Strengthening Capacity in developing ankable transport infrastructure projects for enhanced connectivity”

Role of Multi-lateral Development Banks in developing and financing bankable transport infrastructure projects – experiences and best practices

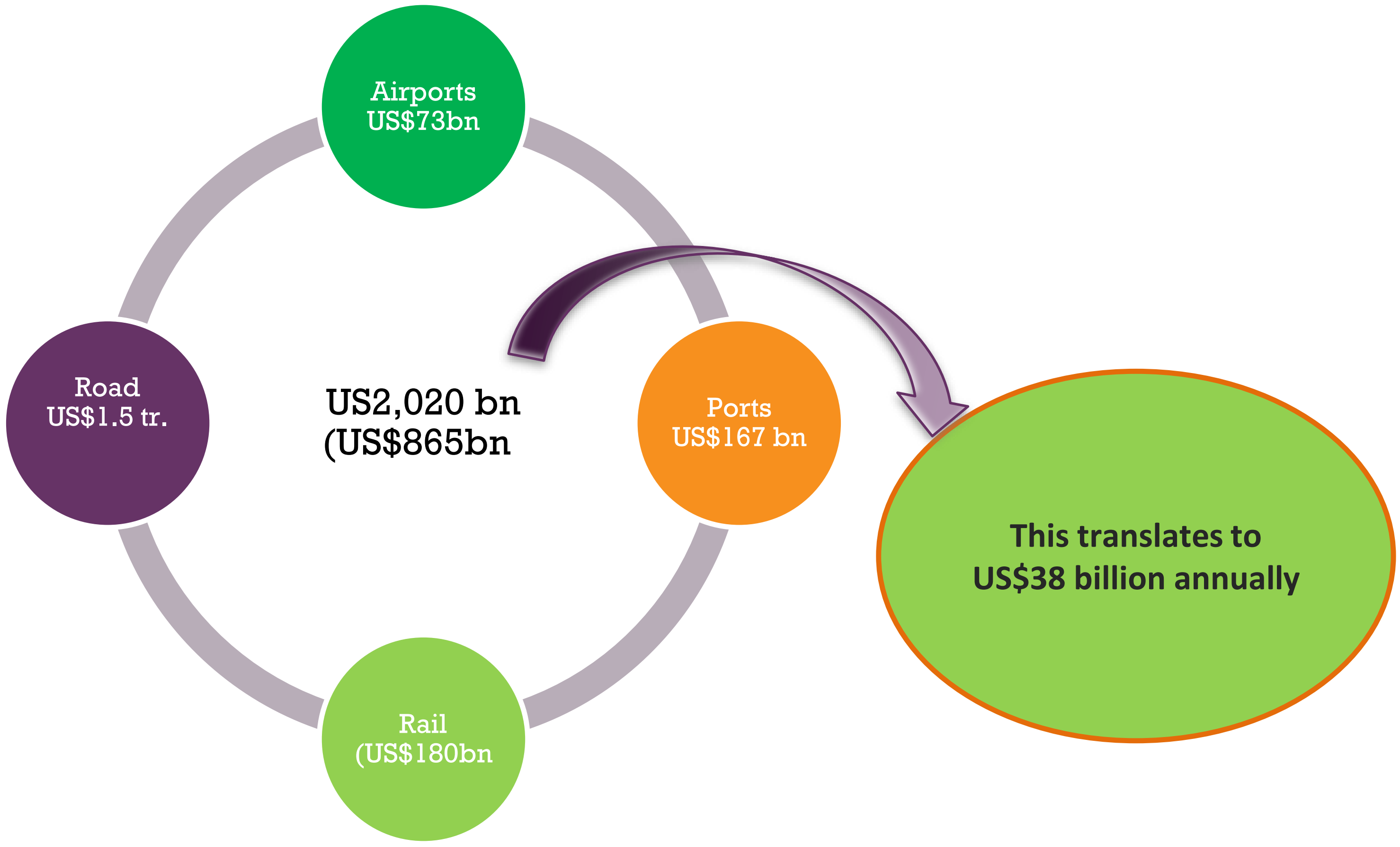
Outline

1. Background
2. Sources of Funding Transport Infrastructure
3. Potential sources funds for transport infrastructure projects
4. Challenges
5. Case studies N4 Toll Roads.
6. Conclusion

Background

❑ Infrastructure Needs

- Africa's transport infrastructure remains underinvested yet its offers better investment opportunities compared to the rest of the world.

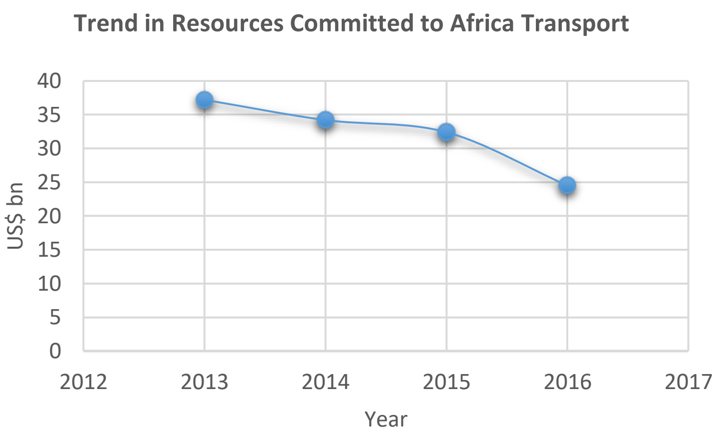


What are main sources of funds for Africa Transport Infrastructure

Source	% share
African National Governments	59.5
ICA Members	20.4
Other bilateral/multilaterals	10.7
China	4.1
Private Sector	5.3
Total	100.0

Source: ICA Annual Report 2017.

It remains irrefutable that the need for funds to support transport infrastructure developing in Africa, is huge & traditional sources are not enough.



Potential resources from Private Sector for Transport Infrastructure Investments

- According to PwC South Africa estimates that
  - Global AuM was expected to rise by nearly 6% from a 2012 total of $69.9 trillion to over $100.0 trillion by 2020.
- Although Africa's share of this pie is relatively small, traditional AuM in 12 African countries was expected
  - to grow by 9.6% between 2008 and 2020 - rising to $1.98 trillion from $293 billion respectively.
- Even an allocation of 3% of pension fund assets would provide about US$594 million for infrastructure investments.
- **Despite these huge resources, key Challenge is that Private Sector rarely find project preparation.**

Challenges faced by Private Sector in financing Transport infrastructure

- Private sector, generally have a rigid trade-off between risk profiles with a net preference for low-risk investments such as government bonds.

- To this end they face a number of challenges such as:
  1) regulatory challenges e.g., quantitative asset restrictions & prudent person rule;
  2) Macro-economic constraints with better sovereign debt ratings;
  3) Capital market constraints etc

Case study: Preparation of transport infrastructure

The N4 Maputo Corridor Toll Road

- The US$660 million N4 Maputo Corridor toll road project between South Africa and Mozambique, which reached financial close 1997, and was the first African PPP toll road built on a BOT basis.

- Key players included -the Trans African Concessions (Pty) Ltd (TRAC) which was awarded the concession for a period of 30 years with the main sponsor being the SBB Consortium comprising Stocks & Stocks, Bouygues (France) and Basil Read holding 40% of TRAC equity
- 60% of the equity was held by non-sponsor parties of which 20% was held by the South African Infrastructure Fund (SAIF).

- The shareholders of the SAIF are AfDB, Standard Bank, + pension funds (**Old Mutual, Futuregrowth, Liberty Life Assurance Ltd., Metropolitan Life Assurance Ltd., Public Investment Corporation, Transnet Pension Fund).**

Financing structure of the N4 Maputo Corridor Toll Road

- The financing structure:

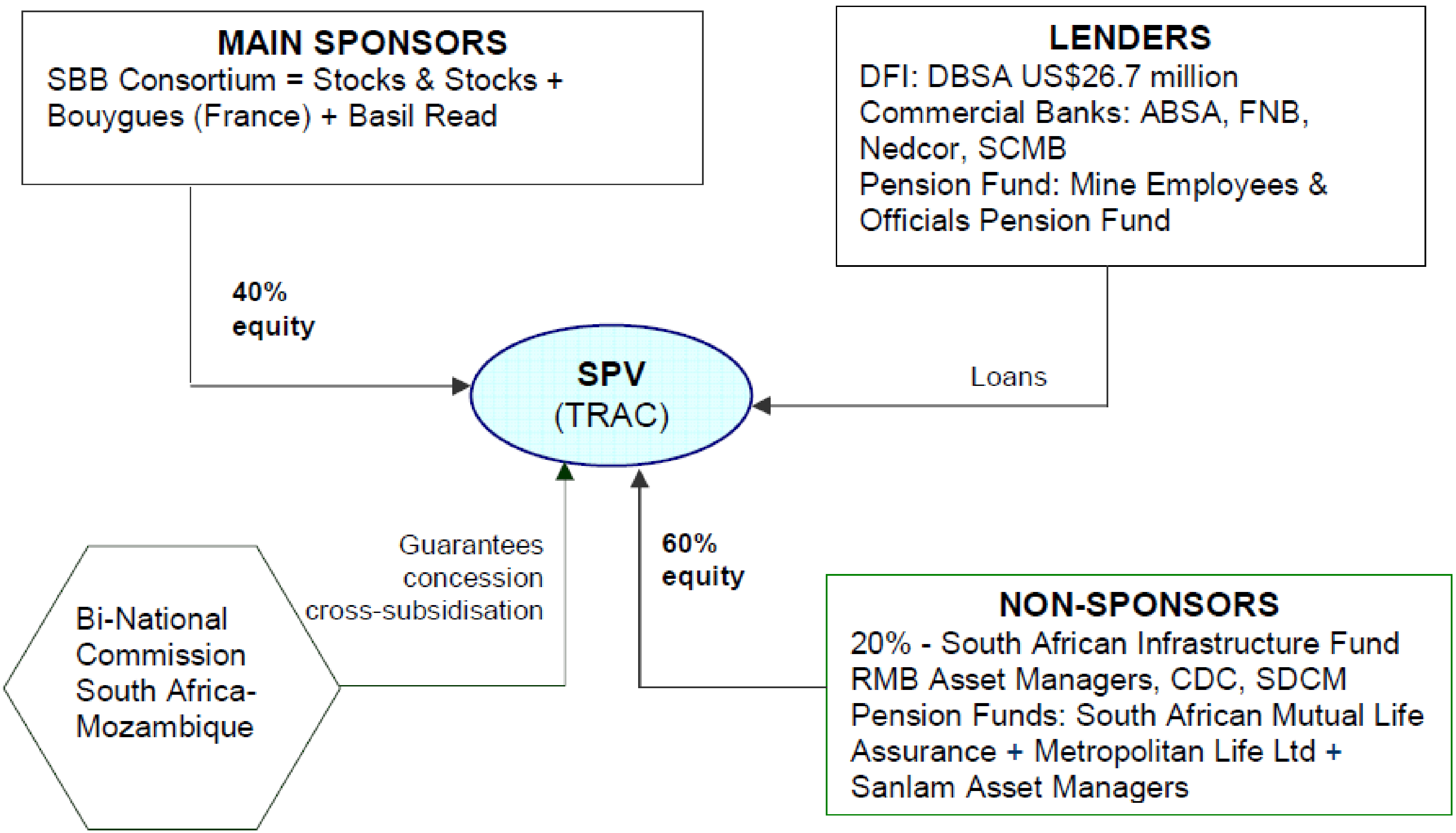
  1. The N4 was financed with 20% equity and 80% debt with the governments of South Africa and Mozambique jointly guaranteeing the debt of TRAC.

  2. Under certain conditions, guaranteed the equity as well.

  3. This catalysed investment from private and Development Banks; and Private Sector which invested indirectly in N4 via an infrastructure fund (SAIF).

  4. The Fund was the direct private investor with 20% equity in Trans African Concession and was represented at the TRAC Board.

Figure illustrates the deal diagram for the N4 toll road project



Challenges in the N4 Maputo Corridor Toll Road

N4 Maputo Corridor Toll Road

- The project faced unique challenges because of its:

    1. cross border nature and corresponding double country risk;
    2. as well as future traffic flows dependent on improvements at the Maputo port;
    3. Unaccommodating legislation in Mozambique and the coordination of customs procedures; and
    4. 35% of the total project costs fell due in Mozambique, tolls in that country were expected to generate only 4% of total revenue.

Key lessons

1. There was a high-level political will from both governments resulting in the legal constitution of the Implementing Authority with the legal right to engage with financiers to implement the project.

2. The two governments jointly guaranteed the SPV's debt encouraging private sector and pension fund involvement.

3. The concession agreement included innovative solutions of cross-subsidisation of the toll revenues from South African to Mozambique allowed a **reduction in the payment risk, especially the Mozambican risk**.

4. Project risks were innovatively mitigated through good project preparation, planning and negotiation which encouraged Pension Fund to invest in the N4 project.

5. The regulatory framework in South Africa allowed the pension funds to invest in investments funds such as the SAIF.

6. External risks such as political and regulatory risks were mitigated not via DFI's guarantees but through government undertakings and guarantees which were embedded in the Concession Agreement.

Key lessons 1/2

1. DBSA as the DB, played a facilitating role between the lenders and the concessionaires ensuring that the developmental aspect of the project received the necessary attention.

2. To this end the success of the N4 project in attracting Pension Funds participation was based on:

   - ✓ strong political commitment by sponsor governments;
   - ✓ government guarantees;
   - ✓ the involvement and support of the development bank, i.e. DBSA and AfDB; and
   - ✓ Good advisory capacity for deal structuring.

3. All these factors contributed to pension funds participation through SAIF in the project.

Conclusion 1/1

- The case studies illustrates two ways in which pension funds can participate in funding transport infrastructure projects through indirect investments:
    1. In the case of the Costanera project in Chile, pension funds subscribed to bonds;
    2. while in the N4 project they participated via an infrastructure fund

- The case studies also demonstrate that pension funds, and indeed any private sector investor, benefit substantially if projects are:
    1. well structured;
    2. there is conducive regulatory and legal frameworks in place;
    3. efficient local capital markets; and
    4. improved capacity of the public sector bodies to prepare, package and implement the deal.

Conclusion 1/2

- **When it comes to implementing regional projects**, the creation of legal institutions at country and regional levels with the right legal, technical, and financial skills to plan and implement projects is crucial as seen in the N4 toll road.

- Political commitment is critical for the success of regional projects.

- The role of Dev. Banks in attracting pension funds for infrastructure investments are fully illustrated by both projects. For instance:
  1. Dev. Banks in the two case studies provide credit enhancement tools via risk insurance products and guarantees which enable the SPVs to issue securitized debt instruments such as bonds; or
  2. simply attract more investor participation e.g. infrastructure funds.

Finally

- With respect to instruments and institutions and institutional arrangements, AfDB has in place:

  1. infrastructure Fund – Africa50;
  2. infrastructure bond instrument;
  3. two facilities for project preparation AfDB project preparation fund and NEPAD IPPF.
  4. ICA through which African pension funds and ICA members can come together so as to leverage their resources.

- AfDB can also assist Pension funds harmonized their legal regulatory policy frames

THANK YOU

Chief Regional Operations Officer:
Lufeyo Banda
(l.banda@afdb.org)

African Development Bank
BP 1387 – 01 Abidjan
Ivory Coast
www.icafrica.org