Africa Emerging Markets Forum

Sustainable Financing of African Infrastructure: Closing the Gap

Abidjan, March 27, 2017

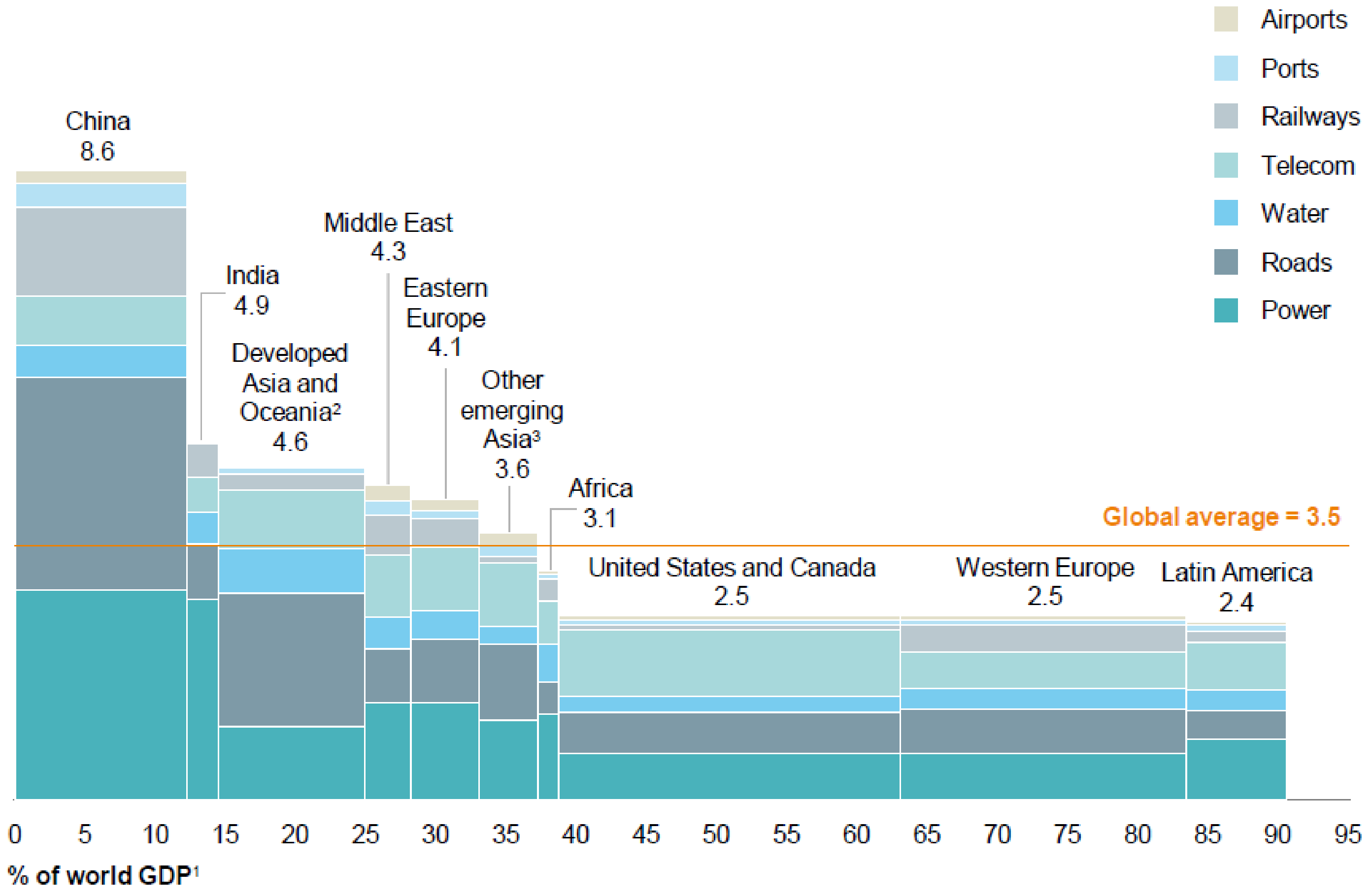
OUTLINE

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%



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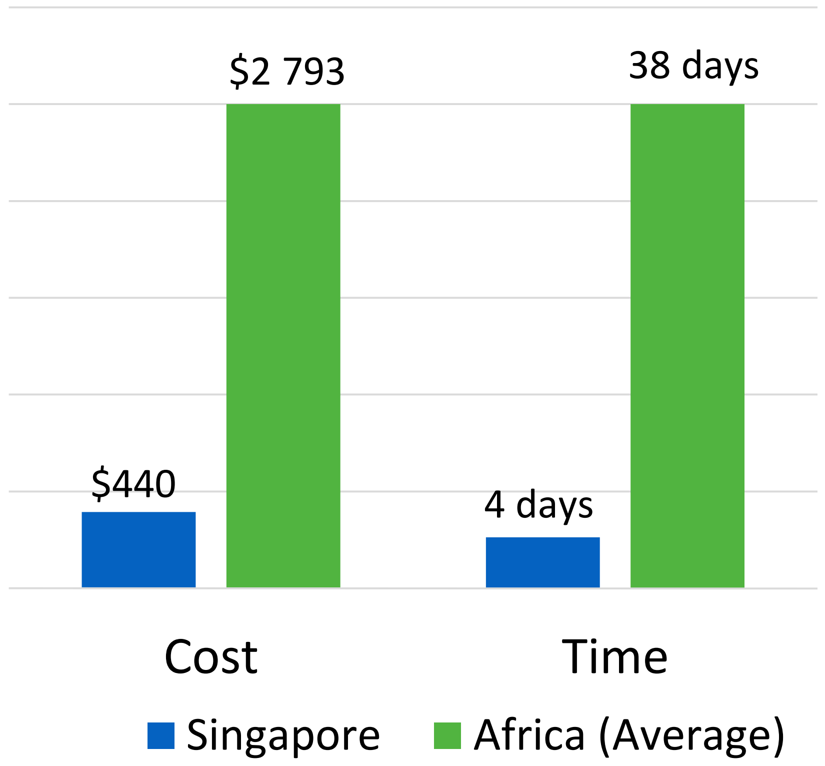
COST OF POOR INFRASTRUCTURE IN AFRICA

- 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



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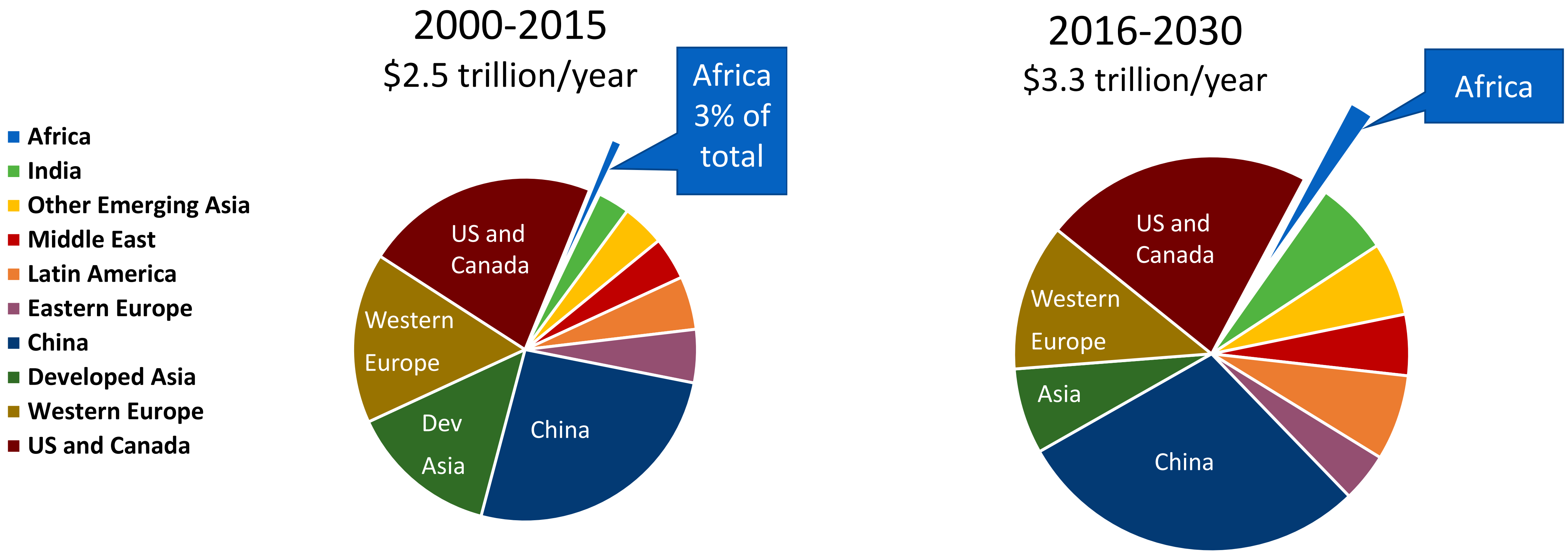
AFRICAN SHARE OF WORLDWIDE INFRASTRUCTURE SPENDING



Source: McKinsey Global Institute (2016)

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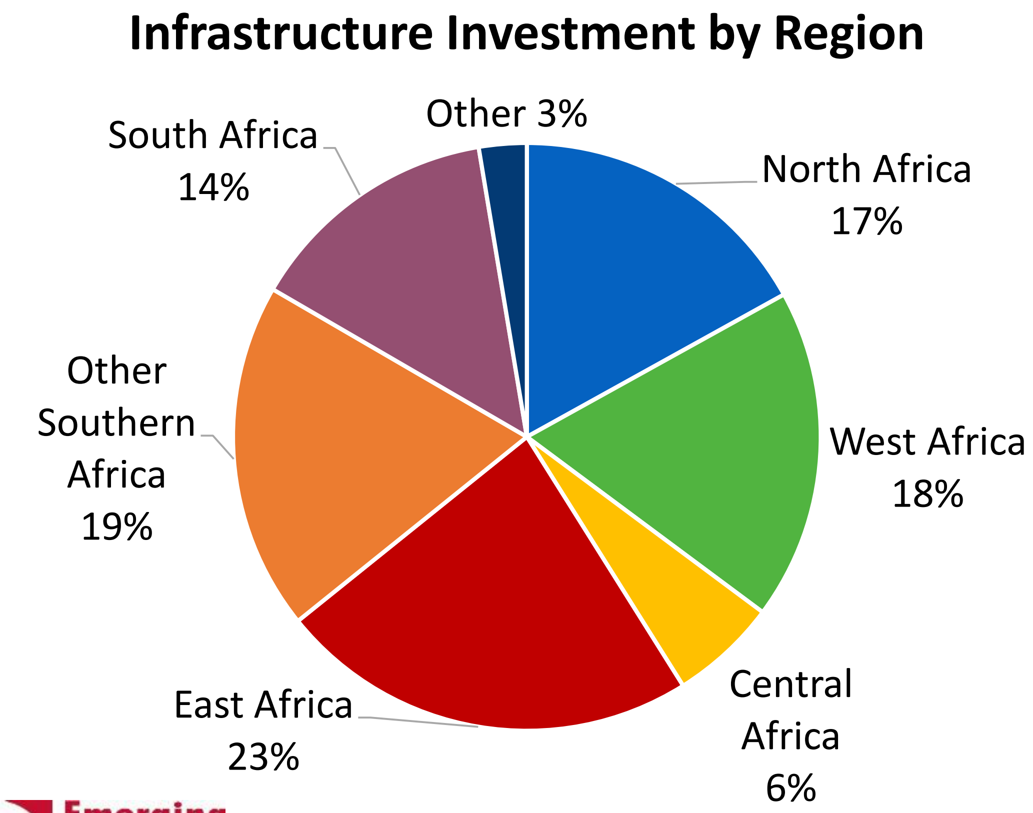
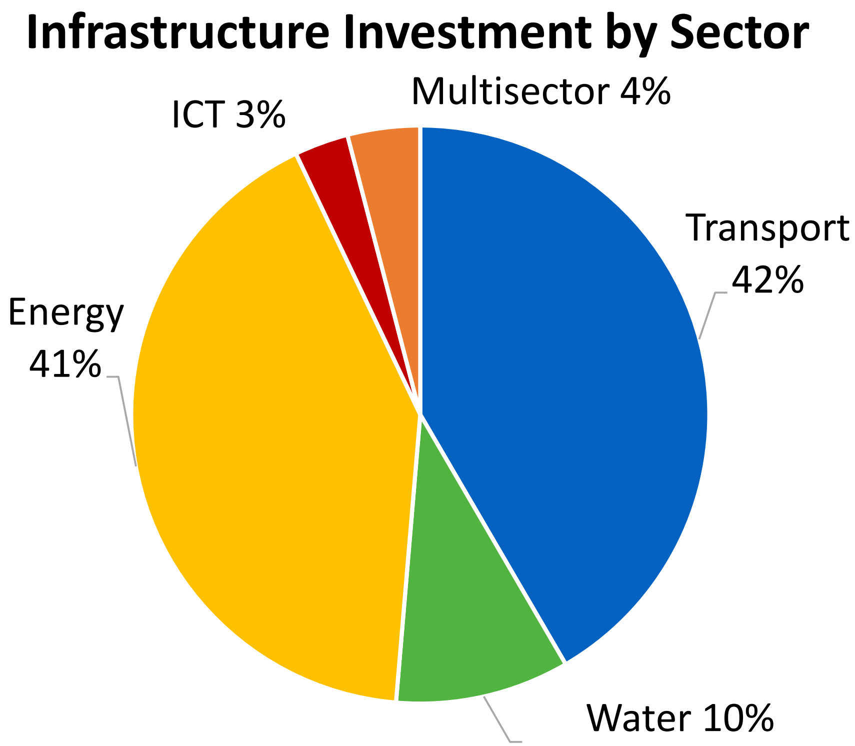
INFRASTRUCTURE INVESTMENT IN AFRICA, 2015
$83.4 BILLION





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

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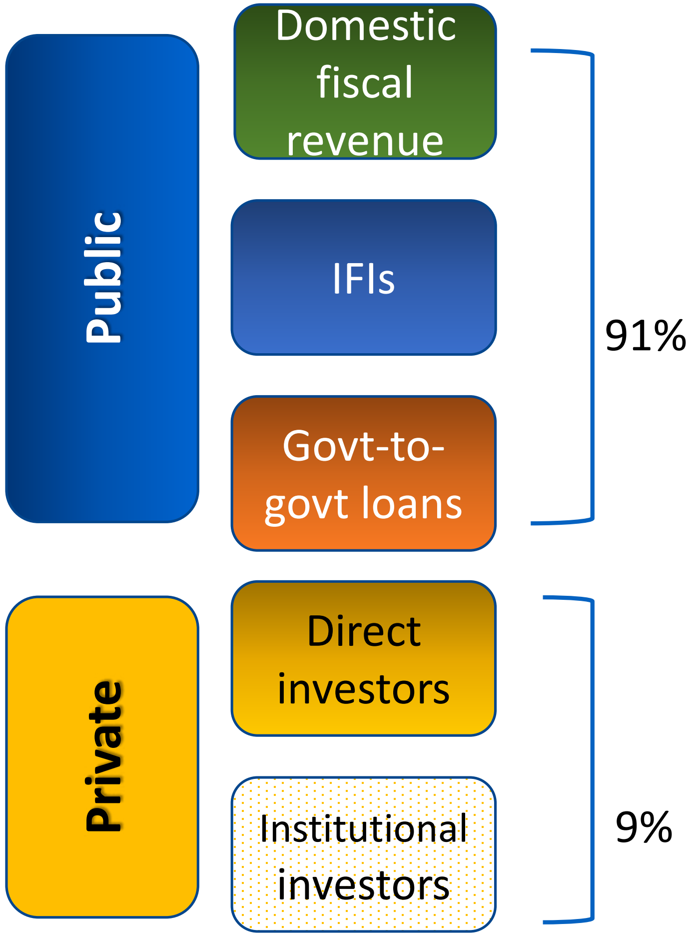
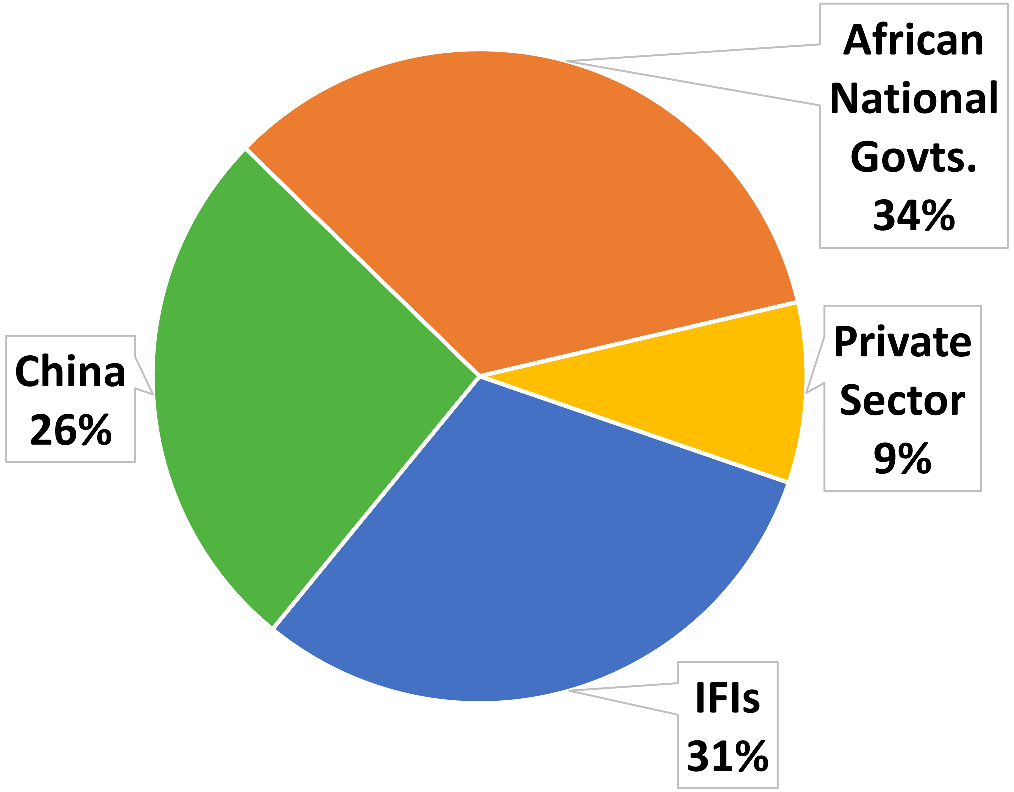
WHERE DOES THE MONEY COME FROM?
SOURCES OF INFRASTRUCTURE FINANCING





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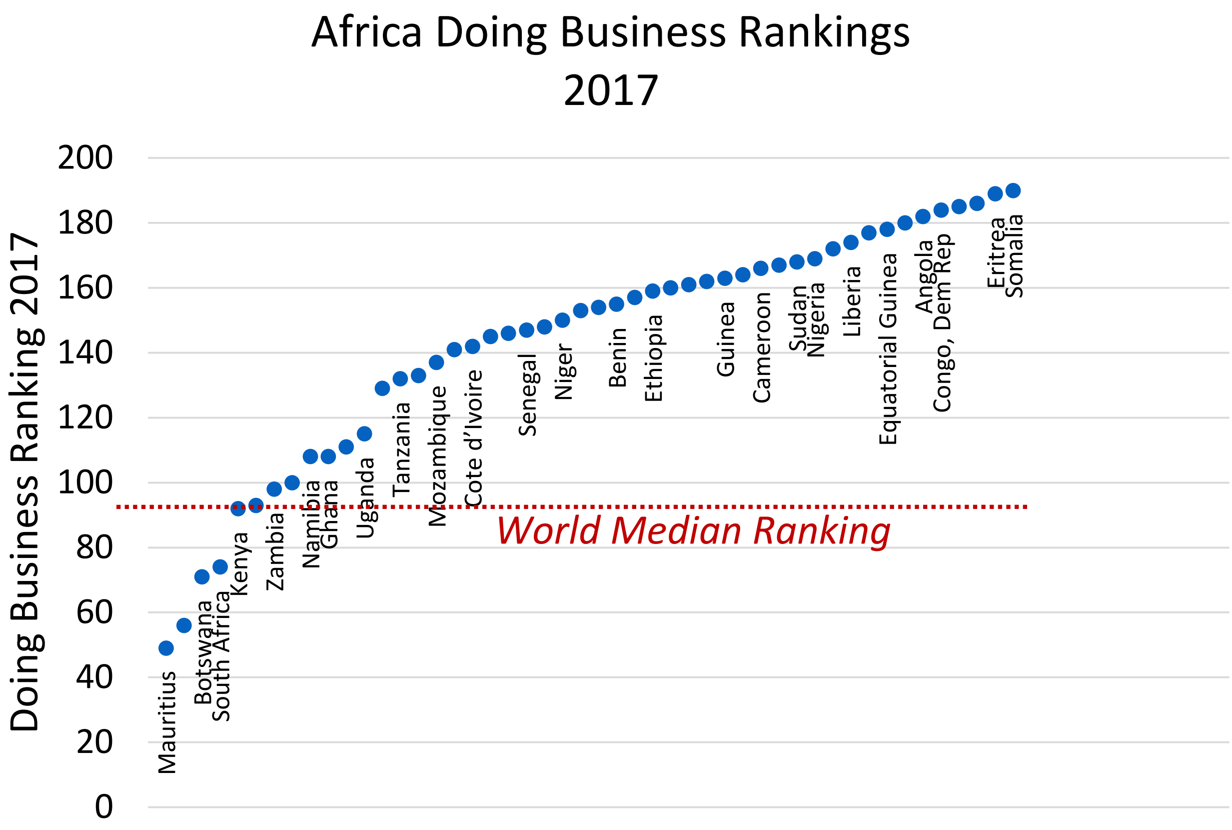
Source: Infrastructure Consortium for Africa (2016) *Annual Report*

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



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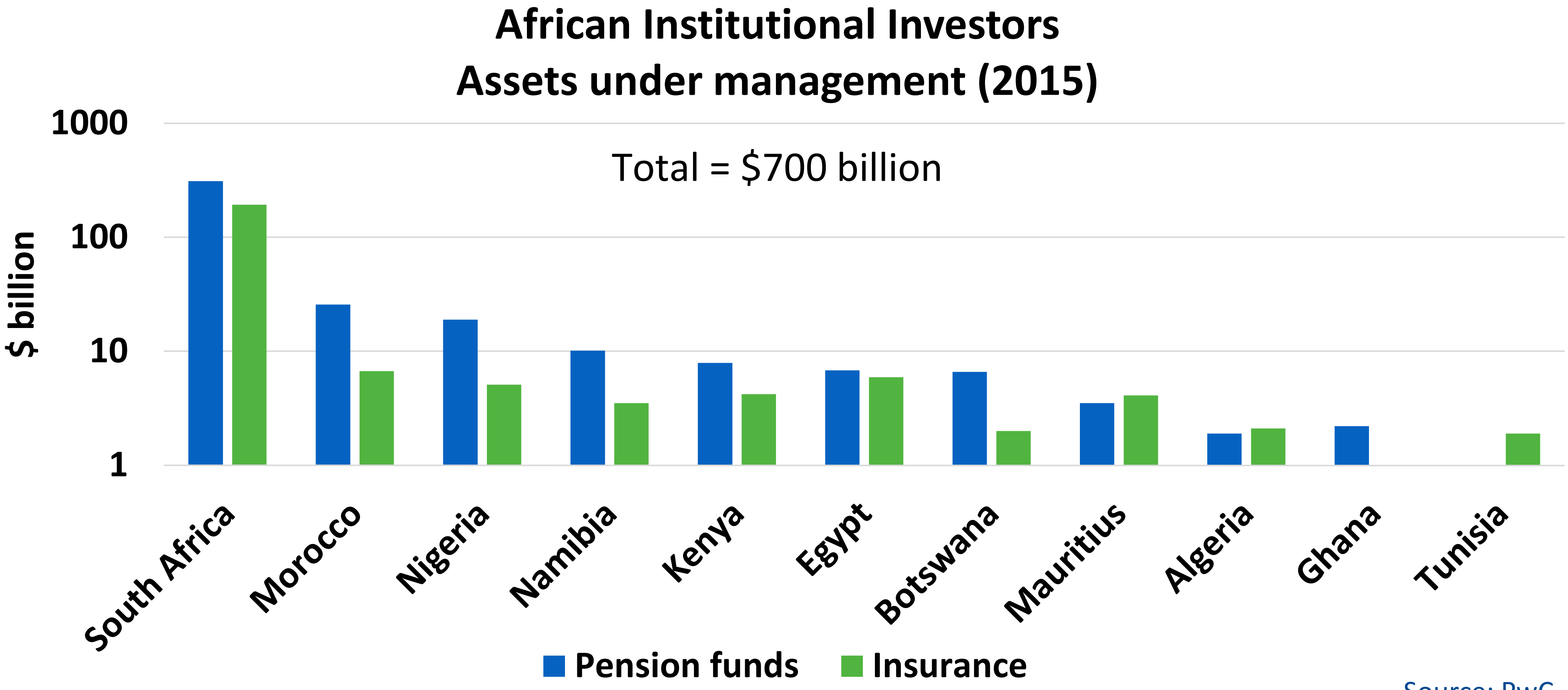
INSTITUTIONAL INVESTORS AS A POTENTIAL SOURCE OF FINANCE



Source: PwC

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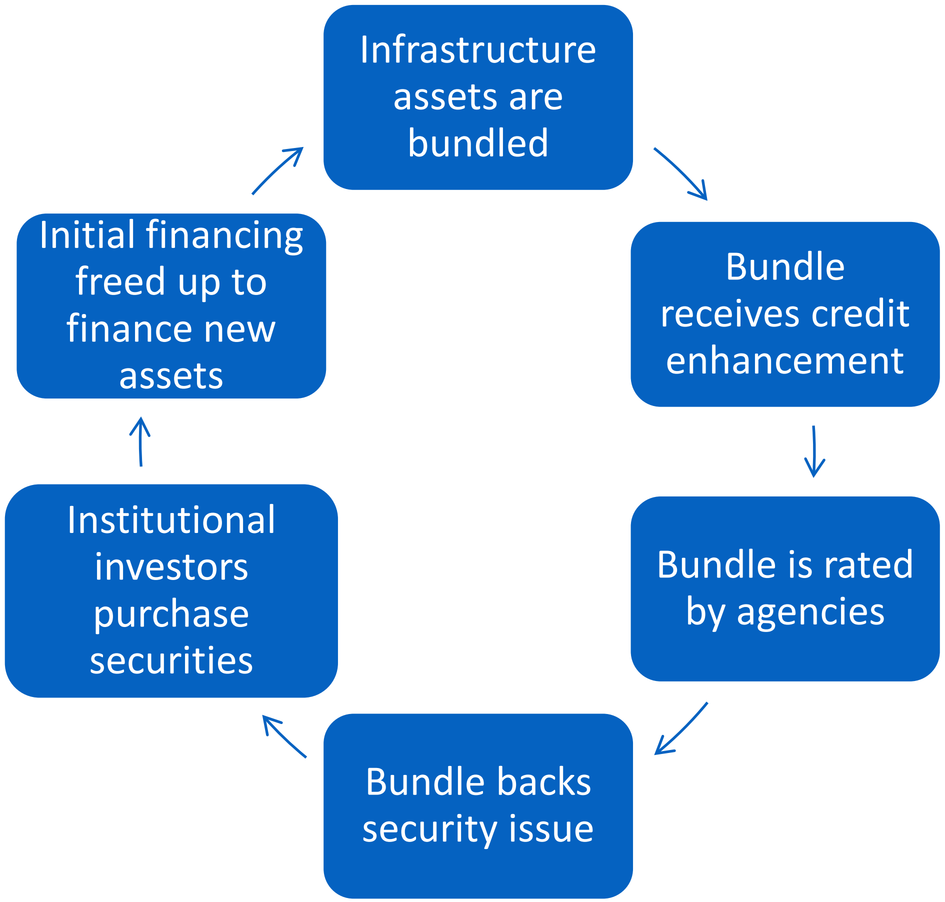
TAPPING INSTITUTIONAL INVESTORS

- 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



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

Improve the business environ-ment

- African countries must become more private sector friendly

Focus on revenue-generating sectors

- Private finance is only appropriate for sectors that charge user fees

Manage project risk

- Use credit enhancement to maximize financing and minimize cost

Tap institut-ional Investors

- Bundle existing infrastructure assets and issue securities

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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

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