

FSD Africa invests £10m into innovative risk sharing facility with InfraCredit to support sustainable climate-aligned infrastructure development in Nigeria

2nd May 2023, Lagos – FSD Africa has invested £10m into a first-of-its-kind risk sharing facility in collaboration with InfraCredit which is designed to unlock funding for sustainable infrastructure development in Nigeria.

By increasing the accessibility of finance for “climate-aligned” infrastructure projects, the facility will help to accelerate Nigeria’s economic and social development, as well as deliver on its climate goals.

The Risk Sharing Backstop Facility (RSBF) aims to mobilize short and medium-term local institutional investment into critically needed and climate-aligned infrastructure projects that have a reliable business model and are ready to expand but struggle with a higher perception of risk without this form of credit enhancement.

The need for infrastructure investment in Nigeria is vast. According to the IMF, it requires an estimated US\$3 trillion to finance its infrastructure deficit over the next 30 years. Despite the large amount of liquidity in the local market to fund a significant portion of this, infrastructure receives relatively little. For example, less than 2% of pension fund assets are deployed towards infrastructure investment mainly because pension fund administrators have generally had a preference for more liquid, less complex investment instruments such as government bonds. According to research by UNOPS, UN Environment Programme and the University of Oxford, infrastructure is responsible for an estimated 79 per cent of total greenhouse gas emissions, with most emissions associated with energy, buildings and transport. There is thus a need to decarbonize to avoid locking in high emitting infrastructure for decades to come, whilst doing so in an integrated way across sectors, financial markets and economies. However, there is a particular lack of investment available for early stage, or “greenfield” projects especially climate aligned infrastructure projects due to the perception of high risk attached to them.

The RSBF will address this perception of high risk by providing backstop support to investors alongside InfraCredit’s guarantees, thereby providing early-stage greenfield climate-aligned infrastructure ventures which are at a construction stage and too early for additional capital to be secured via a bond issue, with more time in which to start generating stable predictable cashflow and demonstrate their status as being long-term bankable.

The current pipeline demonstrates the breadth and variety of projects this facility will support, with projects ranging from distributed renewable energy services for urban residences, to commercial and industrial renewable projects, edge-certified green housing and e-mobility infrastructure. As part of any application for funding all projects will be rigorously assessed on their environmental credentials.

FSDAi is pleased to be undertaking this investment in partnership with an established player in the sustainable infrastructure financing space, InfraCredit – a business with a capitalisation of US\$209m, and a series of AAA ratings from local rating agencies. Indeed, since its inception in 2017, InfraCredit has built an exemplary record supporting strategic Nigerian infrastructure projects, having written ₦145bn (approximately US\$315m) of guarantees underwriting bond

issuances by eleven companies distributed across the power, transportation & logistics, ICT/telecommunications, gas to power, LPG clean cooking and input to infrastructure sectors. All of these issues have been fully subscribed, some by more than 160% by domestic pension funds and insurance companies.

FSDAi, which is backed by UK aid through the Foreign, Commonwealth and Development Office (FCDO) and has a total capital base of \$131m, has a track record of backing innovation and being prepared to take risks in order to address financial market failures to bring about sustainable economic growth. Other investments include Persistent Energy, a leader and pioneer investor in the off-grid energy and e-mobility sectors in Sub-Saharan Africa, Nithio, which invests in renewable off-grid energy, and Nyala Venture, a fund designed to support African alternative capital providers targeting small and growing businesses, particularly those which are women-led or are applying a gender lens investment strategy.

FSDAi's £10m investment in the RSBF is intended to galvanise finance and direct it to landmark infrastructure projects that will help create exponential economic, social and environmental benefits for Nigeria. This investment therefore aligns with one of FSD Africa's primary objectives – developing capital markets by tackling blockages in the system.

The facility has been carefully designed to support sustainable infrastructure initiatives which boast a reliable business model and are ready to expand but lack the necessary capital to do so. This delay or deferral of expansion projects due to unavailable capital creates a bottleneck which slows Nigeria's progress towards solutions for some of the country's most pressing, and transformational, infrastructure needs.

The RSBF will raise funding in series, initially from FSDAi, but eventually from other funders, aiming to reach a total capital base of up to US\$50m.

Anne-Marie, CIO of FSD Africa Investments, FSD Africa, said, "FSDAi's partnership with InfraCredit on the a bridge-to-bond facility introduces a derisking financing solution to mobilize short and medium-term local institutional investment into critically needed infrastructure projects that are currently considered un-bankable without alternative credit enhancement. Moreover, as Africa's economies struggle to mobilise capital to develop key climate mitigation and sustainable power generation projects, this facility comes as a timely and much-needed intervention for Nigeria's infrastructure landscape."

Chinua Azubike, CEO of InfraCredit said: "I am delighted to work with FSD Africa on an innovative facility which will support much needed but underfinanced projects realising their ultimate goals and purpose. Smart use of catalytic capital can dramatically increase the role of private capital and local intermediaries in investing in Nigeria's sustainable infrastructure space and help the country develop responses to the significant challenges which confront it from the deteriorating environment and ecology to an unstable energy mix and severe social inequality. "

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