COP26 Aims to Tackle Infrastructure Financing in Emerging Economies

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EAIF is a member of the Private Infrastructure Development Group (PIDG). Here, the authors look at the challenges of COP26, at PIDG's climate change strategy and at EAIF's strengths in the infrastructure project finance sector

The world's attention will turn to Glasgow in November, when the Scottish city hosts COP26. Few, if any, international political gatherings in history have been the subject of so much expectation and hope. Hope is high that the world's leaders will reach agreements that provide a clear route map towards net zero, create mechanisms for fruitful international cooperation and enable and commit to making capital available to seed fund and promote the most vital challenges, particularly in the developing markets in which EAIF and PIDG operate.

COP26 has four fundamental objectives:

- *Secure global net zero by mid-century and keep 1.5 degrees within reach*
- *Adapt to protect communities and natural habitats*
- *Mobilise finance*
- *Rise to the challenges of climate change by working together to deliver*

For EAIF and PIDG, and for EAIF's fund manager, Ninety One, climate change mitigation are firmly established principles of business. EAIF has now participated in the financing of 23 renewable energy plants, in hydro, solar, geothermal and biomass. More renewables projects are expected to be announced this year.

Backing clean energy is only a part of PIDG climate change strategy. The overall strategic objective of PIDG's climate change action is to accelerate an equitable and just transition to net zero in the countries it operates in. PIDG aims to do so by enabling the development of low carbon, climate resilient, sustainable infrastructure and by mobilising flows of climate finance to countries with the widest infrastructure gap. The approach is to leapfrog and replace the highest GHG emitting technologies, while stimulating sustainable socio-economic development.

To quote from PIDG's official position: "As a responsible investor focussed solely on infrastructure in some of the poorest and most fragile contexts, PIDG takes climate change into account in every investment and operational decision."

As an example of what that means, climate change mitigation measures must be specified at every stage of the construction and operation of projects EAIF lends to.

RESILIENCE

Global warming though has added a new urgency to how we think about financing infrastructure in emerging markets and what we ask the capital we deploy to achieve. We have always been about giving the private sector the confidence to invest in developing and fragile economies. Now we have to champion the value of investing in infrastructure like power plants, ports, roads, water facilities and digital networks that are not only built to last, but built to a minimum carbon footprint and resilient to climate change effects.

We are also seeking to encourage the entrepreneurial talent that exists in all the territories we operate in to invest in infrastructure that will return a profit for investors and be part of the armoury of climate change resilience. COP26 will ask each country to seek to change their economies, to both create opportunities for new green businesses and jobs and create appropriate financial, regulatory and legal structures. In the territories EAIF and other PIDG companies operate helping that happen will be fundamental.

HUGE SUMS

In 2017, Oxford Economics estimated that up to 2040 the world would have infrastructure investment needs for electricity and water alone of $94trn and a further $3.5trn to meet the Sustainable Development Goals. The COP26 agenda says that developing countries in particular need support, and calls on the developed world to deliver on its prom-

The 40MW Central Solar De Mocuba plant in Mozambique is one of 23 renewable energy plants EAIF has supported to date. Picture courtesy Scatec Solar.

One of ten green energy plants supported by EAIF in Uganda, the 5.4 MW Lubilia Kawembe Hydroelectricity station sends clean, renewable power to the country's national grid. Around 250,000 people benefit from the energy produced by the facility.

ise to raise at least $100bn every year in climate finance to support developing countries.

By any measure these are huge sums of money. The only possible way such quantities of finance can be made available is through making infrastructure investment in emerging economies private sector an increasingly attractive proposition to private capital. So, how can infrastructure provide appropriate risk adjusted returns for investors while providing end users – people and businesses – with infrastructure that is affordable to them, is dependable and robust?

Answering that challenge is precisely what EAIF and PIDG are about. It's what they have been doing in the nearly 20 years of their existence. PIDG was set up with the purpose of addressing market failures in the provision of sustainable infrastructure throughout sub-Saharan Africa and south and south-east Asia. EAIF was the first of the PIDG member companies.

TRACK RECORD

In hard numbers, EAIF's track record adds up to 84 now completed projects across all nine of the sectors it is empowered to lend to. That represents a total capital injection into Africa of $23.5bn of which $14bn was mobilised from private sector sources. In 2020, for the first time, EAIF's loan book topped the $1bn mark. For PIDG, its overall the numbers are of course even larger: $35bn mobilised from private sector and development finance institutions; 217.7 million people benefitting and 250,117 long term jobs directly created.

EAIF can lend typically between $10m and $65m per transaction. It uses the public and private capital at its disposal to back bankable projects across Africa. Besides the anchor capital of EAIF coming from four European governments, we attract as long term lenders of private sector capital from financial institutions like Allianz Global Investors and Standard Bank and development finance organisations such FMO, the Dutch Development Bank, KfW and the African Development Bank (AfDB).

EAIF often works with other specialist PIDG companies to provide finance across the infrastructure development cycle. EAIF, via its managers, Ninety One, also arranges and structures debt finance, frequently engaging with private banks and development finance institutions, including the IFC, FMO, KFW, France's Proparco and AfDB. The aim in every case is to de-risk projects to the greatest possible degree to enable infrastructure development that meets the needs of all the key stakeholders; investors, operators, countries and the global community.

STRONG LOAN PORTFOLIO PERFORMANCE

A clear benefit to institutional investors is that EAIF has shown strong credit performance over the last 20 years, resulting in a low loss rate to date. It shows the potential of Africa's infrastructure sectors as an attractive asset class. In addition, EAIF's blended finance model is attractive for institutional investors as owner's funds provide a significant risk cushion. A well-diversified geographic and sectorial loan portfolio with cash flow stability is a historic feature of EAIF's operations.

For PIDG and EAIF, infrastructure is a means to an end, not an end in itself. PIDG and EAIF have long horizons. They look for impact over years and decades. Impact that can be seen in growing business confidence in fragile economies, more jobs and higher skills across the population, greater access to health and education and, critically, contributing towards a measure of economic stability and sustainability.

One of the greatest challenges of climate change mitigation means marrying knowledge and capital to make things happen in the right way. That's a challenge PIDG, EAIF and Ninety One are fit and ready to face.

* The PIDG group also includes GuarantCo, InfraCo Africa, InfraCo Asia, and PIDG TA.