitha Perera has been Chief Executive Officer at GuarantCo since 2017 and has been with the company from 2009 as Chief Investment Officer and Executive Director responsible for GuarantCo's investment activities globally.

Prior to joining GuarantCo, Lasitha was an Investment Director of Total Capital, a private equity fund, where he was responsible for new investments and represented the fund on the Boards of portfolio companies in the UK and the Nordic region. He started his career at Barclays Capital where he worked in a variety of debt capital market roles in London and New York for nearly ten years.

Lasitha holds an LLB (Hons) in Law from the University of Bristol.

GuarantCo is the guarantee arm of the Private Infrastructure Development Group (PIDG), which mobilises private sector investment to assist developing countries in providing infrastructure vital to boosting their economic growth and combating poverty. GuarantCo is a provider of contingent credit solutions aimed at enhancing the availability and role of local currency finance for infrastructure projects and developing local capital markets.





CHAPTER

02

# Introduction

CAPACITY BUILDING PROGRAMME
INFRACREDIT IN NUMBERS
STRATEGIC OBJECTIVES
KEY INITIATIVES
PROGRAMME DONORS

INFRASTRUCTURE CAPACITY BUILDING PROGRAMME REPORT

www.infracredit.ng

# Introduction to InfraCredit's Infrastructure Capacity Building Programme

To unceasingly crowd in private capital and unlock the potential for sustainable long-term local currency infrastructure finance, InfraCredit identified the need for a programme which would bridge the knowledge gap associated with financing infrastructure projects in Nigeria.

InfraCredit believes that improving investor analytical capacity, arming investors with comprehensive data and information with indepth understanding of the investment dynamics of the subsectors within the infrastructure space- highlighting the risks and mitigants - and providing access to platforms where queries can be addressed, would ultimately enhance investor confidence and drive private sector participation

in these sectors. This should ultimately increase the investment appetite of investors in long-term infrastructure-related instruments and thereby deepen the Nigerian Debt Capital Market. The Infrastructure Capacity Building Programme is coordinated by InfraCredit in collaboration with Development Partners PIDG, GuarantCo and the German Government through KFW.



The objective of the programme is to ensure that the various trainings which are targeted at long-term investors including Pension Fund Administrators and Life Insurance Companies, achieve the primary objective of enhancing the understanding of Infrastructure as an asset class and its impact on the economic development of Nigeria. This objective is in alignment with United Nations Sustainable Development Goal 17 (Partnerships for the goals). **The Infrastructure Capacity Building Programme is split into three sections which include:** 



#### **Investors' Infrastructure Roundtable Discussions:**

This creates a platform for investors, regulators and market enablers, among other relevant institutions in the debt capital market to deliberate on significant issues in the infrastructure industry. This section of the capacity building programme typically features presentations from industry leaders as well as panel discussions. The objective is to ensure that key players in the investment community are constantly updated on industry trends.



#### **Investors' Trainings:**

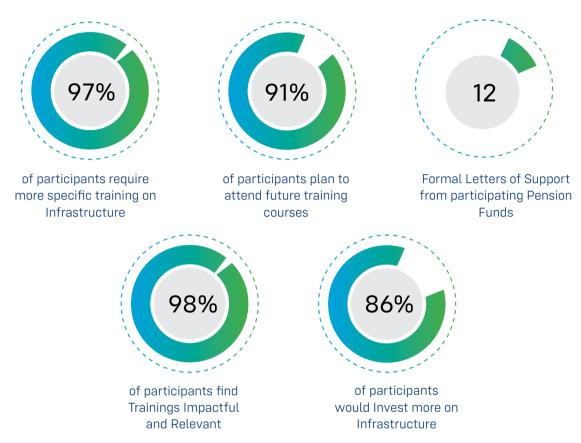
The investors' trainings, coordinated by InfraCredit are facilitated by international training institutions (such as Euromoney). The sessions deliver courses that help demystify the risks associated with infrastructure project financing and aid fund managers of Pension Fund Administrators and Life Insurance Companies including Chief Investment Officers, Chief Risk Officers, Investment Officers and Risk Officers, fully understand the technicalities of investing in infrastructure projects. It is believed that a deeper understanding of these topics will boost investor confidence in infrastructure bonds and thereby unlock capital towards infrastructure project financing in Nigeria.

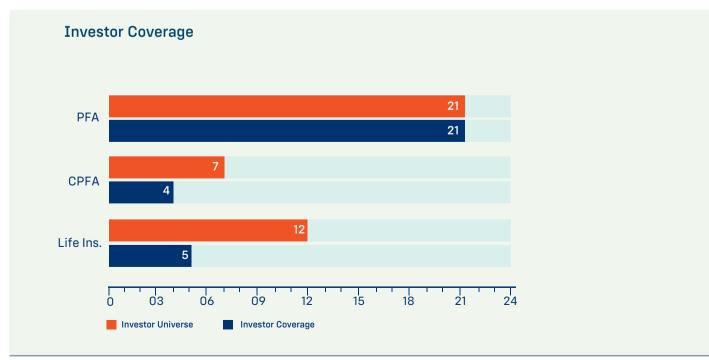


#### Co-Due Diligence Exercises:

The Co-Due Diligence Exercise aims to enhance the practical know how and analytical capacity of long-term investors to evaluate and invest in bankable infrastructure assets in Nigeria by providing practical insights on appraising infrastructure projects. The exercise exposes participants to first hand evaluation of active infrastructure transactions approved by InfraCredit by taking them through project site visits and meetings with project sponsors. The programme has organized three (3) co-due diligence exercises since inception.

# Infrastructure Capacity Building Programme in Numbers





# Infrastructure Capacity Building Programme's **Strategic Objectives**

To sustainably bridge Nigeria's huge infrastructure deficit, multiple and interrelated market functions must work effectively. InfraCredit has been established with a mandate to unlock long term funds for infrastructure development by catalyzing investment interest from pension funds, insurance firms and other long-term investors in Nigeria.

This is expected to attract significant new capacity to the infrastructure finance market from domestic pension funds, insurance companies, and other long-term investors. As documented in its business plan, InfraCredit plans to drive long-term private sector participation by de-risking infrastructure assets through guarantee products and enhance long term investors' capacity to evaluate infrastructure asset. While InfraCredit's business model is predicated on developing innovative guarantee products that will de-risk infrastructure assets

for private sector participation, the institution believes that investor capacity building will play a critical role in unlocking the potential for sustainable long-term infrastructure finance.

Capacity building is expected to strengthen investors' analytical skills in understanding the peculiarities of infrastructure as an asset class and ultimately pricing the inherent risk of credit enhancement tools, thereby deepening the participation of long-term investors in infrastructure assets.

...InfraCredit initiated a capacity building programme that will set the path to continuous engagement with the objective of building capacity, engendering market confidence, developing market awareness and maintaining an alignment of interest with investors...



## EXPECTED OUTCOMES

- \* In-debt practical insight and understanding of infrastructure asset classes.
- \* Enhance analytical skills for evaluating and pricing credit risk in infrastructure projects.
- \* Develop risk sharing appetitie for infrastructure.
- \* Enhance capacity to invest in bankable infrastructure assets.

As part of its operating strategy and developmental goal, in collaboration with its development partners, InfraCredit initiated a capacity building programme that will set the path to continuous engagement with the objective of building capacity, engendering market confidence, developing market awareness and maintaining an alignment of interest with investors by continuously identifying and bridging infrastructure-related areas of knowledge gaps among investors.

...it is expected that the Target Investors will be able to develop in-house capacity to understand and assess credit risk of infrastructure transactions.

This continuous engagement is intended to enhance capacity, engender early stage feedback/reverse enquiry, develop market awareness and maintain an alignment of interest with the target Investors, as the target Investors develop their technical capacity to appraise infrastructure transactions. By obtaining practical knowhow and hands-on exposure to the due diligence process, credit risk analysis and other risk management processes infrastructure finance institutions like InfraCredit adopt in appraising various local infrastructure transactions, target Investors, can over time, gain an in-depth practical insight and understanding of infrastructure asset classes.

As the above key capacity indicators are successfully achieved over time, it is expected that the target Investors will be able to develop in-house capacity to understand and assess credit risk of infrastructure transactions. This will increase investors' risk appetite thereby enabling them to share credit risk on infrastructure transactions by participating in bonds partially guaranteed or unguaranteed infrastructure investments.



# Key initiatives under the Programme

The Programme has implemented three (3) key initiatives since its launch in July 2017 including:



## INFRASTRUCTURE ROUNDTABLE

Interactive Stakeholder Engagement Knowledge Sharing Policy Framework Review



# INVESTORS' TRAININGS

Infrastructure PPPs Workshop Project Finance Trainings, ESG Training Transaction Case Studies Q/A Session



## CO-DUE DILIGENCE EXERCISE

Transaction Due Diligence Review Project/ Site Visit Management Presentations Access to Data room



The Infrastructure Roundtable seeks to create a platform for interaction among key stakeholders including regulators on key issues affecting infrastructure as an investable asset class. The Infrastructure roundtable is targeted at participants from Pension Funds, Insurance Companies and industry operators including relevant regulators (PENCOM, SEC), market enablers such as rating agencies and other development partners. The Infrastructure roundtable has recorded participation across different levels including Chief Executive Officers (CEOs), Chief Investment Officers (CIOs), Chief Risk Officers (CROs), Investment Officers (IOs) and Risk Officers (Ros) of the targeted participating institutions.

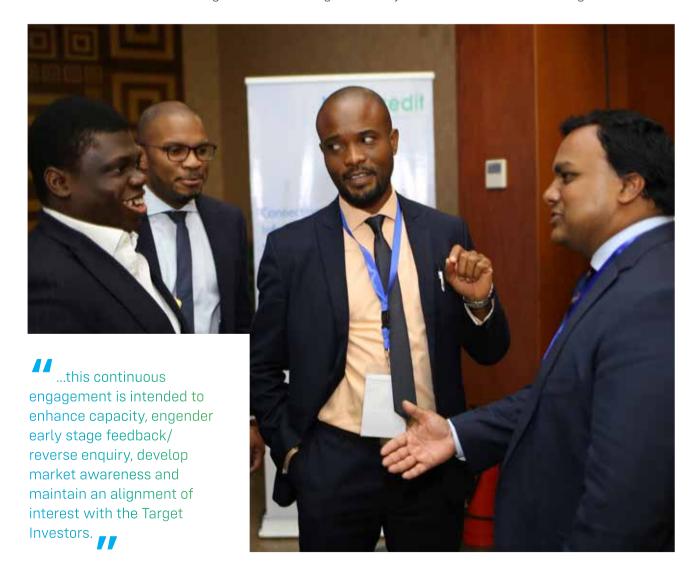




The Investors' Trainings were initiated to address the need for technical trainings to enhance requisite analytical skills for evaluating infrastructure assets among long term investors. Training topics are selected in response to industry feedback obtained by organized surveys. Participants include Chief Executive Officers, Chief Investment Officers, Chief Risk Officers, Investment and Risk officers of Pension Fund Administrators and other long-term investors in Nigeria as well as relevant regulators.



The Co-Due Diligence Exercise was set up to enhance the capacity of long-term investors to evaluate and invest in bankable infrastructure assets in Nigeria. The exercise exposes participants to first-hand evaluation of live infrastructure finance transactions by taking them through InfraCredit's credit appraisal process including Financial, Technical, Legal and Environmental due diligence. The Co-Due Diligence Exercise affords InfraCredit the opportunity to share project-specific information and the outcome of InfraCredit's various due diligence activities. The Exercise is exclusively aimed at target investors and governed by traditional non-disclosure agreements.



# Infrastructure Capacity Building Programme donors

Alongside InfraCredit, the programme is supported and co-funded by GuarantCo, Private Infrastructure Development Group (PIDG), and PIDG TAF. More recently, KfW (acting on behalf of the German Government) came onboard as one of the donors to the Infrastructure Capacity Building Programme.



**GuarantCo** mobilises private sector local currency investment for infrastructure projects and supports the development of financial markets in lower income countries across Africa and Asia. GuarantCo is part of the Private Infrastructure Development Group (PIDG) and is funded by the governments of the United Kingdom, Switzerland, Australia and Sweden, through PIDG, and the Netherlands, through FMO and PIDG. GuarantCo is rated AA- by Fitch and A1 by Moody's. **www.guarantco.com.** 

PIDG The Private Infrastructure Development Group (PIDG) is an innovative infrastructure development and finance organisation which encourages and mobilises private investment in pioneering infrastructure in the frontier markets of sub-Saharan Africa and south and south-east Asia to promote economic development and combat poverty. PIDG delivers its ambition in line with its values of opportunity, accountability, safety, integrity and impact. Since 2002, PIDG has supported 183 infrastructure projects to financial close and provided 243 million people with access to new or improved infrastructure. PIDG is funded by six governments (the UK, the Netherlands, Switzerland, Australia, Sweden, Germany) and the IFC. www.pidg.org.





**KfW** is a German State-owned development bank which was formed in 1948 after World War II. KfW Development Bank and DEG support economic and social progress in developing and transition countries to help ensure the people there are better off. The KfW subsidiary, DEG finances companies that invest and create jobs in developing countries. KfW acts on behalf of the German Government to provide T.A to the capacity building programme.



CHAPTER

03

# Activities and events

INVESTOR ROUNDTABLE
INVESTOR TRAINING
CO-DUE DILIGENCE EXERCISE
ACTIVITIES

2 1 SINFRASTRUCTURE CAPACITY BUILDING PROGRAMME REPORT

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Over the last few decades, Nigeria has increasingly demonstrated factors that support an emerging market for infrastructure finance, especially through the debt capital markets.

Such supportive factors include a developed and fast-growing fixed income market; existence of a large pool of long-term investors such as pension funds and insurance companies, and an increasing pipeline of 'bankable' operating infrastructure assets and new projects demanding access to long term local currency funding. Despite the presence of the above factors, private participation in infrastructure finance remains largely underdeveloped.

#### Nigeria PFA Total Asset Under Management



\*As at end of Q3 (June 30, 2019)

The Investors'
Infrastructure
Roundtable
Discussion held
for investors was
the first initiative
under the
Infrastructure
Capacity Building
Programme.

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It is in response to the above that the Investors' Infrastructure Roundtable Discussion was set up by InfraCredit and its development partners. This was to enable stakeholders in the investment community along with industry regulators and other participants have an interactive conversation to discuss the strategy for the Nigerian market.

The Investors' Infrastructure Roundtable Discussion held for investors was the first initiative under the Infrastructure Capacity Building Programme. The Roundtable Discussion, which was held on July 28, 2017, had a total of 82 participants including regulators, Chief Executive Officers, Chief Investment Officers, Chief Risk Officers, Investment Officers, Risk Officers and others, representing 34 institutions.







The Investors' Infrastructure Roundtable Discussion was organized by InfraCredit in collaboration with GuarantCo, Private Infrastructure Development Group (PIDG) and International Finance Corporation (IFC) with the theme "Unlocking Pension Fund and Insurance Investment in Infrastructure Debt Issues". The theme was expanded in three sessions, covering various presentation topics. These presentations were delivered by various facilitators from Development Financial Institutions (i.e AFC, IFC, GuarantCo, NSIA), key Regulatory Authorities (i.e. SEC and PENCOM) and key market enablers including (Agusto & Co and FMDQ OTC Exchange).

Facilitator	Course Title	
Abiodun Aina Power & Infrastructure, IFC	Infrastructure as an Asset Class & Case Study of Pension Fund Investment in Infrastructure Bonds in Emerging Markets	
Kolawole Owodunni Head, Investment Risk Management, NSIA	Government Support for Investment Infrastructure in Nigeria, NSIA Case Study	
Ufuoma Adasen Associate Vice President, Investments, AFC	Investment in Infrastructure Assets in Nigeria, AFC's Experience	
Lasitha Perera CEO, GuarantCo	Global Experience Providing Credit Enhancement in Infrastructure Financing	
Chinua Azubike CEO, InfraCredit	About InfraCredit, Capital Structure, Business Strategy, Deal Pipelines, Outlook	
Abbas Abdulkadir Director, Securities & Investment Services, SEC	Existing SEC Regulatory Framework for Infrastructure Debt Issues and Credit Enhancement	
Yinka Adelekan Executive Director, Financial Institutions, Agusto & Co	Assessing Financial Guarantors- A Credit Rating Perspective	
Jumoke Olaniyan Divisional Head, FMDQ Securities Exchange	Pricing, Trading of Fixed Income Instruments on FMDQ's Platform- An Example of Credit, Liquidity Spreads & Illustrative Pricing Benchmarks	



11

"There is nothing compared with learning using cases as it helps you get your hands dirty.

Biodun Olorunnisola Head, Risk Management, Stanbic IBTC Pension Managers The overall objective of the investors' Roundtable Discussion was to introduce investors to the opportunities of investing in Infrastructure as an Asset Class. In addition, the workshop was designed to enable stakeholders in the investment community, industry regulators and other participants have an interactive conversation to discuss and critically evaluate, among other points, the evolution of Pension Funds in similar markets (e.g. Latin America). The facilitators delivered presentations drawing on their respective professional experiences in Nigeria and case studies of other emerging markets to achieve its key learning outcomes. Each session was followed by panel discussions focusing on contemporary issues bordering on credit risk, structuring options, regulatory environment and the role of government in the Nigeria infrastructure finance sector.



### **Participation**

The Roundtable Discussion had eighty two (82) participants from across 34 target institutions in attendance including Regulators from Securities and Exchange Commission (SEC), Market enablers, Pension Funds CEOs, Investment Officers, Risk Managers, Fund Managers of Insurance firms amongst others.

### Participation by institution

Pens	sion Fund Administrators	41%
Clos	ed Pension Fund Administrators	3%
Life	Insurance Companies	23%
Mari	ket Enablers	3%
Regi	ulators	9%
Othe	ers	21%



The facilitators delivered presentations drawing on their respective professional experiences in Nigeria and case studies of other emerging markets to achieve its key learning outcomes.

### **Feedback**

Overall feedback was positive.

Investors found the course to be very insightful.

92%

of investors in attendance had a better understanding of credit enhancement and its impact on Infrastructure as an Asset Class 86%

of investors said they would consider investing in infrastructure bonds

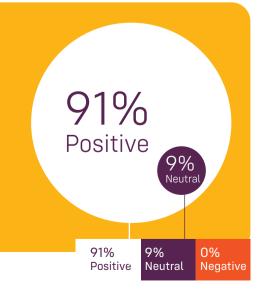
Investors in attendance had a better understanding of Credit Enhancement and its Impact on Infrastructure Investment as an Asset Class

92% of investors representing 14 Pension Fund
Administrators (PFAs) and 7 Life Insurance Companies (LICs)
had a better understanding of the credit enhancement and
it's impact on infrastructure investment as an asset class.
It can be deduced from the response that knowledge was
effectively transferred during the workshop. As a result
of this, 100% of PFAs who participated in the workshop
eventually invested in the Viathan bond issue. These PFAs
represent 50% PFA investors converage as a well as
represent 75% of the Nigerian PFA Fund Asset management



Investors were interested in participating in future capacity building workshops

91% of the institutions represented including PFAs and LICs responded that they were interested in participating in future capacity building workshops. This reflects the effectiveness and relevance of the capacity building programme. It also solidifies InfraCredit's relationship with long-term investors



Investors expressed interest in considering investment in infrastructure bonds

While only 86% of long-term investors in attendance indicated their positive disposition towards investing in infrastructure bonds, 100% of PFAs in attendance eventually invested in the Viathan bond Issue. This indicated an achievement of the capacity building programme aim to increase investor's confidence in and appetite for infrastructure bonds in Nigeria.

86% Positive

> 86% Positive

14% Neutral 0% Negative











The course is useful and examples of projects around the world was helpful in addition to the content. I particularly found the session on Structuring Infrastructure Investment and risk Analysis most valuable. I learnt to focus more on the structure of infrastructure investment and legal framework. The trainer is sound and well experienced.

Niyi Odewale CRO, ARM Pension Managers Limited



Based on the feedback obtained from the participants of the maiden Investors' Infrastructure Roundtable Workshop. InfraCredit believes that there is a critical need for technical trainings targeted at enhancing the requisite analytical skills for evaluating infrastructure assets for long term investors.

In line with the programme strategy and feedback from participants, InfraCredit, in collaboration with GuarantCo and Pension Fund Operators Association of Nigeria (PenOp), initiated the Infrastructure Training. Under this initiative, InfraCredit organises training on specific infrastructure topics.



The course was implemented as a purely case-driven course, exclusively for Chief Risk and Investment Officers.

Since inception, as at December 2018, the Programme has organized four (4) training courses targeted at participants from pension fund managers, life insurance companies and select relevant regulatory institutions such as Pension Commission (PENCOM) and the Securities & Exchange Commission (SEC). Specifically, the courses covered various topics including Infrastructure as an Asset Class, Infrastructure Project Finance, and Financing Infrastructure in Nigeria.



### EUROMONEY LEARNING SOLUTIONS

	_	_	_	_
DATE HELD	<b>02</b> Nov. 2017	<b>18-20</b> Apr. 2018	<b>06-07</b> Aug. 2018	<b>08-09</b> Aug. 2018
COURSE TITLE	Investing in Infrastructure as an Asset Class	Infrastructure Project Finance	Financing Infrastructure Projects (stream 1)	Financing Infrastructure Projects (stream 2)
TARGET PARTICIPANTS	Investment Officers, Risk	Investment Officers, Risk	CIOs, CROs	CIOs, CROs
	officers	officers		
PARTICIPANTS	officers 39	officers 53	21	15



04

Investor Trainings organised



The courses used a combination of case studies, practical experiences and lectures in achieving the key learning outcomes. In the choice of examples and cases, the facilitator took cognizance of Nigeria's immediate infrastructure needs including the power and energy sectors.

From the feedback obtained, we noted that the participants (especially the C-level participants) of the first course were particularly interested in the simulation opportunity afforded by the cases examined. Several C-level participants indicated the case study session as the most relevant to their respective roles at their respective investing institutions.

# In response to this feedback, Financing Infrastructure in Nigeria was designed, in consultation with a few C-level members of selected institutions.

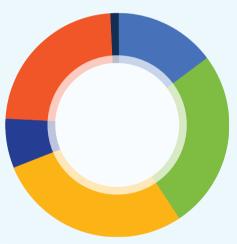
The course was implemented as a purely case-driven course, exclusively for Chief Risk and Investment Officers, in August 2018 in 2 streams to achieve maximum effectiveness.

### **Participation**

Since inception, Infrastructure Capacity Building Programme training has trained a total of 128 participants from 30 institutions including 21 pension funds, 5 closed pension funds and 4 life insurance companies. Participation has been recorded across all levels of the target investors including CEOs, CIOs, CROs and other key members of the team.

### Participation Distribution by category

Chief Executive Officer	15%
Chief Risk Officer	26%
Chief Investment Officer	28%
Investment Officer	7%
Risk Officer	23%
Others	1%

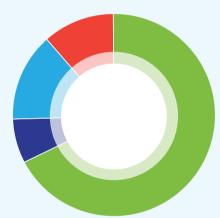






### Participants' Distribution by Institution category

Pension Fund Administrators	68%
Closed Pension Fund Administrators	7%
Life Insurance Companies	14%
Others	11%





### **Feedback**

Overall, investors' feedback for the training courses was positive. Investors generally found the courses to be highly educative, useful and relevant to their individual roles in their respective institutions.

95%

of investors indicated that topics and cases discussed, and other information gained at the training sessions were very useful

of investors said they 98% will recommend the course to a colleague

How investors rated the course

100% of investors representing 26 Pension Fund Administrators and 4 Life Insurance companies rated the course very good overall. This indicates that a high quality of course content and delivery was maintained.

Very good

100% Very good 0% Good 0%

0% Not applicatble

How investors rated new useful information gained from the course?

> 95% of investors repesenting 26 Pension Fund Administrators and 4 Life Insurance companies indicated that new information gained from the course was very relevant. This therefore indicates that this course significantly contributes to the investors' decision to invest in the first long-tenor infrastructure bond issued by InfraCredit.

> > Very relevant

95%

Very relevant

Slightly relevant

0% Not relevant

0% Not applicatble Investors considered the course relevant to their position

> The training which had investment officers, risk officers, chief investment officers, chief risk officers in attendance, representing PFAs and LICs, was relevant to 95% of investors in attendance.



95% Verv relevant Slightly relevant

Not relevant

Not applicatble

The course helped enhance investors understanding of Infrastructure Investing

> 95% of investors indicated that the course was very relevant in enhancing their understanding of infrastructure investing. It can therefore be deduced that the course was effective in achieving the capacity building programme's objective of arming investors with comprehensive data and information with indepth understanding of the investment dynamics of the sub-sectors within the infrastructure space.

Verv relevant

95% Very relevant Slightly relevant Not relevant

0% Not applicatble

With regards to relevance of the course content to investors' day-to-day roles in their respective institutions, over 95% found the course content to be directly relevant to their respective roles. The other 5% were largely non-investing institution members of Pension Fund Operators Association of Nigeria (PenOp). In addition, 95% of investors in attendance believe that the course enhanced their overall understanding of Infrastructure Investing. Some of the suggested areas of further training by the participants include:



Feasibility & viability of infrastructure projects



Developing infrastructure projects



Infrastructure training for board of directors



More content on infrastructure training using local case studies



Monitoring and evaluating infrastructure projects



Infrastructure project valuation (Risk Perception)





### **DESCRIPTION**

The Co-Due Diligence Exercise is targeted at enhancing the capacity of long-term investors to evaluate and invest in bankable infrastructure assets in Nigeria by obtaining practical know-how and technical hands-on exposure to the due dilligence process, credit analysis, and other risk management processes.

### **CO-DUE DILIGENCE EXERCISE IN REVIEW**



On grid & Off grid Power Generation Company



93
Participants
representing
19 institutions



16 Pension FundAdministrators,3 Life InsuranceCompanies



Presentations on Financial, Legal and ESG Due Diligence

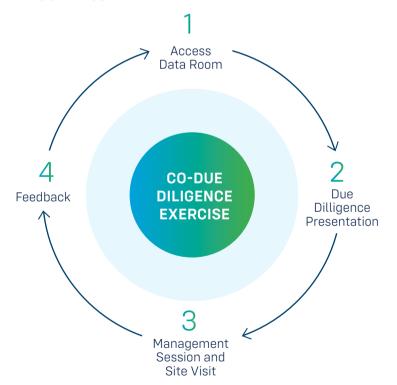


Participants
gained first hand
exposure to the
Project Company



Access to data room, Management Presentation, Site Visit, Q & A Session The exercise exposes interested long-term investors, specifically, select Pension Fund Administrators (PFAs), Closed Pension Fund Administrators (CPFAs) and Insurance Companies (the "Participants") to the due diligence process adopted by InfraCredit in evaluating eligible infrastructure projects for the purpose of issuing its guarantees. The Exercise is designed to build market awareness, market confidence and alignment of interest among long term investors as well as enhance the industry's capacity to invest in infrastructure assets

The Co-Due Diligence Exercise seeks to achieve its objectives by conducting investors through the following four activities:





### **Establish Data Room**

Investors are granted access to the Project Data Room for a minimum period of 2 weeks. The Data Room was opened a week before the first on-site practical exercise to allow participants carry out extensive desktop analysis of the economic and financial fundamentals of the project and the company.

The Data Room Provides the participants with project-specific information including details of the credit paper, business, regulatory and financial information on the transaction.

The data room was set up to afford the Participants desktop review and analysis (financial and otherwise) of the infrastructure company and projects with a view to understanding the business and identifying concerns for clarifications ahead of the physical contacts under the Co-Due Diligence Exercise.



The course is very insightful and engaging. The facilitator is very knowledgeable and have good real-life illustrations. I have a better understanding of infrastructure deals

Adewunmi Senbanjo Investment Department, AIICO Pensions

### **Due Diligence Presentations**

During the presentation session, the Participants were taken through InfraCredit's Due Diligence Process with specific focus on the approach adopted in analysing the financial, legal and environmental aspects of the project. The Legal and Environmental Due Diligence sessions were facilitated by experts from leading firms such as Olaniwun Ajayi Limited Partnership and Environmental Resource Management Limited



### Management Session and Site Visit

During the Management Sessions and Site Visits, investors were afforded first-hand exposure to the Project Company's business operations, strategy and outlook. General questions were received and addressed by senior management of the Companies. In addition, investors were given a tour of the Company's plant and facilities and as such were able to gain insight into the mechanics of the company's operation.



### **Feedback**

Investors were encouraged to provide feedback and evaluation comments on ways to improve the Co-Due Diligence initiatives to enable the exercise achieve better effective engagement. To achieve this, a pre-designed evaluation form was completed by the investors. In addition, investors were encouraged to contact InfraCredit's team for additional feedback and comments







### **Highlight of Activities**

Since inception, the Programme has conducted the Co-Due Diligence Exercise on three (3) projects. Each of the Exercises were well attended by investors in pension fund and insurance firms in Nigeria. The three (3) projects range from off-grid/ captive and on-grid segment of the power sector. A total of 40 participants, including 8 Chief Investment Officers (CIO), 6 Chief Risk Officers (CRO), 5 Risk Officers (RO), 13 Investment Officers (IO), and 8 others drawn from 19 institutions across different employee levels from investment and risk teams, have participated in the co-due diligence exercise since its inception in 2017.

S/N	Activity (Site Visit + Presentation)	Target Participants	Participation	No of Institutions
1	Project One	Investment Officers, Risk officers	28	19
2	Project Two	Investment Officers, Risk officers	34	18
3	Project Three	CIOs, CROs	31	16



### Participation by Participants' Level

Chief Investment Officers	20%
Chief Risk Officers	15%
Risk Officers	12%
Investment Officers	33%
Others	20%



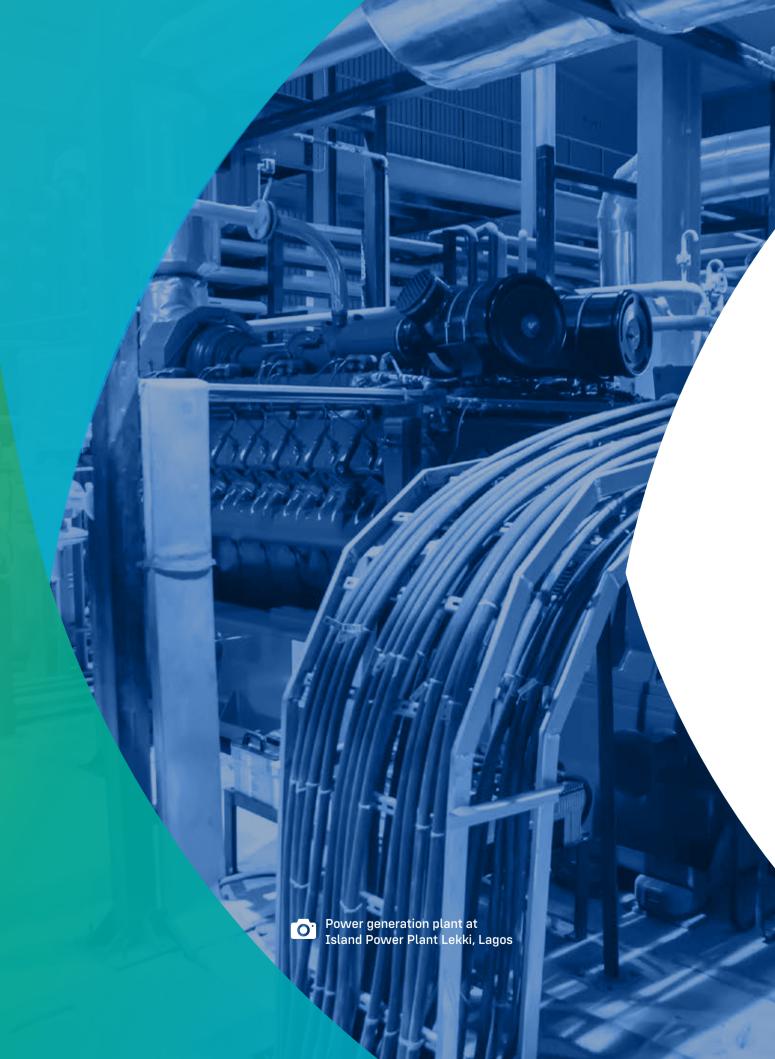
### Participation by Participating Institutions' Category

Pension Fund Administrators	84%
Life Insurance Companies	16%



The course is relevant for all PFAs, Risk and Investment departments.

Kanyinsola Hamzat Risk Officer, Leadway Pensure PFA Limited



CHAPTER

04

## Development Impact

MEASURING PROGRAMME IMPACT
KEY DEVELOPMENT RESULT INDICATORS
CASE STUDIES

INFRASTRUCTURE CAPACITY BUILDING PROGRAMME REPORT

www.infracredit.ng

### Measuring Infrastructure Capacity Building Programme's Development Impact

Infrastructure is a key driver of economic growth and prosperity. The quality, access and affordability of infrastructure are determinants of growth, equity and the access to opportunities.

It is believed that a deeper understanding of infrastructure asset classes will boost investor confidence and enhance investments and appetite for risk sharing, thereby deepening the debt capital market.

Although traditional channels for financing infrastructure development remain relevant, it is evident that innovative mechanisms need to be explored in order to crowd-in private capital.



### Key Development Result Indicators

InfraCredit has identified three factors that are critical to achieving its strategic corporate mandate of catalyzing long-term funds for infrastructure development in Nigeria - Increased Investor Appetite, Risk Sharing and Deepening the Capital market.

Whilst the company continues to develop innovative products to provide investors with the requisite credit protection for increased participation, the effectiveness of the products is dependent on the progress made in the three factors identified above.

These three (3) key performance indicators will serve as a benchmark for measuring the impact of the Infrastructure Capacity Building Programme as it relates to InfraCredit's strategic objectives. These are:

- Increased investment in infrastructure bonds
- Reduced dependence on credit enhancement
- Increased ratio of the domestic debt capital markets to GDP

### **Key Performance Indicators**



#### **INVESTOR APPETITE**

Increased Investment in Infrastructure Bonds



### **RISK SHARING**

Reduced Dependence on Credit Enhancement



### **DEEPEN DEBT** CAPITAL MARKETS

Increase in % of Domestic Debt Capital Markets to GDP

These performance indicators also translate to how we measure impact of our activities at InfraCredit



### How we measure Impact

### What we do



### **FINANCE**

- \* InfraCredit issues "AAA" rated guarantee.
- Technical assistance funding.



### **SUPPORT**

- Strategic role of InfraCredit in securing financing - this includes financial additionality, i.e. first-time issuer.
- \* Improved corporate governance.
- \* Improved regulatory and policy environment.
- \* Technical assistance & capacity building programme.

# What are the Outcomes?



ACCESS TO INFRASTRUCTURE

- Number of people expected to have access to new infrastructure.
- Number of people expected to have access to improved infrastructure.



**JOBS** 

- \* Direct short-term jobs created during construction.
- \* Direct long-term jobs created during operations.

### What happens?



### INVESTMENT MOBILISED

### Investment from commercial entities:

- \* Mobilise capital from Pension Fund, and other private institutional investors.
- Crowding in commercial finance (equity and/ or debt).



### VIABLE INFRASTRUCTURE

### Use of proceeds:

- Projects reaching finacial close.
- Execution of operational projects.



### WIDER ECONOMIC IMPACT

- Description of value and opportunities generated for local business.
- \* Fees and taxes paid to the government.



### DEMONSTRATION EFFECT

- Capital mobilisation through greater private participation in infrastructure.
- Description of other economic impacts resulting from transaction.

# Development Impact – a case study of Viathan Group

### Context

Nigeria, the largest economy in Sub-Saharan Africa with GDP of US\$405 billion and population of over 180 million, has recorded remarkable growth (CAGR of 15% since 2000). Nigeria's aggregate electricity need has been estimated at c.180,000 Mega Watts (MW) to satisfy its domestic electricity demand.



ith an installed capacity of about 11,000 MW, only an estimated 8,000MW of available capacity is operational. Of these, only between 3,000 MW to 4,500 MW is actually being generated due to unavailability of gas, and grid constraints which have led to acute shortage of power across the country. Nigeria's transmission grid is estimated to cover a maximum of 40% of the country.

As a result, Nigerian residents and businesses have turned to self-generation for power supply, generally powered by diesel or petrol generators. According to Agusto&Co Survey, as a result, Nigerians spend an estimated US\$14bn annually on inefficient generation whilst power accounts for 50%-60% of production costs for manufacturers.

A recent survey of 300 Nigerian Companies reported that companies use diesel to generate electricity on an average of 80% of total working hours. Notwithstanding the various reforms in the power sector, the sector still grapples with tariff rigidities and transmission and distribution inefficiencies. Customer satisfaction is expected to remain low with shortfalls in collections and the general inability of the grid-based power system to meet its contractual obligations.

The challenge has created a huge off-grid opportunity in the sector, estimated at a potential US\$9.2billion annually. Market advantage is expected to remain with captive power solutions until the challenges hindering reliable and quality grid-based power supply is resolved. Developing off-grid alternatives to achieve scale and commercial viability is expected to save \$4.4 billion annually for Nigerian homes and businesses and improve access to cleaner power among 350 million people in Sub-Saharan Africa.

### **Highlights Of The Company**

The Viathan business model is focused on providing electricity to government-owned entities and facilities, corporates and residential clusters in Nigeria. Viathan has several important defining elements of its distributed power model:









Contracted revenue model

Viathan Group develops and operates captive and embedded (off-grid) power solutions for governmental, commercial and residential off-takers across Nigeria, using natural gas as fuel with a combined generation capacity of 50MW.





11

The Viathan Bond was backed by irrevocable and unconditional quarantee of InfraCredit and was accorded 'AAA' long term national scale rating by GCR and Agusto & Co and approved by the Nigeria Securities and Exchange Commission

"

In the transaction, Viathan Group, a first-time issuer, established a NGN 50 billion Medium Term Note Programme and issued a NGN 10.0bn 16.0% Series 1 Senior Guaranteed Fixed Rate Bond (Viathan Bonds) under the programme, thereby successfully accessing the debt capital markets.

The Viathan Bond is backed by irrevocable and unconditional guarantee of InfraCredit and is accorded 'AAA' long term national scale rating by GCR and Agusto & Co and approved by the Nigeria Securities and Exchange Commission. The 10-year bond is the first corporate infrastructure bond issued in the Nigerian debt capital market and as such, extended the yield curve for corporate debt issuances.

The success of the bond issue has implications for Viathan's capacity expansion strategy; with 10-year funding at relatively lower borrowing cost, Viathan Group is better positioned to efficiently execute its capacity expansion plan in captive power generation and increase its diversification into gas processing.

The Bond proceeds is utilized to expand Viathan's generation capacity by 7.5MW, construct a 104,800 scm/day Compressed Natural Gas (CNG) Plant and refinance short term bank loans. The issue was subscribed by sixteen (16) institutional investors comprising at least 12 pension funds and 2 insurance companies, committing a total of NGN10.5 billion, translating to a subscription rate of 105%.



### Transaction details

Issuer	Viathan Funding Plc
Infrastructure Activity	Captive Power (Off-Grid)
Tenor	10 years
Pricing	FGN 10-year Bond + 82bps
Coupon	16%
Issuer Rating	BBB -
Guarantor	InfraCredit
Bond/Issue Rating	AAA
Issue Size	NGN 10.0 Billion
Total Subscription	NGN 10.5 Billion
Number of Subscribers	16
Issue Date	15th December, 2017

### **Investor Distribution**

12 Pension Funds

2 Insurance Companies

1 Commercial Bank

1 Trustee





### **Development Impact**

### **FINANCE**

#### INFRASTRUCTURE

### **IMPACT**



- \* Issued by power developer, Viathan
- \* Backed by InfraCredit.



Constructing a compressed natural gas plant.



**Expanding existing** generating capacity by 7.5MW.



Local currency refinancing for existing project loan.



#### Access to Capital Market

Supporting first-time issuers to raise 10-year, lower cost funds in the Nigerian Capital Markets.



#### **Boosting Power Supply**

Cleaning fuel to power local business, hospitals, street lighting & waterworks.



### **Unlocking New Private Investment**

Crowding in long term private investors to infrastructure investments in Nigeria.



#### **Developing Capital Markets**

First long-term infrastructure bond (10 year) issued by private company in Nigeria.



#### **Promoting Financial Resilience**

Providing long-term local currency finance to reduce currency exchange risk.



#### **Job Creation**

Enabling the provision of up to 100 direct and indirect jobs.



### **Testimonial**

Habeeb Alebiosu. Viathan's MD,

Viathan's successful bond issuance, guaranteed by InfraCredit has provided access to progressively lower cost of capital thus improving the weighted average cost of capital (WACC).



The implied benefit of this is an increment in shareholders'/ stakeholder value. In addition to this, towards a successful capital raise, Viathan overhauled its governance structures to ensure same is consistent with the reporting and oversight structures required of a listed entity

11

The effect on WACC is amplified as the business continues to meet repayment obligations and embarks on its growth plan through subsequent tranches - thus de-risking repayment.

The implied benefit of this is an increment in shareholders'/stakeholder value. In addition to this, towards a successful capital raise, Viathan overhauled its governance structures to ensure same is consistent with the reporting and oversight structures required of a listed entity.

The result of this action continues to create a disciplined management environment and enhances the quality of business decisions across the company despite regulatory headwinds. This has already translated to an increased YTD revenue compared to same period in 2018 and emphasises the oftendiscussed correlation between good governance and profitability. Increased stakeholder universe, and this has

proved a useful marketing/partnership tool for government, commercial and industrial consumers, who keep faith in market confidence - our sales tagline is that "every customer is a shareholder" by virtue of the subscription of PFAs to the bond.

Viathan has equally benefitted from the increased visibility and awareness from the press release and other media channels, which have created more awareness for offgrid/decentralised solutions. Financing from long-term investors provides Viathan with the precedence to further access to the Debt Capital Market for high impact investment opportunities.

As Viathan deploys more capital raised from its guaranteed bonds and grows market share, it will be more readily attractive to the NESI market participants, DFIs, Donor Agencies, Impact Funds and the investment community at large; this puts us in a pioneer position in leading the impending industrial revolution in anglophone West Africa.

We are grateful to InfraCredit for lending its support through its guarantee.

# Leveraging Pensions for Infrastructure Development - Viathan Commissions Compressed Natural Gas (CNG) Plant



Viathan has recently completed the construction of a Compressed Natural Gas (CNG) plant operated by GasCo Marine, (a member of the Viathan Group) and located in Oke-Sokori, Abeokuta, Ogun State.

The plant which has an installed capacity of 144,000 SCM per day, extends virtual pipeline for gas supply to emerging corporates in one of the fast growing industrial hubs in the South-Western region, with the ultimate objective of enhancing productivity and easing the cost of doing business for medium scale enterprises in the real sector.

Backed by InfraCredit's guarantee, Viathan Group successfully accessed the local debt capital markets for the first time in 2017, issuing a debut 10 year NGN 10.0bn corporate infrastructure bond, which was utilized to finance the construction of the CNG plant; the bonds were fully subscribed by Nigerian pension fund managers. This further affirms the appetite and commitment of local pension funds to providing domestic credit to the private sector to finance long term, impactful infrastructure projects.

The successful financing of this plant from the debt capital markets also affirms InfraCredit's commitment to supporting new infrastructure that will provide access to cleaner and affordable energy supply for commercial, industrials, and households, in line with Nigerian government's aspiration of reducing environmental pollution and conserving foreign exchange utilization on imported fossil fuels.

The plant is expected to increase the utilization of natural gas as feedstock to power plants and manufacturing plants by providing gas to areas without pipeline infrastructure (virtual pipeline). This will reduce gas flaring and Green House Gas (GHG) emissions, thereby promoting environmental sustainability, as companies and vehicles switch from expensive diesel to cleaner and affordable gas. Gasco aims to target up to 1 million vehicles/trucks to switch to natural gas from diesel and petrol thus increasing its market share, whilst the mother station will account for 15% of established plant capacity in the Southern region.

The project has led to the creation of direct and indirect employment, the construction of the CNG mother station led to the creation of one hundred and thirty-seven (137) new jobs; during the construction phase, a total of 20 skilled workers and 80 unskilled workers, including 40 male and 40 female workers were employed.

Post construction, thirty-seven (37) permanent jobs were directly created across various management levels within the organization.

This is in line with InfraCredit's mandate to enable efficient capital allocation and productive investment of domestic pension fund assets into supporting new infrastructure development that will create jobs, protect the environment, reduce poverty and promote local economic growth.

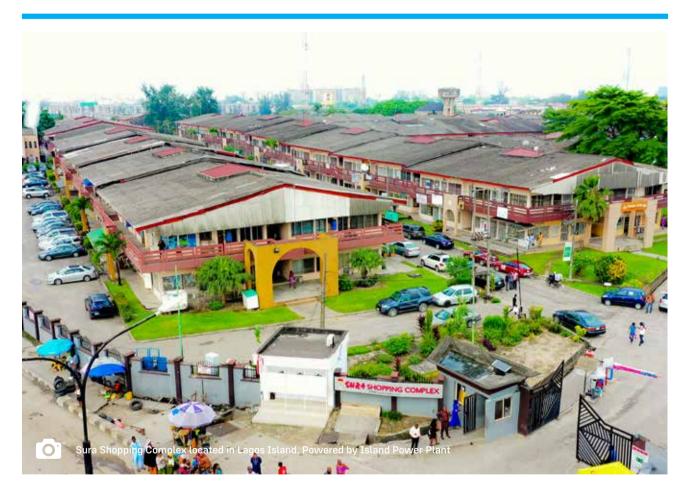
Gasco Marine is a member of the Viathan Group, and a leading, premier, fully integrated indigenous gas company that specializes in the production, transportation, storage, processing and sales of natural gas in Nigeria. Gasco Marine has, over the past seven years, evolved its servicing capacity, focusing on expanding operational capabilities and capacity to drive business growth in Nigeria.



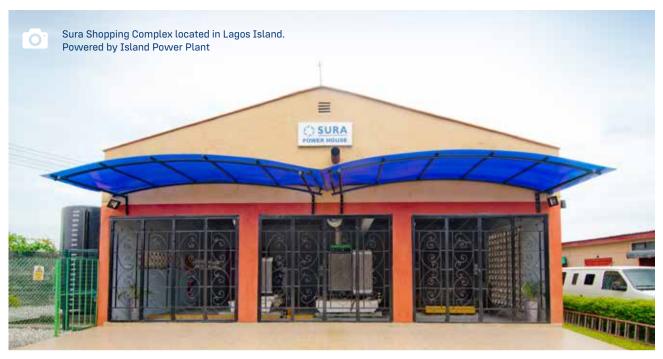


## Development Impact – a case study of **Sura Market** Power Project

With InfraCredit's Guarantee, Viathan issued a 10- year corporate Infrastructure Bond to finance 6.5MW expansion at Lagos Island Independent Power Plant (Lagos IPP) with 1.0MW dedicated to providing power to Sura Shopping Complex in Lagos Island, Lagos State.



Of the 7.5 MW new capacity financed through our guarantee, Viathan Engineering Limited and Sura Independent Power Limited executed a PPA dated 29 January 2018, under which Viathan is to deliver 1.5 MW electric power to Sura from the Marina plant on a take or pay basis. The tenor of the PPA is five (5) years, extendable for two (2) years and would commence from the date Sura is connected and supplied electricity. Sura Shopping Complex, an ultra-modern complex located in Lagos, has over 11 different businesses. It ranges from printing, branding, financial services, equipment maintenance, catering to tailoring services.





The complex has 1,047 shops which have been metered. The shopping complex is being supplied 1.5MW of power from Viathan.

Sura Shopping Complex has MSMEs ranging from 17 equipment maintenance shops, 53 real estate agents, three banks, 43 tailoring shops, 80 law firms, 55 retailers, 47 management consulting offices, 15 printing and branding offices, 22 catering outlets and 5 E-commerce centres. The Project was an initiative of Rural Electrification Agency under the Energizing Economies Programme commissioned by His Excellency, The Vice President of the Federal Republic of Nigeria, Prof. Yemi Osinbajo of the Buhari Administration.



Boost power supply of over 1000 shops



30% reduction in power costs



Reduction in CO emission by 43%



Shop rentals increased by 15%



Creation of about 125 direct and indirect jobs

Businesses in Nigeria suffer from the lack of power and from the excessive bills they get even when they don't have power provided. A lot of businesses incur very high overhead costs on power supply which impacts negatively on their productivity and profitability.

Sura shopping complex now has access to uninterrupted power supply, following the installation of the Sura Market Power plant, supplying the complex with 1MW of power. The power plant installed has a transparent billing system which enables tenants adequately plan ahead and has significantly improved the productivity of businesses within the complex. This has led to job creation as the business owners are able to employ more staff, resulting from the consequent increased profit margins.

The shop occupancy rate at the Sura shopping complex has also increased significantly. The caretaker of the shopping complex testified to the full occupancy of the complex as a result of the constant and affordable power supply.

The shop owners testified that they now enjoy 24-hrs power with only a handful of interruptions. According to them, these instances of interruptions have been occasioned by maintenance at the power base.



I have been in Sura Shopping Complex for the past 16 years. I used to have to run my generator all day but since the introduction of the IPP, I have not had to use my generator anymore. Due to this development, I have been able to double the number of staff under my employment from 120 employees to about 250 employees. We are very grateful to Viathan for this opportunity.



#### Afolaranmi Michael

MD, Twelve Basket Foods Ltd



Prior to the IPP, I used to spend an average of N65,000 buying diesel, servicing and paying old electricity bills. This has been reduced to an average of N40,000 monthly with "less stress".

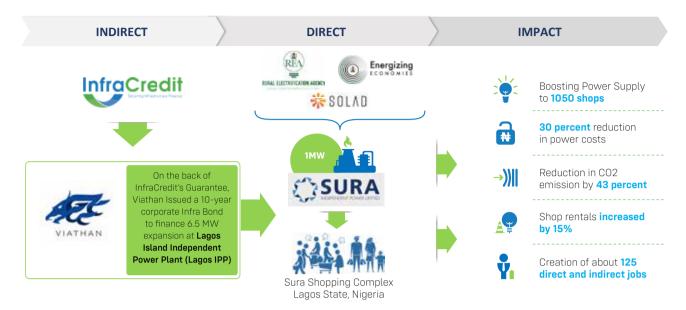


### **Emmanuel**

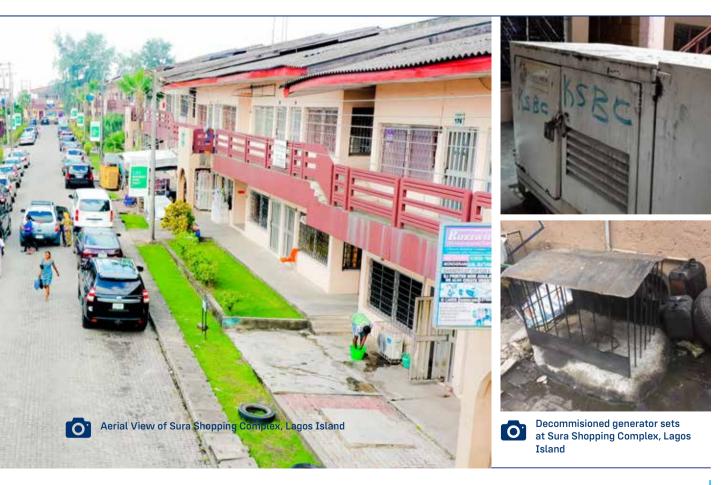
Baker



### Sura Market Power Project - Developmental Impact



Sura Market Independent Power Project is sponsored by Sura Independent Power Limited developed by Solad with support from the Rural Electrification Agency (REA) through the FGN's Energizing Economies Programme. Sura IPP takes excess capacity power from Lagos Island Independent Power Plant



# Development Impact – a case study of **North South Power** Project

### CONTEXT

North South Power Company Limited (NSP) was established in 2012 to own and operate a diverse and growing portfolio of electricity generation businesses across Africa. In 2013, the company acquired a 30-year concession of the Shiroro Hydroelectric Power Plant from the Nigeria Bureau of Public Enterprises.

NSP has a working staff of about 330 employees principally situated at the plant. The company generates on the average 8% of Nigeria's grid power which provides electricity to up to 10 Million Nigerians, with an ambition to improve its generating capacity to over 1500MW in the next five years.



### **HIGHLIGHTS OF THE PROJECT**



ESSENTIAL SERVICES



REDUCTION
OF CO2
EMISSIONS



RENEWABLE ENERGY



30 YEAR OPERATING HISTORY

The Shiroro Hydroelectric Power Plant (SHPP), located in Niger State, is the second largest Hydro Power Plant in Nigeria. The power plant was commissioned on 20th June 1990 with an installed capacity of 600MW from 4 generating units rated at 150MW each.

The Plant is powered by a 7,000,000,000m³ water reservoir with an average annual generation of 2,230GWh since 1990. Shiroro Hydro is an extremely essential and resilient asset with a 30-year consistent production history.

The plant is regarded as a strategic asset to the power sector and the national grid as it provides ancillary services to the national grid including grid stabilization and black-start services required to restart the grid in the event of a grid collapse.

In instances of national grid collapse, the plant can provide power on dedicated lines to the Federal Capital Territory, Abuja, powering the capital in island mode.

Since the commencement of its concession period in 2013, NSP has generated uninterrupted power and rehabilitated the 4 x 150MW Plant to its full capacity of 600MW. In 2016, the Plant achieved a record high power generation of 2,688GWh, representing 21 percent above historical average of 2,230GWh since the plant was commissioned in 1990. This was achieved following an overhaul of the Unit 1 turbine and repairs of Unit 4, which were shut down as at the time of acquisition and handover.

### 11

The proceeds will finance an overhaul of the generating unit as well as expand NSP Limited's generating capacity by 30MW and refinance short term bank debts.



### **Transaction Details**

With InfraCredit's guarantee, NSP was able to access the domestic debt capital markets for the first time and raise 15 year financing in local currency using a green bond by issuing a NGN8.5billion 15-Year 15.60% Series 1 Guaranteed Fixed Rate Senior Green Infrastructure Bonds Due 2034 (the "Series 1 Green Bonds") under a NGN50billion Debt Issuance Programme.

The N8.5 Billion Series 1 Guaranteed Green Bonds was accorded a 'AAA' credit rating by Agusto & Co. and Global Credit Ratings Co. and issued as the first certified corporate green bond and the longest tenored (15-year) corporate bond issued in the Nigerian debt capital markets.

The Series 1 Green Bonds was 160% subscribed with firm commitments from fifteen (15) institutional investors including eleven (11) pension funds and priced at 70 basis point spread to the comparable 15-year sovereign benchmark bond (FGN 2034) using the closing yield on the reference date adopted for the book building. North South Power issued the first corporate green bond with the longest tenor in sub-saharan Africa. The proceeds will finance an overhaul of the generating unit as well as expand NSP Limited's generating capacity by 30MW and refinance short term bank debts.







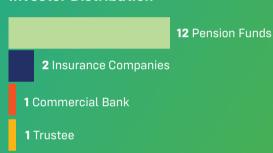


1/2/3: Shiroro Hydroelectric Power Plant located in Niger State

#### Transaction details

Issuer	North South Power
Infrastructure Activity	Senior Green Infrastructure Bonds
Tenor	15 years
Issuer Rating	A-
Guarantor	InfraCredit
Bond/Issue Rating	AAA
Issue Size	NGN 8.5 billion
Total Subscription	NGN 8.5 billion
Number of Subscribers	13
Pricing	15-year bond + 70bps
Issue Data	27 February 2019

### **Investor Distribution**



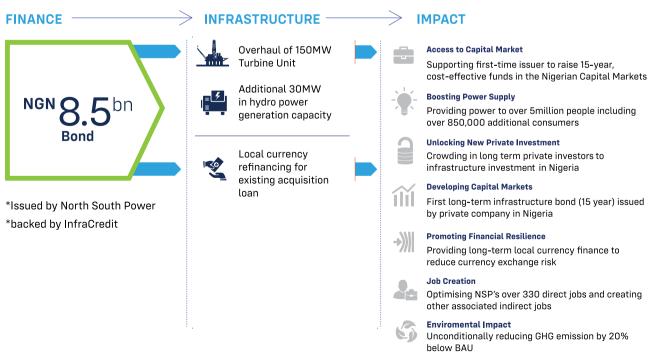
### **Testimonial**



Engr. (Dr)
Olubunmi Peters,
Executive Vice
Chairman and CEO
North South Power
Company Limited

In the success of the bond issuance is a significant milestone in NSP's long-term corporate strategy, demonstrating its market leadership, innovation and commitment to the highest standards of environmental, social and corporate governance. With the completion of the Series 1 Guaranteed Green Infrastructure Bonds issuance, the company has established a long-envisioned link with a more sustainable long-term, local currency financing required to implement its ambitious strategic power generation expansion plan through the capital markets.

### **Development Impact**





CHAPTER

05

## Strategic Outlook

STRATEGIC OUTLOOK
CALENDAR OF ACTIVITIES
/ UPCOMING EVENTS

INFRASTRUCTURE CAPACITY BUILDING PROGRAMME REPORT

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#### STRATEGIC OUTLOOK

Over the past 2 years, the initial concept of the Infrastructure Capacity Building Programme as envisioned, has now been proven to be a valid idea with demonstrable outcomes and measurable impact. The Programme is a transitional mechanism to jumpstart private institutional investors involvement in infrastructure investments by helping to build their technical capacity, know-how and understanding of infrastructure.

Going forward, our strategic plans will be aimed to institutionalise operational efficiency, expand donor support and multi-stakeholder partnerships, integrate ESG and SDGs, scale impact with measurable outcomes, and demonstrate sustainability.

#### A. Institutionalizing the Programme

As we aim to expand the programme, institutionalising the operating framework in order to scale capacity and impact is an imperative, this will be accompanied with a re-aligned "Theory of Change" to be implemented under InfraCredit's Development Impact Framework. A key outcome of this process will be defining measurable outcomes, evidence-based data and indicators geared towards informing the decision-making process with our stakeholders for effective monitoring, evaluation and reporting.

## B. Strengthening Technical Assistance Support

There are a multitude of donor programmes addressing some part of the greater challenge of catalysing private investments into SDG related infrastructure that will reduce poverty, and we aim to use this programme and its theory of change to align, incentivize and increase donor

coordination and funding support into more effective, efficient, integrated and scalable intervention in sustainable infrastructure finance. Leveraging InfraCredit's contribution and market positioning to crowd-in development capital and technical assistance from other donors/ DFIs to the programme.

## C. Building Strategic Partnerships with Key Stakeholders<sup>2</sup>

Addressing the complex challenges of infrastructure deficit and sustainable finance requires building strong multistakeholder partnerships that can create systemic change. The Programme will aim to evolve into a multi-stakeholder partnership, by collaborating with key stakeholders to create shared values and successes. We will leverage the power of multi-stakeholder partnerships as a key mechanism to deliver on the goals by pooling knowledge, expertise, and resources.

<sup>2 (</sup>Self-Regulatory Organisations e.g. PENOP, Regulators, e.g. SEC, PENCOM, Local Press e.g. Capital Market Correspondent Association), Donors

## D. Capacity Building of Boards, Regulators and Public Officials

As ultimate decision makers and policy makers, the boards and regulators have an especially important role to play in influencing the effectiveness of the expected development outcomes of this programme. In response to feedback from surveys conducted during the initial phase with participants, we will increasingly aim to equally focus on capacity building and training programmes for the leadership of this core group of market decision makers and regulators in order to develop and maintain a very cordial and trusted relationship on the mutual aims and objectives of this programme.

#### E. Strengthen Stakeholder Roundtables

Finding a path towards sustainable development will require the pooling of diverse perspectives, knowledge and resources. We recognise the need to adopt a more strategic approach to engagement activities by improving communication,

and close dialogue with key stakeholders in building market awareness and consensus on key contemporary issues in infrastructure and expected development outcomes of this programme. Importantly is building trust with our stakeholders.

#### F. Integration of ESG and SDGs

Infrastructure underpins many of the UN Sustainable Development Goals (SDGs) and the bond market as the largest source of long-term investment capital is emerging as an important source of financing to meet the UN SDGs. Therefore integrating ESG considerations into investment decisions has become crucial, and one key area of focus in the capacity building and training courses will be sustainable, responsible investing and educating institutional investors on best practice approaches to ESG investing in order to engender a proactive action-oriented programme focused on sustainable long-term value.

The success of the Programme is strongly aligned with our vision to be a catalyst and the most trusted partner, in the attraction of long term capital into infrastructure finance in Nigeria.

By successfully leveraging capacity building to foster market development and catalyse local capital from private institutional investors into supporting new infrastructure development that will create jobs, protect the environment, reduce poverty and promote local economic growth, we aim to establish a shared purpose with our stakeholders in aligning our collective effort to solve some of the most pressing challenges of our time.

#### **Infrastructure Capacity Building Programme**

#### 2019 Calendar of Activities

DESCRIPTION		TARGET PARTICIPANT	DURATION (DAYS)	JUL	AUG	SEPT	ост	NOV
Infrastructure Training								
Investing under IFRS 9 regime; why credit ratings matter for asset managers	/	•••	1					
Structuring PPP and Infrastructure Finance for Regulators			2					
Infrastructure As An Asset Class			1					
Advanced Infrastructure Project finance	/	•	2					
Infrastructure Finance for CIOs and CROs	/	-	2					
Understanding Securitization	<b>&gt;</b>		2					
Advanced Financial Modeling for Infrastructure Project Finance	<b>&gt;</b>		2					
Fundamentals of Credit Analysis	<b>&gt;</b>		1					
ESG Investing – An Infrastructure Perspective	•	•	4					
Investment Performance Measurement for Pension Funds	<b>&gt;</b>	•	2					
Pricing and Valuation of Fixed Income	<b>\</b>	•	2					
Blended Finance		• •	2					

# Target Participants ✓ Completed ♦ Scheduled Rescheduled Rescheduled Pension Fund Managers, Ins rance Companies, Regulators, Development Finance Institutions, Government Agencies, Rating Agencies, Exchanges, other stakeholders. PenCom, NAICOM, SEC, FMDQ, ICRC CIOs and CROs of Pension Fund and Life Insurance Funds.

### **Course Description**

COURSE	DESCRIPTION
Infrastructure Training	
Investing under IFRS 9 regime; why credit ratings matter for asset managers	Understanding the impact of IFRS 9 adoption on the financial reporting for debt securities and its implication for impairment charge and credit spreads across credit ratings.
Structuring PPP and Infrastructure Finance for Regulators	Explains the need for private sector partnerships with government to mobilize significant private funding as well as the nature of the private sector's service delivery obligations, and the source of the project revenue stream
Infrastructure As An Asset Class	Explores the various peculiar attributes of infrastructure and how investing in infrastructure asset class can translate to long-term above average risk adjusted returns.
Advanced Infrastructure Project Finance	An advanced Infrastructure project finance course – Introductory class was held in 2018. The course will focus on Nigerian realities and adopt case method (using local cases) to achieve its learning outcomes.
Infrastructure Finance for CIOs and CROs	Explains project finance as an important technique for long-term funding for infrastructure, industrial projects and public services using a non-recourse or limited recourse financial structure
Understanding Securitization	Understanding the financial practice of security assignment and pooling of contractual future streams of cashflow
Advanced Financial Modeling for Infrastructure Project Finance	Explores a set of financial model tools and best practices in analyzing project finance and infrastructure deals
Fundamentals of Credit Analysis	Explains how to analyze debt service capacity and credit quality of a company or project using financial ratios, cash flow analysis, trend analysis based on historical and projected financial information
ESG Investing – An Infrastructure Perspective	Explains responsible investment using the SDG investment case and developing an ESG policy checklist that applies to infrastructure asset class
Investment Performance Measurement for Pension Funds	How should Pension Funds be evaluated? What is the impact of various performance measurement approach on managers investment behaviour and ultimately the long-term performance of Pension funds?
Pricing and Valuation of Fixed Income	Analysis of fixed income or debt securities and the implication of expected interest rate risk, credit risk for pricing
Blended Finance	Understanding impact investment and the key components of a blended finance transaction



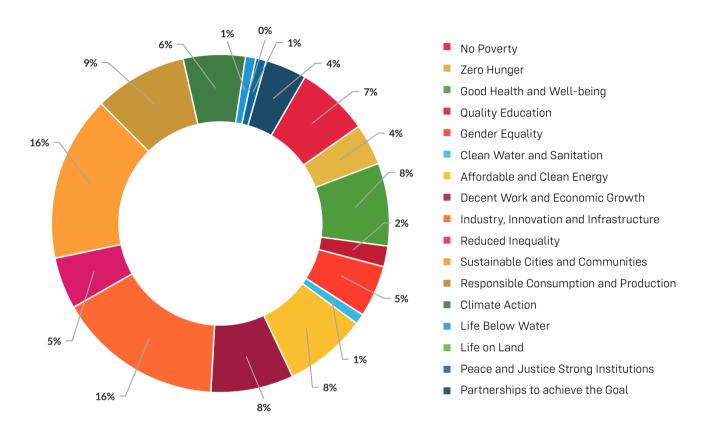
# Appendices

INFRASTRUCTURE CAPACITY BUILDING PROGRAMME REPORT

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#### Pipeline Distribution by Expected contribution to the SDG

Infrastructure underpins many of the 17 UN Sustainable Development Goals (SDGs), and thus it is expected that through the Programme, InfraCredit is well positioned to catalyse a positive impact on the societies and economies in which the investors commit their capital. Below are examples of the potential impact from a selection of its projected guarantee portfolio:



#### **Existing Portfolio Companies in Alignment with SDGs**



#### Niger State

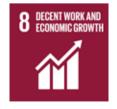
600MW Shiroro Hydroelectric Power Plant Rehabilitation Project

**NSP** 



#### Lagos State

6MW Island Power Plant
Expansion Project
VIATHAN



#### Ogun State

104,800 scm/day Compressed Natural Gas (CNG) Plant Project VIATHAN



#### Kaduna State

30MW Gurara Hydroelectric Power Plant Project

**NSP** 

#### Summary of Investor Participation in InfraCredit Guaranteed Bonds

Institutions that have invested in InfraCredit Guarateed Bonds i.e. Viathan and NSP Infrastructure Bonds all participated in the capacity building programme.

INVESTOR	INVESTOR TYPE	INVESTED INFRASTRUCTURE BOND
AIICO Pension Managers Limited	PFA	Viathan,NSP
African Local Currency Bonds Fund	Asset Manager	NSP
Anchor Pensions Managers	PFA	Viathan, NSP
APT Pension Funds Managers Limited	PFA	Viathan
ARM Pension Managers Limited	PFA	Viathan, NSP
AXA Mansard Pensions Limited	PFA	Viathan, NSP
AXA Mansard Insurance	Insurance	Viathan
FCMB Pension Managers	PFA	Viathan, NSP
Fidelity Pension Managers Limited	PFA	Viathan, NSP
First Guarantee Pension Limited	PFA	NSP
Leadway Assurance	Insurance	Viathan
Leadway Pensure	PFA	Viathan,NSP
NLPC Pension Fund Administrators Limited	PFA	NSP
Pension Alliance Limited	PFA	Viathan
Sigma Pension Limited	PFA	Viathan
Stanbic IBTC Pension Managers Limited	PFA	Viathan, NSP
Veritas Glanvils Pensions Limited	PFA	Viathan

Table: Composition of InfraCredit Infrastructure Bonds Investors

#### Chart: % investor coverage



15.6%

#### **QUICK STATS**

- 100% of investors attended the CBP
- 14 out of a total 28 PFAs (including CPFAs) have invested in InfraCredit infrastructure bonds. This represents 50% investor coverage.
- These 14 investor PFAs represent 75% of the Nigerian PFA fund assets management.\*

\*Source: National Pension Commission, Monthly Report, December 2017.

REDUCTION OF OVERALL COST FOR BORROWER



Over the past two transactions pricing efficiency has been gained in reduction of the spread to FGN Benchmark recognising the value of credit enhancement and demonstrating positive impact from capacity building

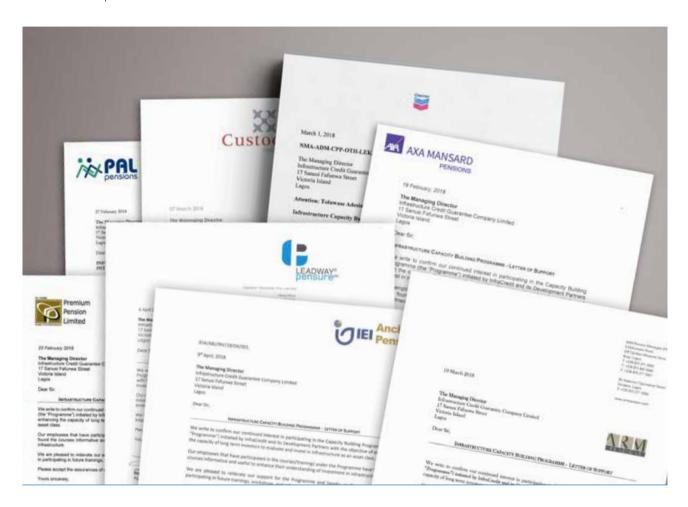
#### **List of Participating Institutions**

## **Pension Funds Administrator** AIICO Pension Managers Ltd APT Pension Fund Managers Ltd ARM Pension Managers Ltd AXA Masard Pension Ltd MANSARD CrusaderSterling CrusaderSterling Pensions Ltd FCMB Pensions Ltd Fidelity Pension Managers First Guarantee First Guarantee Pension Ltd Investment One Pension Managers INVESTMENT ONE IEI-Anchor Pension Managers Ltd Leadway Pensure PFA Ltd NLPC Pension Fund Administrators NLPC PFA NPF Pensions Ltd OAK Pensions Ltd Pensions Alliance Ltd Premium Pension Ltd Radix Pension Managers Ltd



#### **Letters of Support from PFAs**

We have recieved letters of support from Pension Fund Administrators and Life Insurance companies of their continued interest in the programme and participation in future capacity building programmes and workshops.

























Notes	





- www.infracredit.ng
- in linkedin.com/company/InfraCredit
- @InfraCredit
- vimeo.com/InfraCredit

