Investment Portfolio Valuation Advice for InfraCo Africa Limited

InfraCo Africa kindly requests a fee proposal for the following services, which are confidential.

InfraCo Africa

InfraCo Africa Limited (IA or 'the Company') seeks to alleviate poverty by mobilising investment into sub-Saharan infrastructure projects. This is done by funding teams of experienced project developers or by investing directly into projects which need the financial commitment and leverage that InfraCo Africa can bring. InfraCo Africa's support reduces the risks and costs associated with early-stage project development, ensuring that a project develops from concept to a bankable investment opportunity.

InfraCo Africa is part of the Private Infrastructure Development Group (PIDG - www.pidg.org). Established in 2004, InfraCo Africa is managed as a private company although funded by the governments of the UK (FCDO), the Netherlands (DGIS) and Switzerland (SECO). InfraCo Africa's projects have mobilised over US$2 billion of investment and have provided new infrastructure for approximately 13 million people, improving living standards and powering economic growth in sub-Saharan Africa.

InfraCo Africa Limited is a UK incorporated entity, reporting under the International Financial Reporting Standards (IFRS), and has two 100% owned subsidiaries: InfraCo Africa (East Africa) Limited and IAWA Limited, incorporated in and operating from Nairobi, Kenya and Casablanca, Morocco, respectively.

Background

Since incorporation in 2004, InfraCo Africa has been investing in infrastructure projects across Sub-Saharan Africa in its position as a Development Finance Institution (DFI). Where initially the Company sought to fund a project through to Construction, having reached Financial Close (FC), and then exit, hoping to sell its interest to a private investor. InfraCo Africa has since changed its model where, in most cases, the Company now supports projects through Construction and into Operation, looking to exit around two years following Commercial Operation Date (COD).

For financial reporting purposes, InfraCo Africa Limited is defined as an Investment Entity under IFRS 10, meaning the Company utilizes the Investment Entity Exemption (IEE) not to consolidate subsidiaries and associates held for investing purposes and instead recognizes them at fair value through profit or loss (FVTPL) in line with IFRS 9. Management have therefore constructed and implemented a fair value (FV) model, taking a risk-adjusted approach to value each investment, both debt and equity, to recognize on the balance sheet.

The current FV model is principally driven by the stage a project is at in its investment cycle, as detailed above, being Development, Construction and Operation. The former two stages currently focus on costs disbursed to date and the latter aims to move towards a valuation methodology such as Discounted Cash Flow (DCF) or Net Asset Value (NAV) as the investment starts to generate positive and supported future cash flows. The key requirements are that the model adheres to both IFRS and adopts International Private Equity and Venture Capital Valuation (IPEV) best practice, wherever possible, presenting fair value of investments to be the amount at which a market participant would be willing to pay for IA's interest in the project at a specific point in time, Reporting Date, most commonly Quarter and Year End.

InfraCo Africa Limited is unique in its operations and activity, meaning there is no 'standard' model management can apply especially for projects in Development or Construction. The Company is therefore looking for a model to be constructed, or the current one to be amended, with the aim of ensuring it can be consistently applied across the investment portfolio and provide sufficient support for the calculation of the fair value of the investment portfolio. The market IA invests in is inherently risky, however this is predominantly in terms of delays rather than investment failure (as historic trends can support). One of the key outputs od this exercise will be in relation to the construction of the risk-adjusted discount factor IA apply.

Requirements

The overall objective is to provide an independent assessment of the valuation methodology adopted by InfraCo Africa in determining the fair value of its investment portfolio.

This will involve reviewing IA's current FV methodology against IFRS and IPEV guidelines, provide recommendations on improvements and ultimately assist in preparing a robust Valuation Policy Document which will be utilised both internally and, where applicable, externally.

The work should be desk based. Site visits (to IA offices) may be organised if deemed the most efficient method of completing this project but all subject to COVID-19 restrictions and regulations.

Scope of Work
This project can be split into three stages:

Stage 1: Preliminary review of current FV model

- *Work required:*
    - IA to go through current model with consultant via document sharing and arranged meetings (remotely or at IA offices, dependent on COVID restrictions)

- *Deliverables:*
    - Once reviewed, consultant to provide a summary/overview of the model with any key recommendations for improving. This can be written or verbal, to be discussed and determined post appointment of external consultant
- *Timeline:*
    - From start of the engagement, this is expected to take no longer than two weeks to complete. Diary invitations will be circulated to ensure this timeline is met

Stage 2: Implementation of improvements to FV model

- *Work required:*
    - Working alongside IA, and addressing the points that come up through stage 1 above, to adjust FV model where necessary to ensure can be implemented across investment portfolio
    - Specific focus on the risk-adjusted discount factor construction
    - Address various financial instruments utilised in investment structures, for example Convertible Loan Agreement (CLA), Development Finance Agreement (DFA), Shareholders Agreement (SHA), both Shareholder Loan and Equity to address where the FV model might need to incorporate additional premia / discount to reflect the changing risk profile of these instruments
    - Consideration of the treatment of interest accrued on debt instruments
    - Ensure all aligned to both IPEV and IFRS guidelines
    - Noting scope may be adjusted to incorporate/address any outcomes from Stage 1 above
- *Deliverables:*
    - FV model, including required inputs, to be in line with IPEV and IFRS guidelines and can be implemented across IA investment portfolio. It is likely, this will be an adjustment of our current model, rather than from scratch, but this will be confirmed once IA current model has been reviewed
- *Timeline:*
    - From completion of Stage 1 of the engagement, IA expect this to take no longer than three weeks to complete.

- Weekly calls will be arranged to discuss progress and where necessary, meetings either remotely or in person can be arranged to go through questions/model on a timely basis

Stage 3: Amending and/or preparation of Valuation Policy

- *Work required:*
  - Working alongside IA, documenting the valuation methodology in a policy format.
  - Reference to stage of project, investment structure and relevant IFRS/IPEV guidelines to be included
  - Section specifically addressing key judgments and estimates to be included
  - Noting scope may be adjusted to incorporate/address any outcomes from Stage 1 and 2 above
- *Deliverables:*
  - Valuation Policy document, as detailed above. This will likely be an adjustment of the current policy document and will be worked on alongside IA, with contributions/suggestions from external consultant but ultimately prepared by IA.
- *Timeline:*
  - From completion of Stage 2 of the engagement, IA expect this to take two weeks to complete.
  - Weekly calls will be arranged to discuss progress and where necessary, meetings either remotely or in person can be arranged to go through questions/policy on a timely basis

Guidelines for proposal

The consultant should provide fixed price quotations, meeting the above requirements. The consultant should propose methodology based on the defined requirements and identify a team of individuals with relevant track records and experience. The proposal should include: a table of time allocated to and rates for each team member by task; and a timeline and milestones for preparing and completing deliverables. These should include time and costs for project management, reporting and deliverables. <u>Please note, for this piece of work, IA is looking for a Consultant who can work alongside IA in preparing the above deliverables meaning time will be dedicated by both parties in reaching the end goal. Once awarded, specific timelines for delivery and regular meetings will be confirmed to achieve the desired output.</u>

Since InfraCo Africa is funded by its government owners, InfraCo Africa has strict anti-bribery and corruption requirements. Therefore, please note that, due to the nature of our funding, we require the consultant to include the following wording in their engagement letter:

The Consultant is required to:

(a) abide by the PIDG Operating Policies and Procedures, as applicable to the scope of work and services provided. The PIDG Operating Policies and Procedures can be found at https://www.pidg.org/resources/?filter_cat=operating-policies-and-procedures; and

(b) permit the PIDG's representatives to inspect all their accounts and records and other documents relating to the performance of the services or required to be maintained pursuant to the agreement and to have them audited by, or on behalf of, the PIDG.

In addition, restitution by the consultant is required of any amount of the funding from PIDG Members with respect to which fraud and corruption has occurred.

InfraCo Africa Limited (English company) will be the client for the study. We would also require the ability to share, on a limited and confidential basis, this report with other companies within the PIDG group and certain external parties, with permission, such as Auditors.

Should you wish to be considered for this mandate, please provide a fee quote (including all expenses) in line with the detail provided above for the scope of work described above by COB on 23rd July 2021. In preparing your fee quote, please take into consideration that InfraCo Africa is funded by its government owners. Quotations should be sent to both the following email addresses:

Seamus Budds, Head of Finance – sbudds@infracoafrica.com

Isabel Petri, Finance Manager – ipetri@infracoafrica.com