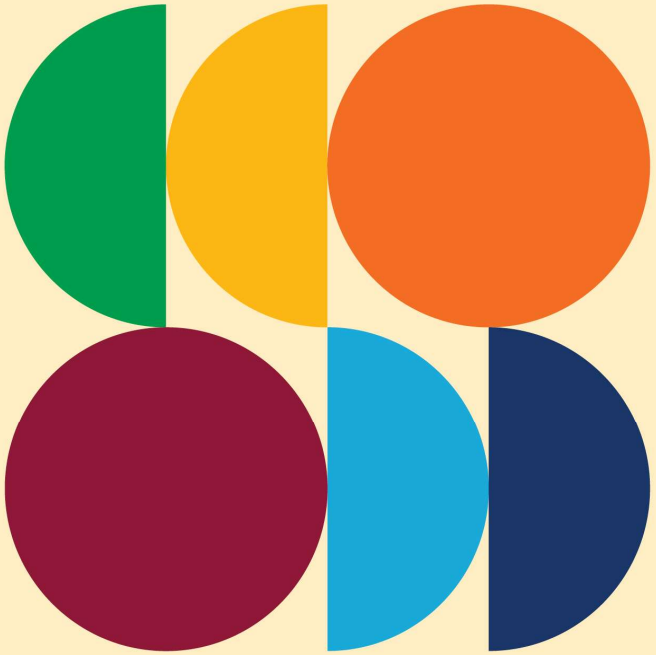
GREEN CLIMATE FUND | GPIC 2023

Africa Finance Corporation
Instrumental Infrastructure. Instrumental Africa.



AFC INFRASTRUCTURE CLIMATE RESILIENCE PROGRAMME

Elie Aloko

FROM INVESTMENT TO IMPACTS
4–5 SEPTEMBER 2023, NAIROBI, KENYA

AFRICA FINANCE CORPORATION (AFC) AT A GLANCE

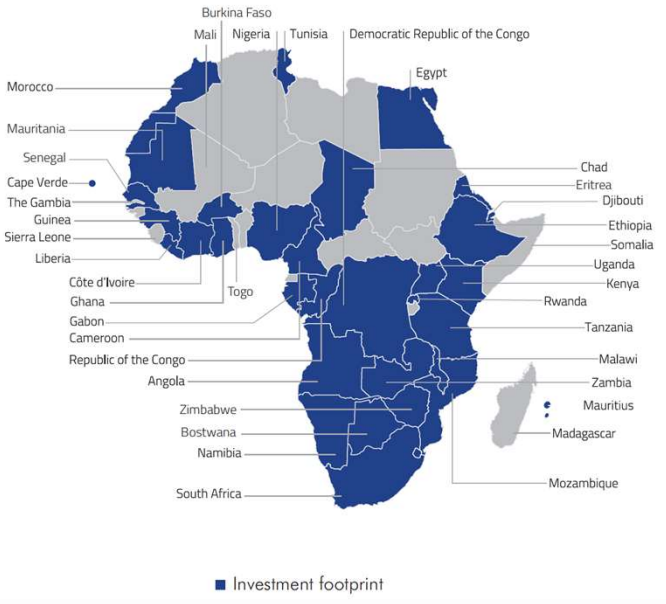
Vision | To become Africa's leading infrastructure solutions provider

Mission | To foster economic growth and industrial development of African countries, while delivering a competitive return on investment to our shareholders

About AFC	• **Founded in 2007 as a multilateral financial institution** created by sovereign African states • Provides pragmatic solutions to financing and developing **infrastructure, natural resources and industrial assets** • Unrivalled access to Africa and experience in identifying, executing and **delivering transformational infrastructure projects** • Strong track record in co-investing / co-developing transformative infrastructure projects with real benefits for sponsors and co-investors • Diverse workforce consisting of 114 employees operating on a pan-African basis
Strategic positioning	• One of the most successful Public Private Partnership initiatives in Africa • Preferred creditor status, immunities and privileges in member countries • Private sector participation, combined with multilateral structure, enhances AFC's capacity as a financier and adviser to clients
Solid capital structure	• **Well capitalized** multilateral financial institution with ~ **US$ 3bn of capital and a balance sheet of US$ 10.5 billion** as at FY'22 • Has one of the **lowest leverage ratios** with conservative financial policies • Has been **profitable since inception**
Comprehensive product offering	• AFC invests across the value chain **of 5 key priority sectors**, and products are complemented with advisory capabilities in project development and management, capital raisings and restructurings • Key priority sectors include **sustainable infrastructure in power, transport, heavy industries, natural resources and telecommunications.** • Diversified asset portfolio, by geography, sector and products
Robust credit Profile, and Sustainability	• **A3 long-term issuer rating** and P-2 short-term issuer rating from Moody's, on the back of strong liquidity and capital position – top 3 **rated African institution** • **AFC is accredited to the Green Climate Fund**, the world largest dedicated climate fund under the United Nations Convention Framework on Climate Change

Well positioned to access and execute high quality opportunities

AFC Investment Footprint: ~$ 11.6 bn disbursed to projects across 36 countries



Status of climate adaptation financing flow in Africa

SAP Ariba Overview

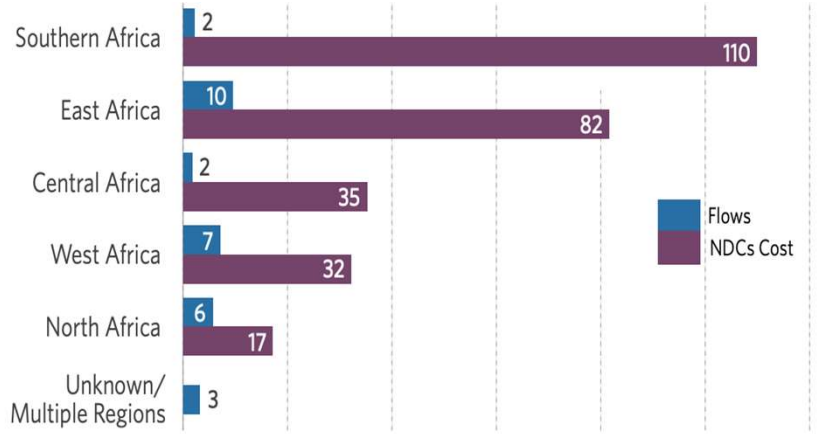
The total cost of implementing NDCs in Africa is estimated at USD 2.8 trillion over 2020- 2030. Africa's climate finance needs between 2020 and 2030 requires, on average, **USD 250 to 280 billion** each year.

Total climate finance flows into Africa from domestic and international sources amounted to only USD 30 billion, about 12% of the amount needed. The gap is undoubtedly significant. (CPI, 2022).

An equivalent to 10% of Africa's current annual GDP are required for climate finance, above and beyond current flows every year for the next 10 years. The estimated USD 250 billion plus, defined as climate finance needs' is the gap and must largely come from international public sources and private actors (CPI, 2022).

African Governments have committed USD 26.4 billion of domestic public resources annually, about 10% of the total cost. However, given debt levels and other development priorities, compounding from concurrent crises, African countries may not be able to provide the public climate finance required.

Figure 1: Estimated climate finance needs in Africa by region



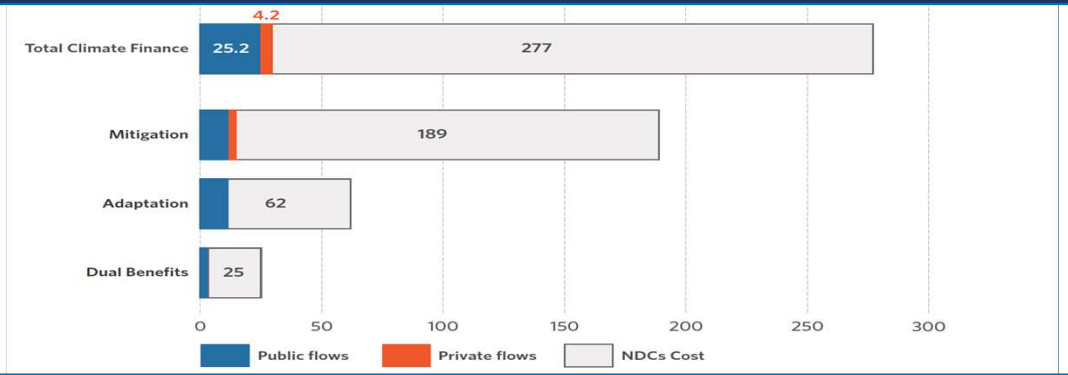
Note: Needs are annual averages for 2020-2030; Flows are annual averages for 2019 and 2020.

Source: https://www.climatepolicyinitiative.org/wp-content/uploads/2022/09/Landscape-of-Climate-Finance-in-Africa.pdf

Adaption Finance Gap

1. **Mitigation** accounts for the largest share of reported needs in 2020-2030, at **66% of total climate finance needs.**
2. **Adaptation accounted for only 24% of total climate finance reported needs**, despite Africa being highly vulnerable to climate change.
3. **Adaption finance in Africa amounted to about $11.4 billion which is ~18% of the estimated needs stated in NDCs.**
4. **The private sector contributed only 14% (USD 4.2 billion) of total climate finance in Africa**, much lower than in other regions like South Asia (37%), East Asia and Pacific (39%), and Latin America & Caribbean (49%) (CPI, 2021a)

Private and public climate finance flows vs. total cost by climate use (USD billion)



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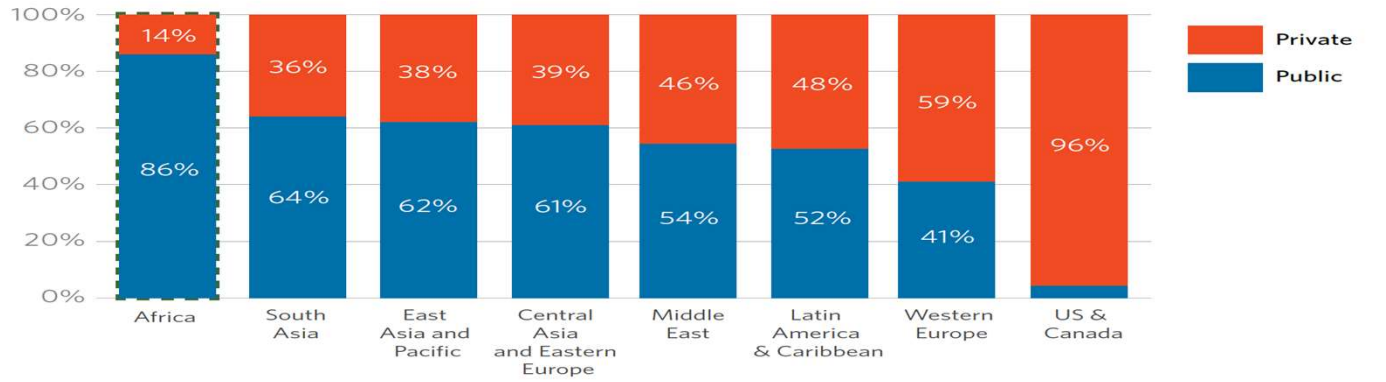
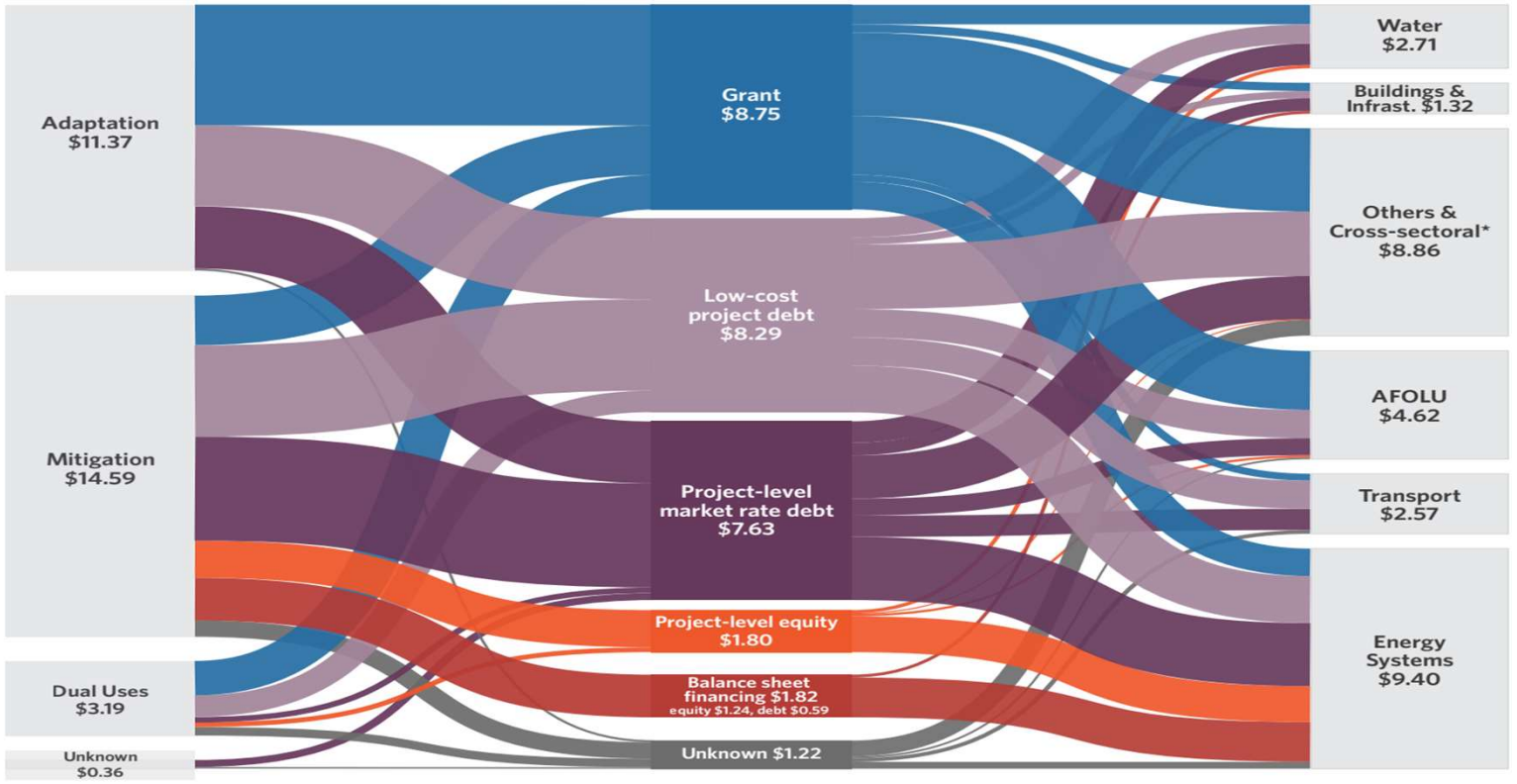


Adaption Finance Gap

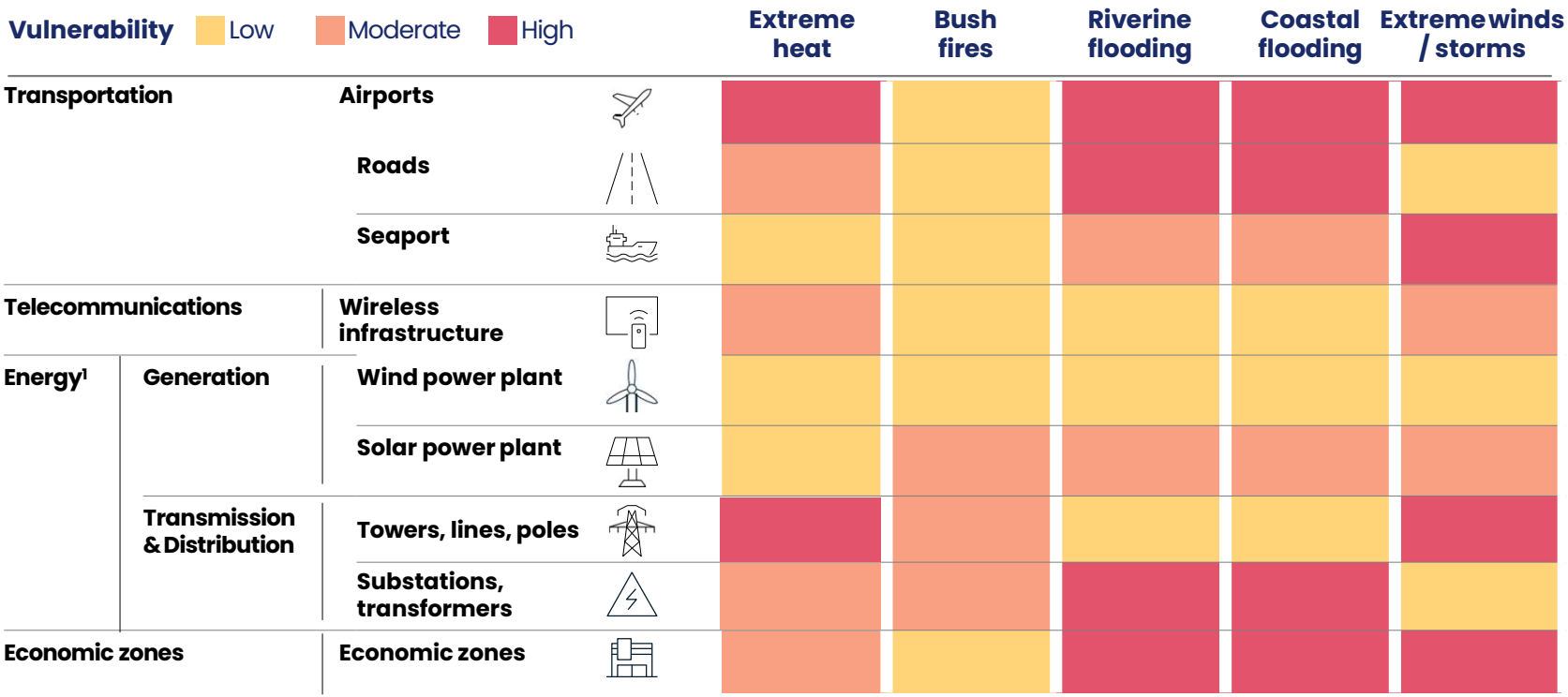
- In addition, adaptation finance has not attracted private capital flows (see Figure B1.10).
- The private sector needs to increase its contribution towards climate finance in Africa as public funding alone is not sufficient to meet the continent's climate action requirements.

Climate finance needs by financial instruments, thematic area, and sectors (2020–2030, USD billion)



Flood, both riverine and coastal, and extreme winds / storms could cause the most severe impacts to these infrastructure assets classes

- A qualitative view of infrastructure vulnerability to climate hazards



Flooding (both riverine and coastal) and **extreme wind** are the hazards that could cause the **most damaging impacts** to infrastructure assets

Most asset types have **low to moderate** vulnerability to **bush fires**

Extreme heat is particularly relevant for **airports** and **energy transmission and distribution**

Source: ACP Climate Operations Resilience Manual; MGI Climate Risk and Response (2020); https://aerocorner.com/blog/planes-fly-in-extreme-heat/; McKinsey internal expert interviews.
1 For energy, vulnerability categories are based on potential damage to infrastructure, not impact on output or efficiency

RECENT EXTREME EVENTS AND EFFECTS ON AFRICAN INFRASTRUCTURE

AFC INFRASTRUCTURE CLIMATE RESILIENCE INVESTMENT PROGRAM

Objective

The resilience program will focus on investments that enhance the quality and longevity of Physical infrastructure (roads, ports, bridges, rail, telecommunications, clean energy and logistics projects in Africa) with the objective of making these assets more resilient to the impacts of climate change while being in accordance with Paris Agreement.

Investment themes

The program will focus on greenfield and brownfield investments in Africa Finance Corporation's traditional infrastructure core sectors including:

i. Climate-resilient Transport Infrastructure: Ports & Logistics, Road & Bridges, Airports, Railways.
ii. Renewable Energy (resilient generation, transmission and distribution – the Fund will not invest into fossil fuel-based energy solutions)
iii. Low Carbon and Climate Resilient Industrial Parks and Economic Zones
iv. Telecommunication and Digital Infrastructure

Blended Finance

The Program will blend commercial and concessional equity capital to deliver attractive returns for institutional investors. Concessional capital will be mobilized from multilateral climate funds and donors. **In March 2023, the Green Climate Fund (GCF) approved a US$240 million junior equity first loss investment into AFC's Infrastructure Rresilience Program.**

Innovative Capital Structure

This innovative capital structure will not only de-risk the participation of institutional investors but also support the overall return objective and investment case. The concessional equity tranche will be subordinated to the commercial equity tranche – hence offering a first loss shield to institutional investors.

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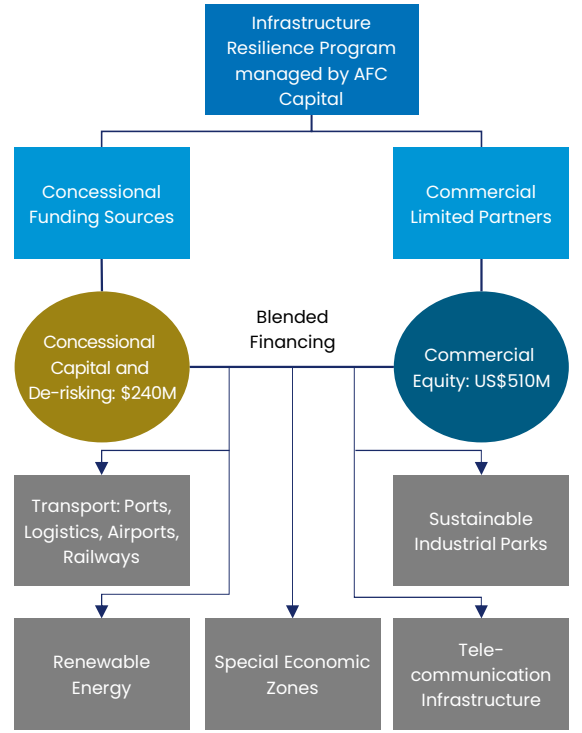
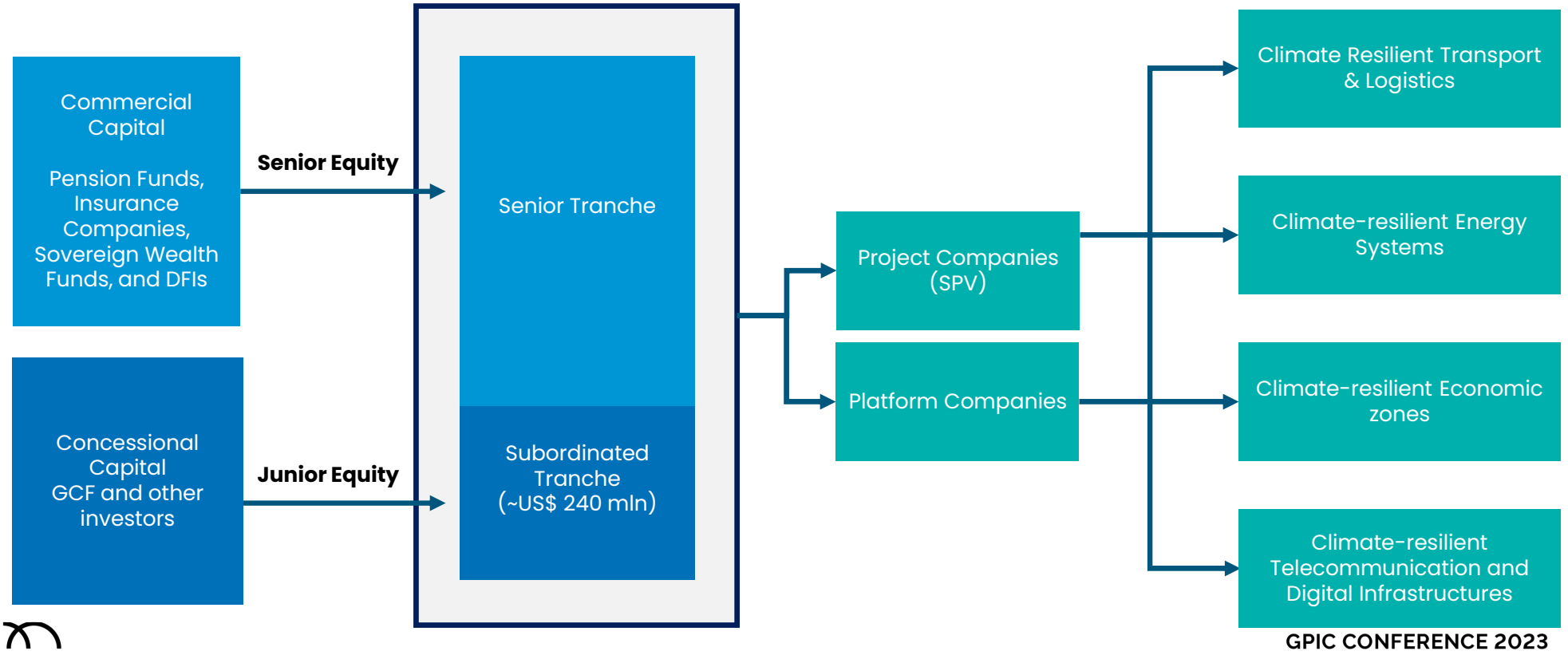
Program Capital Structure



CAPITAL STRUCTURE: INFRASTRUCTURE CLIMATE RESILIENCE PROGRAM

Highly de-risked blended finance structure for institutional investors



TRADE OFF BETWEEN RESILIENCE COST, RETURN AND BANKABILITY

GCF CONCESSIONAL EQUITY ENABLING TO CREATE A NEW ASSET CLASS

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Defining characteristic of climate-resilient infrastructure

It is planned, designed, built and operated in a way that anticipates, prepares for, and adapts to changing climate conditions.

It can also withstand, respond to, and recover rapidly from disruptions caused by these climate conditions

The physical impacts of climate change – such as increasing temperatures, shifting patterns of precipitation, increased intensity or recurrence of extreme weather events and rising sea levels - will affect all types of infrastructure

Infrastructure should be designed, built and operated in a way that anticipates, prepares for, and adapts to these changing climate conditions

Incremental costs and returns

- **Climate-resilient infrastructure** has the potential to improve the reliability of service provision, increase asset life and protect asset returns. However, to attract private sector investments and mobilize capital at scale for climate resilient infrastructure, the incremental costs of adaptation needs to outweigh the consequences of climate related damages or disruptions. GCF concessional equity is the enabler to balance the equation.
- **The programme will blend commercial and concessional equity capital** to enhance bankability. The concessional capital will be mobilized from the GCF to finance the resilience measures and de-risk the mobilization of institutional investors, while the commercial investors will provide equity required for the construction of the target infrastructure assets.
- **This innovative capital structure** will not only support the overall return objective of investors, but most importantly de-risk the participation of institutional investors and enhance the bankability of sub-projects.
- **The concessional capital invested by GCF** is set to support the cost of integrating resilience and crowd in institutional investors.

THE INVESTMENT PROCESS: INTEGRATING CLIMATE RESILIENCE CONSIDERATIONS

Climate Resilience and Low Carbon Considerations:

01 Conduct a climate risk screening for each assets

02 Undertake an extensive climate risk assessment

03 Assess and appraise climate resilience and low carbon options for each project

While infrastructure assets are naturally exposed to climate-related hazards, the level of exposure differs significantly from location to location, and the degree of vulnerability depends heavily on infrastructure design and specifications. A site- and asset-specific risk assessment allows financiers, project developers and operators to identify adaptation needs and prioritize investments in ways that enhance resilience. The site and asset-specific risk assessment consists of three main building blocks as described in the figure below.

1. Climate Risk Screening

1. Rapid screening of the project's and/or beneficiaries' exposure to climate hazards
2. Source relevant project studies, affiliated reports, and other knowledge materials
3. Map stakeholders and prepare TOR for climate and risk assessment
4. Online preliminary findings of how the project can enhance broader resilience

2. Climate Risk Assessment

1. Collate data required for climate risk assessment
2. Analyse the hazards to which the project is exposed
3. Analyse the project's vulnerability
4. Assess the negative impacts of the project through an Environment and Social Impact Assessment (ESIA)
5. Apply different scenarios to assess future climate and disaster risk
6. Summarize the climate and disaster risk assessment findings

3. Resilience Options Appraisal

1. Establish objectives of climate and disaster resilience
2. Identify applicable resilience options
3. Evaluate applicable resilience options from a technical perspective
4. Identify resilience options and low carbon co-benefits
5. Conduct economic and financial analysis of applicable resilience options including NPV and IRR sensitivity analysis
6. Combine technical and economic evaluation to prioritize and select preferred resilience options

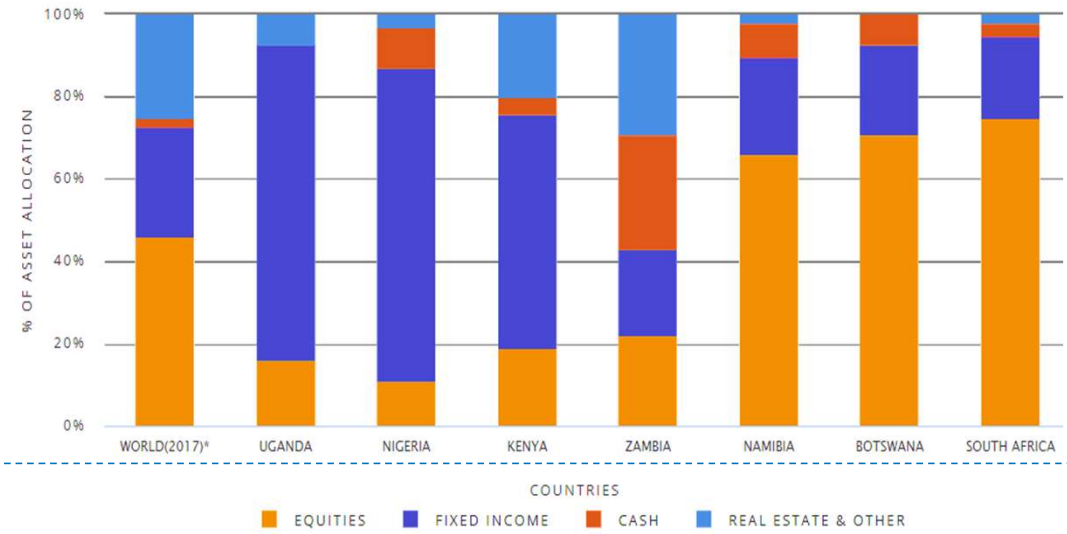
AFRICAN INSTITUTIONAL CAPITAL NETWORK

- African Pension Funds, Insurance companies and Sovereign Wealth Funds have a combined AUM of US$1.8 Trillion AUM.
- The Asset allocation is primarily focused on investments in both listed equities and fixed income.
- Allocation for infrastructure is scarce and where there is allocation - it tends to be focused on domestic country or international exposures (outside of Africa), but do not have a significant allocation towards Pan-African markets in the Infrastructure Space.

African Institutional Investors, 2020	
Type of Investor	**2020 ($billion)**
Pension Funds	1,100
Insurance Companies	445
Sovereign wealth funds	300
Total	**1,845**

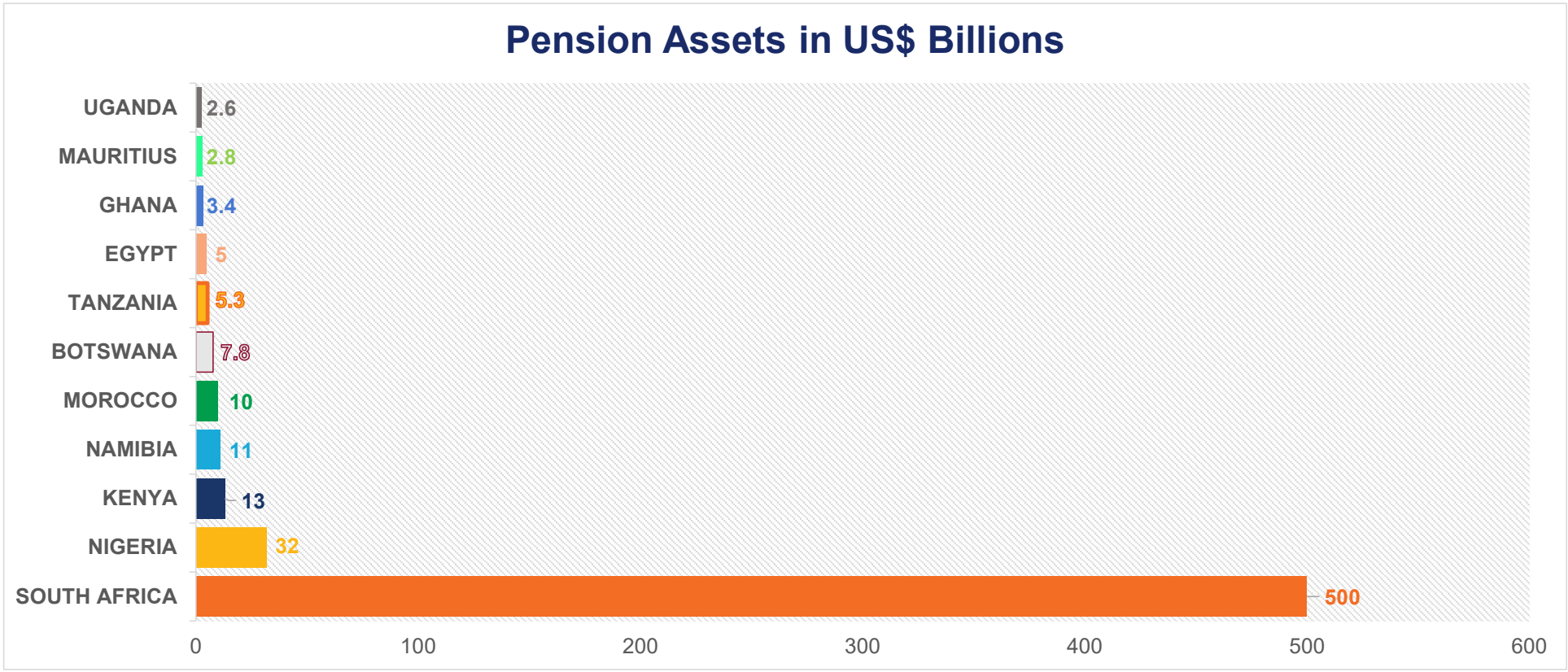
Pension Fund Asset Allocation (2017/2018)

*Average global asset allocation of seven largest markets



Sources: African Institutional Investors, Projections to 2020 - Source: Analysis based on Okpamen (2015) – Africa Economic Outlook (2018) – AfDB right Africa – Sources of Capital on the Continent

African pension funds asset under management



Global Capital Sources

Global asset management industry – Capital Sources and Mobilisation Potential Capturing 0.1% of Global AUM for Africa is a US$103bn opportunity

1 European Market US$ 26tr AUM

A few European institutional investors have already allocated funds to Africa via international managers (AP Moller and Meridiam). **Germany and Scandinavian countries** are the key focus in Europe.

2 Middle East Region >2tr AUM

Middle East investors can not be ignored – target is to build a relationship with Top-tier investors such as ADIA, ADIC, PIF, KIA, QIA have +US$2tr in AUM are opening to Ifor: Pan-African and MENA Strategies.

3 Asian Market US$ 25tr AUM

Asian Institutional Investors have significant capital pools, but limited exposorure to Africa. The top three markets include: **Korea, Japan, and Singapore**. AUM in the region >US$25tr

4 North America US$ 50tr AUM

North America is the largest market – but one of the most difficult to tap into for African infrastructure. Long term play that requires patience. Initial focus on family offices and pension funds seeking African exposure.

Europe: 0.1% of AUM	Middle East: 0.1% of AUM	Asia: 0.1% of AUM	North America: 0.1% of AUM
US$26Bn	US$2Bn	US$25Bn	US$50Bn

7

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