Private Infrastructure Development Group

WORLD TRADE ORGANIZATION

AID FOR TRADE AND INFRASTRUCTURE: BRIDGING THE FINANCING GAP

**SESSION II: BRIDGING THE FINANCING GAP**
**PRACTICE AND POLICY DIMENSIONS**

**16 FEBRUARY 2015**

## PIDG Mission

To mobilise private-sector investment to assist developing countries to provide infrastructure vital to boost their economic growth and combat poverty.

A consortium of donor organisations who have joined together to help facilitate private sector investment in infrastructure in developing countries.

- Australia
- Germany
- Ireland
- Norway
- Sweden
- Switzerland
- The Netherlands
- United Kingdom
- World Bank Group (through IFC)

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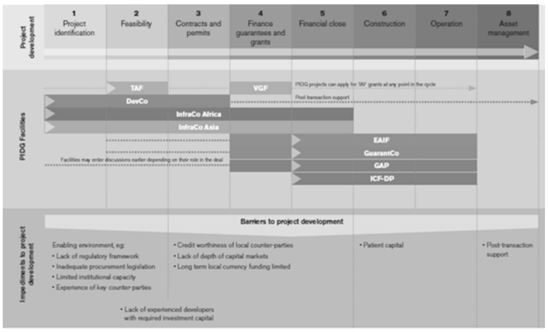
## PIDG works across the project cycle




## PIDG Facilities

| Technical Assistance Facility | DevCo | InfraCo Africa Ltd | InfraCo Asia Development Pte Ltd | The Emerging Africa Infrastructure Fund Ltd | GuarantCo Ltd | Green Power Africa LLP | Infrastructure Crisis Facility - Debt Pool LLP |
|---|---|---|---|---|---|---|---|
| **MARKET/POLICY CHALLENGE** | | | | | | | |
| Shortage of public and private sector resources for project preparation, evaluation and affordability | Insufficiently well prepared projects for private sector involvement due to lack of public authority resources/ capacity | Bankable projects not being developed in sub-Saharan Africa due to high risk of early stage project development | Bankable projects not being developed in Asia due to high risk of early stage project development | Shortage of long-term loans at sufficiently low interest rates due to perceived risks in developing countries in Africa | Shortage of long-term, local currency-denominated funding to reduce exchange rate risk for projects | Shortage of renewable energy projects in Africa due to high upfront costs and risks, lack of financing and cost-reflective tariffs | Reduced appetite of commercial banks to lend to infrastructure projects in developing countries due to the financial crisis |
| **PIDG FACILITY RESPONSE** | | | | | | | |
| Technical assistance and capacity-building support | | Early-stage project development capital and expertise | | Long-term debt finance/guarantees | | | |
| Provides grants to PIDG Facilities to build capacity, and support project preparation and delivery | Provides advisory services to governments to help them deliver infrastructure projects | Develops commercially viable infrastructure projects in Africa | Develops commercially viable infrastructure projects in Asia | Provides long-term loans to private sector infrastructure projects in sub-Saharan Africa | Provides local currency guarantees to avoid exchange rate risks and stimulate local capital sources | Provides financing and policy support to demonstrate viability of renewable energy in Africa | Provides long-term loans to projects to address financing gaps as a consequence of the financial crisis |
| 2004 | 2003 | 2005 | 2010 | 2002 | 2006 | 2013 | 2009 |

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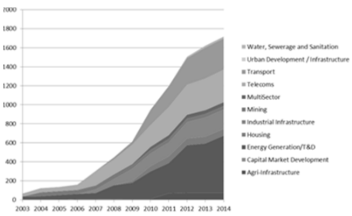
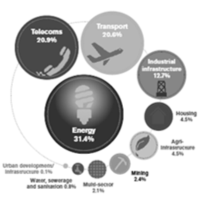
## PIDG: Cumulative Commitments per Sector




Leveraging PIDG Members' funding: public resources and ODA can not meet financing gap for African Infrastructure. The key is better and smarter aid.

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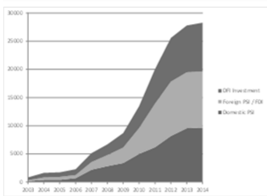
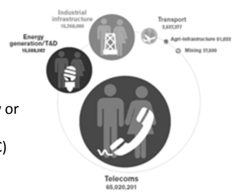
## PIDG Impacts




US$19.6 billion in commitments from commercial sources
US$8.6 billion from DFIs




98.5 million people benefitting from new or improved infrastructure

- 90% in poorest countries (LDC / OLIC)
- 68% in fragile states

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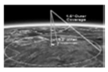
## Constraints to Private Investment / Risks

- Lack of bankable projects or limited developer capacity
- Shortage of long-term FX / local debt (liquid, longer term domestic investment instruments)
- Public sector capacity constraints
- Lack of credit-worthy counter-parties
- Affordability risk
- Regulatory risks

## PIDG - Looking Forward

- Structure: designed to leverage private sector
- Delivers a social return: carefully measured
- Demonstration effect: frontier markets are viable
- Risk management: addressed / managed at every step
- Dialogue with industry: key to our strategy development
- Always looking for new ideas: PIDG aims to be transformational



## Uganda: Kalangala, Infrastructure Services & Renewables


**4 integrated infrastructure components:**

- Solar power supply and distribution
- Solar-powered pump based water supply
- Two ferries
- 66 km road rehabilitation to serve population of Bugala Island, Lake Victoria
- Project developed by: InfraCo Africa
- Co-financed by: NedBank, USAID (co-guarantor), Ugandan Development Corporation, Industrial Development Corporation of South Africa, EAIF, GuarantCo and TAF
- Total project investment - $44.5m
- It is estimated that due to the project, literacy will be increased by 5% by 2020 and 20% of women who are engaged in commercial activity, will be doing so as a consequence of the project.

**InfraCo Africa developed innovative financial structure for project with blended finance, including OBA, allowing project to reach poorest residents while also being commercially viable**

## Ghana: Cenpower, 340 MW IPP in Tema


InfraCo Africa have exited the project

- US$903m successfully raised
- Debt (72%): Export credit cover by a consortium of South African commercial banks and international DFIs, including: Rand Merchant Bank, Nedbank, Standard Bank and FMO.
- Equity (28%): AFC Equity Investments Limited (~32%); Sumitomo Corporation (~28%); Cenpower Holdings Limited (~21%); Mercury Power (15%); and FMO (~4%).
- 'African Power Deal of the Year' in 2014 (PFI Awards), the plant should be fully operational by 2017
- 67% of equity is held by African entities and 83% of senior debt is held by African lenders

**First PPA within the Ghanaian electricity sector; first generation license (license no. 001); and first connection agreement between the Government and an IPP.**

## Thai Biogas Energy Company, Mekong Region

- TBEC sets up biogas plants near agri-processing factories to extract biogas from the factories' wastewater. The biogas is used to generate clean, renewable energy and carbon credits (replacing coal, Diesel or HFO).
- The total investment of $12.5m has been used to set up two new wastewater processing plants in Laos and Cambodia.
- 100% commercial debt financing was provided by a local Thai lender, ICBC. GuarantCo provided a 100% guarantee for ICBC's loan.

- **Facility required by TBEC was too small for local banks' project finance teams and too complicated for their corporate banking teams. Even with a 100% guarantee from GuarantCo it took 1 year to find a suitable commercial lender for the project.**
- **GuarantCo's flexibility in structuring solutions is critical in enabling small, unconventional yet highly development projects to successfully raise commercial financing.**

## GuarantCo: Mobilink Pakistan – PKR 8bn ($75m) Sukuk

Pakistan Mobile Communications Limited seeking to expand network into underserved rural areas to enable access to telecommunication services for wider proportion of population.

To fund this capital expenditure PMCL decided to issue a local currency Islamic bond (Sukuk) of up to $75 mm equivalent.

Given limited size of the corporate bond market in Pakistan PMCL was constrained by existing investors having reached their regulatory limits either in terms of exposure to PMCL or telecommunications sector.

- The Sukuk was structured as a "Service Ijara", the first time this structure has been used in Pakistan.
- Strengthening and deepening local capital markets – mobilising 16 Islamic investors, 60% of financing from new sources.
- GuarantCo now has highly relevant Islamic capital markets experience that can be applied in other countries.

## Thank you

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