### *Session 5*
## *Financing for Projects in Africa, PPP and Risk Sharing*

***Moderator***
### ***Charles Boamah***
***Senior Vice President of AfDB***

*Mr. Charles* began by talking about the huge infrastructure deficit in Africa which led to a loss of a lot of GDP growth. Some SMEs show that around 2% of GDP growth is lost just because of lack of infrastructure. Hence, there is an urgency to bridge this issue of infrastructure gap. At the same time, finance deficit or what it takes to finance this infrastructure is also a huge amount.

Traditional sources like governments, institutions such as the African Development Bank, the World Bank, etcetera, do not come close to what is needed to bridge this gap. The private sector needs to be brought in a much more significant way. Significantly, the financing for development conversation that took place 2 years ago in Addis Ababa was really to bring the private sector into the mix.

Here are the estimates from the Infrastructure Consortium in Africa, ICA, which talks about some 100 billion and then a gap of 50 billion. The numbers have changed. Frankly, a much larger gap needs to be filled. At the African Development Bank, when there is a discussion about the High Fives agenda and what it takes to finance infrastructure, more than $200 billion a year is required. An amount this big is required to finance the infrastructure in Africa.

*Mr. Charles* invites the panelist to talk about how one can go from what is needed to what is available and all the innovative mechanisms needed to essentially bridge the gap.

### ***Nobumitsu Hayashi***
***COO, Senior Managing Director of JBIC***

*Mr. Hayashi* began by introducing JBIC.

JBIC used to be called Japanese EXIM Bank, like sister ECAs, but now has been rebranded as Japanese Bank for International Cooperation, as it not only does export-import but also does more on investment and equity participation. The letter *I* in JBIC can stand for investment, infrastructure or even innovation.

JBIC has around ¥80 billion or US $100 million in total assets. JBIC is a wholly government-owned institution and supports Japanese companies' exports and imports.

This is how the risks and benefits shared by the stakeholders in PPP look like. Certain country's government would like to invite private partners, investors and contractors, who would bring greater efficiency and reliable services to the project. Financial institutions, which provide long-term financing and knowhow, are most needed in many African countries.

The commitment of public entities, either central or local government, is important to prepare proper regulatory framework and implement them in a predictable and reliable manner. The government should have a good preparation of the project at the outset and conduct necessary support throughout the project for that particular country's people to gain benefits.

This can be done through ECA's and MDB's, which are like JBIC and African Bank respectively, support to the government and mitigate the risk for private investors and private bankers.

JBIC's preparation for such a project preparation just does not come at the financing stage. JBIC continually cooperates with Japanese companies as well as recipient governments to identify project design and prepare and negotiate for those projects.

JBIC conducts a policy and a regulatory framework discussion for many of its client countries on a regular basis and for other countries on a case-by-case basis. This is the support that JBIC gives in a seamless manner with the host governments. To the host governments, JBIC avails their network of Japanese companies. JBIC's participation makes Japanese investors, engineers and financial corporations more confident about the risks they are facing.

JBIC has done a lot of projects with many Asian and Latin-American countries and wants to do more with African countries as they have set up facility for African trade investment where they conduct equity participation and two-step loans to support Japanese companies' business to facilitate infrastructure development, private sector growth and sustainable growth in Africa.

JBIC has committed US $7 billion on a project and has so far disbursed as much as 2.9 billion which means $4 billion still remains on the table. This forum will hopefully help JBIC to identify bankable projects and work together with JBIC as well as Japanese companies.

***Toshitake Kurosawa***

***Director – International Finance Corporation, IFC***

*Mr. Kurosawa* talked about the risk mitigation measures used to increase infrastructure financing in Africa.

Development challenge is a huge colossal demand. The loss is 10 to 20 times larger than the estimated $100 billion globally. To meet the infrastructure needs globally, several trillion dollars are needed.

This cannot be done through more ODA as it is stagnating. The ODA can be expected to come by but it has already been marginalized for many years. In contrast, the soaring Rising Star or the private capital for indirect investment is maybe eight or nine times larger than ODI already.

This is where IFC can get its resources but is the resource out there? Being a private sector, the answer is, yes, the resource, money, and the capital is out there in the form of the institutional investor, the large pension funds, the large insurance companies, the sovereign wealth fund as well as the global bond market. In total, they account for more than $100 trillion, which is ten hundred times larger than the capital that is flowing into the developing economies these days. An additional 1% or 2% from this private fund can probably meet the finance needed for infrastructure in the developing economy.

Doing this is a challenge for the World Bank group. Two things have been proposed. One is the cascade approach to maximize the private sector flow in the developing economy and selective and strategic use of ODA. Second is the de-risking instrument, which the private sector windows have been proposing.

Cascade, in plain English, means a waterfall and this is how a waterfall cascade looks like. This is how the scarce resources are prioritized and the private sector money is maximized.

The first is a commercial bankable project. The private sector should be allowed to play a full role here. ODA public sector money should not be used to crowd out private sector financing. Many of the developing economy's financing needs consist of non-bankable projects, which need to be somehow made bankable to attract private sector money.

The second and the third is where the private sector fund can be maximized by using de-risking instrument as suggested by the World Bank.

First is to work on the upstream. The regulatory framework tends to be wrong and that is why the private sector does not enter many countries. This needs to be fixed because IFC knows how to work as a government, which is the problem in a developing country.

World Bank has a policy-based loan. IFC has advisory funding. IFC can use these instruments to amend the regulatory policy so that the private sector can come in. Even after doing this, the commercial risk still seems to be a problem in many of the African countries, where the market can be very small and risk can be very huge, so the first loss is not affordable for many of the private sectors. Proposals are being made to de-risk these.

The private sector window is being proposed as the second tool. The source is International Development Association, who funds the concessional loan. Until 2017, this loan was used only for the public sector but for the first time it was used for the private sector. To de-risk financing for private sector, concessional loan will be used.

The fourth tool, which totals $2.5 billion and is already in use from July, is the risk mitigation facility, the blended finance facility, MIGA guarantee facility, and the local currency facility.

As the name suggests, the risk-mitigation facility is a guaranteed tool, which would cover the first-loss risk. In the blended finance, the concessional rate can make the normal interest rate low and can cover the first loss as well. The MIGA facility is to enhance MIGA on capacity. The local currency facility is interesting because many countries, African countries particularly, have credibility and local currency problem. This can be fixed up by de-risking this as well.

*Charles Boamah* stated that the point that is heard all the time is there is plenty of money out there but it needs to match the money required to complete the projects and a lot of the other needs that are not being met.

He asked *Mr. Muto* about his experience in solving this issue of there being plenty of money on one side but the projects not being able to find the money.

### *Tomoki Muto*

***General Manager, Head of Project Finance Office, Structured Finance Division, The Bank of Tokyo Mitsubishi UFJ, Ltd.***

*Mr. Muto* began by introducing MUFJ, which has had a presence in Egypt and South Africa for a long time. MUFJ is also present in the project finance area. MUFJ was ranked number 1 in terms of Project Finance League Table for 5 years in a row. MUFJ earns its bread and butter from the infrastructure and the natural resources sector.

In Africa, MUFJ has been working on core projects in the natural resources sector, namely, LNG plant or mining projects. MUFJ has also been doing some things in the power and the renewable sector in countries around Africa. None of this could have been done without the support of multilateral development banks and ECAs, Export Credit Agencies, because of the absence of private sector in terms of investing money into developing countries.

There are a few issues in financing private sector funding. One of the challenging things for infrastructure projects in developing countries is the tenure. To start with, amortization is a challenge, as there is a pretty long tenure to provide international funding of long-term financing for commercial banks.

Since MUFJ are relatively new into the infrastructure space, they need to get familiar with the regulatory framework of the PPPs. How to communicate with the government in terms of the statutory framework and also the procurement process and also how to develop the risk mitigation process has been talked about. Some of the challenges being faced by MUFJ in terms of financing projects in the African region are how to communicate with the government in terms of the statutory framework and the procurement process and also how to develop the risk mitigation process.

More proactive interaction is needed between the local government, the Japanese government and the private sector in the early stage because by the time financing is being considered, risk mitigation framework has been pretty much set up. By the time the private sector gets the package and it is considered, maybe the risk mitigation structure is not as acceptable as it would have been if the involvement was in the earlier stages.

This is one of the things that should be communicated more into the region. MUFJ can also introduce its experiences around the other parts of the globe, to developing countries in the African region and also to support global and Japanese clients who are actually investing into the region.

*Charles Boamah* turned to Gad, and eleQtra had done quite a few projects in Africa adding up to some 2000 megawatts. Based on the work that eleQtra has done, what are the key policies and regulatory challenges associated with it that can obstruct its way in getting the finance and the infrastructure financing in Africa?

### ***Gad Cohen***
***CEO – eleQtra***

*Mr. Cohen* stated that eleQtra started in 2005 and focused exclusively on developing Sub-Saharan African infrastructure. It developed, closed and financed about 1.2-1.3 billion worth of infrastructure projects, mostly in the power sector but also in transportation and a little bit in bulk water. Today, probably another 1000 megawatts worth of projects are being developed pretty much across all regions. EleQtra has offices in Akra, Kampala, Lusaka, and one opened recently in Maputo.

EleQtra has been very much focused on the continent as projects have developed and closed over a period of 12 years. EleQtra has learnt a couple of lessons in terms of regulatory and policy challenges that the continent faces and there are a number of things that need to be highlighted in that respect.

First is when private projects are being developed in Sub-Saharan Africa, most governments view these projects as strategic assets. As a result this bias or preference, they finance these projects themselves if they have the funds.

Private sector participation in the strategic assets from the government's perspective is a default and not a primary solution. The private sector is not coming in with an open door. One of the challenges that the private sector faces is its role in improving the policies and regulatory frameworks. The narrative and the work of the private sector becomes a lot easier in terms of the benefits of investment in the strategic assets.

One of the challenges is to improve on the narrative because the private sector clearly provides better value for money for the end users through innovation, technology transfer, efficiency, and over the life cycle of projects.

The second issue is one of perception and headline perception about the financing cost of these projects. It is a fact that private sector cost of marketing these projects and closing them is actually very expensive. It is expensive not only in terms of the financing cost but also because it is very time consuming to bring in the private sector and have structured transactions. There is also a political cost as a lot of the requirements to make transactions bankable require the sovereign and the government to make commitments.

A lot of the work that has been done over the last couple of years is to improve on the private sector investment case. In that respect, there is the right balance in the relationship between private sector and government. To some extent, the regulatory and the policy environment has not got it quite right. If the projects today are favorable to the private sector, it is because the risk transfer and the cost have been shifted almost entirely to the public side. If there is risk after the project has been built, then there is going to be a renegotiation from the government.

If one is tilted too much on the other side which is essentially a transfer risk borne 100% or significantly by the private sector without the required returns, a weak project will be at risk. In worst scenario, the investors will walk away.

Where these policies and regulations need to be improved to facilitate the work that is being done is to get as close as possible to that balance. Unfortunately, each project is different and each individual developer or debt investor, equity investor or the DFI have to get this balance right.

*Charles Boamah* asked *Mr. Klousseh* on how Africa50 positions itself in this whole dynamic of infrastructure financing in Africa?

### ***Koffi Klousseh***

***Director of Project Development, Africa50***

*Mr. Koffi* stated that Africa50 would like to be of assistance as investors in the project development and project financing of infrastructure in Africa.

Africa50 was established with the African Development Bank's mentorship, which was based on three main observations. The first is that the fund supply for infrastructure financing is not lacking, as there are plenty of funds. Every year the African Development Bank, IFC and various banks try to close deals but it is not working out, as the projects are unfortunately not at the stage where they can get financing.

Second is the issue of bankable projects, which allow all the key stakeholders like financiers on the equity and the debt side as well as the government, to feel that the balance is right. The balance has to be right, as the projects cannot tilt too much towards any of the stakeholders. This means risk allocation has to be standard, needs of all the parties should be respected and procurement processes should be predictable.

Product development is extremely expensive as the money utilized and spent towards the project might not be regained, and there is no surety that the project would reach financial closure. Hence, predictability is important as it provides the knowledge that if one has done a project, it will be financed and it is critical for it reach the finish line.

The third observation that created Africa50 is that it has been a market player in African infrastructure, where Africans in the form of financiers, builders, constructors, EPCs, and maintenance were a minority as most of them were from outside of Africa. Only a few certain types of projects that got their interest are the projects they are familiar with or the ones that are probably led by known entities, so they know how to contractualize and deal with them. Some other interesting projects might not get as much interest.

It was important to have an additional African player in the market for sustainability. In 15-20 years' time, when things change, governments might renegotiate a deal or the companies receiving concession might end the deal as most of the return has been obtained. Having a local African stakeholder is meaningful and sustainable.

The African Development Bank took these three observations into consideration and 23 African countries invested in Africa50 to develop a pipeline of bankable projects under the Africa50 Project Development mandate, invest in infrastructure under the financing close or long-term financing mandate, and catalyze public sector capital resources and mobilize private sector money.

Africa50 intends to have investors invest in African projects by its presence, role in structuring deals and be a bridge between private players and governments that are its shareholders.

### ***Geoffrey White***
***CEO – Agility Africa***

*Mr. White* started by introducing Agility as one of the world's largest logistics companies with over $5 billion in revenue, 24,000 employees, and 550 offices worldwide. Agility moves goods for a whole range of multinational and smaller companies worldwide. Agility focuses on emerging markets, with one of its core competencies being operating, developing, and managing warehouse parks. Currently, Agility has 20 million square meters of warehousing parks worldwide. Two years ago, Agility reached out to its core customers to gain knowledge about Africa and what it should be doing in Africa.

As a logistics company, Agility has operated in Africa for 60 years. Agility understands the continent but wanted real feedback on the requirements.

The moment has passed where 5 years ago companies knew very little about Africa, but a whole range of companies came back as they were keen to get involved and do business in Africa. The constraint of doing business in Africa is accessibility to operational infrastructure to carry out business.

To deal with this, Agility came up with a mainboard strategy 2 years ago to build a network of warehouse parks across the continent. This was no rocket science, as Agility has got the experience and capabilities of doing this. Agility has embarked on a program to acquire 100 acres in 50 key locations around the continent to build a network, which is an important part of it. The customer feedback was to be able to move goods from one country to various other countries, same infrastructure quality, same warehouse management systems, and being able to track and traceability.

This aligns with whatever Agility is saying today about growth and opportunity of regional trade. Agility started the program and chose to build the first project in Ghana. It acquired a site at Tema's Free Trade Zone Enclave in Ghana, built the first phase and got it up and running. Basically, it is a 500,000 square meter site which enabled Agility to build 300,000 square meters of warehousing on each of the 50 sites across the continent. These sites will be interconnected for goods to move easily between them.

At its warehouse parks, Agility guarantees three service-level agreements that the power will never go off, the IT will never go down, and it will be a secure environment. The concept is to create an enclave, which helps focusing on doing business. Two clear markets were identified. The best way to explain this is two Ghanaian case examples.

One is that a multinational company, the largest dairy in the world with revenue worth €9 billion, was looking to invest in Ghanaian market. Their plan was to invest $5 million in Ghana, $4.5 million to build the facility and $500,000 to get it up and running, working capital and processing equipment. Their investment theory was opposed to taking $5 million risk in Ghana. Agility was able to change their model by leasing them a warehouse developed and built by it. The warehouses meet international standards and are run by an international company with a whole management team. The multinational company was able to make the investment decision of coming to Ghana at $500,000 risk as opposed to $5 million risk.

The second market that is clearly and arguably larger than the multinational business is SME development and growth. SMEs struggle to access capital at good prices to grow their businesses.

One of Agility's first tenants in Ghana was an SME from the agri sector, packing and processing agricultural produce. They were unable to break into the export market due to lack of a proper facility to bring people to inspect it and see their business model. They went to a South African bank that loved their business and agreed to lend $3.5 million to build a facility and charge in cedis an interest of 29% for the lent money. With that margin, it was a non-starter for a business. As opposed to this, the multinational company took one of Agility's warehouses and set up their facility on 3 months' deposit without having a heavy balance sheet or financial guarantees.

Consequently, they got export orders into the Middle East, Europe, and South Africa and it transformed their business to the extent that they sold 30% of their business to raise money to meet the working capitals of their new business model.

Prospectively, Agility creates platforms that enable businesses to fundamentally align with infrastructure growth. Financially, Agility acquired the sites, which are currently up and running in Ghana. As Ghana has moved on to phase two and three and is almost full, Agility has started under-construction projects in Senegal, Cote D'Ivoire and Mozambique. Agility is also doing projects in Angola, Nigeria, Tanzania, Kenya and Ethiopia which will all start before yearend.

Financially, Agility is sufficiently lucky as a company as it can self-fund itself and raise the capital for the business plan for Africa. Agility's model can self-fund the initial roll out of the projects and this can be leveraged on the basis that the site has been acquired and construction is being done. Agility is business cash positive, which will not only make it easier but also competitive to bring in extra funding to rule out the program.

*Charles Boamah* summed up that the above discussions talked about different types of infrastructure, logistics critical to competitiveness of African countries, infrastructure related to logistics and energy and left them with the basic question of how to tackle the huge finance gap for funding infrastructure in Africa.

The discussion also touched on the issue of dealing with the lack of bankable projects and how the regulatory environment and the regulatory reforms can correct it.

He asked what JBIC was doing to improve or create a better perception of the regulatory policy environment to attract more infrastructure and PPPs to Africa.

*Nobumitsu Hayashi* highlighted two aspects of the risks. One risk is at the initial stage and the other is in the long run. The risk is highest for investors and lenders at the initial stage, when construction is being done and before the project becomes operational. The government has to be well prepared and JBIC and the African Bank can help in project preparation.

The other aspect is that the project has to run long for 20 or 30 years and the lenders especially feel the risk for the long time duration. It is necessary for the regulatory framework to be well-planned and well-implemented. In both short and long term, the government's role as well as commitment is very important.

*Charles Boamah* asked IFC to comment on the challenges and risks that exist in low-income economies and the solutions to these problems, as IFC does a lot of work in Africa and in other parts of the world.

*Toshitake Kurosawa* stated that there are many obstacles and challenges. He gave a concrete example of a solar project called Scaling Solar, which has been successful in Zambia, West Africa.

What makes this project bankable from non-bankable in a country like Zambia is land acquisition needs to be done to put up solar panels. It is not easy for a private entrepreneur to acquire land as it always complicates the best of interests. Zambia also does not have a regulatory environment for solar panels and electricity grid. Zambia also does not have the regulatory authorities in place due to which it lacks an objective way to set the right tariff. There also needs to be a tender mechanism to have competitive tendering. All these things need to be set up.

To wait and see people doing all this will take ages. The World Bank and the IFC came together with the Zambian government to work on the issues of regulation, land acquisition, tariff structure and tendering mechanism. Towards the end, they identified some commercial, but not political risk, with high first losses.

IFC is doing something with blended finance by proposing something to counter commercial risk first loss, which the government or the public cannot cover. With IDA, concessional loan and climate change is something very important for IFC's objective. IFC can probably use IDA's concessional financing. IFC has many tools and aspects to deal with the many challenges and obstacles faced in Africa. This example can be replicated in many other places in the country.

*Charles Boamah* invited MUFG to comment on their experience of what needs to happen for them to invest a lot more in the infrastructure projects in Africa than they have at this point, keeping in mind the regulatory environment or the difficult negotiation between the government and the state side's view of where the dial should be and the types of reforms that should take place or the tax exemptions provided not being necessarily good for the states all the time.

*Tomoki Muto* stated that there are some simple things that can be together worked on to bring in new private sector money into the region to build infrastructure. One of the common themes across our panel is the regulatory framework's certainty. In terms of certainty, a very strong commitment from the local or national jurisdiction is needed to show the broad range of project pipeline.

In the pipeline of multiple numbers of projects, decision needs to be taken on the projects that need to be done on a priority basis and within a certain time frame. Although simple, some of these things are not necessarily available to the private sector, but if available can attract the private sector.

Another challenge for international banks like MUFG is to form relationships with the local financial institutions. Some jurisdictions give some priority to the local banking institutions rather than the foreign financial institutions. Some of these priorities are very simple like procurement processes that are scheduled to bring in new money. To bring in foreign investment into the country, there are things that can be done to work together with the local financial institutions.

Another thing is probably related to the project pipeline. When it comes to infrastructure, a lot of the financial institutions worldwide think of mega billion dollar projects. In terms of visibility, they are very important but there is a cost involved for the new entrants or newcomers into the market.

The project does not necessarily have to be mega in size. Some countries in other regions started off with very small financial projects, which led to big successful PPP Programs. This commitment, visibility or interest for local institutions to bring in foreign investment needs to be worked upon to improve the regulatory framework.

*Charles Boamah* asked Gad about the projects done at PPPs which would have been successful projects and for those that were not so successful there were lessons learnt from those. What were the key factors for the success of these PPPs?

*Gad Cohen* stated that the unsuccessful projects were worth it because of the lessons learnt but were eventually closed. One fundamental thing for developing a particular project in a country or in a particular sector is the absorption capacity, which is not just the sector's ability, like a power plant to pay for it through a tariff, but also the human resources.

The question is whether the government actually has the capacity to process the transaction. Sometimes the project has actually been slowed down because there was a queue and the government did not have enough capacity to actually process a lot of the transactions.

In many markets today, there are queues to get projects done. In West Africa, Ghana and Kenya have attracted a lot of potential investors but the state or the government does not have capacity development to actually process these transactions which takes a long time forcing the private sector to walk away in some instances. This is critical. From a finance perspective, the most fundamental aspect of it is absorption capacity. Many African countries are in serious need of infrastructure. In reality, all these countries are bankable to that extent over the short term.

Since the economies are much smaller, a lot of the investment is necessarily going to take place over a much longer period of time than ideally desired. A successful PPP is one that actually judges the absorption capacity. In many instances, if not judged properly, the deal does not close on reaching the finishing line as the government cannot commit to the degree of contingent liability that it needs to. Worse, if the deal actually closes, there is an inability on the part of the parastatal of the government to honor its obligation where there are delays.

A successful PPP discusses about risk sharing and who bears the risk and high and low tariffs by looking at the fundamentals and ensuring that the country is bankable and can actually support that investment. There are many examples where small countries bring in big projects, which are already a red flag and would not make a good PPP. Small countries can also think big and should think big, if they can afford it. The dynamic constantly needs to be judged.

_Charles Boamah_ stated that there are huge and urgent needs, like there are close to 640 million people in Africa without electricity and for them to wait for another 10 years to gain access to electricity is not necessarily an option. Something needs to be done by ensuring that the gap is bridged notwithstanding some of the existing challenges.

_Gad Cohen_ stated that unfortunately it may not necessarily come from the private sector. It needs to come but a lot of it should come from the development institutions and the public sector as the threshold is imposed by the private sector and it is not high just for the equity investors but also for the banks and the DFIs.

One of the reasons for not being able to see more bankable projects with the system is that the bankability standards imposed by the development finance institutions are not that different from 20 years ago. Yet the economies of the countries have improved tremendously. The enabling regulatory environment has not improved and if the standards and risk aversion remains, then it is difficult to get that volume. Some of these constraints need to be loosened up a bit on the part of the financing institutions funding these projects in Africa.

_Charles Boamah_ asked *Mr. Koffi* how Africa50, being a relatively new outfit with a very important mandate, was looking to address the problem of boosting private sector investment in African infrastructure and promoting the development of PPPs.

_Koffi Klousseh_ stated that there was a need to restore a better balance in face of the challenges of having different stakeholders upholding very high standards on countries that are somewhat smaller, have less capacity and less resources. It is difficult to close a project finance deal in Africa as the number of contracts, the legal fees above $2-$3 million, and the guarantees requested from the governments are sometimes extremely high and strenuous while they themselves are facing fiscal challenges that tie them up, with the IMF telling them that their currency is not faring well to take dollar-based guarantees right now.

This makes it extremely difficult for the government to make it work and actually increases the lukewarm nature of government’s approach towards PPPs to finance infrastructure.

Africa50 wants to make a difference by bridging this gap. It understands how these deals get closed and can also speak to both the parties. It can tell the government to be more consistent and coherent in the way they make regulations and do procurement, by not moving the goalpost every 2 weeks.

If a bankable feasibility study is given, Africa50 will give them the rights to the project and will guarantee them that they receive what they have been requesting. The same holds true for the private parties in terms of sponsors and lenders, who should not overpromise by stating that they can give a project for $150 million when they know that it would cost them 20%-30% more and then the goalpost will be moved. This is something that Africa50 wants to address from the beginning and be really clear.

The asymmetry of information between governments is not clear with regards to their priorities or priority projects or which projects they want to see financed and the lenders or the financiers being demanding in terms of nuts and bolts guarantees.

A study done by Peter Boshoff and Sam Young on product financing IPPs in Africa in 2000 shows that the non-performing loans were below 2% or 1%, which is a ridiculous number and shows that the requested number was over and above what was needed in terms of credit. The African government today is faced with this problem and is struggling with it.

Africa50 wants to bridge that gap by teaming up with sponsors and financiers alike to structure sensible projects that allow bigger numbers to be achieved.

*Charles Boamah* summed up by stating that on one hand there are the government policies, stability, and predictability to some extent and on the other hand there are the persistent issues of risk misperception despite the fact that the statistics that the returns on risk-adjusted basis are actually the highest.

He asked *Mr. Geoff* to elaborate on the role that the DFIs and the private investors vis-à-vis the private sector need to play in order to address some of these issues.

*Geoffrey White* stated that the overwhelming issue was that of misperception about real and perceived African risks. Interestingly, Agility's business model is that of building landscaped warehouses of international standards that are the same throughout the world. It is no rocket science. There is a coffee shop for the staff, so it is all about adjusting the risk.

Agility in coordination with the Ghana Investment Promotion Agency works on promoting Ghana as a destination for West African hub. GIPC is great at bringing people together and then all that is needed is mitigation mitigate of risk perception.

Firstly, Agility builds an environment that they are comfortable in and that is the same as their warehouse anywhere in the world.

Secondly, Agility goes way beyond just being a landlord, who leases warehouses to companies, but it helps people in getting visas to get them in and out of the country and with other things like a good or a bad hotel. In Africa, there is a massive need to be that safe pair of hands and give that reassurance.

It actually works in both ways. It encourages the private sector to come and invest in Ghana, which is a great place, like other countries that Agility is moving into. Agility also helps in building relationships with the government by getting in contact with the GIPC or the Ministry of Finance and saying that one of Agility's potential tenants has got a question about tax or exports-imports and can the client's warehouse be marked as a free trade zone or not. Mitigating all these uncertainties makes the investment process much simpler.

*Charles Boamah* opened the floor for audience questions.

The point about bankable or lack of bankable projects goes back to the discussion of there being lots of money out there but not enough bankable projects. This problem needs to be tackled. More needs to be done to solve this problem, which appears to be a huge impediment to actually get in the hundreds of billions of dollars needed to finance infrastructure.

*Mr. Takeuchi*, a Japanese journalist working for International Development Journal, stated that many people mentioned the financial gap in the infrastructure investment but did not mention the new banks, new MDBs such as the AIIB or the other new banks.

It is reported that AIIB will lend money to African countries in the future. What contribution is expected and how would it be different from Chinese bilateral financial assistance? Are there any concerns about AIIB being considered as a young and a Chinese bank?

*Mr. S. Kuppuswamy*, from the Shapoorji Pallonji Group in India, representing Confederation of Indian industry, stated that his group in India has substantial experiences in PPP projects, which have been progressing quite well over the past few years, although there have been projects which have failed in India.

The angle of financial gap or viability gap funding cannot be missed. The government has a role to play at any cost and it cannot be ignored.

The viability gap funding cannot be ignored. Since all projects are not viable on their own, a mechanism to fund the viability gap needs to exist. In African countries, one path that needs to be championed is the bilateral lines of credit that are given to governments. Instead of paying for the entire project cost, it can cover the viability gap, which can be repaid in two-three decades. This could be an acceptable way of bridging the gap for the African governments and attracting more and more projects into Africa. A formula needs to be formed for this.

*Eder Sukki*, from the Korea-Africa Center, Seoul, South Korea, stated that they were planning to organize the Korea-Africa Business Forum, although on a much smaller scale since it is their first attempt.

He was interested in the financing projects in Africa, especially on the comments that Africa has changed over time but ECA and the public sector is maintaining the standard since about 20 years ago. This means that the public sector is ready to do business in Africa, but ECA and public sector still remain conservative.

This holds true for the Korean government as well. Like JBIC, there is the Korean EXIM Bank, which is supposed to support Korean companies' interest in doing business in Africa. Although the Korean EXIM Bank supports and does some lending, the amount of the financial support they extend to Korean companies and organizations remains inadequate.

He asked *Mr. Cohen* about how to make some financial projects more viable in Africa. Should the public sector or donor countries or other African countries be more forthcoming?

*Charles Boamah* invited the panelists to answer the question on what the IFC thinks about AIIB and the New Development Bank.

*Toshitake Kurosawa* stated that the AIIB is another MDB that IFC cooperates with. Both the World Bank and the IFC already co-finance a project in Asia, but not yet in Africa. In totality, AIIB would co-finance the proposed safeguard standards and follow them strictly.

The question is if AIIB's assistance in Africa helpful. The answer is yes but not much because the amount of ODA flow is limited. It does not depend on the amount provided by the ODA institution but the amount that the borrowing country can obtain because there is a fiscal constraint to borrow public funds. Although this help is limited quantitatively, AIIB's participation might help.

Secondly, the most important question that the African countries and the public sector are facing is absence of many bankable projects. This issue cannot be solved by extra financial resources but by fixing the regulatory framework and by the de-risking instrument. In conclusion, although AIIB participation is okay, it is far from any solution.

*Gad Cohen* stated that although the points were valid, AIIB's participation was still welcomed. Availability of more financial resources is fine. China has a huge trade surplus, which is absorbing the demand from world over. It is fine to invest this money overseas in emerging markets. This is anyway being done through bilateral co-operations. It would also be fine if it is done more through MDBs like AIIB, which is an international organization.

*Charles Boamah* stated that Ethiopia and some other countries had actually joined AIIB and so it is already happening where certain countries are already member countries of the AIIB.

*Koffi Klousseh* stated that it is an important and a helpful policy tool for the government to make sure that certain projects that cannot be fully privately funded are funded. The issue is that the policy is not well formalized, which makes the objectives of the governments unclear. The question is how the viability gap funding is applied and to which project and whether it is done in a conducive manner to make things work. The construct or the framework is the issue. The tools are there and can be used properly or improperly.

One of the few success cases is the Dakar Toll Road in Senegal which is the only PPP toll road in Sub-Saharan Africa, outside of South Africa. The government funds 70% of the total cost of the road and allows the other 30% to be funded by a private party, in this Eiffage from France who have built the road. They have a concession for 25 years. The development around the corridor really is extremely important and the traffic grew 30%-40% of what was projected. It is a significant tool that makes the original viability gap funding very small in comparison to the economic return achieved.

*Charles Boamah* invited one last question from the audience.

*Amadeus Matai*, overseeing the SkyPower business for Middle East and Africa, stated that they are very much into the renewable energy power sector with a number of projects to be executed in this year.

The panelists talked about the pure vanilla type of financing, which is great. What are the innovations that one can have because there is a lot of capital lying around the first losses?

Although the capital around the agricultural sector is being used, can this fund be used to guarantee the concept of first loss from the sovereign fund, the JICA, and from the other funds to eliminate the risk element on those projects? On a more macro level, is there a plan to use those funds as a backer, not necessarily use the capital but be ready if things go wrong? Can this be structured for Africa to drive the infrastructure investment going forward?

*Charles Boamah* stated that the question related to having some kind of first loss arrangement and why not. All of this is really matching risk appetites when one looks at all the different players in the infrastructure spectrum and particularly in the different phases, like the construction phase where the hold is strong.

In the project development phase before construction, there are different types of risks and clearly there are different players that are able to take certain types of risk. The question is why this is happening where there are certain guarantee instruments, like the partial credit guarantee instruments, which are used to essentially play the role of backing losses should they occur. The answer would be why not.

Knowing the problem and describing it eloquently is the easiest part. At the same time, there is a lot of money, trillions of dollars, out there and there are huge unmet needs in terms of the infrastructure gap. Bringing the two together has not happened at the pace it should happen. What is the one thing that needs to be done to essentially address this very important issue of how to bring the money to where it needs to be?

The pension plans and the sovereign wealth funds are frequently referred to in terms of the money it has, and if there is an investment manager and if there are investment guidelines, there are things that one cannot do with the money, as it is a fiduciary responsibility. What can be done in this regards?

*Mr. Charles* invited closing remarks from the panelists on the above questions.

<u>*Nobumitsu Hayashi*</u> stated that there was discussion about the lack of government experience and the lack of bankable project. The only thing to gain experience is try to do it and gain know-how. JBIC did the co-power project in Safi, Morocco. This was the first ultra-super critical coal power plant, IPP type of project finance. JBIC has a lot of experience in Asia. This experience was brought to Africa, where with the African bank the project was duplicated in many more other African projects.

<u>*Toshitake Kurosawa*</u> stated that there was over hundred trillion dollar worth of money out there. Africa needs $100 billion infrastructure. From a global perspective, financing has become competitive, where all other regions and countries are competing to get the funds. Latin-America and Asia are doing better as they are good at de-risking and are good at fixing the regulatory stuff. This needs to be worked out for sure.

From the World Bank's and IFC's perspective, Africa deserves to put more resources to compete with these competitive regions and countries. This is why the new IDA instrument has been introduced which is mostly focused on African countries by the way. This instrument would help put African continent on an equal footing with other more competitive and more money-attracting regions. This would hopefully take the Africans to the level they have always wanted to be for a long time.

<u>*Tomoki Muto*</u> stated that he heard some mixed messages in terms of taking risk in the private sector, which is considered conservative where some people. There is a balance between who should take the risk in terms of allocation. Risk allocation is the key.

It is quite simple to decide at which stage the private sector comes in, be it the stage of the project or the stage of the country, with the support from the public sector. The projects that are suitable for the private sector have some grade in terms of granularity to transportation. This stage happens step by step. All the developing countries come into the private sector financing in terms of their gradual growth into the private sector financing. The point is that each project has its own stage and each country has its own stage.

_Gad Cohen_ stated that the number of bankable projects in today's environment, where a lot of African countries have had a track record, can be augmented by redefining bankability and allowing more projects to be able to access financing. Redefining bankability is going to come by virtue of competition from different financing sources, like the New Asian Infrastructure Bank or other funding sources that will create some competition. At the same time, African governments need to show more consistent performance. If it gets to that point, then the things should start flowing.

_Koffi Klousseh_ stated that the Africa50 side is open for business and would like to team up with Japanese sponsors and have these conversations to develop projects in Africa. With regards to the trillions of dollars that can be taken advantage of to build infrastructure in Africa is something that can only be done step by step.

At first, the $50-$100 million plain vanilla-type projects need to be done such that it is accomplished without any outside intervention. If the projects are carried out seamlessly, then one can move on to the billion dollar and trillion dollar projects. If it becomes a struggle to accomplish $100 million projects, it does not matter whether there are billions or trillions out there as they will be inaccessible.

_Geoffrey White_ stated that his final observation would be about people that want to go and transact in Africa. Again, the challenge is not the market as there is a huge market opportunity. There are huge amounts of funds that are waiting to be invested in Africa. It is a two-way communication. What is frustrating is that the transaction execution in Africa takes four times longer than anywhere else in the world. Simple procedures like coming in to set up a company, leasing a warehouse space and start operating is just a tortuously slow process.

There is a big emphasis on investment promotion agencies and one-stop shops to make this process as templated as possible. It is difficult to understand why everything is not templated, without upsetting all the lawyers in the room who probably fly on their private jets. There is a standard contract for a deal which is already 90% accepted by government, the private sector, and by everybody and the other 10% needs to be tweaked. Months are spent putting it together rather than every deal being started on a fresh piece of paper.

_Charles Boamah_ summarized that in order to develop more bankable projects work needs to be done on policy, stability and predictability. Conversation and theory needs to be put into practice by actually doing it and making it happen.

*Mr. Charles* concluded the session by thanking the panelists for their comments and insightful sharing of their experiences on this very important issue of infrastructure financing in Africa.