Macroeconomic and Financial Management Institute of Eastern and Southern Africa

2016

MEFMI COMBINED FORUM

THEME: Accelerating Economic Growth in the MEFMI Region: Drivers, Prospects and Policy Implications

RAPPORTEUR:
Mr. Tiviniton Makuve, Programme Manager, Debt Management Programme

REVIEWERS:
Mr. Patrick Mutimba, Director, Financial Sector Management Programme
Dr. Sehliselo Mpofu, Director, Macroeconomic Management Programme
Mr. Raphael O. Otieno, Director, Debt Management Programme
Ms. Gladys Siwela, Public Relations Manager

APPROVED BY:
Dr. Caleb M. Fundanga

EXECUTIVE FORA COMMITTEE
Mr. Patrick Mutimba, Director, Financial Sector Management Programme (Chair)
Dr. Sehliselo Mpofu, Director, Macroeconomic Management Programme
Mr. Tiviniton Makuve, Programme Manager, Debt Management Programme
Ms. Gladys Siwela, Public Relations Manager
Ms. Sharon Wallett, Executive Assistant (Secretary to the Committee)

Editorial comments should be addressed to:
The Public Relations Manager
MEFMI
9 Earls Road
Alexandra Park
Harare
Zimbabwe
Tel: +263-4-745988/9/91-94
E-mail: capacity@mefmi.org
Web: www.mefmi.org
Twitter: @mefmiorg

TABLE OF CONTENTS

ACRONYMS

ADF	African Development Fund
AfDB	African Development Bank
AICD	Africa Infrastructure Country Diagnostic
AsDB	Asian Development Bank
DFIs	Development Finance Institutions
EFS	Energy Financial Services
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GE	General Electric
HIPC	Heavily Indebted Poor Countries
IBRD	International Bank of Reconstruction and Development
IFC	International Financial Corporation
IFIs	International Financial Institutions
IIF	Institute of International Finance
IMF	International Monetary Fund
IPP	Independent Power Purchase Agreements
GW	Gigawatts
JBIC	Japan Bank for International Corporation
LICs	Low Income Countries
MDB	Multilateral Development Banks
MDRI	Multilateral Debt Relief Initiative
MEFMI	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
MIGA	Multilateral Investment Guarantee Agency
NGOs	Non-Governmental Organisations
ODA	Official Development Assistance
P-FRAM	PPP-Fiscal Assessment Model
PIM	Public Investment Management
PPI	Private Participation in Infrastructure
PPP	Public Private Partnerships
PTA	Preferential Trade Area
SDGs	Sustainable Development Goals
SSA	Sub-Saharan Africa
USPs	Unsolicited Proposals

FOREWORD

After experiencing a prolonged period of strong economic growth, the Sub-Saharan Africa (SSA) region is now facing a very difficult period, arising from a far less supportive external environment. This, particularly, is a result of tighter global financing conditions, and a sharp decline in commodity prices caused by the rebalancing of the Chinese economy, and exacerbated by adverse weather conditions. Against this background, real GDP growth is expected to fall to 1.6 percent in 2016 compared to 3 percent registered in 2015. This is the slowest pace of GDP growth in over two (2) decades, and implies a decline in GDP per capita in real terms. The immediate outlook across most regional economies remains clouded by downside risks, with modest recovery expected in 2018. As the region is experiencing a slowdown, government finances have increasingly come under pressure. In situations where counteractive measures remain limited, fiscal deficits have deteriorated significantly, triggering a steady rise in public debt to GDP ratios and a decline in fiscal space. At the same time, the evolving development financing landscape has seen a significant reduction in the flow of concessional resources that have traditionally supported infrastructure development in the region.

As infrastructure demand grows and the public sector budgets continue to be constrained, governments are increasingly looking to partnerships with the private sector for delivery of infrastructure that is needed to support strong, sustainable and inclusive growth. Such partnerships tap private sector sources of financing as well as expertise to deliver infrastructure services. If these new sources of financing are properly developed and leveraged on, they can provide the resources required to underwrite the region's development agenda, particularly those embodied in the African Union Agenda 2063, and facilitate meeting the ambitious goals set out in the evolving global development agenda. The Sub-Saharan African (SSA region), which lags behind in infrastructure development the most, continues to attract the least infrastructure investment from the private sector. Given their limited exposure to infrastructure risk, private sector is naturally cautious about increasing exposure to this asset class. Hence, risk-sharing instruments are required to shift perceptions and get private capital to fund infrastructure investment.

Under the theme: *Accelerating Economic Growth in the MEFMI Region: The Drivers, Prospects and Policy Implications*, the 2016 MEFMI Combined Forum discussed challenges and explored opportunities for unlocking and leveraging on the transformative potential of Public-Private Partnership (PPPs) platforms in scaling-up infrastructure delivery in the region. The Forum also explored opportunities for creating an environment that could create change in private-sector capital flows towards infrastructure development. The main discussion topics under this theme were:

- Financing African infrastructure: needs and solutions;
- Innovation in Guarantee Products, and their Fiscal Implications; and
- Fundamental Issues pertaining to Public Private Partnerships.

The wealth of information, the diversity of views, experiences, the lessons shared and learnt during these discussions are extremely useful as the region explores alternative strategies for encouraging private sector participation in infrastructure investment.

It is my sincere hope that the discussions, as outlined in this report, will bear fruit in the months and years to come.

On behalf of MEFMI, I would like to thank the many experts whose experience, perspective and guidance substantially contributed to several insightful discussion points that will prove useful as the region contemplates deeper engagement with the private sector to deliver infrastructure services. The presence of our cooperating partners and other distinguished guests is clear testimony that they share a deep passion for the development of the region and have perspectives on how it could be achieved.

I would like to acknowledge General Electric Africa (GE) for supporting this Forum. Your continued collaboration with MEFMI will be critical as the Institute strives to bring capacity development to the region, and more importantly, enable it accomplish its mandate and vision. We are even more convinced that this excellent work should continue to be nurtured as we contemplate new and wider areas of future collaboration.

It is my hope that the outcomes of the discussions, as captured in this report, will help the Institute and all its stakeholders to design approaches that conform to the recommendations made during the Forum.

Caleb M. Fundanga
MEFMI Executive Director

EXECUTIVE SUMMARY

Infrastructure bottlenecks have been identified as one of the major impediments to SSA region's development and its quest to achieve a strong, sustained and shared growth. The region consistently lags behind on every measure of access to infrastructure services. The World Bank's 2008 Africa Infrastructure Country Diagnostic (AICD) study estimates Africa's total infrastructure financing needs at US$93 billion a year (or 15 percent of the region's GDP). Only US$45 billion of this gap is financed, leaving a deficit of about US$48 billion per annum.

While the infrastructure funding gap is huge, public finances have remained under pressure. The budgets of major donors that traditionally supported aid flows to the Africa region have not recovered from the 2008 global financial crisis and more recently, the Eurozone sovereign debt crisis. This makes Official Development Assistance (ODA) increasingly volatile and uncertain as a source of funding. Against this background of fiscal constraints, PPPs are emerging as mechanisms to help governments address burgeoning infrastructure bottlenecks.

While the opportunity to capture potential high yields from largely untapped infrastructure markets in SSA abound, nevertheless the region continues to attract the least infrastructure investment from the private sector due to perceived risks. Hence, much of the important infrastructure investment that is crucial for sustaining an inclusive growth path will not happen unless there are substantial improvements to countries' risk profiles. The private sector is naturally cautious about increasing its exposure to this asset class. That is why a muscular set of nudges and risk-sharing instruments are required to shift perceptions and get private capital to fund infrastructure investment.

The 2016 MEFMI Combined Forum focused on the role that public-sector institutions can play to de-risk private investment in infrastructure projects. If successful, this can go a long way to attract private sector finance and expertise needed to complement public spending on infrastructure. Under the broad theme: Accelerating Economic Growth in the MEFMI Region: The Drivers, Prospects and Policy Implications, the Forum discussed challenges and explored opportunities for unlocking and leveraging private sector participation in infrastructure delivery, through PPP frameworks.

This report provides a summary of the proceedings of the Forum, and highlights key considerations that will inform the design of MEFMI's future capacity development interventions.

There was broad consensus among delegates that if PPPs are properly structured and leveraged on, they can provide the resources required to underwrite the region's development agenda, such as those embodied in the African Union Agenda 2063, and facilitate meeting the ambitious goals set out in the evolving global development agenda. In this regard, governments and Multilateral Development Banks (MDBs) should play an active role to de-risk private investment, and create a conducive environment for private sector participation. Several key messages emerged from the discussions and these include:

a) Reaffirmation that the region is now experiencing growth whose outlook is lacklustre and susceptible to several risks, key among them being the tightening of external financing conditions and anaemic growth in main trading partners, particularly China and Europe. Hence, the challenge facing the region is how to preserve and improve prospects for sustaining high and inclusive growth in the face of global economic uncertainty. These challenges provide a window of opportunity for the region to start reorienting policies and strategies towards diversifying growth sources and fostering structural transformation;

b) While reasonable capacity has been built in macroeconomic and financial management, capacity gaps still exist in project management. It is therefore crucial for MEFMI to incorporate project management in future capacity building programmes. As countries move to partner the private sector in infrastructure delivery, they require capacity to assess commercial viability (bankability) of projects. Governments' capabilities to prepare, procure, and manage public-private partnership projects crucial to ensure expected efficiency gains from these arrangements achieved;

c) If PPPs are properly structured and leveraged, they can provide the resources required to underwrite the region's infrastructure requirements. Governments' capabilities to prepare, procure, and manage these projects important to ensure that the expected efficiency gains and value-for-money are achieved;

d) PPP projects are complex undertakings with some risks including political risks and uncertainties as to the magnitude and timing of the expected benefits. Hence, governments and MDBs should play an active role to de-risk private investment in infrastructure, as well as creating a conducive environment that crowds-in private participation;

e) The most successful PPP schemes have been designed around a mix of funding sources, using a variety of schemes;

f) Fundamental improvements in creditworthiness of public entities that provide infrastructure services is essential to facilitate access to global and domestic capital markets, as well as to bring in private equity investments to a range of public-private partnerships;

g) Governments and development banks should focus investment on project-preparation facilities and technical assistance to increase the bankability of pipeline projects;

h) Governments could also play a pivotal role in creating a conducive environment for private sector investment in infrastructure, through improving public investment management and improving efficiency in the use of funds.

i) Encourage development banks and bilateral-aid organizations to provide financing for incremental up-front capital spending required to make traditional infrastructure projects sustainable in economic, social, and environmental terms;

j) Despite the acknowledged need to de-risk private sector investment in infrastructure projects, the uptake of available risk mitigation instruments across SSA region has remained low. Their use has fallen short of reasonable expectations because of a variety of factors:

    i. Cumbersome legal enforcement procedures;
    ii. High upfront fees which often affect viability of projects;
    iii. Application process which is lengthy and has stringent eligibility criteria;
    iv. Lack of capacity within government and potential private institutions;
    v. Processes and procedures for accessing them not well-defined, and tend to vary across institutions

k) At project preparation stage, it is crucial for governments to clearly define project specifications, articulate needs and timeliness for implementation. When it is not clear which projects will take place in a specific geography or sector, it is difficult for investors to justify investing in diligence and credit-evaluation expertise in those areas;

l) Beyond generating public returns in terms of wider social, political and environmental issues, a successful PPP must also generate returns to ensure financial viability and sustainability. Hence, cost-recovery measures should be used to ensure tariffs below cost-recovery are avoided;

m) Energy and connectivity are core drivers of private sector activity and triggers of growth. Hence, it is important that governments promote power generation, transmission, distribution and transportation. These are areas that MDBs have traditionally shied away from, but which they can focus on going forward;

n) Public sector investment management assessment framework is critical for enhancing effective project execution. Weak capacity around government procurement is one of the challenges that the private sector has encountered hence, multilateral development institutions should consider prioritising the provision of capacity building within government institutions on procurement to close the existing gap;

o) Standardising the process of private sector participation in infrastructure investment projects is crucial. Lack of standardisation in some specific sectors like power purchase agreements creates confusion in global capital markets due to uncertainty regarding bankability and tradability;

p) Political risks could effectively be managed by clearly enunciating long-term credible and time-consistent policy statements. For instance, clearly articulated 5-year development plans endorsed by multiple political parties in a country gives comfort to the private sector to participate in long-term infrastructure development project;

q) While promoting local investment, governments must guard against strategies that are systematically exclusionary and discriminatory to foreign private investment. Foreign investment plays a complementary and catalytic role to domestic industrial growth; hence governments should never perceive as though they are inconsistent with indigenisation policies;

r) International public aid money should be used to buy standardised risk guarantees that give potential investors comfort and assurance of the safety of their investments. This is expected to scale-up access to fairly-priced funds, while enhancing investment competitiveness. In addition, the weight of MDBs activities should shift from direct lending to facilitating the mobilisation of resources from the private sector in international and local debt and equity markets;

s) Support public providers of infrastructure services in achieving commercial standards of creditworthiness to access capital markets on a sustainable basis over the long term;

t) Improved procurement frameworks to enhance capacity, competition and transparency is paramount. Priorities for reform should include adopting more rigorous and transparent arrangements for appraisal, selection, and approval of investment projects as well as strengthening institutions related to the funding, management, and monitoring of project implementation;

u) There is need for governments to improve the management of public utilities to ensure cost recovery; and

v) African project financing performs incredibly well compared to infrastructure investments in other developing markets. However, high risk perception has remained a major deterrent to attracting capital inflows. Several key exit strategies that can be adopted to address some of the challenges, key among them being the need for Africa to prioritise the use of very flexible and tailored guarantees from multilateral development institutions to enhance project bankability. Multilateral guarantees improve the risk rating of a transaction and make it more acceptable to investors from a credit risk perspective. Although the use of guarantees for development purposes by development finance institutions has expanded in recent years, the potential remains largely untapped.

1. OPENING AND WELCOME REMARKS

1.1 WELCOME REMARKS: DR. FUNDANGA, EXECUTIVE DIRECTOR, MEFMI

Dr. Caleb M. Fundanga, MEFMI Executive Director welcomed delegates to the 2016 MEFMI Combined Forum. He commended Ministers, Permanent Secretaries and Central Bank Governors from the region, as well as representatives from Technical and Financial Cooperating Partners for accepting MEFMI's invitation to participate at the Forum. He acknowledged the financial partner for the event, General Electric Africa (GE), and noted that their contributions and collaboration made the event a huge success.

He pointed out that MEFMI's partnership with private sector players has allowed the Institute to deliver coordinated interventions which influence development dialogue without putting financial burden on the Institute. He expressed hope that the two institutions will continue with the excellent work as new and wider areas of collaboration are identified.

Dr. Fundanga pointed out that the diversity in the background of stakeholders at the 2016 Combined Forum brought together some of the world's best thought leaders to discuss some of the essential drivers and pathways to sustain the region's economic transformation. While the region experienced at least two (2) decades of remarkable growth, the external environment became much less supportive to growth in 2015, resulting in growth receding to its lowest level in about 15 years. The immediate outlook for most countries remains clouded in downside risk as external developments affected many of the drivers of recent economic success. Nevertheless, he expressed optimism about the region's medium-term growth prospects, and noted that the challenges were a strong reminder of the need to advance the structural economic transformation agenda, and this required substantial policy reset.

Despite strong consensus around the need for countries to structurally transform their economies, Dr. Fundanga said the scale and scope of funding requirements to pursue this objective is enormous and cannot be adequately covered from traditional sources of finance. The needs are particularly intensified for the region, where the changing landscape of investment and international aid has reduced the availability of donor funds and shifted infrastructure decision making from donors to governments. This underscores the need for countries to explore alternative and innovative sources of finance, such as Public-Private Partnerships and Guarantee Products.

Dr. Fundanga stated that if these new sources are properly developed and leveraged, they can provide the resources required to underwrite the region's development agenda, such as those embodied in the African Union Agenda 2063, and facilitate meeting the ambitious goals set out in the evolving global development agenda.

Dr. Fundanga informed delegates that the need to develop and leverage innovative financing mechanisms for sustainable development informed the list of invited speakers and the agenda for the day. He acknowledged that the gathering of diverse minds offered ample opportunity for the region to introspect on the different ways and means of accelerating inclusive, sustained economic transformation on an evolving global economic landscape.

1.2 WELCOME REMARKS: MR. THOMAS KONDITI, CEO AND PRESIDENT, GENERAL ELECTRIC SOUTH AFRICA

In his welcome remarks, Mr. Thomas Konditi, Chief Executive Officer and President of General Electric South Africa appreciated the opportunity to be the financial partner for the 2016 MEFMI Combined Forum. He informed delegates that this was the first meeting of its kind that GE was sponsoring, held against a challenging environment driven by an unfavourable external environment, particularly depressed commodity prices. Mr. Kondoti stated that GE's engagement in infrastructure investment has remained strong across the region, ranging from rail, power, health care, aviation, oil/gas and mining. He informed delegates that GE continued to invest heavily by providing wide-ranging infrastructural services to satisfy the region's diversified requirements, including equipment and getting the infrastructure built and paid for. Mr. Konditi gave perspective on how the situation in the region has motivated GE to provide resources and engage policymakers through platforms such as those provided by the MEFMI Combined Forum.

First, against the background of shrinking public balance sheets, governments need to catalyse the private sector engagements in project financing. Bank lending, which has been the norm, is shrinking due to challenging macroeconomic environment as well as regulatory constraints. Hence, in the absence of a broader private sector engagement framework, governments will not be able to tap into that source of capital to close the apparently huge infrastructure deficit. Long-term investors such as insurance companies, pension and sovereign wealth funds can be good alternative sources but they have a different risk appetite as well as little understanding of sovereign project financing.

Second, while considerable attention has been given on increasing the supply of financing, there is also need for countries to figure out how they could get more for less from project development. Quoting the Mckenzie (year) study on improvements in projects implementation, Mr. Konditi advised countries in the region to endeavour to understand how to support and challenge project developers to deliver on time, on budget and include long-term maintenance in project evaluation. Without these three key elements, he said projects will take forever to complete while some will never get done, due to cost escalation.

Third, more innovative financial products and sophisticated structures implies the need for more capacity in government institutions to understand how best to exploit them to leverage private investment in infrastructure. Mr. Konditi highlighted that the need to transfer capacity is one of the reasons why GE decided to sponsor the MEFMI 2016 Combined Forum, as the organisation has accumulated capacity and experience over the years, which can benefit the region. Mr. Konditi announced that an interim white paper which provides GE's perspective on the systemic constraints faced by countries in energy infrastructure finance has been written. He informed delegates that the broader paper will be released in December 2016.

Mr. Konditi concluded his remarks by informing delegates that GE is proud to be associated with the MEFMI brand, and acknowledged the Forum provided an excellent platform for stakeholders to chart the region's development agenda.

1.3 OFFICIAL OPENING REMARKS: HON. PATRICK CHINAMASA, MINISTER OF FINANCE AND ECONOMIC DEVELOPMENT, ZIMBABWE

The 2016 MEFMI Combined Forum for Central Bank Governors, Ministers and Secretaries of Finance and Economic Development Planning was officially opened by Honourable Patrick Chinamasa, Minister of Finance and Economic Development for Zimbabwe. In his remarks, Honourable Chinamasa congratulated MEFMI Secretariat for successfully and consistently organizing the event since 1997. He pointed out that the Combined Forum has become an important event for policymakers and stakeholders in the Eastern and Southern African region to discuss key regional economic issues.

Hon. Chinamasa acknowledged that member countries have known the Forum as a platform for promoting a shared commitment to, and collective responsibility for advancing the region's quest for sustainable and inclusive growth. Hence, the presence of delegates in large numbers and diverse backgrounds was a clear testament of their collective resolve to addressing the most binding constraints to the region's growth.

He commended General Electric for supporting MEFMI in organising the event, and acknowledged that its engagement with Africa is based on the principle of mutual benefit. Unlike several other multinationals operating within Africa, Hon. Chinamasa noted that GE is not a fair-weather friend but has consistently scaled-up and aligned its engagement with the region's development objectives. Continued collaboration with MEFMI will be critical as the Institute strives to bring capacity development to the region, and more importantly, enable it accomplish its mandate and vision of being a centre of excellence in sustainable capacity development in central banks and ministries of finance. This cannot be achieved without sustained engagement with the private sector, which is pivotal to bringing innovative methods and strengthened mechanisms for leveraging funding and specialised capacity building. In this regard, he commended MEFMI for building vibrant and systematic partnerships with the private sector for the successful implementation of the region's transformative agenda.

Looking ahead, Hon. Chinamasa expressed confidence in the two institutions' collective ability to carry the collaborative spirit forward to achieve the ambitious goals the region set for itself in defining a resilience agenda.

Turning to the theme of the 2016 Forum: Accelerating Economic Growth in the MEFMI Region: The Drivers, Prospects and Policy Implications, Hon. Chinamasa advised delegates that the timing was apt, having regard to the circumstances of the region. He reminded delegates how economic activities in Sub-Saharan Africa have weakened markedly, with growth having fallen to three and half percent in 2015, the lowest level in some 15 years. In addition, the immediate outlook for many countries remained difficult and clouded by downside risks. Hence, the region is clearly at crossroads and now needed to make critical policy choices that will nurture the region's recovery, ensure it is sustainable and define its space in the global economy. Hon. Chinamasa shared some thoughts on the challenges and opportunities that the region faces, and the directions it could take to sustain growth as well as maintain macroeconomic stability.

He noted that China's growth rebalancing from investment oriented to consumption led heralds the end to a commodity super-cycle, putting severe strain on the region. In addition, external demand for the region's exports, foreign direct investment and development aid inflows could further be weakened by difficulties in Europe due to geopolitical developments such as the Brexit.

The prospective gradual tightening of monetary policy in the US and elsewhere are expected to drive global interest rates up over the next decade. Hon. Chinamasa stated that the global savings pool will increasingly be limited by the ageing population in advanced economies as well as China, at a time when the demand for investments in developing economies is taking off.

However, he was quick to point out that beyond the challenges, the underlying drivers of growth that have been at play over the past decade or so, such as the much-improved business environment, generally continued to be in place. He also noted that there are significant growth opportunities to be achieved through greater regional integration and favourable demographics over the coming decades. Hence, the unfavourable external environment was only a useful reminder of how vulnerable the region's economies are to exogenous factors beyond their control, making it more urgent for the region to transform its economies.

To realize this, Honourable Chinamasa advised countries to consider a substantial policy reset. Firstly, countries should open further, and create conducive conditions for private sector investment to grow. This includes a more determined effort to remove impediments to long term infrastructural investments. Second, countries need to prioritise improving investment climate to ensure they take advantage of opportunities in China's evolving economy. China's wages are rising rapidly, and this will alter the Asian country's manufacturing supply chain. Hence, countries with relatively low labour costs will benefit by taking over some segments of this supply chain. Third, countries should endeavour to implement deliberate policy measures to diversify narrowly-based economies; seeking new growth drivers preferably anchored on high value-added activities. Diversification and value addition would result in an accelerated, inclusive, job creating growth and economies that are more resilient to external and internal shocks.

Hon. Chinamasa concluded his official opening remarks by expressing gratitude to policy-makers, the private sector and the donor community for accepting to participate in the Combined Forum.

2. FORUM PRESENTATIONS AND DISCUSSIONS

This section reports proceedings and key discussion points during the Key Note Address by Professor Paul Collier as well as presentations by Dr. Albert G. Zeufack, Mr. Hung Tran, and Mr. Clive Harris on the following topics: Financing African infrastructure: needs and solutions; Innovation in Guarantee Products and Fiscal Implications; and Fundamental Issues pertaining to Public Private Partnerships, respectively.

2.1 SESSION 1: KEYNOTE ADDRESS

2.1.1 Introduction

The keynote address was delivered by Sir Paul Collier, Professor of Economics and Public Policy, Blavatnik School of Government and Professorial Fellow of St Antony's College. The session was moderated by Honourable Matiya Kasaija, Minister of Finance, Planning and Economic Development, Uganda. The discussion catalyst was Dr. Karan Bhatia, Vice President and Senior Counsel Global Government Affairs and Policy.

Professor Paul Collier gave a thought-provoking presentation, proposing ideas to re-establish the Africa rising narrative. The new narrative, coined to describe the rapid economic growth in SSA since 2000, is threatened by a less supportive external environment, among other factors. Signs of a struggling continent are beginning to show as economic growth stagnates, and a new narrative is emerging.

World Bank's October 2016 Africa Pulse substantially revised downwards, growth projections for SSA to 1.6% in 2016. If this materialises, it will be the first time in more than two decades that the region records GDP growth rate that is below population growth rate, hence a decline in per capita income.

While the 2016 World Bank report on poverty trends shows an overall decline in global poverty levels, SSA's contribution remained lacklustre, with nearly all of it driven by dynamics in other regions. Thus, poverty is increasingly becoming concentrated in the region, where at least 389 million people are estimated to be living below the international poverty line of US$1.90 per person per day. This number constitute almost half of the total number of extremely poor people in the world, and is more than all the other regions combined. Thirdly, the Bill & Melinda Gates Foundation recently reported that 33 of the 54 African countries have had an increase in corruption levels over the past decade.

In his presentation titled "Back to basics of growth process", Professor Collier gave a perspective on how The Africa Rising narrative could be re-established. If the emerging narrative takes root, it could potentially undo all the gains that the continent achieved over many years. Hence, important decisions must be made to counter the script. The next two years will be crucial in deciding whether the emerging narrative will take root and condemn the region to a prolonged underperformance or is countered by decisive action that will sustain the Africa Rising narrative.

2.1.2 Foundations of the Growth Process

To counter the emerging narrative, policymakers need to create and encourage effective organizations, the foundations of growth process. Effective organisations have management teams that perform the miracle of productivity and make ordinary people much more productive. The miracle of productivity has three components:

a) **Scale**

While there is romanticism about micro-enterprises, organisations can be too small to reap economies of scale. In small organisations, productivity is low and stagnant while in big organisations, productivity is not only high but it consistently rises. Scale begets productivity, while micro-narrative limits drive towards structural transformation which is critical for sustaining inclusive growth. African governments need to embrace scale because it is the foundation and driver of productivity. This is contrary to the 'acorns to trees' hypothesis that small firms should be nurtured because they grow into large firms. On the contrary, large organisations either started large, or grew out of investments by trading companies.

b) **Specialisation**

A fundamental feature of a productive worker is the time they have spent on a task, a process known as learning-by-doing. This is true even for seemingly mundane tasks, but becomes far more important with complexity. If a worker is a jack-of-all-trades, (that is, spreading time thinly over many different activities) there is little time for learning in each specific task and so productivity remains low. Probably, the most important component of the miracle of productivity is that by specialising on a single narrowly-defined task, a worker can concentrate their learning on acquiring the corresponding narrowly-defined skill. In aggregate, the workforce accumulates far more human capital than if it were unspecialised. Similarly, by specialising in a narrowly-defined product or service, management can concentrate its learning.

In discussing the interaction of the first two, he observed that scale and specialisation enable a quantum increase in the capacity of firms to generate and store knowledge of production techniques. But scale and specialisation are generated not only by what happens within firms, but what happens between them. As groups of firms specialise in interdependent activities, the productivity of the entire group is enhanced. If a firm learns only from its own experience, change would be very slow. But in a large market firms can learn from each other by observing and copying.

c) **Motivation**

While scale and specialisation are key drivers of productivity, they may also weaken worker motivation to put in effort by engendering what is commonly referred to as free-riding. Organisations can only harness the potential of scale and specialisation if they develop ways of motivating workers to put in effort and cooperate. Typically, successful organisations reconcile scale and specialisation with motivation by combining financial incentives linked to monitored performance, with workplace identities that help workers to share the objectives of the organisation. Quoting Akerlof and Kranton's book 'Identity Economics' published in 2010, Professor Collier suggested that effective organisations should persuade workers to internalise the objectives of the firm. While private sector and large organisations have done that through natural selection process, an equivalent process does not exist in the public sector. Thus, the public sector has largely remained ineffective and unproductive since scale and specialisation are not reconciled with motivation. While most have scale and specialisation, a number have not managed to persuade workers to internalise institutional objectives, as in most cases, they self-motivate with few incentives and little monitoring.

Africa is typically in this situation, with few effective public organisations, hence cannot build scale and specialisation. These cannot be grown so easily, and Africa is not expected to pioneer a new development path. Instead, the region needs to learn from established firms in other countries that walked the same path before and accumulated and perfected their skills. Hence, foreign direct investment is just what Africa needs to develop and sustain its growth trajectory.

2.1.3 Role of Efficient Cities in Attracting Foreign Private Capital

A typical organisation flourishes in a conducive operating environment. That environment is provided by efficient cities, where access to key infrastructural facilities such as electricity, and connectivity is guaranteed. For firms to harness the huge productivity potential of scale and specialisation, good connectivity is essential. Urbanisation is the fundamental mechanism for generating good spatial connectivity. This can be achieved by reducing the distance between households (workforce/consumers) and firms, and the cost of transport per unit of distance between them. While these approaches require different actions, nevertheless, they are complementary rather than alternatives. Reducing distance between households and firms involves increasing their density of occupation (firms and households clustering more closely together) while reducing the cost of transport per unit of distance involves huge investment in transport infrastructure such as roads. The inter-dependence of density, transport and productivity implies that the technologies appropriate for density and transport are matched. Hence, investment in density and transport are complements that need to increase simultaneously.

In summary, productivity depends upon connectivity, and the two inputs into connectivity are density and transport. However, no city in Africa has yet achieved globally competitive combination and as many are generating conditions that are so inadequate that the platform for private sector productivity is massively undermined.

The good news though is that between now and 2050, Africa's population is projected to triple, implying that two-thirds of urban spaces are yet to be built. The continent has massive opportunity to develop functioning cities with good electricity and efficient connectivity. However, building cities meeting either conditions is not easy, as it requires substantial and smart investment. Countries need to prepare for a shift in policy mind-set as they contemplate urbanisation.

2.1.4 The Way Forward for Africa

The question is: what can Africa do to make infrastructure investment attractive to the private sector against the background of a less supportive environment? Professor Collier shared perspectives on how best this could be achieved.

a) Non-commercialised Public Infrastructure

Governments should take a lead in developing road infrastructure as commercial investors have low appetite for this category of investment. The challenge, however, is that public budgets are already under strain from underperforming revenue and expenditure pressures. While the other alternative would have been for the public sector to access additional funds through borrowing, Africa's decade of commercial borrowing is apparently over. Yields on recent sovereign Eurobond issuances have been prohibitively high, almost around 10 percent. Countries cannot borrow at such yields and expect to sustain servicing the ensuing debt. Very few countries in the region can capture tax revenue of as much as 20 percent of GDP, hence borrowing at 10 percent is fiscally unsustainable. As a way forward, Africa must lobby for enhanced access to de-risked International Bank of Reconstruction and Development (IBRD) loans that charge low interest rates and utilise the proceeds exclusively for funding non-commercial infrastructure. Since IBRD requires a solid process of evaluating, designing and implementing public sector investment projects, capacity building public project management is very important.

b) Commercialise Public Utilities

Electricity is one obvious infrastructure facility that can easily be commercialised. In Africa, electricity is provided by public utilities, an arrangement which has drained public resources where they have not recovered costs from tariffs. As a way forward, public utilities must be commercialised and funded from domestic capital markets. This will create a domestic constituency of citizens that hold debt instruments that can only perform if infrastructure services are appropriately priced. By doing so, governments would have created a domestic political constituency necessary for fair pricing of utilities and, hence viable service delivery. Britain successfully commercialised British Gas and this created interest amongst millions of people across the country who wanted the viability of such an entity.

c) Standardisation of Pipeline Projects

In Africa, private finance is not flowing enough to public infrastructure projects due to several reasons, key among them is lack of pipeline projects. There are few pipeline projects because the project approval process is complex and idiosyncratic, taking long to reach closure. Many transactions are tailored to individual projects, with diverse and inconsistent standards. Investors with limited resources, time, and expertise often find it difficult to assess projects whose standards are fragmented.

Having to create unique financing structures for each project and jurisdiction increases transaction time and cost. Standardisation generates more efficient procurement and a stronger pipeline of projects. Markets adopting consistent positions and documents develop greater private sector engagement and stronger pipelines. This makes contract negotiations easier and leads to shorter procurement time frames.

The African Development Bank (AfDB) and International Finance Corporation (IFC) can take a lead in the standardisation of infrastructure projects. Once the projects are functional, they can be offloaded to institutional investors with an appetite for long-term investments to match the profile of their liabilities. For this to happen, Africa needs properly structured infrastructure funds, backed by public risk-mitigation instruments to encourage private sector participation. However, while there is a myriad of instruments that purport to bear these risks, their uptake has been very low, implying the need to standardise them to enhance marketability. Only when they are standardised will institutional investors begin to actively participate with full assurance that they would not necessarily have to hold them to maturity. That instrument will not require backstopping by a government guarantee, which is what MIGA does with serious implications on fiscal space.

Although it is debatable, Professor Collier recommended use of public funds to cover perceived risk exposures to private sector infrastructure investment in developing countries. The idea is for aid money to be shifted from a strategy that limits its scope to the social agenda (such as supporting schools, hospitals, etc.), to a strategy where it can also be used to catalyse private sector infrastructure investment. While moving aid from social to investment agenda is a noble idea, experts felt this could face resistance from Non-Governmental Organisations (NGOs).

2.1.5 Key Discussion Points

The following were key discussions points during this session:

a) Achieving scale in infrastructure development projects is critical and requires cross-border cooperation. It is difficult to achieve cost efficiency and competitiveness when looking at pipeline, transport and power generation projects without regional cooperation;

b) Energy and connectivity are core drivers of private sector activity and triggers of growth. It is important that governments promote power generation, transmission and distribution; and transportation. These are areas that MDBs have traditionally shied away from, but which they could consider focusing attention on going forward;

c) A public-sector investment management assessment framework is critical for enhancing effective project execution. Weak capacity around government procurement is one of the challenges that the private sector has encountered time and again as they operate. While procurement everywhere around the world has not been satisfying, it is an area that has received little attention yet it is crucial for effective project execution. Hence, multilateral development institutions should consider prioritising the provision of capacity building in procurement to close the existing gap;

d) Standardising the process of private sector participation in infrastructure investment projects is crucial. Lack of standardisation in some specific sectors like power purchase agreements creates confusion in global capital markets due to uncertainty regarding their bankability and tradability;

e) Political risks could effectively be managed by clearly enunciating long-term credible and time-consistent apolitical policy statements. Clearly articulated development plans endorsed by multiple political parties in a country brings comfort to the private sector, encouraging them to participate in long-term infrastructure development projects;

f) While promoting local investment, Africa must guard against strategies that are systematically exclusionary and discriminatory to foreign private investment. Foreign investments are complementary and catalytic to domestic industrial growth; hence governments should never perceive them as inconsistent to indigenisation strategies. FDI generates large scale intra-industrial spill-overs that tend to benefit domestic enterprises, such as generation of new knowledge and technology which enhance efficiency once absorbed. This drives local industries towards achieving economies of scale and efficiency, in addition to stimulating synergistic learning and global competitiveness. Bangladesh made deliberate effort to lure FDI during early stages of implementing export-oriented industrialisation strategy, when almost all export-oriented industries were foreign-owned. However, due to technology and skills transfers, local firms began to enter the industry and currently, nearly US$20 billion of exports originating from Bangladesh are produced by locally-owned industries. China's economic development was also catalysed by foreign firms which engendered organisational competencies that were slowly learned and accumulated over several decades. Africa should embrace the same strategy to pull domestic industries from their enclave to viable, globally competitive firms;

g) Mutual commitment rather than coercion is the best strategy to change the way African governments and International Financial Institutions (IFIs) operate. While government actions are perceived as time-inconsistent, there is room for them to reform voluntarily. What is insufficiently realised is that the IFIs are not very good at cooperating amongst each other, the reason why it has been difficult to standardise guarantee instruments across them. While opportunities to create synergies from coordinating activities abound, these are frustrated by lack of cooperation. Nevertheless, there is an opportunity for each institution to introspect what could be done differently and make a difference;

h) To address risk perception, international public aid money should be used to buy standardised risk guarantees that give potential investors comfort and assurance of the safety of their investments. This is expected to scale-up access to fairly-priced capital, while enhancing investment competitiveness. There is also need to broaden the scope of the aid budget agenda to incorporate economic agenda, rather than limiting it to the current social agenda. In addition, the weight of MDBs activities should shift from direct lending to facilitating the mobilisation of resources from the private sector in international and local debt and equity markets;

i) MDBs need to expand their current offering of loans and guarantee instruments to facilitate access to global and local capital markets by both private and public sector providers of infrastructure services.

2.2 SESSION 2: FINANCING AFRICAN INFRASTRUCTURE: NEEDS AND SOLUTIONS

2.2.1 Introduction

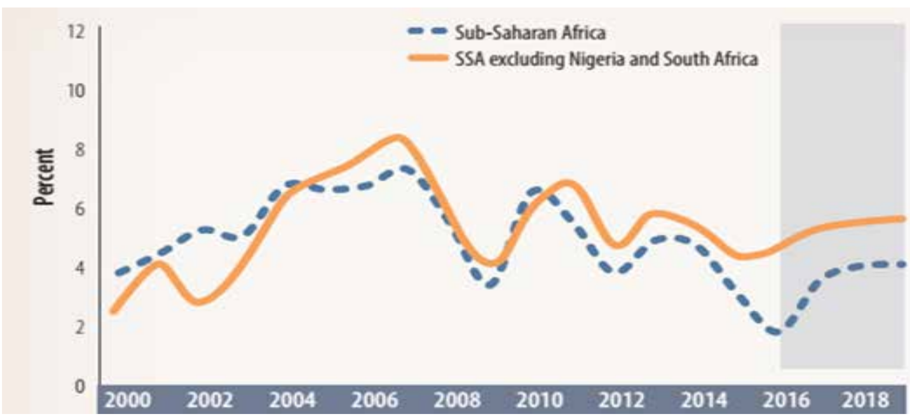
The session discussed challenges and opportunities for unlocking potential sources of financing to scale up infrastructure delivery in SSA. The discussions highlighted some of the innovative financing mechanisms with potential to help significantly scale up infrastructure delivery in the region.

The presentation was delivered by Dr. Albert G. Zeufack, African Region Chief Economist at the World Bank Group, moderated by Honourable Patrick Chinamasa, Zimbabwe Minister of Finance and Economic Development. Discussants for the session were Mr. Brian Ward, Managing Director at Global Markets, Capital Energy Financial Services (EFS) and Yang Tianfu, Chief Operating Officer at PowerChina International Group.

2.2.2 Recent Economic Developments in SSA

After a prolonged period of strong economic growth, SSA is facing a difficult period ahead, caused by a less supportive external environment, particularly tighter global financing conditions, exacerbated by adverse weather conditions and a sharp decline in commodity prices arising from the rebalancing and slowdown of the Chinese economy. China has become the region's major trade partner and an increasingly major source of Foreign Direct Investment and other financial flows.

Figure 1: Trends in GDP Growth

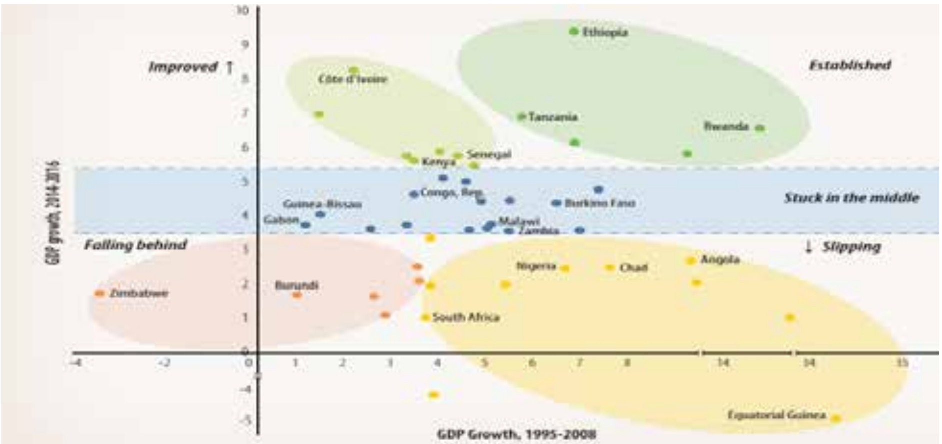


Source: World Bank (2016)

Against this backdrop, real GDP growth is projected to fall to 1.6% in 2016, from 3% reported in 2015. This is the slowest pace of GDP growth in over two decades, and implies a decline in real per capita GDP (World Bank, 2016).

The immediate outlook across most regional economies has remained difficult and clouded by downside risks, with modest recovery expected in 2017 and 2018.
While data shows a slippage in region-wide growth rates in recent years, the aggregate growth rates mask considerable heterogeneity across countries, as a handful of them continued to register impressive growth rates (Figure 2). Bigger economies such as Angola, Nigeria and South Africa (contributing more than 60 percent of the region's GDP) have considerably slowed down, while Mozambique, Rwanda and Tanzania have continued to register robust growth rates.

Figure 2: GDP Growth Performance by Country Groups



Source: World Bank (2016)

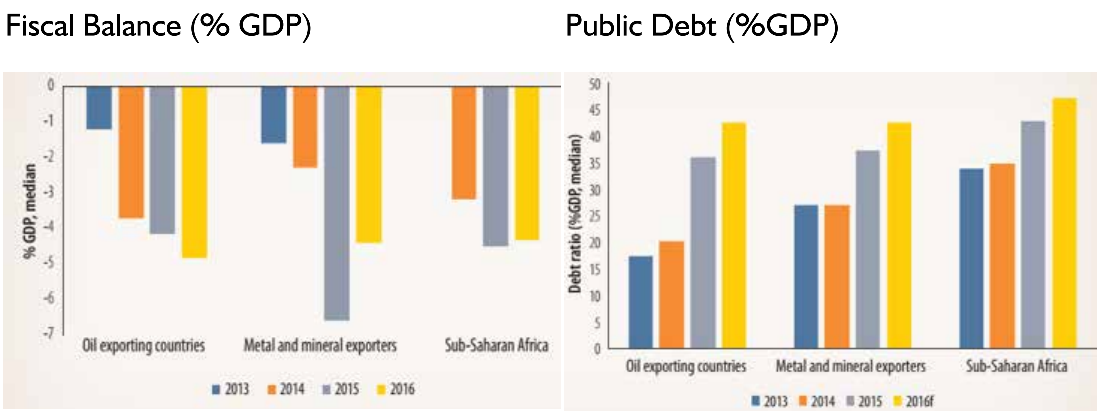
On the other hand, Burundi, Lesotho, Swaziland and Zimbabwe have displayed the weakest growth trajectories.

Figure 3: GDP Growth Performance by Country Groups

Source: World Bank (2016)

As the region is experiencing a slowdown, government finances have increasingly come under immense pressure, and in countries where remedial measures remained limited, fiscal deficits have deteriorated considerably, in the process triggering a steady rise in public debt to GDP ratios (Figure 4), while at the same time eroding fiscal space. While debt ratios have not yet reached levels considered unsustainable, more alarming is the pace and prospects for financing the rising debt.

Figure 4: Fiscal Balance and Debt-to-GDP ratios in Sub-Saharan Africa



Source: World Bank (2016)

Countercyclical fiscal policy is a desirable policy for countries in the region to counterbalance economic cycles. During recessions, an above-the-trend increase in government consumption expenditure boosts the economy, while during expansion, government consumption expenditure should increase below the trend to avoid overheating the economy and gain room by saving the extra income for future smoothing of adverse demand-side shocks (World Bank, 2016).

2.2.3 Existing Infrastructure Gap in SSA

Underdeveloped infrastructure has been identified as one of the major impediments to SSA region's development and its efforts to achieve a strong, sustained and shared growth. The region consistently lags its peers on every measure of access to infrastructure services. World Bank's 2008 Africa Infrastructure Country Diagnostic (AICD) study estimated Africa's total infrastructure financing needs at US$93 billion a year (or 15% of the region's GDP), with only US$45 billion being financed, leaving a funding gap of about US$48 billion per annum.

Infrastructure Sector	Spending Requirements	Actual Spending	Funding Gap
ICT	9.0	9.0	0.00
Irrigation	3.4	11.6	-8.2
Power	40.8	16.2	24.6
Transport	18.2	7.6	10.6
Water & Sanitation	21.9	0.9	21.0
Total	93.3	45.3	48.0

Source: World Bank (2010)

Energy is by far the region's largest infrastructure challenge, with at least 30 countries estimated to be facing regular power shortages, while paying high premiums for emergency power (World Bank, 2010). As much as two-thirds of the US$45 billion expenditure on infrastructure is domestically sourced (public budgets and infrastructure users), while a further US$15 billion is from external sources.

While infrastructure demand is huge, public finance has remained strained, and budgets of major donors that have traditionally supported aid flows to the region have not recovered since the onset of the 2008 global financial crisis, making Official Development Assistance (ODA) an increasingly volatile and uncertain source of funding. These trends, coupled with the scale and scope of funding requirements, underscores the need for the region to explore alternative and innovative financing mechanisms.

2.2.4 Possible Financing Solutions

Most successful infrastructure finance deals drew on an array of local and international funding sources, including syndicated commercial bank loans, bond issuances, equipment leasing, multilateral and export credit agency loans or guarantees, and equity commitments by project promoters and dedicated equity funds (World Bank, 2004). However, the rule of thumb would be to always bring together public finance, private debt and equity. An example of a successfully executed multisource infrastructure finance is Phu My 3, Vietnam's first international build-operate-transfer power project. Three-quarters of the funding took the form of debt, with US$40 million provided by Asian Development Bank (AsDB); Japanese export credit agency, Japan Bank for International Cooperation (JBIC) providing US$99 million; while US$170 million came from a syndicate of international banks which included Bank of Tokyo-Mitsubishi, Credit Agricole Indosuez, Credit Lyonnais, Fortis Bank, and Mizuho Corporate Bank. The equity component of US$103 million was provided by the main sponsors (Electricite de France, Sumitomo Corporation, and Tokyo Electric Power Company), as shareholders' capital. A political risk insurance to support the commercial tranche was provided by the AsDB, the Multilateral Investment Guarantee Agency (MIGA), and Nippon Export and Investment Insurance. The financing structure of Phu My 3, with several types of debt, equity and credit enhancements ensured access to international capital markets and enhanced efficiency by reducing overall financing costs, while extending debt maturity to match the project's underlying economics.

These proven successful financing packages have not happened in SSA, mainly because the region has been lagging in accessing international capital markets. That they have failed to do so, and that the flow of private finance to infrastructure has remained low, reflects several factors that require intervention by policymakers, including:

a) Establishing transparent rules of the game, upon which investors can form expectations of future returns, assess risks, and have the assurance that contracts will be enforced, with legal remedies in the case of default;

b) Strengthening the capacity of local capital markets, both as a source of long-term local currency finance and hedging instrument against currency risk;

c) Developing viable public-private risk-mitigation and financing instruments capable of addressing a host of political, currency, credit, contractual, and regulatory risks;

d) Facilitating access of sub-sovereign public utilities to these capital markets; and

e) Supporting public providers of infrastructure services in achieving commercial standards of creditworthiness to access capital markets on a sustainable basis over the long term.

All these efforts involve a strategic role for multilateral institutions and governments.

2.2.5 Unlocking the potential of global capital markets

a) Importance of investor protection

Typically, private sector participation in infrastructure is governed by sector-specific regulations or long-term concession contracts. Governments often enter such concessions under national laws that authorise them to award concessions to private operators to build, finance, and manage infrastructure assets, and collect tolls and tariffs. Acting in their sovereign capacity, governments may abrogate or derogate from contractual arrangements by legislative means. Governments also have legitimate public policy goals and concerns, such as affordability, universal access, and the regulation of monopoly practices. These expose privately financed infrastructure projects to a host of contractual, political, and regulatory risks.

This can be addressed by governments' commitments to reforming regulatory frameworks governing infrastructure investments. For instance, having all legal documents governing virtually all infrastructure finance projects include provisions requiring the host country to submit to international commercial arbitration (such as the International Court of Arbitration of the International Chamber of Commerce, the London Court of International Arbitration, or the Arbitration Institute of the Stockholm Chamber of Commerce) as a mechanism of dispute resolution and enforcement can enhance credibility. For creditors, covenants to mitigate risk and provide contractual protection have gained importance as a mechanism to increase investor interest in developing-country infrastructure.

b) Increasing Local-Currency Financing

Currency risk has traditionally been a critical feature of infrastructure project investment. Investors are exposed not only to fluctuations in the exchange rate, but also to changes in capital controls, which may affect currency convertibility and profit repatriation.

c) Role for Multilateral Development Institutions

Multilateral institutions need to view infrastructure financing within the broader context of finance for development. Their strategy must be predicated on three (3) points of consensus:

i. The pivotal role of infrastructure in development;
ii. Its direct and indirect contribution to achieving the Sustainable Development Goals (SDGs); and
iii. The recognition that public-sector support, including well-targeted government subsidies, will remain crucial in attracting private capital, particularly in sectors such as water and road transport.

The strategic agenda to promote infrastructure financing must focus on three (3) elements. First, multilaterals need to expand their current offering of loans and guarantee instruments to facilitate access to global and local capital markets by both

the private and public sector providers of infrastructure services.
Second, they must apply new financing and risk-mitigation instruments to sub-sovereign providers of infrastructure services, such as municipal utilities.

Third, they must work with public sector providers of infrastructure services to fundamentally improve their creditworthiness.

The infrastructure financing requirements of most developing countries cannot be met without reaching commercially defensible standards of creditworthiness. Over the longer term, enhancing access of developing-country infrastructure to the international capital markets will also require developing an international mechanism to deal with cross-border investment regulation, competition rules, and consistency between national regulatory regimes.

d) Role for Governments

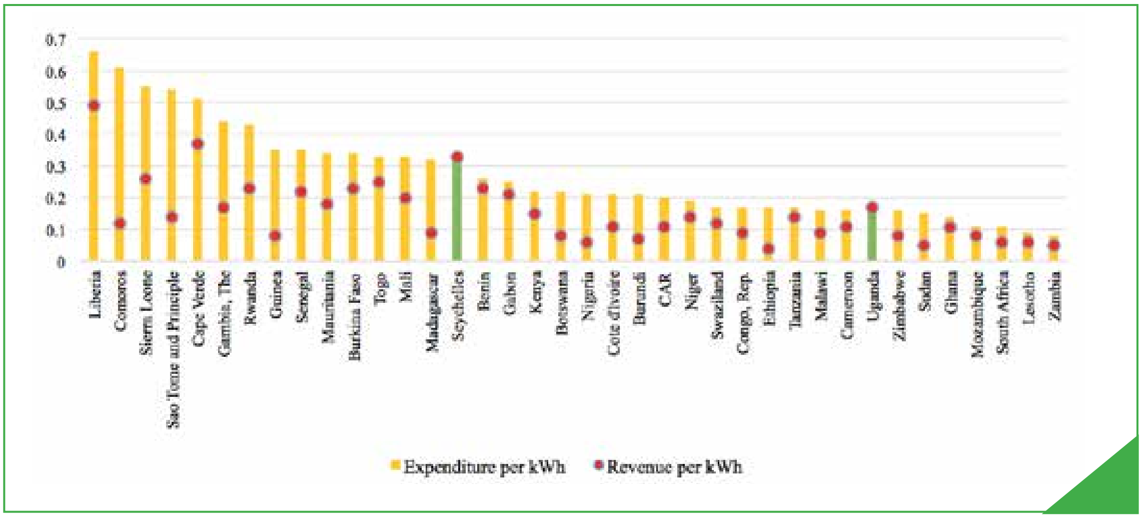
Governments could also play a pivotal role in creating a conducive environment for private sector investment in infrastructure, through improving public investment management and enhancing efficiency in the use of funds. More than US$17 billion per year of infrastructure financing gap could be eliminated through improvements in public investment management, such as improved budget execution, better targeting of subsidies and rehabilitation of existing infrastructure (Foster et al. 2009). About 40 percent of potential value of public investment is lost due to inefficiencies (IMF, 2015).

In addition, improving procurement frameworks to enhance capacity, competition and transparency is paramount. Priorities for reform in the region include adopting more rigorous and transparent arrangements for appraisal, selection, and approval of investment projects and strengthening institutions related to the funding, management, and monitoring of project implementation. In this regard, World Bank has since launched a new tool for evaluating Public Investment Management (PIM) capacity and identifying areas where remedial actions are needed.

There is also need for governments to improve the management of public utilities to ensure cost recovery. A case in point is electricity utilities which have consistently failed to deliver return required to recover cost.

Only in Seychelles and Uganda are electricity utilities able to cover their total current cost, while those in Lesotho and Zambia are operating at expenditure levels of less than 10 US cents per kWh. One reason is that users are unable to pay high enough charges to allow full cost recovery plus a return on investment.

Figure 5: Comparison of Costs and revenue Collected per kWh billed (in 2014 U.S. Dollars)



Source: Trimble et al. (2016)

Governments need to enhance domestic resource mobilisation and improve the investment climate for public private partnerships. A strong domestic revenue base is an imperative if governments are to finance infrastructure spending over the medium term. While countries have significantly strengthened their revenue collections, with tax ratios gradually increasing over the 1990s and the 2000s, about 50 percent of them still have tax ratios below 15 percent of GDP. Experience shows that, with well-targeted external technical support, countries' fiscal revenues can be significantly strengthened, given strong political will and support (IMF, 2015).

While governments are urged to leverage private sector investment through PPPs, there is an increasing awareness of the long-term contingent liabilities that countries may be incurring in entering such arrangements. IMF has developed a new tool, the PPP Fiscal Risk Assessment Model (P-FRAM), to allow full exploration of the macroeconomic and fiscal risks stemming from a PPP project.

2.2.6 Key Discussion Points

a) Bottlenecks in ensuring a healthy flow of capital from international markets to developing countries infrastructure are related to policies, institutions, and regulation. Multilaterals can play a crucial role in providing risk-mitigation instruments (including guarantees and political risk insurance) and promoting the development of local capital markets;

b) Public entities, such as municipal utilities and parastatal corporations will remain key players in the provision of infrastructure services in many developing countries. Fundamental improvements in their creditworthiness will be essential to facilitate their access to global and domestic capital markets, as well as to bring in private equity investments to a range of public-private partnerships;

c) Viewed from the perspective of their size, depth, sophistication, and range of instruments, global capital markets have the potential to fund all economically viable infrastructure projects in Africa. However, substantial investments in developing countries' infrastructure are unlikely to materialise unless there is a strong institutional framework for protecting investors' rights, and reliable avenues of legal enforcement and remedy;

d) While there are several infrastructure projects seeking funding in SSA, there is currently a dearth of bankable and homogenously structured deals. In this regard, standardisation of infrastructure deals becomes paramount to ensure consistency and present the market with uniform positions that encourage their participation. Standardisation reduces both the effort required to develop each project's documentation from scratch and the length and intensity of contract negotiations, leading to shorter and cheaper procurement phases;

e) There is need to prioritise strengthening human and institutional capacity related to project management, particularly appraisal, selection, implementation and monitoring;

f) The key challenge that some countries in the region face, which scare away potential infrastructure investors, is political instability. In addition, most projects have failed at implementation stage, either due to lack of capacity or because of corruption.

g) Cross-border collaboration in developing key infrastructure is crucial to achieve scale, particularly in power projects;

h) African project financing performs incredibly well when compared to infrastructure investments in other developing markets. However, high risk perception has remained a major deterrent to attracting capital inflows. Several key exit strategies that can be adopted to address some of the challenges, key among them being the need for Africa to prioritise the use of very flexible and tailored guarantees from multilateral development institutions to enhance project bankability. Multilateral guarantees improve the risk rating of a transaction and make it more acceptable to investors from a credit risk perspective. Although the use of guarantees for development purposes by development finance institutions has expanded in recent years, their potential remains largely untapped in the region;

i) Evolving development financing landscape has expanded financing options available to developing countries. However, accessing alternative financing instruments imply use of new commercially-oriented methodologies for appraising projects, different from those used in evaluating IDA funded projects. Currently, there is low capacity to appraise commercial projects in the MEFMI region. Since countries are now reasonably equipped in macroeconomic and financial management than they were before, there is need for MEFMI to also incorporate project management in its capacity development programmes.

2.3 SESSION 3: INNOVATION IN GUARANTEE PRODUCTS AND FISCAL ASPECTS

2.3.1 Introduction

The sub-Saharan Africa region lags in terms of access to reliable infrastructure services. Because the necessary infrastructure investments required pose too large a burden for many governments and development institutions alone, there is need to leverage private sector participation. However, private sector investment is dependent on risk considerations. Thus, many important infrastructure investments that are critical to the region's development will not be made in the current environment unless there are substantial improvements to their risk profiles. The main objective of this session was to discuss initiatives by public sector institutions to mitigate risks and attract private finance needed to complement public spending on infrastructure projects. The presentation was delivered by Mr. Hung Q. Tran, Executive Managing Director, Institute of International Finance (IIF). It was moderated by Mrs. Susana Monteiro Camacho, Deputy Governor, Banco Nacional de Angola. Discussants for the session were Mr. Vishal Agarwal, General Electric Managing Director, Developments and Investments, Africa and Mr. Admassu Tadesse, President and Chief Executive Officer of Preferential Trade Area (PTA)

2.3.2 Innovation in Guarantees

While SSA has enormous potential to attract private sector investments, investors have remained sceptical about investing in the region's infrastructure due to perceived risks. For most investors, the downside risks of investing in the region's infrastructure are often greater than the rewards. The risks that concern investors and lenders often relate to low confidence in the judiciary system and the regulatory framework, poor governance, corruption, limited rule of law, lack of enforcement of contracts, political instability, and macroeconomic instability. What this means for the region is a loss in potential capital crucial for financing the infrastructure gap, while investors also loss an opportunity to capture potential high yields from a largely untapped market.

As a strategy for stimulating additional private sector investments, multilateral development institutions such as the World Bank Group1 and African Development Bank (AfDB) have rolled out innovative financial instruments designed to mitigate certain risks, as perceived by the private sector, of investment in developing countries. The guarantees enable infrastructure projects to overcome the reluctance of commercial financiers, and ensure adequate commercial financing becomes available by mitigating risks that commercial financiers are unwilling to take. These risks include political force majeure, currency inconvertibility, confiscation, expropriation, nationalisation and deprivation. They also include regulatory risks, such as adverse changes in law, and various forms of breach of contract such as failure of a government or a government-related entity to honour certain specified commitments under an agreed set of contractual obligations with the private sector.

[1]International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA), which together make up the World Bank, along with the Multilateral Investment Guarantee Agency (MIGA) and the International Finance Corporation (IFC)

Public guarantee schemes currently constitute 55 percent of the total guarantee schemes in the market, with hybrid and private schemes constituting the balance of 32 percent and 13 percent, respectively. Some of the guarantee products provided by multilateral development banks include:

- **African Development Fund Partial Risk Guarantee:** to leverage resources from the private sector and other co-financiers for ADF countries, including fragile states. Second, to incentivise governments to undertake policy and fiscal reforms necessary to mitigate performance-related risks. The guarantee insulates private lenders against well-defined political risks related to the failure of a government or a government-related entity to honour certain specified commitments. Such risks could include political force majeure, currency inconvertibility, regulatory risks (adverse changes in law), and various forms of breach of contract;

- **African Development Fund Partial Credit Guarantee:** an instrument designed to address the challenges faced by ADF countries that are performing well economically and State Owned Enterprises (SOEs) in their quest to mobilise both domestic and external commercial financing for developmental purposes. The product serves to partially guarantee debt service obligations of low income countries (LICs) and well performing SOEs in LICs;

- **World Bank IBRD and IDA Guarantees:** tailored to circumstances of particular projects and transaction being guaranteed (project-based guarantees), or particular borrowing transaction of a government to meet fiscal needs (policy-based guarantees). Policy-based guarantees provide risk mitigation to commercial lenders. Focus is on debt service payment defaults by a government, when the proceeds of the financing are applied to budgetary support in the context of development policy operations. Project-based guarantees are provided in the context of specific investment projects where governments wish to attract private financing. IBRD/IDA guarantees require a counter-guarantee of the host government, creating a direct contractual link with the host country relating to the project;

- **Multilateral Investment Guarantee Agency (MIGA):** issue guarantees, including coinsurance and reinsurance, against non-commercial risks in respect of investments in a member country which flow from other member countries. MIGA supports foreign private and public sector investors that operate on a commercial basis in cross-border investments, and requires host country approval before issuing a guarantee;

- **International Finance Corporation (IFC):** In terms of guarantees relevant to PPPs, IFC offers partial and full credit guarantees as credit enhancement mechanism for debt instruments (bonds and loans) issued mainly by private sector clients. Both products provide an irrevocable promise by IFC to pay all shortfalls of principal and/or interest up to a predetermined amount. Typically, the IFC guarantee, whether full or partial, covers creditors irrespective of the cause of default.

Despite the acknowledged need to de-risk private sector investment in infrastructure projects, the uptake of risk mitigation instruments across the SSA region has remained very low at 27 percent. The use of risk mitigation instruments (guarantee products) has fallen short of reasonable expectations because of a variety of factors that include:

a) **Cumbersome legal enforcement process**
The key impediment to the use of the guarantee schemes by the private sector is the legal procedure that investors must go through to claim compensation for insured losses. In most SSA jurisdiction, this process is not only cumbersome but is costly as well. The legal and regulatory environment needs to be improved to make it less complex if uptake of the guarantee facilities is to be scaled-up.

b) **High Upfront and Annual Guarantee Fees**
The upfront and annual guarantee fees required from potential private sector investor to access existing guarantee schemes are substantial. In some instances the high cost negatively impacts the economic viability of projects.

c) **Regulatory Requirements**
Restrictive capital requirements under Basel III after the 2008-9 financial crisis reduced the participation of banks in long-term cross-border lending and guarantee market.

d) **Eligibility Criteria**
The application process for these guarantee facilities is lengthy and the eligibility criteria has been considered too stringent.

e) **Other Reasons**
Other reasons include competition among institutions for the same clients; weaknesses in the marketing of products, which limits client awareness and choice; limited internal awareness, skills or incentives to use guarantee instruments in relevant situations; and inconsistent pricing.

2.3.3 Fiscal Space in SSA Region

Most low-income countries in the SSA region benefited from debt relief initiatives, notably the 1996 Heavily Indebted Poor Countries initiative (HIPC), its 1999 enhancement, and the 2006 Multilateral Debt Relief Initiative (MDRI), which substantially reduced their debt burdens. The initiatives, together with policy reforms and an upswing in commodity prices, have helped improve the solvency positions of countries, thereby providing them with additional space for new financing. These trends were followed by an environment of abundant global liquidity and low borrowing costs. However, this window of opportunity has not been adequately utilised to support structural economic transformation and growth-enhancing productive investments. The region is facing a difficult period ahead, underpinned by a far less supportive external environment, particularly tighter global financing conditions, exacerbated by adverse weather conditions and a sharp decline in commodity prices arising from the rebalancing and slowdown of the Chinese economy.

At the same time, capital inflows (foreign direct investment and cross-border bank lending) in the region have slowed, indicating that external financing has become more challenging. Eurobond issuance in the region has also dropped sharply, with investors' demand for higher yields having forced potential issuers to postpone their plans.

Amid tight financing conditions, increased external strains were met in part with reserve drawdowns to support currencies. Government finances have remained under pressure across the region and debt has continued to rise, with Mozambique expected to see its public debt exceeding 100 percent of GDP by end 2016. Angola, Mozambique, and the Republic of Congo saw their credit ratings cut because of concerns about debt sustainability.

The large fiscal deficits and sizeable debt burdens have eroded fiscal space in several countries in the region. Going forward, the challenge for countries is to bolster fiscal buffers to be able to respond to adverse shocks and spend on worthwhile infrastructure projects. Urgent attention is needed to accelerate structural reforms that will boost productivity and provide the basis for sustainable and inclusive growth.

2.3.4 Key Discussion Points

- **Project preparation:** at project preparation stage, it is important for countries to clearly define project specifications, articulate needs and timelines for implementation. When it is not clear how many projects will take place in a specific geography or sector, it is difficult for investors to justify investing in diligence and credit-evaluation expertise in those areas;

a) Guarantees instruments: these can be effective in unlocking private investment if multilateral institutions and governments work hand in hand with private sector partners and targeted users of risk mitigation products. However, existing instruments are very cumbersome, complex and extensive knowledge is required to appreciate and structure them. The processes and procedures for accessing them are not well-defined, and tend to vary across institutions. Specific actions required to increase the effectiveness of public sector risk mitigation instruments which include:

- Multilateral development institutions work closely with governments to streamline and standardise guarantee issuance process. Standardisation generates efficiency and stronger uptake;

- Address existing knowledge gap by creating a guarantee advisory unit to be a central knowledge bank for private sector. It may also be critical to build capacity within government institutions so that they fully appreciate key guarantee issues;

- Simplify the guarantee application process by creating dedicated help desks. This will reduce complexity and the turnaround period needed to complete the application process;

- Consider syndicating risk mitigation products to the private sector. Crucial to scaling up risk mitigation is the leveraging of extensive public-private sector collaboration in building the market, products, applications, financial advisory services and related processes. The actions of the official sector and their development partners need to be coordinated with the private sector, in terms of risk mitigation needs and in leveraging the private sector's capacity to provide risk mitigation support. For instance, multilateral guarantee providers could consider engaging the private sector players already operating in the guarantee and insurance industry to explore opportunities for them to offer re-insurance, or counter guarantees/indemnities. This allows the private sector players to cast their nets wider than the multilaterals can, and then consolidate the risks into buckets suitable for the resources that multilaterals have at their disposal. The private sector would do the due diligence, structuring and negotiation, with the goal of distilling the main risks and terms to be taken by the multilateral agencies;

- Consider building capacity within potential private sector lenders and investors;

b) Challenges in project implementation: as much as some projects have proven to be attractive and that while they can be done, there are typical constraints that they encounter:

- Documentation: this has been quite complex and sometimes lack of flexibility in negotiating key clauses within project agreements have often proved to be deal breakers. In most cases, negotiations prolong at the expense of project implementation;

- Unexpected shocks that come through issues of land acquisition: sometimes the project may end up in an unexpected pushback due to lack of good community relations. Hence, the public partner should evaluate the capacity for the right of eminent domain.

2.4 SESSION 4: KEY ISSUES IN PUBLIC PRIVATE PARTNERSHIPS

2.4.1 Introduction

As infrastructure demand increases and fiscal constraints grow, governments are increasingly recognizing PPPs as mechanisms for delivering infrastructure needed to support strong, sustainable and inclusive growth. Public-private partnerships are long-term contractual agreements for the delivery of infrastructure or provision of services in which the private sector bears a significant amount of risk and management responsibility (World Bank, 2016). Such partnerships tap private sources of financing and expertise to deliver infrastructure services. When managed effectively, PPPs not only provide much needed new sources of capital but also bring significant discipline to project selection, construction and operation. Government capabilities to prepare, procure, and manage these projects are important to ensure that the expected efficiency gains and value-for-money are achieved.

The main objective of this session was to discuss key considerations for governments in launching PPP programmes. The main message from the discussions was that PPPs have the potential to solve sub-Saharan Africa's profound infrastructure and service backlogs, when properly managed.

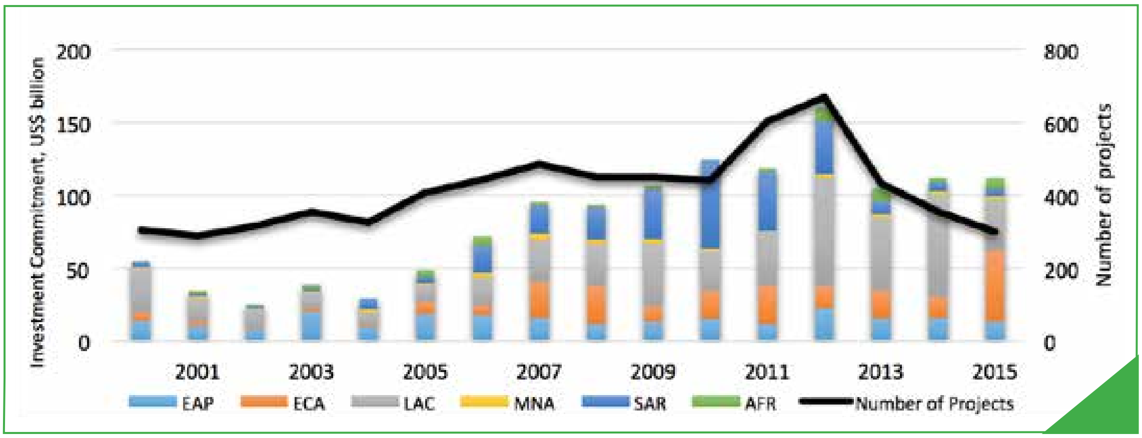
The presentation was delivered by Mr. Clive Harris, Practice Manager, Public Private Partnerships at World Bank Group, moderated by Honourable Adriano Maleiane, Minister of Finance and Economy, Mozambique. Discussion catalyst for the session was Mr. Bobby Pittman, Managing Director, Kupanda Capital, and the discussants were Dr. Denny Kalyalya, Governor of the Bank of Zambia; and Mr. Thomas Konditi, Chief Executive and President of General Electric South Africa.

2.4.2 Private Participation in Infrastructure

With the public sector constrained in its ability to respond to important infrastructure needs, governments are increasingly looking to partnerships with the private sector as a means for delivering infrastructure needed to support strong, sustainable and inclusive growth. This heightened interest is particularly key to SSA region where, aside from huge existing infrastructure gaps, review of PPPs suggests that governments must fundamentally improve their systems for dealing with the private sector to realise the efficiency and effectiveness gains that these partnerships bring.

During the past 25 years, more than 5,000 infrastructure projects in 121 low- and middle-income economies were delivered through PPPs, representing investment commitments of US$1.5 trillion (World Bank, 2016). The PPPs have supported the development of crucial infrastructure such as roads, bridges, light and heavy rail, airports, power plants and energy as well as water distribution networks. Different regions of the developing world have had very different experiences with Private Sector Participation in Infrastructure (PPI), largely due to different levels of GDP, degrees of local capital market development, and proximity to the project finance banking institutions of Europe and North America. Latin America and the Caribbean received the largest share of private infrastructure investment, while Europe and Central Asia rose steadily from 2004 when European banks began to finance investments, associated with EU accession. Among all regions in terms of PPI investment, South Asia - led by massive PPI investments in India - has exhibited tremendous growth.

Figure 6: Private Participation in Infrastructure Projects and Investment Commitments by Region, 2000 - 2015

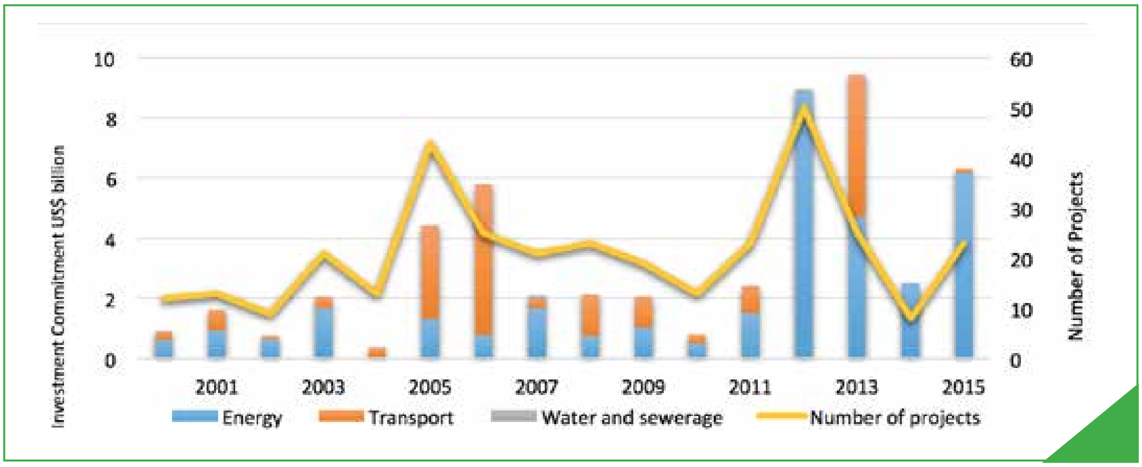


Source: World Bank Private Participation in Infrastructure Database (2016)[2]

Consistent with the selection bias as revealed in the PPPs' distribution in developing countries by income groups, sub-Saharan Africa – which continues to lag in infrastructure development the most – attracted the least infrastructure investment from the private sector (Figure 6).

In terms of sectoral distribution, the highest number and value of projects with private sector participation occurred in power generation. The private sector contributed about 22.17 percent of total capital spending from 1990 to 2014 (Table 2) – marginally below half of public sector contribution (50 percent), but more than ODA (15.98 percent) and flows from non-OECD countries like China (11.18 percent). In terms of country distribution, most of it has however been concentrated in Nigeria and South Africa.

Figure 7: Sectoral Distribution of Private Participation in Infrastructure in SSA, 2000 - 2015



Source: World Bank Private Participation in Infrastructure Database (2016)

[2] Note: EAC = East Asia & Pacific; ECA = Europe & Central Asia; LAC = Latin America & the Caribbean; MENA = Middle East & North Africa; SAR = South Asia; AFR = sub-Saharan Afric

However, between 1990 and 2013, only 24.85 gigawatts (GW) of new generation capacity was added across Sub-Saharan Africa, of which South Africa accounted for 9.2 GW. Investments in new power generation capacity totalled approximately US$45.6 billion (US$31.3 billion, excluding South Africa), or far below what is required to meet Africa's growth and development aspirations.

Table 2: Total Investment in Completed Power Generation Plants in SSA[3] , 1990 – 2013

Type of Investment	Debt and Equity (US$, m)	MW Added	% of total MW	% of total Investment
Government & Utilities	15,883.87	8,663.26	43.66	50.67
Independent Power Projects	6,950.12	4,760.60	23.99	22.17
China	5,009.80	3,263.73	16.45	15.98
ODA, DFI & Arab [4]Funds	3,506.48	3,156.15	15.91	11.18
Total	31,350.27	9,843.73	100.00	100.00

Source: World Bank (2016)

Although public utilities have historically funded new power generation, that trend has changed. Most governments have been unable to fund their power needs, while several utilities did not have investment-grade ratings, hence could not raise sufficient debt at affordable rates. Official Development Assistance (ODA) and development finance institutions have only partially filled the funding gap. ODA and concessional funding have fluctuated considerably over the past two decades. Recently, they have been overshadowed by IPP and Chinese-supported investment. Private investments in IPPs and Chinese funding are now the fastest-growing sources of finance for SSA's power sector.

2.4.3 Key Issues Underpinning Performance of PPPs

a) Availability of Risk Mitigation and Credit Enhancement Measures

A range of risk mitigation measures are required to crowd-in private sector participation in infrastructure investment. MDBs as well as public institutions provide guarantees or insurance products to cover risks that private lenders or investors are unable or unwilling to take.

b) Financial Sustainability

Beyond generating public returns in terms of wider social, political and environmental issues, a successful partnership must also generate private returns to ensure financial

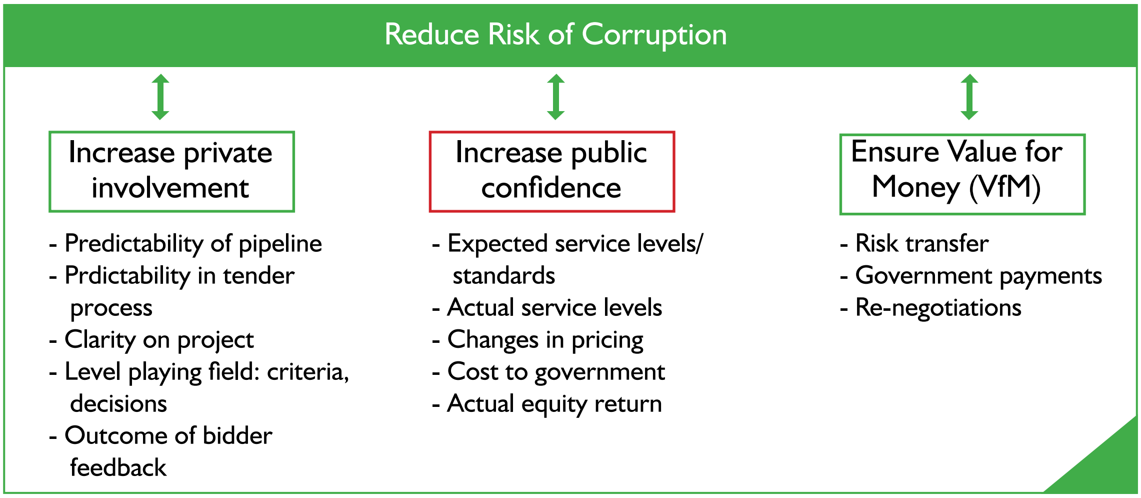
[3] Excluding South Africa

[4] Note: DFI = development finance institution; IPP = independent power project; MW = megawatt; ODA = official development assistance

viability and sustainability. Hence, cost-recovery measures should be used to ensure tariffs below cost-recovery are avoided.

c) Transparency

Lack of transparency in PPPs could lead to corruption and development of projects of questionable quality. Moreover, it could lead to complaints if other parties feel that a private partner is unfairly benefiting from a PPP, which will in turn lead to a loss of future trust and support for PPPs in an economy. Increasing transparency benefits all stakeholders.



Source: World Bank (2016)

2.4.4 Benchmarking PPPs Procurement

Governments' capabilities to prepare, procure, and manage public-private partnership projects are important to ensure that the expected efficiency gains from these arrangements are achieved. In the Benchmarking PPP Procurement 2017 study, the World Bank identified good practices expected in four (4) key areas that cover the main stages of the PPP project cycle: preparation, procurement, contract management of PPPs, and management of unsolicited proposals (USPs). The study, which covered 82 countries (20 SSA countries, of which 7 are MEFMI member states[5]) shows that across the four (4) areas measured, most countries fall short of good practice.

A significant number of countries have low scores in project preparation and contract management. The scores were presented on a range from 0 to 100. Scores for countries at the top of the range (score approaching 100) are considered to have PPP frameworks that closely resemble international good practices. At the other end, countries with scores closer to 0 have significant room for improvement because they do not adhere to international good practices and principles.

[5] MEFMI member states included in the 2017 Benchmarking PPP Procurement Study are: Angola, Kenya, Malawi, Mozambique, Tanzania, Uganda, and Zambia

a) Preparation of PPPs

Before deciding whether to launch a PPP procurement process, governments need to devote time and resources to ensure the project is justified and ready for market. The effort includes identification and appraisal of projects suitable to be developed as PPPs and the structuring and design of a draft PPP contract and approvals. This process is crucial to attain properly structured PPP projects that are more likely to provide value for money and be commercially viable. Recognised good practices during PPP project preparation are summarised in Box 1.

Box 1: Good practices in the preparation of PPPs

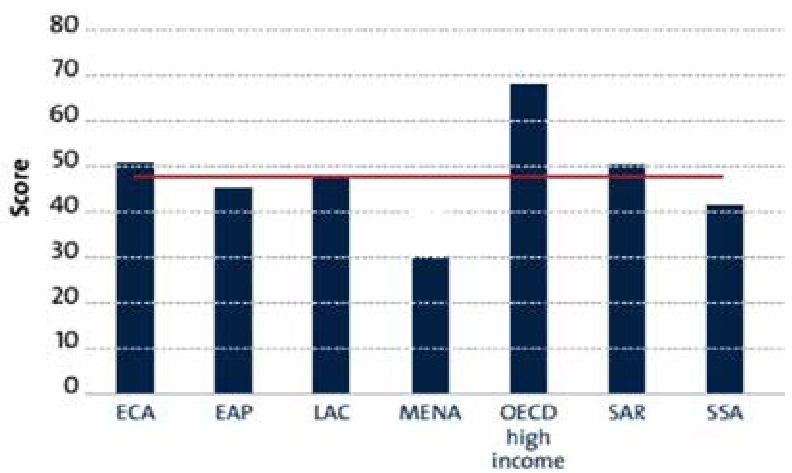
Good practices which help ensure that the decision to procure a PPP is justified and that the procuring authority is ready to initiate the procurement process are:

- The Ministry of Finance or central budget authority approves the long term financial implications of the project;
- The project is assessed and prioritised along with all other public investment projects in the context of the national public investment plans;
  - The project is adequately justified, based on: ! Socioeconomic analysis;
  - Fiscal affordability assessment;
  - Financial viability;
  - Risk assessment;
  - PPP versus public procurement comparative assessment;
  - Market assessment
- The procuring authority prepares a draft PPP contract and includes it in the request for proposals; and
- The procuring authority has standardised PPP model contracts and/or transaction documents to expedite and guarantee consistency.

Source: World Bank (2016)

Assessed against these good practices, SSA countries scored below average in PPP project preparation.

Figure 9: Preparation of PPPs, scored by Region



Source: World Bank (2016)

Often, PPPs are hastily formulated, with little financial means or technical support. The dearth of well-prepared PPP projects is one of the main challenges faced by SSA countries in attracting private sector operators and better leveraging private financing.

b) PPP Procurement

Once the preparatory stage is concluded and a decision is made to deliver an infrastructure project through a PPP arrangement, the next stage is for procuring authorities to identify the right private sector partner to implement the project. Given the magnitude and extent of public resources committed, choosing the right private partner is crucial for the success of a PPP. The recognised good practice in the procurement of PPP projects is summarised in Box 2.

Box 2: Good practice in the procurement of PPPs

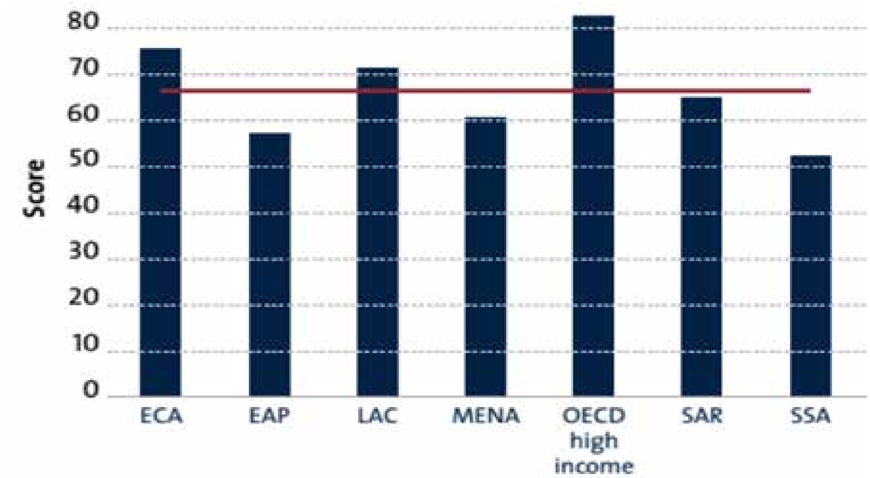
Good practice which helps to ensure fair competition and transparency during PPP procurement process:

- The bid evaluation committee members meet the minimum technical qualifications;
- The procuring authority publishes the public procurement notice online;
- The procuring authority grants at least 30 calendar days to potential bidders to submit their proposals;
- The tender documents detail all the stages of the procurement process;
- Potential bidders can submit questions to clarify the public procurement notice and/ or the request for proposals and the answers are disclosed to all potential bidders;
- Bidders prepare and present a financial model with their proposal;
- The procuring authority evaluates the proposals strictly and solely in accordance with the evaluation criteria stated in the tender documents;
- The procuring authority follows a specific procedure in the case that only one proposal is submitted to guarantee value for money;
- The procuring authority publishes the award notice online;
- The procuring authority provides all bidders with the results of the PPP procurement process including the grounds for the selection of the winning bid;
- Any negotiations between the selected bidder and the procuring authority after the award and before the signature of the PPP contract are restricted and regulated to ensure transparency;
- The procuring authority publishes the signed PPP contract online.

Source: World Bank (2016)

The design of the procurement process has important implications on governments' ability to take full advantage of the potential benefits of PPPs in delivering infrastructure. This includes the ability to identify projects best done as PPPs and manage contracts in a transparent and effective way. Assessed against these good practices, SSA emerged with the lowest average score.

Figure 10: PPP Procurement Score by Region



Source: World Bank (2016)

c) Unsolicited Proposals

A proposal is defined as Unsolicited Proposal (USP) when a private sector entity approaches government with a bid to develop a specific infrastructure project without the government first having identified and assessed the suitability of the project. Thus, USPs are an alternative to government-initiated projects. There are merits in establishing provisions for considering unsolicited project proposals, as they are often based on innovative ideas. Determining how to respond to unsolicited bids to both protect transparency in the procurement process and recognise the initiative of the proponent is typically difficult. The difficulty rests in getting the right balance between encouraging private companies to submit innovative project ideas without losing the transparency and efficiency gains of a competitive tender process. Key factors to consider include ensuring the consistency of USPs with other government priorities and ensuring competition so that USPs deliver economically beneficial infrastructure with the greatest possible value for money. The recognised good practices in managing USPs are summarised in Box 3.

Box 3: Good practices in unsolicited proposals of PPPs

Good practices to ensure transparency and competition during procurement of projects originated as USP:

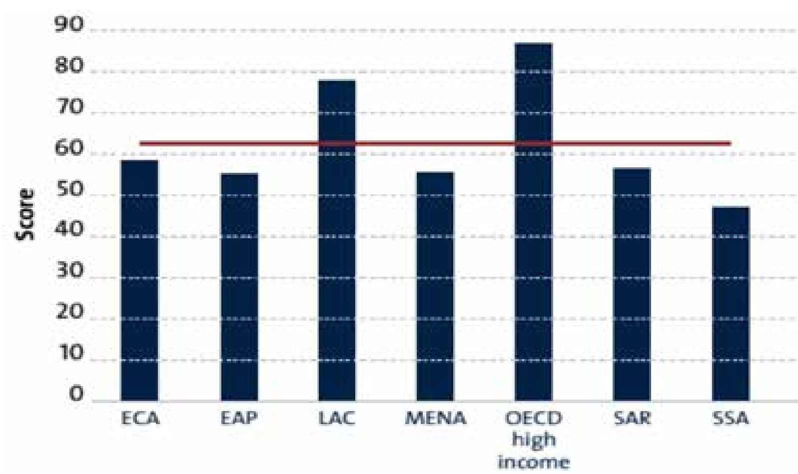
nk—(20T1h6e) procuring authority assesses the merits of the USP and ensures that it is aligned with the government investment priorities;

- If the USP is justified, the procuring authority initiates a competitive procurement procedure to select the private partner;
- The procuring authority grants at least 90 days to all potential bidders (besides the proponent) to submit their proposals.

Source: World Bank (2016)

Ideally, the USP process should be regulated. Assessment on whether or not the projects are in line with national priorities should be done through a centralised office. It is also important for countries to introduce effective methods for competitive tension and to incentivise proponents, as well as give sufficient time for potential bidders to undertake due diligence while compensating them for project preparation. Assessed against good practices, SSA region has the lowest average score although with large score variation among economies within the region, ranging from 17 to 92 points (Figure 10).

Figure 11: Unsolicited Proposal Scores by Region



Source: World Bank (2016)

d) PPP Contract Management

The signature of PPP contract and financial close marks the beginning of the project implementation stage. Success of this implementation determines whether the project delivers the expected value for money.

Box 4: Good practice in PPP contract management

Good practice to ensure a successful implementation and delivery of the PPP project are:

— The procuring authority establishes a system to manage the implementation of the PPP contract including establishing a PPP contract management team, involving some of its members in the project from the procurement stage, offering the possibility to consult PPP procurement experts and adopting PPP implementation manuals;

— Monitoring and evaluation systems of the PPP contract are established with risk mitigation mechanisms and performance information is made publicly available;

— Potential changes in the structure of the private partner are expressly regulated requiring the replacing entity to be at least as qualified as the original private partner;

— Modification and renegotiation of the contract are expressly regulated to reduce incentives to use it strategically by either the private partner or the procuring authority;

— Specific circumstances (force majeure, material adverse government action, change in the law, refinancing) that may arise during the life of the contract are expressly regulated;

— Dispute resolution mechanisms are in place allowing the parties to resolve discrepancies in an efficient and satisfactory manner;

— Lenders are given step-in rights in cases when the private partner is in risk of default or if the PPP contract is under threat of termination for failure to meet service obligations;

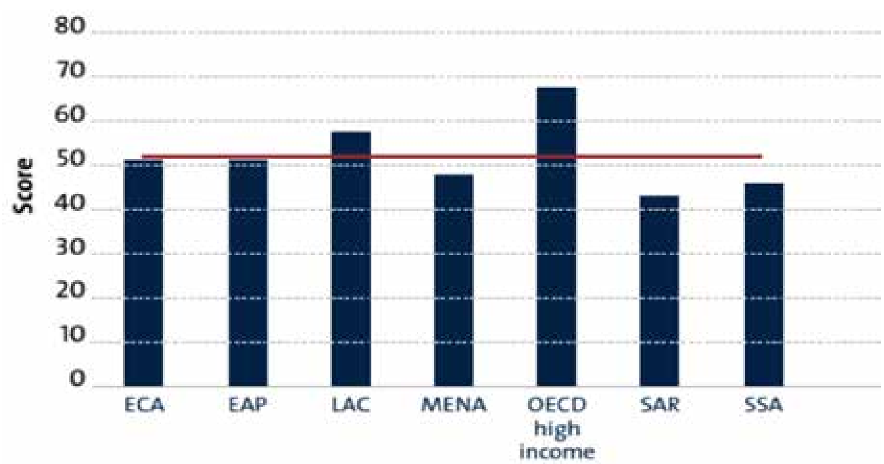
— Grounds for termination of the PPP contract and its associated consequences are well defined.

Source: World Bank (2016)

Therefore, it is key to establish a sound PPP contract management system to oversee implementation. The contract should be designed to anticipate and regulate a wide range of possible scenarios that could arise during a project's life. Good practices applicable during PPP contract management are summarised in Box 4.

Assessed against recognised sound practices, SSA scored below average, together with other developing countries except Latin America and the Caribbean.

Figure 12: PPP Contract Management Scores by Region



Source: World Bank (2016)

2.4.5 Key Discussion Points

Countries in the region had to endure several challenges brought by an unsupportive external environment. The role of monetary policy has been more pronounced in several countries than before, because the fiscal buffers that countries enjoyed during the past few years were eroded.

Thus, the burden of adjustment fell disproportionately on monetary policy, hence the urgency with which countries must explore various options to exit from the difficult situation. One of the options is for governments to accelerate execution of PPPs, which hold promise to address the huge infrastructure gaps that are existing in the region. In this regard, governments should consider identifying champions to properly promote PPP arrangements so that they give the expected return. The resource base that the World Bank provides comes handy for countries to benefit from, to promote proper execution of these arrangements. Several constraints to the proper execution of PPP in the region were identified and these include:

— **Lack of Capacity:** Governments in the region lack capacity to undertake PPP projects. Hence, there is need to improve capacity to undertake these projects as they are beneficial. Herein lies the importance of MEFMI and MDBs in building capacity of member countries to undertake PPP projects;

— **Lack of resources dedicated to project preparation:** there is need for MDBs to consider availing project preparation facilities and financial resources. There are several unsolicited project proposals that are caught up in the problems of governance that are prevalent in the region;

— **Regulatory guidelines:** the regulatory frameworks and guidelines for PPPs in several countries are unclear on what governments want to achieve with these arrangements. Hence, they need to be reformed and strengthened.

— **Transaction Costs:** notwithstanding the challenges that have been encountered in the utilisation of the guarantees, countries need to engage MDBs and other providers to see how these can be improved to increase uptake and ensure value-for-money.

— **Reduce turnaround time:** countries should work to reduce the turnaround time for the projects to take-off, as this is important in encouraging private sector participation.

An Example of a Successful PPP

GE engaged with the government of Kenya in healthcare space in 2012. The equipment in Kenya's major hospitals and clinics scattered across the country's 47 counties is a mixture of either purchased but hardly maintained or donated but now dysfunctional. Because of the asset rules, government cannot easily dispose of this equipment. The cost of purchased equipment is very high and its maintenance is assigned to teams of medical equipment technicians in the Ministry of Health who are not necessarily specialists in the equipment. What this implies is that purchasing health equipment is not an optimal decision. Instead, an alternative decision is to lease the equipment because in leasing, government gets the equipment maintenance guarantee. In line with this, the Kenyan government engaged GE Healthcare as key technology partner for a wide-scale radiology infrastructure modernization program. This partnership aimed at transforming 98 hospitals across the 47 counties through a comprehensive, wing-to-wing solution package. GE has installed over 100 diagnostic imaging units across the country, as well as partnered with all of Kenya's 18 referral hospitals to formulate oncology strategy for breast, cervical and prostate cancer. Over 160 Kenyans were hired to deploy the equipment and maintain them for the next 7 years. The private sector partner, who is an Original Equipment Manufacturer, receives a regular payment from the Government. In return, Ministries of Health and Finance receive monthly reports on how the equipment is being used, and in that way, the return on investment becomes very clear.

This is one of the successful innovations in PPP arrangements, which changed the model from acquisition to leasing. In terms of financing modalities, GE is paid on a quarterly basis and the budgetary submissions of the Ministry of Health for hospitals and clinics have substantially reduced. With this innovation, the project is de-risked because availability and functionality of the equipment is guaranteed for 7 years. Second, the turnaround period for project implementation is substantially reduced, hence reducing its exposure to policy changes. The arrangement had a lot of positives, including 98 hospitals with fully functioning equipment and the creation of 160 jobs. In the case of healthcare equipment, their life span is around seven years and cannot function effectively thereafter. The payback period is within those seven years, and both parties would have gotten value for money from the arrangement.

3. CLOSING REMARKS

The closing remarks were given by Chairperson of MEFMI's Executive Committee and Governor for the Bank of Botswana, Ms. Linah Mohohlo. In her remarks, she commended delegates for their constructive contributions towards discussions during the Forum, which made the event one of the very successful and informative dialogues that the Institute has organised during the year. She appreciated the presence of Cooperating Partners and Private Sector Stakeholders, noting their presence was clear testimony that they shared a deep passion for the development of the region and have perspectives on how it could be achieved.

Governor Mohohlo pointed out that the day's discussions have reaffirmed that the region is now experiencing growth whose outlook is lacklustre and susceptible to several risks, key among them the tightening of external financing conditions and anaemic growth in main trading partners, particularly China and Europe. Hence, the fundamental challenge facing the region is how to preserve and improve prospects for sustaining high and inclusive growth in the face of global economic uncertainty.

She also stated that the challenges currently faced provide a window of opportunity for the region to start reorienting policies and strategies towards diversifying growth sources and fostering structural transformation. This was the driving theme for the deliberations: that the structural transformation agenda holds the promise of sustaining high and inclusive growth, and hence, securing a credible future for the region. In seeking to realise this ambitious agenda, and make it real in people's lives, Governor Mohohlo mentioned several issues highlighted during the discussions, where countries need to focus their efforts and attention.

First, if the region could reduce infrastructure bottlenecks, improve business climate, and diversify its economies, it will have a historic opportunity to attract the transmigrating Chinese manufacturing industries. China's wages are rising rapidly, and countries with friendlier investment climate will likely benefit by taking over some segments of this supply chain.

Secondly, the region needs to embrace emerging and innovative ways of financing development beyond ODA, such as PPPs and Guarantee Products. If these sources are properly developed and leveraged, they could potentially underwrite the region's development agenda, such as those embodied in the African Union Agenda 2063, while facilitating achievement of the ambitious goals set out in the global development agenda, the SDGs.

Governor Mohohlo noted that the region needs to explore how to make partnership platforms more inclusive to best leverage its transformative potential. The region needed to think about how to effectively create opportunities to engage with the private sector, and bring innovative methods and strengthened mechanisms for leveraging funding. She noted that the private sector has a key role to play in supporting economic growth, hence appropriate policies need to be in place to maximize their potential. Sustainable and durable solutions tomorrow will only be possible if the region creates the necessary environment today. Delaying action will only serve to make solutions more costly in the future, financially, economically, and socially.

She thanked GE for supporting the Combined Forum, and encouraged the two (2) institutions to continue nurturing their collaborative partnership. This will be critical as the Institute strives to bring capacity development to the region, and more importantly, enable it accomplish its mandate and vision of a region capable of defining, pursuing and achieving its own development agenda.

Governor Mohohlo paid tribute to guest speakers Professor Collier, Dr. Zeufack, Mr. Tran and Mr. Harris for delivering very insightful presentations. She commented Mr. Agarwal, Mr. Pittman and Mr. Konditi, Mrs. Susan Grey and Governor Dr. Kalyalya for ably facilitating panel discussions. She thanked invited guests for making time to attend the event, and acknowledged that without their support, the event would not have turned out to be as successful as it eventually was. The wealth of information and diversity of views and experiences shared, the lessons learnt were extremely useful to the region as it introspects alternative ways and means of accelerating inclusive and sustained economic growth.

4. FORUM PROGRAMME

MEFMI REGION COMBINED FORUM
TUESDAY, 04 OCTOBER 2016
WASHINGTON MARRIOTT RENAISSANCE DUPONT CIRCLE HOTEL
WASHINGTON D.C., UNITED STATES OF AMERICA

THEME: Accelerating Economic Growth in the MEFMI Region:
Drivers, Prospects and Policy Implications

08:30 – 09:00	Registration		MEFMI	
OFFICIAL OPENING 09:00 – 09:20	Welcome Remarks	Dr. Caleb M. Fundanga, Executive Director, MEFMI		
	Welcome Remarks	Mr. Thomas Konditi, CEO & President, GE South Africa		
	Official Opening			
	Remarks	Honorable Patrick Chinamasa, Minister of Finance & Economic Development, Zimbabwe		
09:20 – 10:00	Keynote Address	Sir Paul Collier, Professor of Economics and Public Policy, Blavatnik School of Government & Professorial Fellow of St Antony's College	Honorable Matiya Kasaija, Minister of Finance, Planning and Economic Development	Uganda Dr. Karan Bhatia, Vice President & Senior Counsel Global Government Affairs and Policy
10:00 – 10:30	Floor Discussions	All		
10:50 – 11:15	Financing African Infrastructure: needs and solutions	Mr. Albert Zeufack, World Bank Chief Economist, African Region	Honorable Patrick Chinamasa,Minister of Finance & Economic Development, Zimbabwe	• Mr. Brian Ward, Managing Director, Global Markets, Capital • Mr. Song Donsheng, President, Powerchina
11:15 – 11:45	Floor Discussions	All		
		SESSION 3		
11:45 – 12:05	Innovation in guarantee products, and fiscal aspects	Mr. Hung Q. Tran, Executive Managing Director, Institute of International Finance	Mrs. Susana Monteiro Camacho, Deputy, Governor, Banco Nacional de Angola	• Mr. Vishal Agarwal, GE Managing Director, Developments & Investments, Africa • Mr. Admassu Tadesse, President and CEO, PTA
12:15 - 12:45	Floor Discussions	All		

TIME	EVENT	SPEAKER/PRESENTER	MODERATOR	DISCUSSANTS
12:45 – 14:15	**GROUP PHOTO AND LUNCH**			
	SESSION 4			
14:15 – 16:15	Key Issues Pertaining to Public Private Partnerships	Mr. Clive Harris, Practice Manager, Public Private Partnerships Group - World Bank Group	Honorable Adriano Maleiane, Minister of Finance & Economy, Mozambique	• Mr. Bobby J. Pittman, Managing Director, Kupanda Capital • Dr. Denny Kalyalya, Governor, Bank of Zambia • Mr. Thomas Konditi, CEO, GE South Africa
16:00 – 16:15	**TEA AND COFFEE BREAK**			
16:15 – 16:25	Risk Based Supervision: Guidelines for Supervision of Banks	Mr. Patrick Mutimba, MEFMI Director Financial Sector Management Programme Mr. John Rwangombwa, Governor, National Bank of Rwanda		
16:25 – 16:30	Wrap Up	Mr. Reginald Max, GE Director – Origination Development & Investment Group sub-Saharan Africa		
16:30 – 16:35	Closing Remarks	Ms. Linah Mohohlo, Governor Bank of Botswana		
17:00 – 18:30	**COCKTAIL**			

Director of Ceremonies – Dr. Caleb M. Fundanga, Executive Director, MEFMI

RESOURCE PERSONS

1. Sir Paul Collier - Professor of Economics and Public Policy, Blavatnik School of Government & Professorial Fellow of St Antony's College
2. Mr. Albert Zeufack - World Bank Chief Economist, African Region
3. Mr. Hung Q. Tran - Executive Managing Director, Institute of International Finance
4. Mr. Clive Harris - Practice Manager, Public Private Partnerships Group - World Bank Group
5. Dr. Karan Bhatia - Vice President & Senior Counsel Global Government Affairs and Policy
6. Mr. Brian Ward - Managing Director, Global Markets, Capital Energy Financial Services
7. Mr. Song Donsheng - President, Powerchina International Group
8. Mr. Vishal Agarwal - GE Managing Director, Developments & Investments, Africa
9. Mr. Admassu Tadesse - President and CEO, PTA Bank
10. Mr. Bobby J. Pittman - Managing Director, Kupanda Capital
11. Dr. Denny Kalyalya - Governor, Bank of Zambia
12. Mr. Thomas Konditi – Chief Executive and President, GE South Africa

MEFMI Staff

1. Dr. Caleb. M. Fundanga – Executive Director
2. Dr. Sehliselo Mpofu – Director, Macroeconomic Programme
3. Mr. Raphael. O. Otieno, Director, Debt Management Programme
4. Mr. Patrick Mutimba, Director, Financial Sector Management Programme
5. Mrs. Rose Malila Phiri, Director, Finance and Administration
6. Ms. Gladys Siwela, Public Relations Manager
7. Ms. Sharon Wallet, Executive Assistant, Executive Director's Office
8. Mr. Tiviniton Makuve, Programme Manager, Debt Management Programme

MEFMI
Macroeconomic and Financial Management
Institute of Eastern and Southern Africa

9 Earls Road, Alexandra Park,
P. O. Box A1419, Avondale, Harare, Zimbabwe

+263 4 745 988/9/91-94

+263 4 745 547-8

capacity@mefmi.org

www.mefmi.org

@mefmiorg