Africa Emerging Markets Forum

Sustainable Financing of African Infrastructure: Closing the Gap

Abidjan, March 27, 2017
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

<table>
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<tr>
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<th>Cost</th>
<th>Time</th>
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<tbody>
<tr>
<td>Singapore</td>
<td>$440</td>
<td>4 days</td>
</tr>
<tr>
<td>Africa (Average)</td>
<td>$2,793</td>
<td>38 days</td>
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</tbody>
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AFRICAN SHARE OF WORLDWIDE INFRASTRUCTURE SPENDING

- 2000-2015: $2.5 trillion/year
  - Africa: 3% of total

- 2016-2030: $3.3 trillion/year
  - Africa

INFRASTRUCTURE INVESTMENT IN AFRICA, 2015
$83.4 BILLION

Infrastructure Investment by Region
- East Africa: 23%
- Central Africa: 6%
- West Africa: 18%
- South Africa: 14%
- Other Southern Africa: 19%
- North Africa: 17%
- Other: 3%

Infrastructure Investment by Sector
- Energy: 41%
- Transport: 42%
- Water: 10%
- ICT: 3%
- Multisector: 4%

WHERE DOES THE MONEY COME FROM? SOURCES OF INFRASTRUCTURE FINANCING

- **Public**
  - Domestic fiscal revenue
  - IFIs
  - Govt-to-govt loans
  - Direct investors
  - Institutional investors

- **Private**

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>African National Govts.</td>
<td>34%</td>
</tr>
<tr>
<td>China</td>
<td>26%</td>
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<tr>
<td>Private Sector</td>
<td>9%</td>
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<tr>
<td>IFIs</td>
<td>31%</td>
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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
INSTITUTIONAL INVESTORS AS A POTENTIAL SOURCE OF FINANCE

African Institutional Investors
Assets under management (2015)

Total = $700 billion

Source: PwC
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

- Bundle existing infrastructure assets and issue securities
- Use credit enhancement to maximize financing and minimize cost
- Private finance is only appropriate for sectors that charge user fees
- African countries must become more private sector friendly
- Focus on revenue-generating sectors
- Improve the business environment
- Tap institutional investors
- Manage project risk
- Improve the business environment
- Tap institutional investors
- Manage project risk
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- Use credit enhancement to maximize financing and minimize cost
- Private finance is only appropriate for sectors that charge user fees
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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