



14:00 - Session 3

Financing infrastructure

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Sources of infrastructure investment in SSA

Operations & Maintenance	Capital Investment					Total Capex	All Spending
	Public Sector O&M	Public Sector Capex	Non-OECD Financiers	Official Development Assistance	Private Households		
20.4	9.3	2.4	3.7	2.1	7.3	24.8	45.2

Percentage of Total Capex: 38% (Public Sector Capex), 10% (Non-OECD Financiers), 15% (Official Development Assistance), 8% (Private Households), 29% (PPI), 100% (Total Capex)

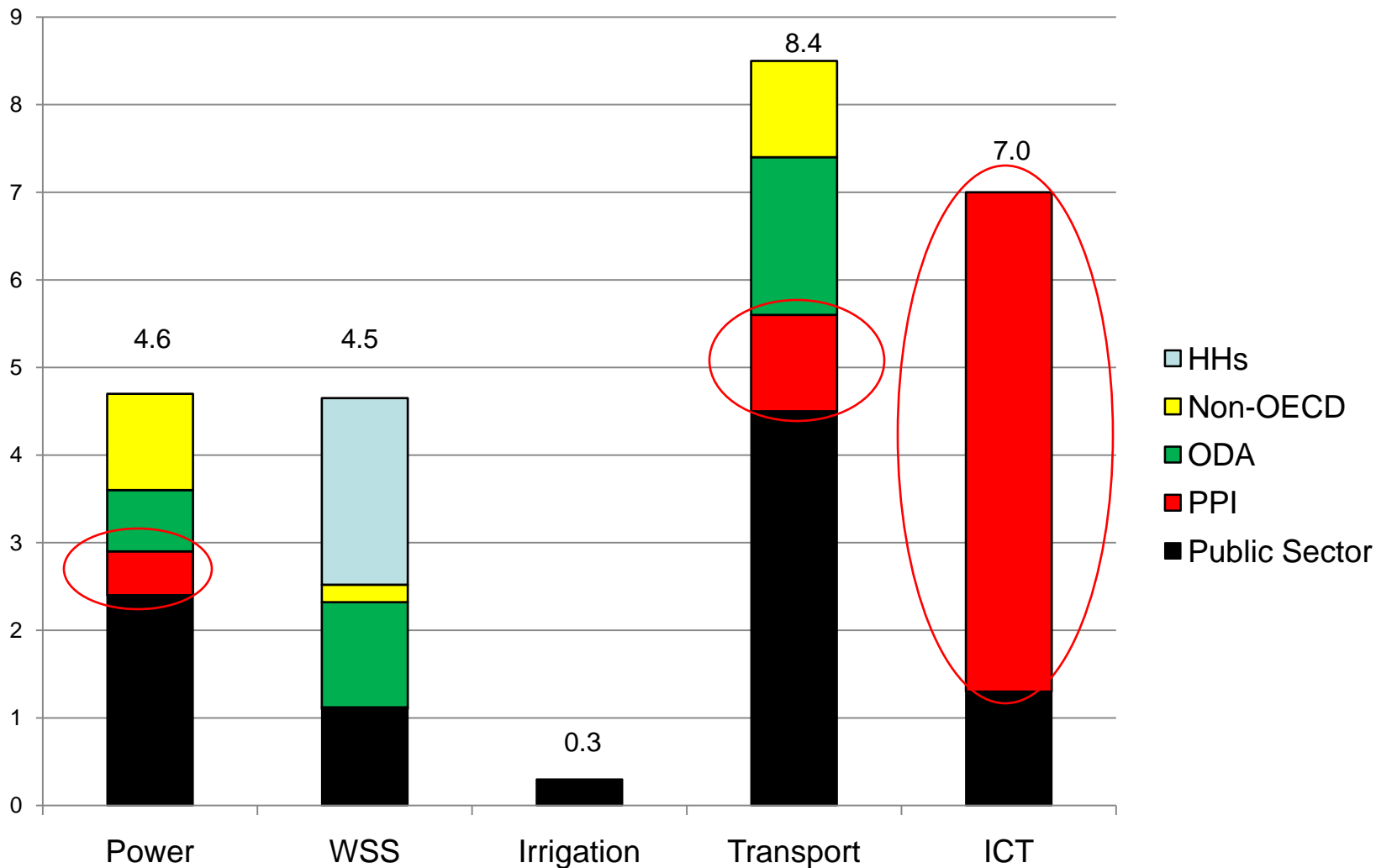


SSA's power sector needs = 61% of required new investment

	Electricity	ICT	Irrigation	Transport	WSS	TOTAL
Spending needs	40.8	9.0	3.4	18.2	21.9	93.3
O&M	14.1	2.0	0.6	8.8	7.0	33.0
Capex	26.7	7.0	2.7	9.4	14.9	60.4
Existing spending	11.6	9.0	0.9	16.2	7.6	45.3
O&M	7.0	2.0	0.6	7.8	3.1	20.4
Capex	4.6	7.0	0.3	8.4	4.5	24.9
Funding Gap	29.2	0.0	2.5	2.0	14.3	48.0
	61%	0%	5%	4%	30%	100%
O&M	7.1	0.0	0.0	1.0	3.9	12.6
Capex	22.1	0.0	2.4	1.0	10.4	35.5

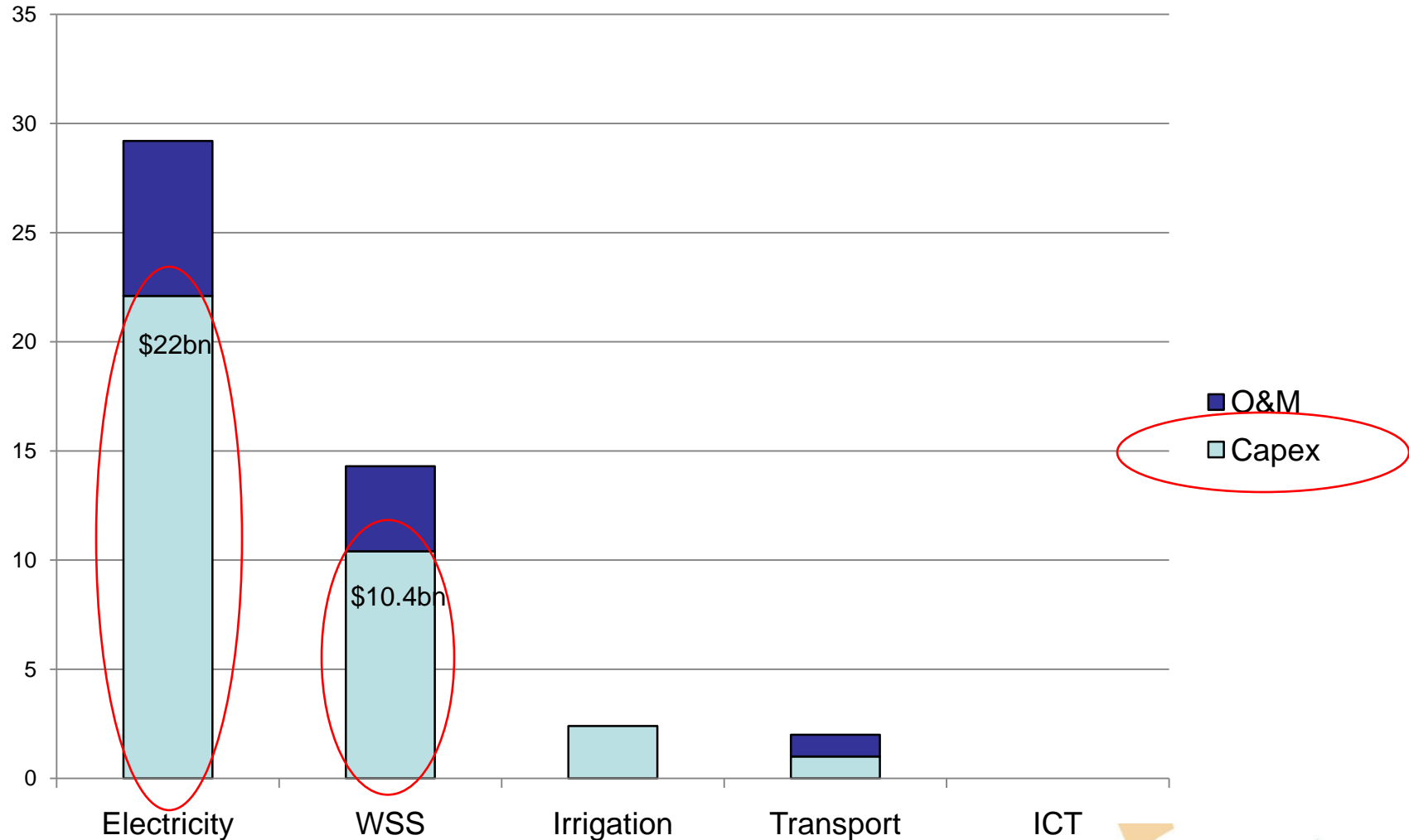


Actual capex – little PPI for power





Sectoral funding gaps



Source: AICD 2010





Role of national govts in regional PPI

- **Donor and private sector preference:**
 - ✓ Sovereign guarantees must back borrowing
 - ✓ Regional entities cannot borrow
 - ✓ PS unwilling to invest in large (risky) regional projects – take long to reach financial closure
- **Implementing options:**
 - ✓ Separate but coordinated national projects (Kenya-Uganda rail)
 - ✓ Private sector driven “merchant” projects (ICT)
 - ✓ Agreements by visionary heads of state (Maputo corridor)
 - ✓ Special purpose vehicles (INGA III -- Westcor)
 - ✓ National projects with excess capacity



Biggest problem: Project preparation

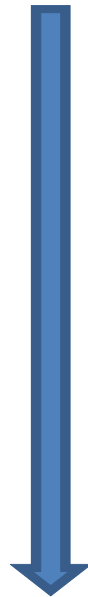
- **Causes:**

- ✓ Lack of available data on Brownfields or Greenfields projects
- ✓ The need for more "upstream" preparation
 - ICA study identified 26 facilities
- ✓ Shortage of grant funding for preparation
- ✓ Shortage of Expertise

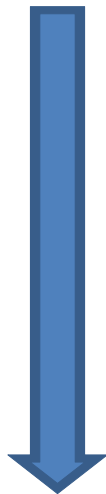


Upstream & downstream preparation

**Upstream
Preparation**



**Downstream
Preparation**



Phase 1:	Enabling Environment	Designing enabling legislation Designing regulatory approaches Project relevant institutional reforms Policy reforms Capacity building to support projects Consensus building re projects
Phase 2:	Project Definition	Identification of desired outputs Prioritization vs. other projects Identification of project champions Action planning (TORs, etc.) Pre-feasibility studies
Phase 3:	Project Feasibility	Financial modeling Economic, Social, Technical, and Environmental studies
Phase 4:	Project Structuring	Public/private options assessment Project finance Legal structuring
Phase 5:	Transaction Support	Procurement/ contract drafting Financial/ legal negotiations
Phase 6:	Post-Signing Support	Post-signing financial arrangements 5-year tariff reviews Renegotiation/ refinancing



Costs of project preparation

- **How much does PPP preparation cost in the UK?**

- ✓ 2005 study of procurement/transaction costs on 55 UK PPPs:
 - Government = 3.5%
 - Winning bidder = 3.8%
 - Losing bidders = 5.0%

About **12%** of capital value

- **How much does PPP preparation cost in a LIC?**

- ✓ 2010 DFID-funded study of procurement/transaction costs plus upstream preparation costs:
 - Government = 3-5% (for upstream prep)
 - Government = 4-5% (for procurement/transaction)
 - Winning bidder = 4-5%
 - Losing bidders = 6-7%
 - Premium = 2-3% (for new/difficult sectors)

About **19-25%** of capital value

- ✓ Minimum total govt prep costs on a **\$100m** IPP (72 mw) > **\$8m**





Project preparation – What is needed?

- **Who has money for PPP project preparation?**

- ✓ The World Bank, EU-Africa ITF, InfraVentures, PPIAF, GPOBA, Nepad IPPF, DBSA prep fund, REC funds, etc.
- ✓ But not enough: doubling PPI in SSA's power sector (**\$7.3 billion** in new investment) will require **\$1.4 billion** in total prep costs

- **What happens if prep money is insufficient?**

- ✓ Delayed start-up, delayed draw-downs
- ✓ Rigidly sequential / incremental preparation
- ✓ Increased costs, overall delays, project misfires



Project preparation – What is needed?

- **What G20 Donors can do:**

- ✓ Consolidate & rationalize donor-funded project preparation assistance
- ✓ Make larger donor funds available for PPI project preparation (as revolving fund?)
 - Grants for LICs (maybe success fee paid to fund on financial close);
 - Loans with long grace periods for MICs - repayable on financial close
 - Consider funding PS portion of prep costs in PPPs – repayable on financial close

- **What is needed?**

- ✓ Special donor funded facility for project preparation
- ✓ At least \$500 million for 3-year pilot period





Conclusions

- **Power is central to growth & poverty reduction**
 - ✓ But SSA's power sector is in crisis
 - ✓ PPI in power is important in other regions (45% of global PPI in 2009); But PPIs in power only 3.5% of all PPI in SSA
- **Regional power: PPI needed for size, access to hydro power, and power trading – but even more difficult to do (never been done)**
 - ✓ Changes needed in Govt attitudes, capacity & enabling environments
 - ✓ More grant funding needed for **project preparation**
 - ✓ Rationalize & consolidate existing project preparation funds
 - ✓ Expertise for project preparation is critical
 - ✓ Where to put such Fund? Need both expertise & “governance”



PPI in power widely used in developing countries

Current US millions

