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# Financing Infrastructure in Africa

## A Landscape of Evolution and Innovation


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The financing needs for meeting the infrastructure gap in Africa are a topic of numerous talks, reports and analysis. In terms of quantification, as a bright colleague of mine rightly put it recently while talking at a conference in Lagos on the subject, "any tens of billions number provide a good answer to the question of how much". With regard to the means, the consensus is that Government and traditional donors financing could meet at best 50% of the requirements, that therefore innovative solutions combining international and domestic public and private sources of finance will need to be devised and implemented, and that anyway the challenges for doing so are almost as immense as the quantity of money sought for.

These are undeniable hard facts but behind those, the reality is also a dynamics of events and initiatives which show that the path to achieve the ambitious targets of the Continent might not be as impracticable as it seems.

Raising financing for infrastructure projects and obtaining adequate terms for it (including price and maturity) are all about getting the right interconnection between liquidity, risks mitigation and structuring.

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There is firstly sustained evidence of increasing liquidity (i.e. amount of capital available to invest and spend, including cash, debt or equity) for African infrastructure finance even if the sources of money are significantly shifting.

The capacity of the bilateral European donors will surely be more and more constrained as are the budget of the Governments supporting them. In addition, the strengthening of the banking regulations (under the forthcoming Basel III rules) will continuously decrease the traditional project

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loans capacity of international commercial banks although that regulatory impact might be counterbalanced in the short term by the quest for higher profitability in Africa.

However, despite (and actually, to a large extent and ironically, thanks to the financial crisis), the global investors pockets are deep, their appetite for infrastructure strong, and their confidence in Africa rising.

The capacity is shifting from the traditional debt providers to the private equity funds nourished by international investors increasingly keen on infrastructure asset class and thrilled by the African growth potential. In accordance with the latest Deloitte survey on Private Equity in Africa, PE funds invested more than three times as much in Sub-Saharan Africa as they did in 2012.

The capacity remains with the multilaterals which have the capacity to address the infrastructure issues on a regional basis, structure principal investment matching the region's needs and attract international investors alongside them. The ongoing building up of the Africa50 fund from the African Development Bank (AfDB) is probably the best illustration of this trend.
New capacity comes from the opening of dedicated Sovereign Funds in the resource-rich countries (Africa is home to more than 30% mineral reserve) aiming to ensure the right recycling of money from natural resources extraction to infrastructure development. In this respect, the histories of Nigeria and Angola have been far from smooth in terms of accountability and spending efficiency but they certainly pave the ways for others like Tanzania or Ghana to follow.

New capacity is with the access to international capital markets. The fact that Africa is now a growing investment destination for investors from both advanced and emerging economies (with a record $80 billion inflow expected this year in accordance with the IMF and AfDB) has recently enabled many Sub Saharan countries (Nigeria, Ghana, Kenya, Gabon, Rwanda, Zambia..) to issue Eurobonds at relatively favorable conditions. Sovereign bond issuances from African countries reach a total $11bn in 2013 from

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$6bn in 2011 and $1bn in 2000. Obviously the benefit of this should be looked at with caution since additional borrowing means additional vulnerability especially when most African countries face important fiscal deficits.

New capacity will emerge with the development of domestic capital markets and the mobilization of local savings. In this respect, the so called financial inclusion of the large and increasing African middle class is developing fast. And the channeling of these savings towards infrastructure should be progressively organized with the development of adequate institutional and financial frameworks. If liquidity is there, the next questions to address to enable this available capital to flow into infrastructure are what are the risks of infrastructure projects and what are the protection available against them.

The comprehensive identification, right allocation, proper mitigation and adequate management of risks are the legitimate primary obsessions of any project finance providers.

This evidently starts with country risks including in particular political and legal. In this respect, the reality of a sustainable enabling environment is increasingly being perceived although it continuously needs to be further strengthened in most African countries.

Next on the list are risks which could be categorized as sectorial and there the differences between infrastructure sectors should probably be further recognized and understood. If Energy and Transport are rightly identified as the sectors to develop first, the spread of technical and commercial risks are very different and so is therefore the financing structuring for them. The questions and answers on the feedstock supply chain or the off-taker credit quality and their sustainability in relation to an Independent Power Production (IPP) project do not have the same echoes on the financial structure than those on usage or availability for a road or rail project. The Social Infrastructure space with water, sanitation, schools and hospitals, which might be too often relayed to second place despite its essentiality, also bears its own specificities in terms of risks.

Another important consideration from investors when they come to appreciate risks is where we are in the project life cycle. In particular, most of the investors do not put money on the table before all authorizations, permits and other regulatory requirements are

obtained or fulfilled. In project financiers' words, they do not take development risks. Furthermore, most of them usually favor projects in operations and feel cold feet during construction. Hence the need to find additional sources of finance or risks mitigation tools at the development and construction stage, and more broadly the need to put in place structures which take into account the project life cycle.
Finally, each project is different and has its own usually numerous specific risks. To me, this is actually the magical thing about infrastructure. Each bridge, building, rail or road section, water or power plant is unique since it must fit into a unique physical and human landscape.

To protect investors and financing providers against those risks, institutions are being set up, policies implemented, products structured so that overall the perceived risk of investing in Africa infrastructure is increasingly reduced. Public Private Partnership (PPP), procurement framework allowing for Governments to get the private sector taking responsibilities for design, financing, construction and operation of infrastructure projects, are being enabled with specifics laws and operational units implementation all over the continent.

The necessity to subsidize most Transport and all Social Infrastructure is being recognized and adequately met with Government Support and Viability Gap Scheme set up. Sovereign and multilateral funds such as Nigeria Sovereign Investment Authority or Africa50 have committed to allocate a portion of their resources to fund development costs. Donors are reviewing their product offering considering first loss insurance to bridge the gap between construction and operation resulting from investors and debt providers' reluctance to take construction or traffic risks. Even further, the World Bank's International Finance Corporation has just provided $90m worth of credit protection to a portfolio of emerging markets loans (including Africans) owned by Credit Agricole, hence applying securitization techniques to help lower banks regulatory costs and free up capital availability.

Africa shall and is actually in the process of innovating large and fast with regard to infrastructure finance. As it has done in mobile services or is currently doing in banking services, Africa could even leapfrog mature markets in this respect.

15 years ago, I was lucky enough to be involved in the financing structuring and raising of the Cross Israel Highway, a 100km toll road built and operated under a PPP contract, the $1,2Bn financing of which involved a combination of US bond private placement, local bank debt, Canadian and Israeli equity, and a complex toll adjustment mechanism in accordance with the fluctuation of the local currency against the US dollar. It was considered as a highly innovative financing structure at the time. I believe it still is. I think the innovation in African infrastructure financing in the near future will make it old fashioned.

Stephane is currently involved in Rail and Hydropower projects in Nigeria and Guinea. He benefits from 20 years of experience in international PPPs structuring for both the public and private sector.

## Contributors Profile

Stephane is based in Ghana and is looking after the origination and execution of Financial Advisory Services in Infrastructure & Capital Projects across the West Africa Region for Deloitte.

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Stephane started his career in France at Banque Indosuez where he advised on rail and road PPP projects. He then spent six years in London at Deutsche Bank working as adviser and debt arranger on UK PFI and projects in the Middle East. Back in Paris in 2002, he advised Governments on Transport and Social PPP programmes in France and Eastern Europe while at PwC and SocGen and led the French PPP business at Dexia. He also worked during 5 years at Barclays Infrastructure Fund as equity provider.

Stephane is a Civil Engineer graduated from the Ecole des Ponts et Chaussées in Paris. He worked for 2 years as an engineer on a bridge construction site in Hong Kong.

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