

Africa Emerging Markets Forum

Sustainable Financing of African Infrastructure: Closing the Gap

Abidjan, March 27, 2017



OUTLINE

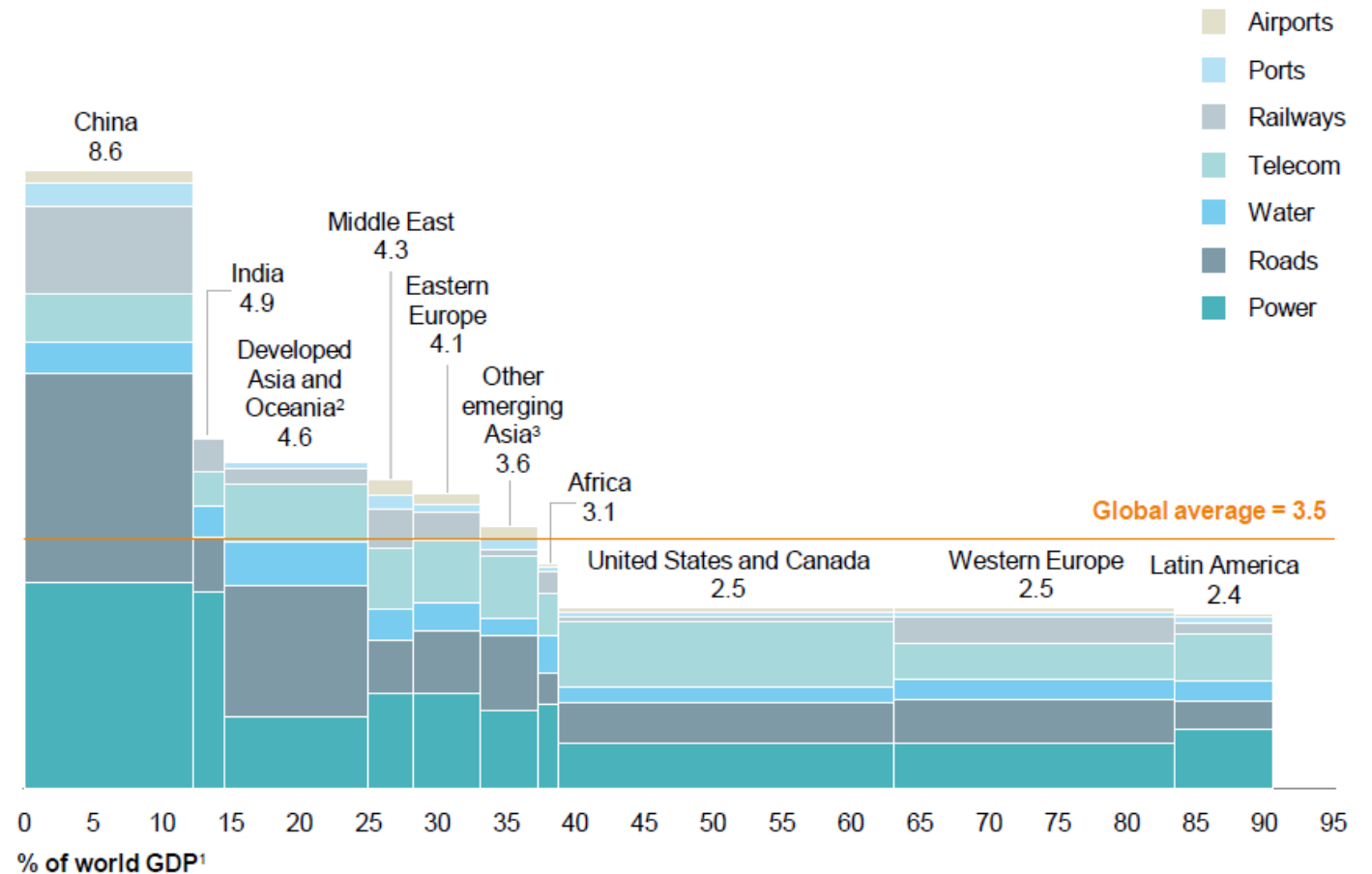
- I. Africa's infrastructure endowment
- II. Infrastructure in Africa – spending and sources of finance
- III. How to tap the private sector
- IV. The way forward



WHY IS AFRICA UNDER-ENDOWED? IT UNDERSPENDS ON INFRASTRUCTURE

Global spend: 3.5% of world GDP

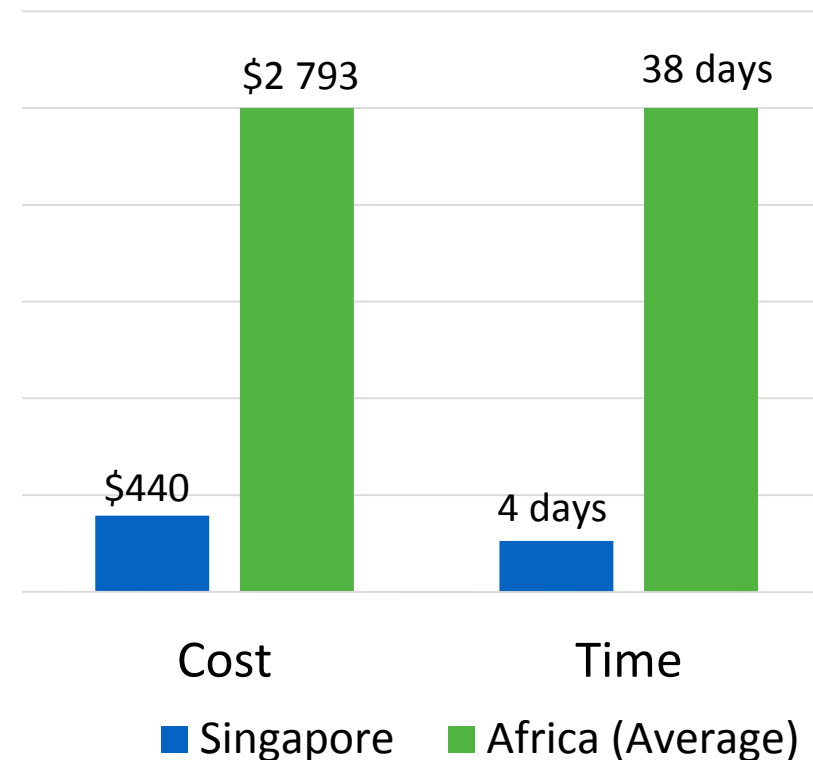
China:	8.6%
India:	4.9%
Emerging Asia:	3.6%
Africa:	3.1%
Latin America:	2.4%



COST OF POOR INFRASTRUCTURE IN AFRICA

- Africa suffers a major competitiveness handicap because of poor quality infrastructure
- Africa has 15% of the world's population but only 2.8% of world trade, less than France
- Intra-African trade is around 12.8% of GDP, compared with 68.6% in the EU or 53.4% in Asia

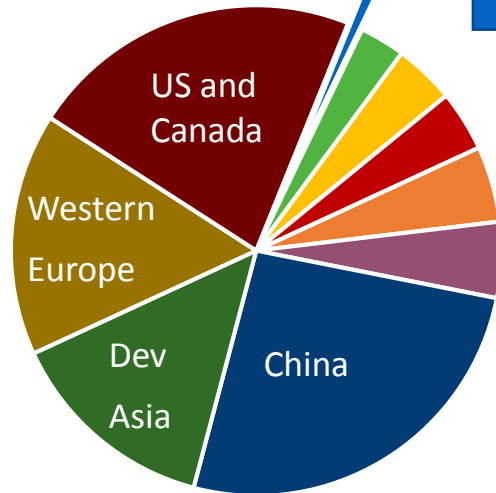
Cost and Time to Export a Container



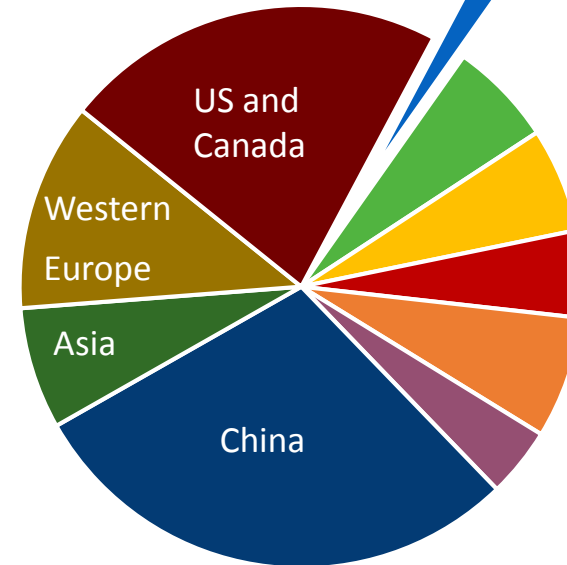
AFRICAN SHARE OF WORLDWIDE INFRASTRUCTURE SPENDING

2000-2015
\$2.5 trillion/year

- Africa
- India
- Other Emerging Asia
- Middle East
- Latin America
- Eastern Europe
- China
- Developed Asia
- Western Europe
- US and Canada

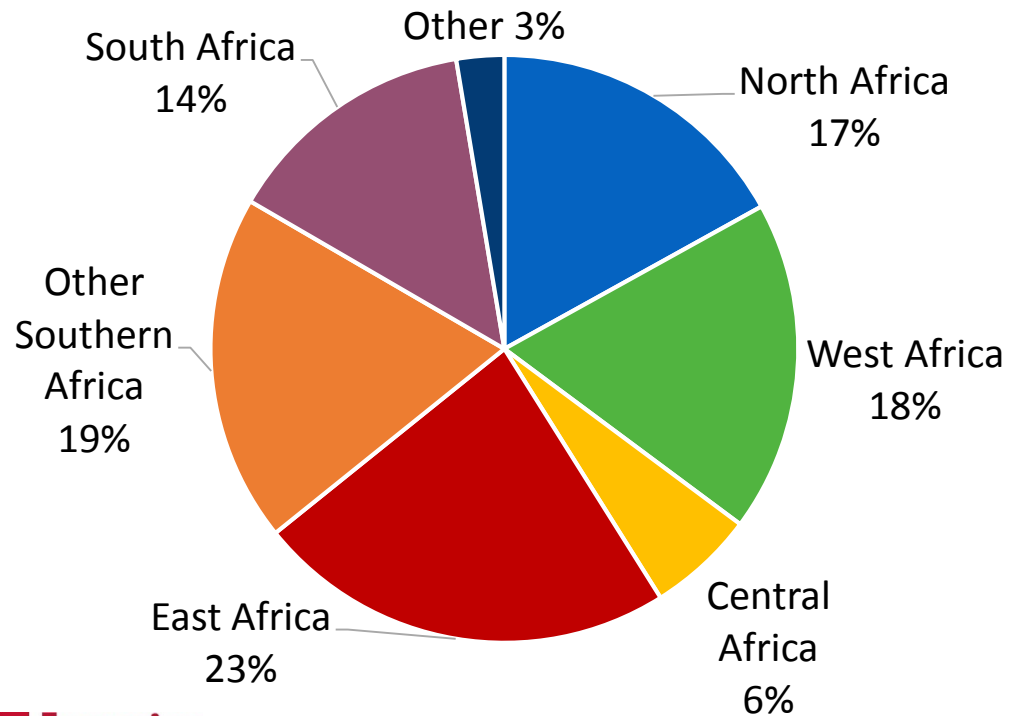


2016-2030
\$3.3 trillion/year

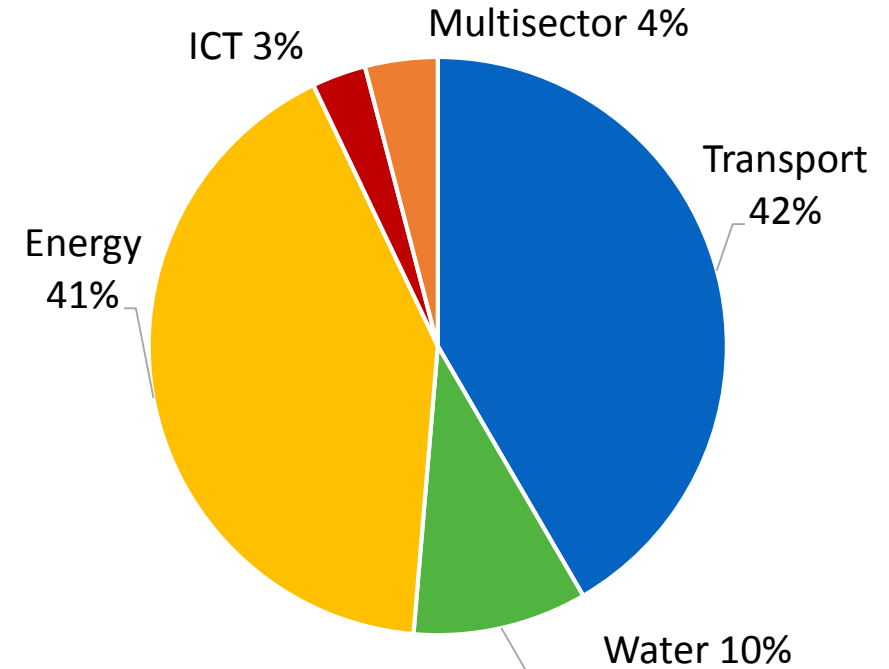


INFRASTRUCTURE INVESTMENT IN AFRICA, 2015 \$83.4 BILLION

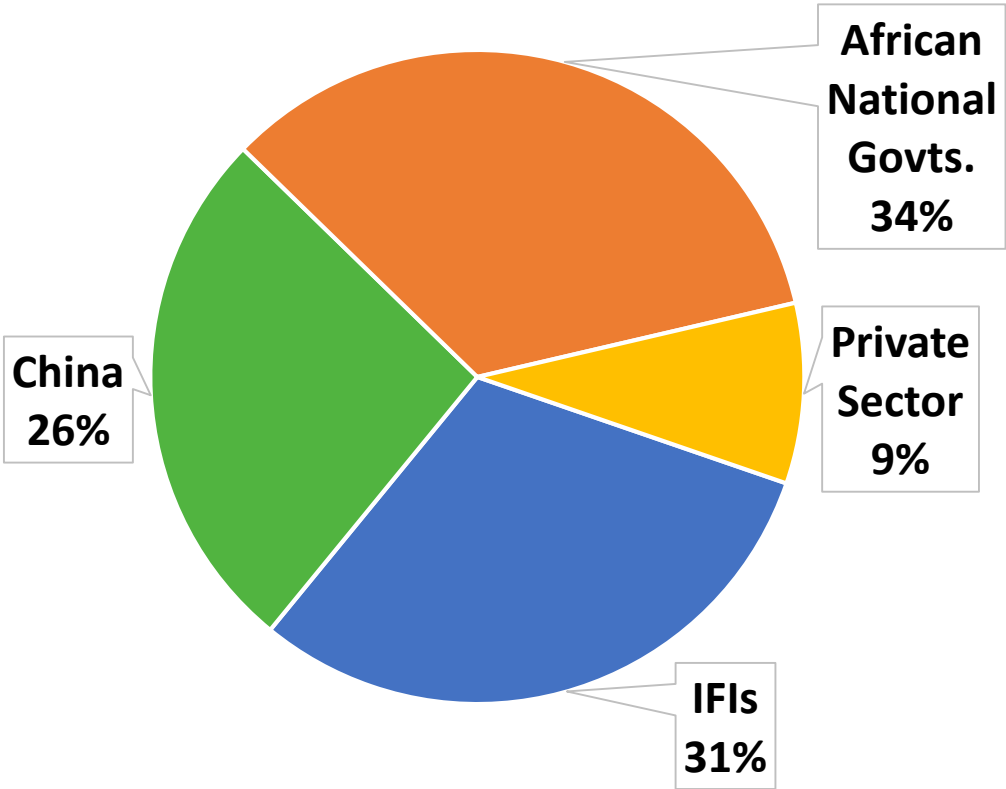
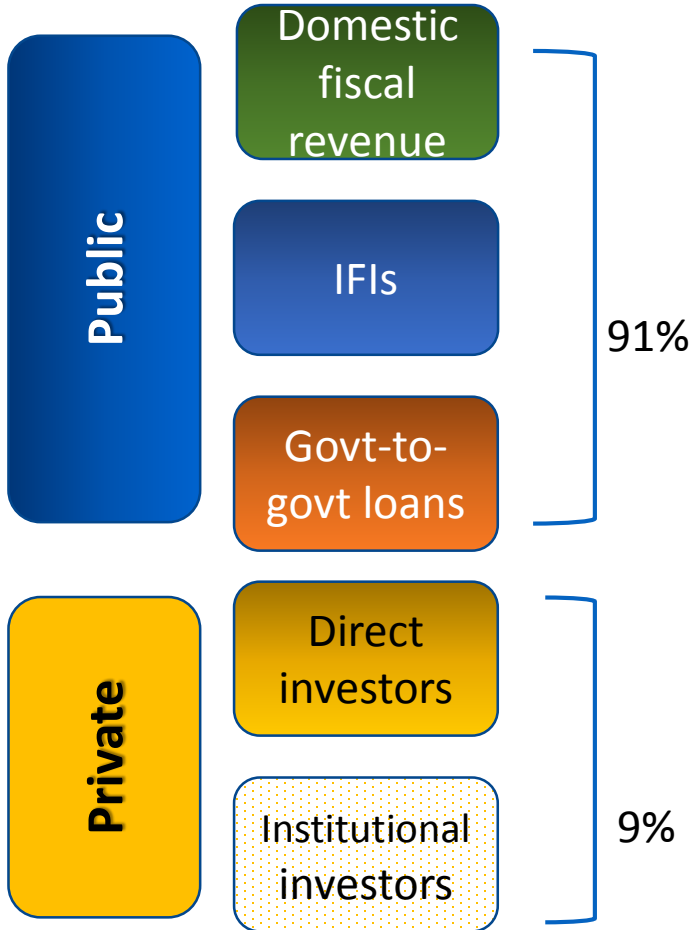
Infrastructure Investment by Region



Infrastructure Investment by Sector



WHERE DOES THE MONEY COME FROM? SOURCES OF INFRASTRUCTURE FINANCING

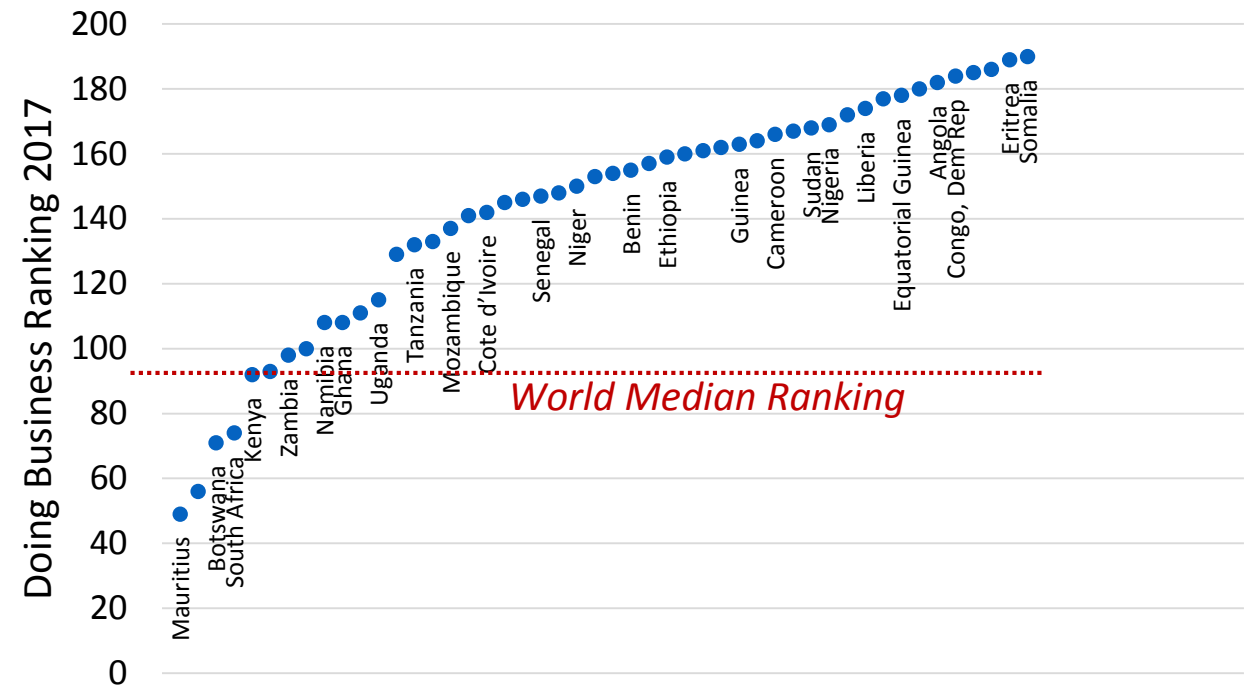


Source: Infrastructure Consortium for Africa (2016) *Annual Report*

WHY DOESN'T THE PRIVATE SECTOR FINANCE INFRASTRUCTURE IN AFRICA?

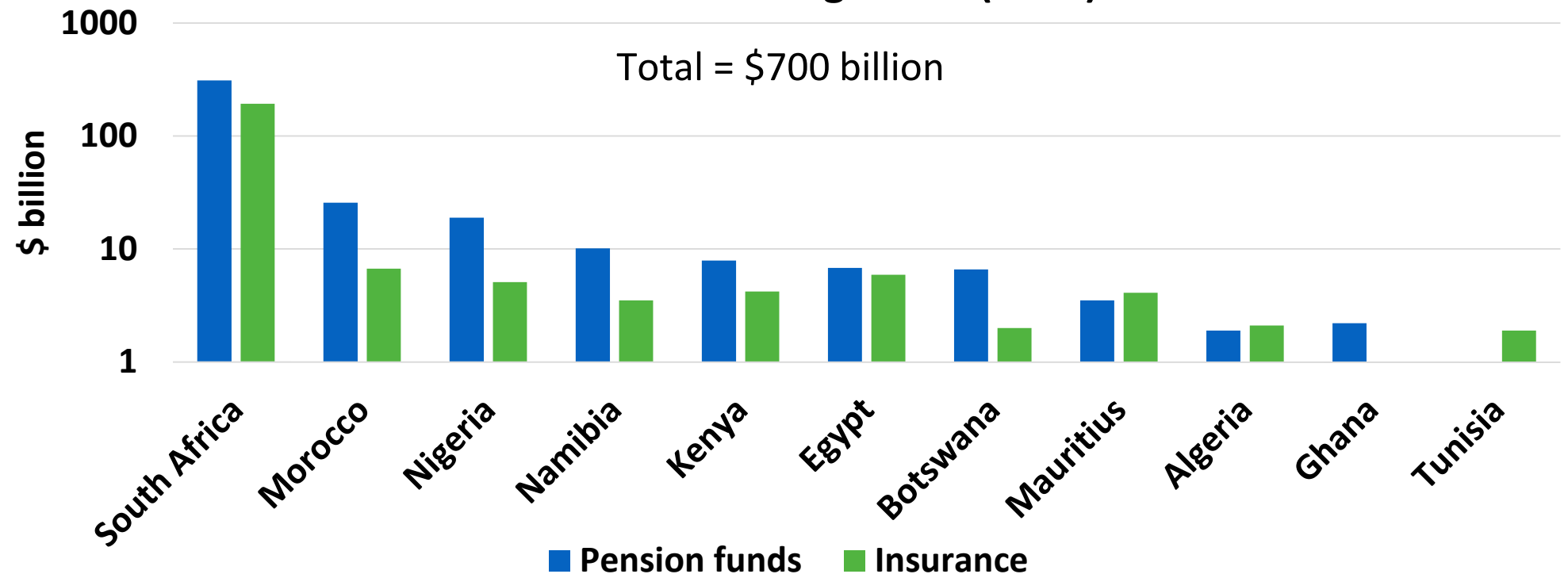
- Excessive investor risk
 - African investment climate is not private sector-friendly
 - Sectors are not financially viable: tariffs too low and users don't pay (especially governments)
 - Africa is perceived as having high political risk
- African financial sectors not well developed
 - Develop African infrastructure as an asset class for institutional investors
- Private sector needs to focus on revenue-generating sectors
 - Not all sectors are amenable for private financing
 - User fees need to be charged

Africa Doing Business Rankings
2017



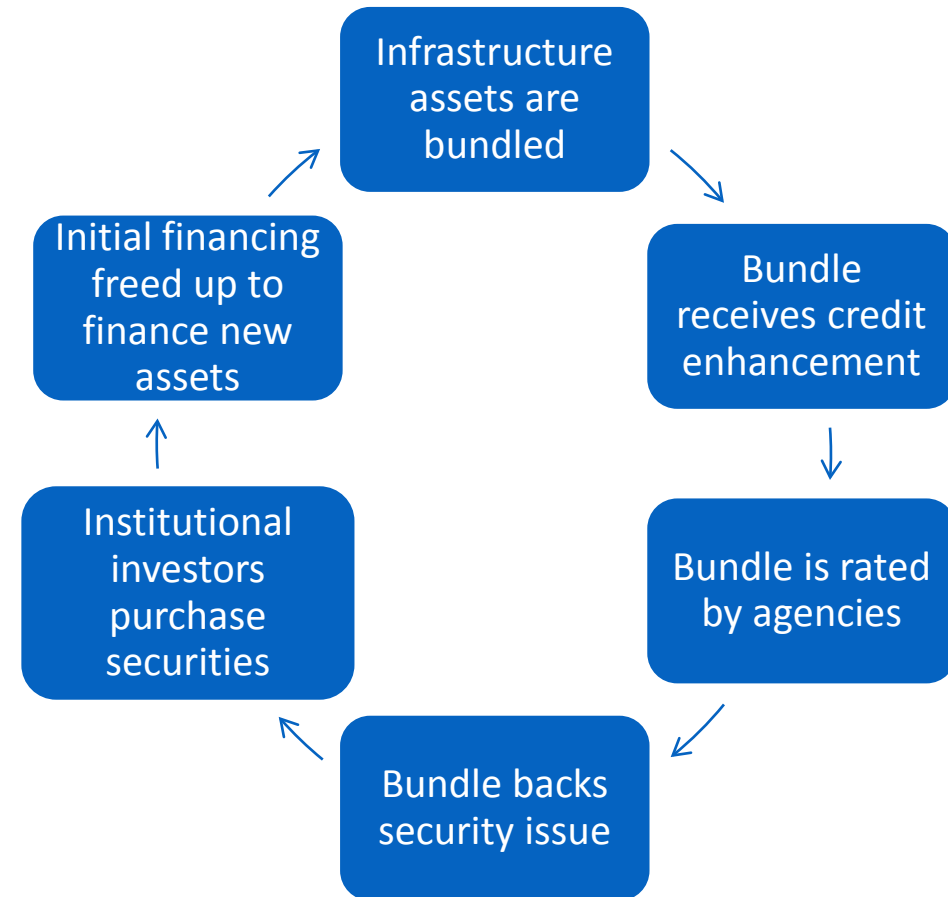
INSTITUTIONAL INVESTORS AS A POTENTIAL SOURCE OF FINANCE

African Institutional Investors Assets under management (2015)

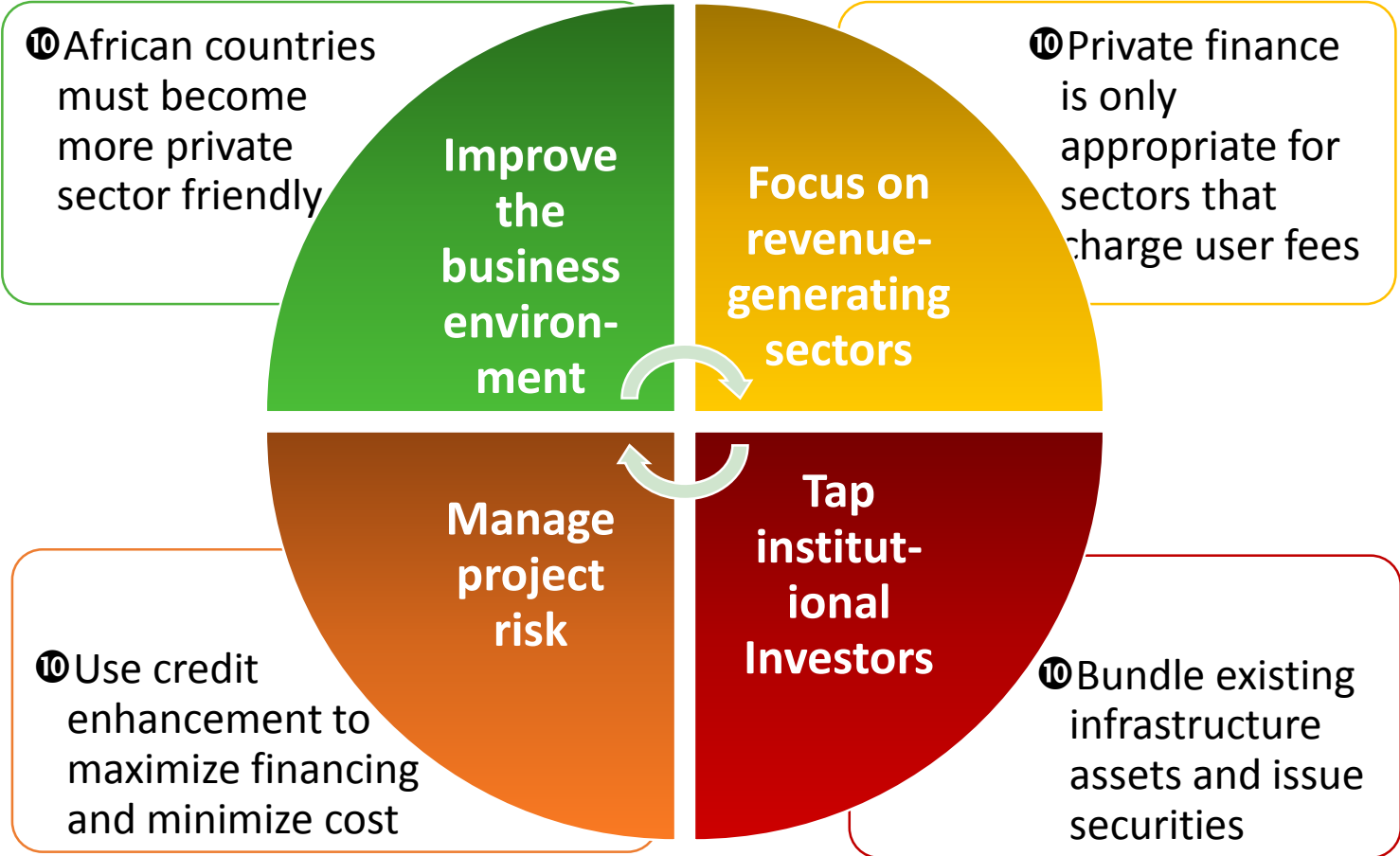


TAPPING INSTITUTIONAL INVESTORS

- Institutional investors manage pension savings and insurance assets
 - \$700 billion in Africa
- They have requirements for their investments
 - Stable cashflow
 - Moderately low risk
 - An asset that holds a credit rating (Investment Grade = BBB or better)
- They prefer to purchase securities (stocks and bonds)
 - Where exit is possible
- Existing infrastructure assets with cashflow can be bundled
 - To back a security issued on the market
- Freed-up funding can be recycled into new infrastructure projects



AFRICA'S FINANCING GAP WILL ONLY BE CLOSED BY TAPPING THE PRIVATE SECTOR



CONCLUSION

- If Africa is to develop, it needs to close its infrastructure gap
- Financing from the private sector must be tapped, notably from institutional investors
- To attract private money and manage costs, users (including governments) must pay, and investment risks must be mitigated
- Asset-backed securitization of existing infrastructure can tap considerable financing resources from institutional investors, and free up financing for new projects