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GOVERNORS' FORUM

THEME: Responsible Development Financing

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TABLE OF CONTENTS

ACRONYMS

BIS	Bank for International Settlements
CAPEX	Capital Expenditure
DFI	Development Finance Institutions
EAIF	Emerging Africa Infrastructure Fund
ECA	Economic Commission for Africa
FDI	Foreign Direct Investment
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
MEFMI	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
NEPAD	New Partnership for Africa's Development
PIDA	Programme for Infrastructure Development in Africa
PIDG	Private Infrastructure Development Group
SADC	Southern Africa Development Community
SDGs	Sustainable Development Goals
SDSN	Sustainable Development Solutions Network
SEZ	Special Economic Zones
SWIFT	Society for Worldwide Interbank Financial Telecommunication
UN	United Nations
UNDP	United Nations Development Programme
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
UN SG	United Nations Secretary General
USA	United States of America

FOREWORD

MEFMI continues to bring to discussion in its Executive Fora topical issues that explore the potential for Africa to become the fastest growing region in the world for over the next decade. Infrastructure development has been noted to be key to all aspects of social and economic development. Economists have noted Africa's significant social and economic progress over the past 15 years, with an average GDP growth rate estimated at 4.5% in 2015[1]. Yet, this progress has not resulted in commensurate job creation or meaningful economic transformation. Infrastructure deficit, hard and soft, has been undermining all the efforts towards achieving sustainable development and structural transformation in Africa, particularly in view of a rapidly growing population. Indeed, the emergence of a large middle class estimated at nearly 350 million in 2010 is driving the demand for socio-economic infrastructure including access to water and sanitation. Further, structural transformation and industrialisation require adequate infrastructure to power economic activity, fuel industrialisation, connect producers to markets, enhance intra-African trade and foster regional integration. Projections[2] show that:

- Power demand in Africa will rise from 125 gigawatts (GW) required in 2010 to 700 GW by 2040;
- Transportation volumes on the continent will increase by up to 6-8 times and even higher for landlocked countries;
- Port throughput is projected to rise from 265 million tonnes in 2009 to 2 billion tonnes in 2040;
- Water pressure will increase, endangering Nile, Niger, Orange and Volta basins; and
- Demand for ICT will increase 20 fold by 2020 and data needs will surge from the 2009, 300 gigabits per second to 6000 gigabits per second in 2018.

It is a fact that Africa's infrastructure has been lagging behind others in the developing world. The UN reports that approximately 60% of the continent's population lacks access to modern infrastructure, which isolates communities, prevents access to health care, education and jobs, and impedes economic growth. Only 38% of the continent's population has access to electricity and there is less than 10% internet penetration rate. In addition, 75% of Africa's road network is unpaved and poor port facilities add 30-40% to intra African trading costs and Foreign Direct Investment (FDI). According to the World Economic Forum's Global Competitiveness Index (GCI) 2014-15, more than half of the 20 least competitive countries in the world are found in sub Saharan Africa, due, in large part, to the region's deep infrastructure deficit.

[1] African Economic Outlook 2015

[2] E/ECA/COE/31/17 - AU/CAMEF/EXP/17(VII), Financing the Programme for Infrastructure Development in Africa.

According to the Infrastructure Consortium for Africa, Africa's infrastructure services cost more than any other place in the world. For instance, African rural population pay around 60 to 80 times per unit more for her energy than urban population in the developed world. Freight costs in Africa per tonne are USD 0.05 to USD 0.13 compared to USD 0.01 to USD 0.04 per tonne in developed countries, making African markets less competitive on the international level. The situation worsens for the 16 African landlocked countries where trading costs are 50 times higher than in African coastal countries.

Bridging the infrastructure deficit imposes itself with urgency to provide well-functioning regional and national infrastructure. This includes roads, railways and ports, information and communication technology, energy facilities and health facilities, and the management of water. Accordingly, African leaders have made infrastructure development one of the pillars of the development strategy of the continent. It is anchored on regional integration and the realisation of the African Economic Community enshrined in the 1991 Abuja Treaty. More recently, several blueprints and initiatives emphasised the importance of infrastructure for the continent's transformation. This, as captured with the launch of the New Partnership for Africa's Development (NEPAD) in 2001, the adoption of the integrated strategic blueprint for continental infrastructure transformation for 2012-2040, also known as the Programme for Infrastructure Development in Africa (PIDA) in 2012, and the adoption of the African Union Agenda 2063 and its first ten (10) year implementation plan in 2015. Agenda 2063 envisions the development of world class, integrative infrastructure to support Africa's accelerated integration and growth, technological transformation, trade and development through the implementation of PIDA. PIDA envisages the development of 37,200km of highways, 30,200km of railways and 16,500km of interconnected power lines by 2040. It also plans to add 54,150 megawatt of hydroelectric power generation capacity and an extra 1.3 billion tons throughput capacity at the ports. This infrastructure will be a catalyst for job creation, manufacturing, skills development, technology, research and development, integration and intra-African trade, investments and tourism. Intra-African trade is expected to reach 50% of total trade by 2045, and Africa's share of global trade to increase to 12% by 2063.

The question for Africa, and the MEFMI region in particular, is how will all these plans be financed? Without appropriate policy responses, the positive plans and outlook projected will elude the region. MEFMI and its partners are fully aware of this risk, hence taking the proactive approach of creating awareness on emerging opportunities and challenges arising from the ever changing global economic environment.

The Governors' Forum is one of the Executive Fora series on MEFMI's annual calendar of events meant to assist in developing and sustaining a crop of more informed policy makers in the region. The Forum also aims to keep central bank Governors abreast of emerging challenges and opportunities, and to share experiences and views from distinguished experts on how to respond to them. The 2017 Governors' Forum which was held on 23 June 2017 with the theme: ***"Responsible Development Financing"*** sought to bring forth the financing aspects of infrastructure in the region. The outcomes of the Forum, are presented in this report.

The Forum was hosted by the Bank for International Settlements (BIS) in Basel, Switzerland. MEFMI wishes to thank Ms. Wenke Soeteber of the BIS and her team for working closely with

MEFMI on the logistics for the event. The event provided an opportunity for central bank Governors to deliberate on possible policy responses to infrastructure financing. For MEFMI, the Forum provided a platform to strategise on how to ensure that policy makers in the MEFMI region remain consistently aware of the importance of responsible development financing and other related issues to do with long term financing. This is one of the many strategies to be employed by the Institute in an endeavour to expand coverage of existing activities to include and create appropriate platforms for sharing knowledge on long term financing arrangements.

MEFMI is grateful to Investec Investment Institute for the financial and technical support for the event. This is the third year that Investec has partnered with MEFMI for this event and we trust that they will continue to partner and support the Institute.

It is the hope of the Institute that the outcomes of the discussions, as captured in this report, will help to refine its approach in line with recommendations made during the discussions.

Caleb M. Fundanga
MEFMI Executive Director

Participants at the MEFMI Region Central Banks Governors' Forum
23 June, 2017 BIS Towers, Basel, Switzerland

EXECUTIVE SUMMARY

Africa's infrastructure development requires significant financing as well as strengthening of the international funding and delivery architecture. According to a 2009 study by the World Bank, the continent needs USD93 billion per year to fill the infrastructure deficit. For instance, Africa's power sector alone is experiencing a finance shortfall of USD40-45 billion every year since achieving universal access to electricity in Africa requires investment of about USD55 billion per year until 2030. Further, the cost of implementing PIDA requires approximately USD67.9 billion annually until 2020 for the 51 projects included in the Priority Action Plan. The implementation of the remaining projects will require an additional USD300 billion through 2040. According to the NEPAD Agency, the funding gap stood at USD31 billion per year which includes 75% of capital investment and 25% of maintenance expenditure.

While international aid has helped in meeting some of Africa's infrastructure needs, it has proven to be insufficient and unsustainable. As such, there is need for an unprecedented mobilisation of Africa's domestic financial resources and innovative financing. According to a report by the NEPAD Agency and the Economic Commission for Africa (ECA) on "Mobilising Domestic Financial Resources for Implementing NEPAD National and Regional Programmes and projects – Africa looks within", Africa could effectively fund up to 70% of its projects through domestic resources. For instance the Africa Progress Panel noted that building credible tax systems in African countries could help redirect about USD21 billion spent on subsidies to wasteful utilities and kerosene to productive energy investment.

Within the evolving geo-economic context, the main challenge for African countries is how to attract and harness infrastructure funding. Africa cannot afford to be left behind, especially as growth-enhancing opportunities for trade and investment with the West continue to be as limited as they have been. As a regional capacity building institute, MEFMI is committed to bringing together policy makers and private sector players to debate these issues and find ways of solving the problems.

The purpose of this report is not only to provide a summary of the Forum, but also highlight some key considerations that will inform the design of MEFMI's future capacity building interventions on infrastructure funding.

1. OPENING AND WELCOME REMARKS

1.1 Remarks By Dr. Fundanga, Executive Director, MEFMI

Dr. Caleb M. Fundanga, MEFMI Executive Director welcomed the delegates to the 2017 MEFMI Region Central Banks Governors' Forum. He commended BIS for allowing the Institute to hold the Forum at the back of the Annual Meetings and use of their facilities. He noted the bank's generosity that continues to humble MEFMI.

Dr. Fundanga also expressed gratitude to MEFMI's financial partner for the event; Investec Investment Institute for supporting the Forum for the third year running. He informed delegates that Investec's keen interest to support MEFMI's high level activities has strengthened the Institute's resolve to include the Governors' Forum in the annual calendar of events. He noted that the collaborative arrangement has enriched the Governors' Forum in many ways without financially burdening the Institute. He expressed hope that the two (2) institutions will continue with this partnership as they contemplate new and wider areas for future collaboration.

The Executive Director informed delegates that the Governors' Forum is one of the Executive Fora series on MEFMI's annual calendar of events aimed at further informing policy makers on trends and developments on emerging issues in the region. He advised delegates that the format of the 2017 Forum was informed by comments received from the 2015 and 2016 events, where delegates felt the need to stimulate contributions by all delegates. He pointed out that in line with those recommendations, the 2017 event only had two (2) speakers so as to allow for more discussions by the delegates.

Dr. Fundanga stated that the theme for the year, "***Responsible Development Financing,*** was" a subject which is topical to the region as it is looking at ways to integrate elements of inclusive growth, social justice and sustainable development. He informed delegates that MEFMI and Investec invited two (2) experts, Mr. Aniket Shah, the Program Leader on Financing for Sustainable Development Initiative and Mr Martijn Proos, Director; Emerging Market Fixed Income, Investec Asset Management, to share their perspectives on the theme. He also introduced the moderators for the presentations, Mr Moses Pelaelo Governor of the Bank of Botswana and Dr. Rogerio Lucas Zandamela, the Governor of Banco de Moçambique. He expressed his hope that the presentations would prompt rich discussions and exchange of views that would lead to appropriate development of key economic policies in the region.

Dr Fundanga also took the opportunity to acknowledge the presence of Dr. Denny Kalyalya, Governor Bank of Zambia, Deputy Governor of the Reserve Bank of Zimbabwe, Dr. Kupukile Mlambo and the new Governor of the Bank of Malawi, Dr. Dalitso Kabambe who was attending the Forum for the first time. Other guests were Mr. Rameswurlall Basant-Roi, Governor of the Bank of Mauritius Ms. Sarah Lang representing the Governor of the Bank of Seychelles.

1.2 Remarks By Mr. James Hatuikulipi, Managing Director, Africa Ex-South Africa, Investec Asset Management

In his remarks, Mr James Hatuikulipi, Investec Managing Director Africa ex-South Africa acknowledged the privileged position that Investec has of joining MEFMI at the 2017 MEFMI Region Central Banks Governors' Forum. He described the forum as key and strategic to the annual activities of MEFMI. Mr Hatuikulipi recounted the work that Investec has done in collaboration with MEFMI over the past five (5) years and the 2015 commitment to re-launch the Governors' Forum which Investec continues to support as the sole sponsor.

He noted that Investec has been working hard to drive the dialogue on sustainability in the investment management industry in collaboration with the UN Sustainable Development Solutions Network (SDSN) and Business and Sustainable Development Commission. He recalled the 2015 Forum on Financing Sustainable Development which Investec co-hosted in London, where discussions amongst other subjects included inclusive capitalism, infrastructure finance, climate finance and global partnerships. He noted that with the shift in the global financial order, a transformation of finance is needed to put the world on a sustainable growth path. However, what is required is a sustainable development investment framework for private investors to include more focus on long-term capital investment projects; an increase in blended public and private investing in low carbon power, roads, education and healthcare. On the regulatory front, a new financial structure that combines public and private financing to achieve sustainable development globally is required.

On inclusive capitalism, he stated the challenge of channelling the world's savings pool towards investments in job creation and essential infrastructure. He said that while an ample supply of capital exists, the number of bankable sustainable projects remains limited. The absence of investable projects remains a notable obstacle and one that requires cooperation between the private and the public sector (Public Private Partnerships) in order to be overcome. He stated that infrastructure assets are still regarded as strategic by governments, resulting in a bias for public sector funding. At the same time, it is essential for the industry to create products that are desirable for institutional investors and ideally ones which can be traded on a secondary market. The inherent short-termism of global markets places infrastructure at a disadvantage when compared to other asset classes where returns are realised sooner.

He noted the complexity of financing infrastructure projects, particularly in emerging markets and specifically in Africa where such projects take a very long time at the planning stage before implementation. Given these complications, legislation should become more accommodative. He urged policy makers to maintain a consistent approach towards the asset class, with frequent alterations to relevant laws and the ambiguous property rights acting as notable deterrents.

With regards to climate finance, Mr Hatuikulipi informed delegates that the current trajectory of global fossil fuel use, global warming is on a path to reach 4 - 6% above pre-industrial levels, a rise in the Earth's temperature that would be catastrophic for food production, human health, bio-diversity, extreme storms, rising sea levels and for survival in many parts of the world. Africa is exposed to these calamities and coordinated action is needed to reduce emissions and capitalise on opportunities in low carbon sectors such as renewable energy. He noted the need for finance to intervene to support the global transition to sustainable growth away from the current path of environmentally destructive growth. He informed the delegates that climate finance is therefore critical to significantly reduce emissions, in addition to enabling countries to adapt and reduce their impact on climate change.

On social partnerships, he noted that sustainable development can be supported through global partnerships that ensure co-ordination and the implementation of global policies. In that regard, large amounts of public and private investment are required to steer the region towards a low carbon economy, provide quality education to all and reduce global poverty, disease and deliver physical infrastructure across the region. Practical ways need to be agreed upon in order to finance and encourage the required shift.

He also informed the delegates that Investec Asset Management recognises the importance of sustainable investing by encouraging investors to look at new directions and embrace an economic model that is not only low in carbon emissions and environmentally sustainable but also turns poverty, inequality and lack of financial access into new market opportunities for smart, progressive, profit oriented companies. These complex challenges need the full and combined attention of government, civil society and business.

Mr. Haitukulipi advised that as stewards of long term capital, the investment industry and its clients can support the UN Sustainable Development Goals (SDGs) by creating simple, standardised sustainability metrics integral to the investment process. He also noted the need for new streamlined partnerships with governments and communities that can reduce risks for everyone and bring more private investment at lower cost into sustainable development.

Mr. Hatuikulipi concluded his remarks by stating that it was his hope that the forum signals the beginning of a paradigm shift in the region to embrace the form of intermediation of capital to drive a better and prosperous future.

1.3 Remarks By MEFMI Board Chairman: Mr Moses D Pelaelo, Governor, Bank of Botswana

Mr. Moses Palaelo made remarks on the key economic policy challenges in the region. He stated that there is need to integrate elements of inclusive growth, social justice and sustainable development, as well as efficient and cost effective provision of related resources. He advised delegates that experience and economic literature has shown that, while a necessary condition, output growth alone is not sufficient for economic development let alone sustainable development. He remarked that economic and broader social development occurs where output growth involves balanced expansion across economic sectors and social segments, as well as widespread employment creation and opportunities for rewarding economic activity. Enhanced provision and broad based access to social services, amenities and infrastructure also contribute to sustainable development and economic growth.

He stated that it is recognised that sustainable development entails meeting present day needs without necessarily compromising those of future generations. As such, to achieve sustainable development, preservation of the ecological balance and promotion of economic efficiency are necessary. He acknowledged that the 17 Sustainable Development Goals (SDGs) encompass the key elements of global aspirations for shared prosperity, equity, development, environmental preservation and peaceful co-existence; thus the concept of sustainable development is clearly projected. Hence the importance of the financial sector to drive long-term investment and innovation, as well as access to goods and services to both government and private sector. He pointed out that financing is central to infrastructure development, which is necessary to support sustainable inclusive economic growth, and more significantly broad based development. At an operational level, a variety of financial services and products are required to foster innovation and economic activity across a range of sectors and social groups.

Mr. Palaelo explained the attributes of long term finance for sustainable development. He stated that this explanation was important so that the delegates realise that the long term finance is not only defined in terms of duration but broadly so that it encompasses availability, accessibility and constant flow in other words sustainable financing. He pointed out that from an intermediation perspective an ideal long term finance should encompass the following:

- Ability to channel savings from households and corporations into an adequate supply of financing to meet the varying needs of investment, operations and innovation, at both micro and macro levels;
- Willingness by suppliers of finance to commit funds on long-term or continuous basis;
- Availability of a large variety of financial instruments to support the various investment and operation needs; and
- An efficient global financial system that includes efficient regulation.

On the financing gap, Mr Pelaelo advised that estimates suggest that the cost of providing annual investment in improving infrastructure (water, agriculture, transport and power) could be up to USD7 trillion, globally while the provision of a safety net to eradicate extreme poverty is estimated at about USD66 billion a year. He noted that in comparison to other regions, financial systems in Africa are fragmented, relatively small and shallow, making it critical for policy makers to foster the development of deeper and more effective mobilisation of long-term finance for sustainable development. The policies should also harness the opportunities provided by regional integration through capital flows.

In terms of potential sources of long-term finance; Mr Pelaelo informed delegates that banks remain a primary source of finance in many countries in Africa. However, their funding structure and risk management strategies constrain the provision of long term finance. In terms of lending to households, he advised that mortgage financing remains low in developing economies compared to developed countries, thus there remains room for improvement to the wider benefit of society and economic activity. For instance, in Canada, mortgage lending constitutes 100% while in Botswana it is 6% of GDP and in South African with a relatively more developed market than the rest of Africa 30% of GDP. He noted that banks' participation in sovereign bond issuance programmes and the emergence of large pan African banks present an opportunity for financing government expenditure and large infrastructure projects or regional infrastructure which also entails better project management, monitoring and prioritisation of viability and return. He noted that pensions represent a potential viable source of finance for long term investments given their growth trajectory in Africa, however in developing economies they have tended to be small partly because of legal and regulatory obstacles and relatively low contributions due to lower incomes. In addition, the risk mitigation strategies for pension funds tends to steer them towards low-risk fixed-income securities and away from higher risk, higher return equity investment and markets. He noted there was scope for developing capital markets in the region as they play a complimentary role to banks as suppliers of loanable funds.

He concluded his remarks by giving Botswana as an example of where long term finance could contribute to economic diversity. He advised delegates that Botswana is well endowed with coal reserves; however the scale of investment required to mine coal is relatively large for the Government to run as a business. He also gave the delegates another example of how the potential for reticulation and extensive use of solar energy in Botswana could present business opportunities along the value chain including research and innovation. However there is an apparent funding gap and key questions relating to how the funds can be deployed, the business and social returns and the operating environment for the projects which influence the decisions to fund as well as the fiscal considerations in terms of prioritisation of allocation of resources and the ability to repay.

2. FORUM PRESENTATIONS AND DISCUSSIONS

This section of the report is on the proceedings and discussions during the following sessions:

2.1 SESSION 1:

RESPONSIBLE DEVELOPMENT FINANCE: AN AGENDA FOR AFRICA

Presenter: Mr. Aniket Shah[3]
Programme Leader. Financing for Sustainable Development Initiative, United Nations

Moderator: Mr. Moses Pelaelo, Governor, Bank of Botswana
This session was moderated by Mr. Moses Pelaelo. The presentation by Mr Shah was premised on the Sustainable Development Goals (SDGs). SDGs are a useful framework to guide development finance. The presentation provided the background on some of the economic factors that will influence the implementation of SDGs; particularly in the region and the challenges that are most likely to affect the progress. It explored the state of financing and the central challenge of channeling global finance from the world's abundant saving to the world's investment needs for sustainable development. The presentation concluded with a discussion on the Agenda for responsible development financing which will require fundamental shifts in public and private finance, both globally and domestically.

2.1.1 Sustainable Development Goals (SDGs) - Overview

In his introductory remarks, Mr Shah noted that it took five (5) years to develop the 17 goals of SDGs that came into effect in January, 2016. The SDGs are a universal call to action by the United Nations Development Programme (UNDP) to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. The 17 Goals build on the success of the Millennium Development Goals, while including new areas such as climate change, economic inequality, innovation, sustainable consumption, peace and justice among other priorities. The goals are interconnected, for instance one often impacts on the success of the other and usually addressing one usually requires that aspects of the other be addressed as well. Figure I below is a presentation of the SDG Goals.

[3]Mr Aniket Shah was seconded from Investec Asset Management to lead the Financing for Sustainable Development Initiative of the United Nations SDSN. He is based in New York

Figure 1: The Sustainable Development Goals

Source: UNDP website

The SDGs are meant to provide an opportunity for companies to create value for both their business and society through: developing products, services, technologies and distribution channels to reach low-income consumers; investing in supply chains which are ethical, inclusive, resource-efficient and resilient; improving the skills, opportunities, well-being and hence productivity of employees, contractors and suppliers; increasing investment in renewable energy and other infrastructure projects.

According to the UN, several trends are making these opportunities more compelling:

- **Demographics**: The population in developing regions is projected to increase from 5.9 billion in 2013 to 8.2 billion in 2050 whilst the population of developed regions will remain around 1.3 billion people;
- **Income growth**: Between 2010 and 2020, the world's bottom 40% will nearly double their spending power from USD3 trillion to USD5.8 trillion;
- **Technology**: Rapid innovation is catalysing improved market analysis, knowledge sharing, product and service design, renewable energy sources, distribution models and operational efficiencies. Technology is also lowering market entry costs for non-traditional actors and start-ups with innovative 'disruptive' business models; and
- **Collaborations**: Governments, businesses, international financial institutions, the United Nations, civil society and academia are developing new ways of working with each other in pursuit of compatible objectives.

Referring to the practical aspects of the SDGs, Mr Shah pointed out that it is worth noting that economic growth should be linked with environmental considerations; in other words sustainable economic development should be accompanied by preservation of the ecological balance and environmental preservation. He highlighted the importance of curbing environmental degradation while in the process of economic development. Picking an example from Governor Palaelo's remarks on Botswana's potential economic benefits from mining of coal, Mr Shah noted that economic demands and environmental factors are usually difficult to balance in developing countries as countries tend to prioritise economic factors over the environment.

He added that each one of the SDG Goals can be broken down into cost and a gap can be measured. He explained that if SDGs can have monetary and commercial value, then they should be looked at and evaluated from that angle. He emphasised that breaking down things into monetary value is key as it raises the consequences of something that may otherwise not be visible.

2.1.2 Major Economic Transitions During SDG Period from East to West

Mr Shah explained to the delegates the global economic transition patterns from the West to the East since AD1 to projections of 2025. In the global economy, national economies are distinguished as the dominant economic power centres. These power centres are the poles that concentrate the most important levers and means of decision. Through the channel of interdependencies, they transmit in the economy of dependent partners either spill-over effects in the economic growth process (hence the name "economic growth poles"), or adverse effects of spreading the imbalances, the phenomena of crisis and recession (Ignat and Pralea, 2013: 46). The centres of economic power are also the main forces which participate in international trade, and give to the world economy a polarised character, dominating either globally or at the regional level (Gelb, 2010).

He explained that the balance of economic power is shifting. After almost a century of dominance the US economy has slipped down the growth rankings, and its influence over the global economy is decreasing. Economic growth in Europe is also sluggish and fragile. Yet many non-OECD countries – particularly China and India – are enjoying sustained economic growth. Trade liberalisation, economic reforms, freer movement of capital and technology transfer are driving this growth, which is making emerging market economies increasingly important players in international finance. To demonstrate that, he explained that in 1980 China's economic output was 2% of world trade and the USA's was at 20%. However, as of 2014, the Chinese economy overtook the United States economy to become the largest in the world. China now accounts for 16.5% of the global economy when measured in real purchasing-power terms, compared with 16.3% for the USA. According to the IMF World Economic Forum, as[4] of 2014 South-South trade exceeded North-South trade. Growth in the Asia-Pacific Economic Cooperation (APEC) region has traditionally been driven by exports; however, the economies of China, Malaysia, the Philippines, Peru and Chile grew by more than 5% in 2012 despite experiencing steep declines in exports relative to their GDPs.[5] In addition, US$102 billion was spent on high-end goods by Chinese shoppers in 2013, making the country the biggest consumer of luxury items in the world.[6]

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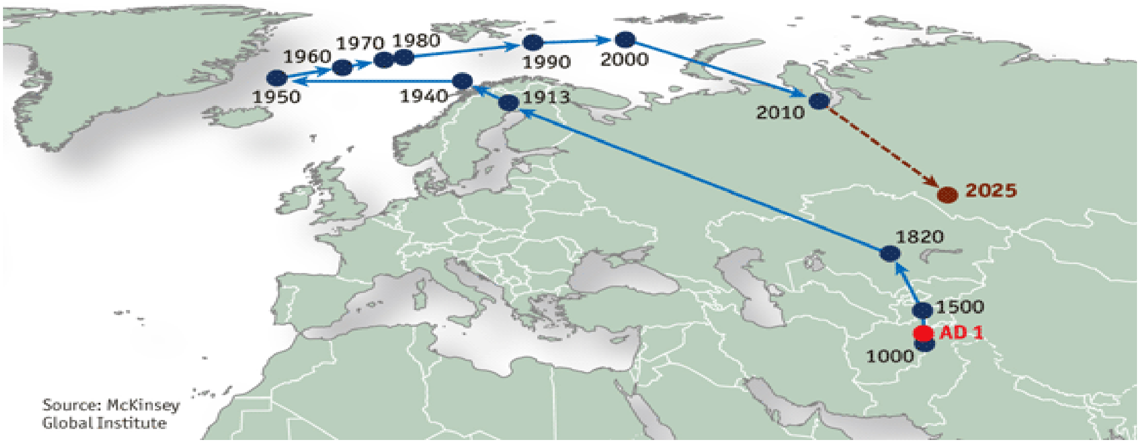
[4] World Economic Forum (2014). The Global Enabling Trade Report. 2. Market Watch (2014, Dec). It's Official: America is now No. 2. 3. PricewaterhouseCoopers (2013). APEC CEO Survey.

[5] PricewaterhouseCoopers (2013). APEC CEO Survey.

[6] China Daily (2014, Feb). China world's biggest luxury consumer.

On environmental sustainability, China is vying to lead the world. In 2009 it outpaced the US in terms of clean energy investment and finance for the first time; its total investment reached USD34.6 billion, almost double that of the USA's USD18.6 billion. While in March 2014 China led the US on clean energy investment for the fourth time in five years[7]. Figure 2 below shows the direction of the Global Economic Center from AD1 – 2025. As mentioned above, Figure 2 demonstrates the transition in Global Economic Center.

Figure 2: Global Economic Center from AD 1 - 2025



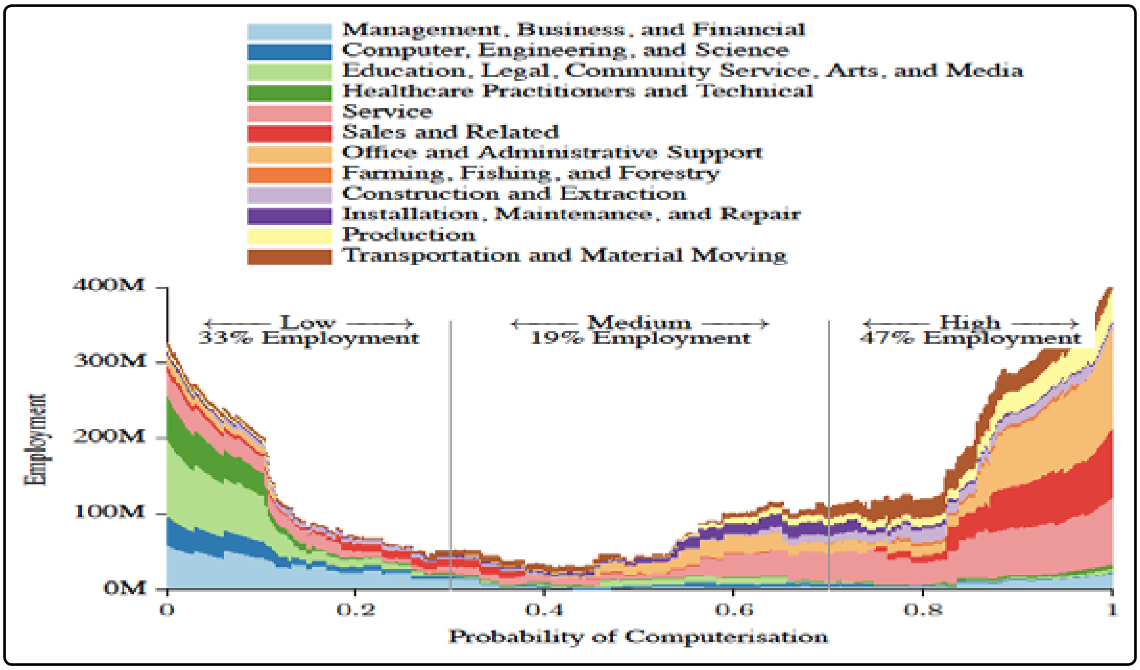
Source: McKinsey; Angus Maddison Data

2.1.3 Transition in Technology and Automation

Mr. Shah explained that fundamental to technological advancements is the transition from manual labour to automation. He stated that while automation has been the buzzword as a catalyst to economic development, it has also invoked the fear of a society in which computers replace both blue collar and white collar jobs. This trend has affected job categories. As examples, he highlighted Bangladesh's experience with automation of its textile industry in the last decade. He noted that as a result of automation, there were massive job losses and the country found itself with excess labour. Closer to home, he noted that Ethiopia is projected to have an 85% risk of automation by 2030 and therefore it is incumbent on Ethiopia to start developing policies that ensure that the people who will be rendered jobless by automation are absorbed in other sectors of the economy. He explained that despite what it may seem, technology has not replaced labour but improved task efficiency and provided the workers more time to focus on other tasks. He explained that the fundamental purpose of automation and technology is to improve productivity, generate increased output and reduce cost. Over the course of history, productivity has been the closest indicator of long term economic growth. He noted that not only does rising productivity increase overall growth, it also influences living standards, consumption and income per capita. Figure 3 below shows the probability of employment categories that are at risk of automation.

[7]Pew Charitable Trust (2014). Who's Winning the Clean Energy Race?

Figure 3: Employment Categories at Risk of Automation



Source: Frey and Osborne

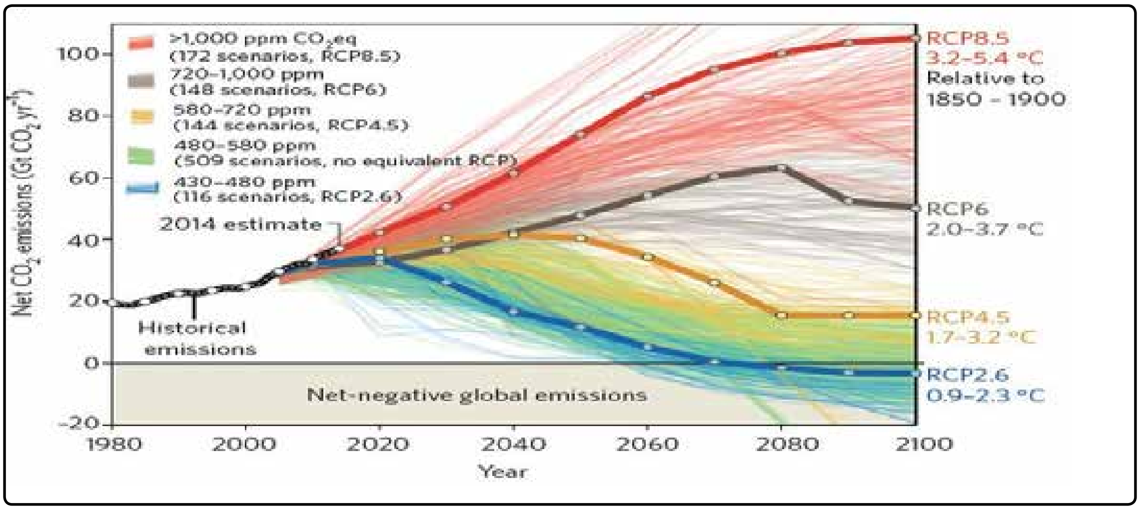
2.1.4 Transition in Climate Change Urgency, Impacts and Possibilities

Since the industrial revolution, the accumulation of an unprecedented level of greenhouse gases in the atmosphere has been leading global warming with multiple consequences on economies and companies around the world. Studies show that all sectors of the economy will undergo the financial impact associated with the effects of climate change. For example, the agricultural sector will undergo, on the one hand, a change in its productivity linked to change in temperature and rainfall and, on the other hand, a greater frequency of local interruptions in production and distribution following an increase in the frequency and severity of extreme climate-related events (storms, hurricanes, floods, landslides)[8]. The electricity generation sector will also be disrupted: the increase in droughts will for example have a negative impact on hydroelectricity generation, just as on thermal electricity generation (fossil fired or nuclear) which needs water to supply its cooling systems. These physical impacts of climate change are projected to indirectly affect financial actors due to their propagation across all sectors of the economy.

The Intergovernmental Panel on Climate Change (IPCC) projects that effects of climate change will also have a direct impact on the performance of infrastructure and property investment portfolios. As a result, there could be major losses for the financial sector. Dietz et al; consider that, if current economic practices are extended from 2015 through to 2100, there is a 99% chance that climate change will lead to a loss estimated at USD 24,200 billion (in constant 2013 dollars) on total global financial assets. Figure 4 below shows the projected climate scenarios by the Intergovernmental Panel on Climate Change (IPCC).

[8]Climate Brief n°44 - April 2017 – I4CE. Authors : Romain Hubert | Morgane Nicol | Ian Cochran

Figure 4: IPCC Climate Scenarios



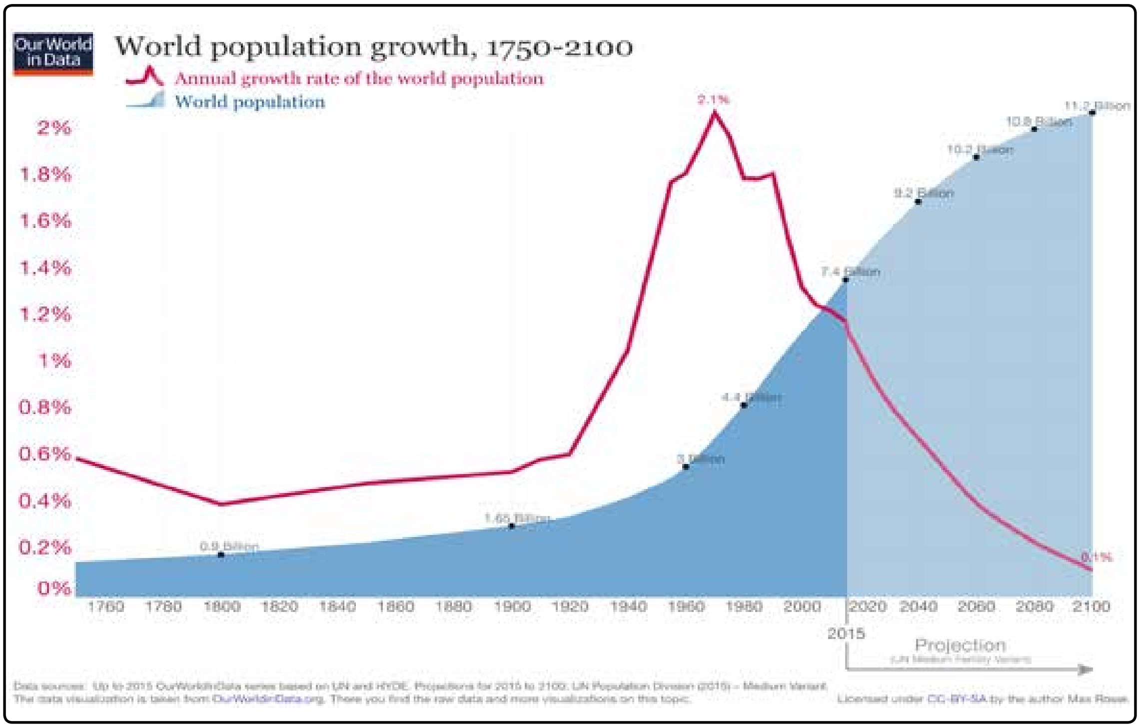
Source: IPCC

2.1.5 Transition in Global Demographics

On demographics, Mr. Shah explained that the naïve fact of demographic boom is that economic growth increase from demographics is only concentrated in two (2) economic zones namely Asia and Africa. According to the United Nations' Department of Economic and Social Affairs[9]; the current world population of 7.3 billion is expected to reach 8.5 billion by 2030, 9.7 billion in 2050 and 11.2 billion in 2100. Most of the projected increase in the world's population can be attributed to a short list of high fertility countries, mainly in Africa, or countries with already large populations. During 2015 -2050, half of the world's population growth is expected to be concentrated in nine (9) countries namely; India, Nigeria, Pakistan, Democratic Republic of the Congo, Ethiopia, United Republic of Tanzania, United States of America (USA), Indonesia and Uganda (listed according to the size of their contribution of the total growth). Figure 5 below shows the global population growth rates and projections in to the next century.

[8]UN DESA report, "World Population Prospects: The 2015 Revision

Figure 5: Global Population and Growth Rates Projections



Source: UN Population Division; Roser and Ortiz-Ospina

Whereas, China and India remain the two largest countries in the world, each with more than one (1) billion people, representing 19 and 18% of the world's population, respectively; Africa with the highest rate of population growth is expected to account for more than half of the world's population growth between 2015 and 2050. According to the UN, during this period, the populations of 28 African countries are projected to more than double, and by 2100, ten (10) African countries are projected to have increased by at least a factor of five. Coincidentally, six (6) of these ten (10) countries are MEFMI member states. The countries are Angola, Burundi, Democratic Republic of Congo, Malawi, Mali, Niger, Somalia, Uganda, Tanzania and Zambia. In 2015, John Wilmoth, Director of UN's Department of Economic and Social Affairs remarked that:

> *"The concentration of population growth in the poorest countries presents its own set of challenges, making it more difficult to eradicate poverty and inequality, to combat hunger and malnutrition, and to expand educational enrolment and health systems, all of which are crucial to the success of the new sustainable development agenda".*

While there is always some degree of uncertainty surrounding any projection, the large number of young people in Africa who will reach adulthood in the coming years and start having children of their own, ensures that the region will play a central role in shaping the size and distribution of the world's population over the coming decades. Mr Shah's message regarding the transition in population demographics to the delegates could be summed up in the following quote:

"Understanding the demographic changes that are likely to unfold over the coming years, as well as the challenges and opportunities that they present for achieving sustainable development, is key to the design and implementation of the new development agenda," Wu Hongbo, UN Under-Secretary-General for Economic and Social Affairs. 2015.

2.1.6 The SDGs – Key Points

Relating the above changes in economic dynamics to SDGs, Mr Shah urged delegates to develop policies that transform their financial systems to attract financing of SDGs. He explained that the goals are about integration; that is economic growth, social inclusion and environmental sustainability. To achieve these factors, significant financial resources are needed. He noted that experts estimate that $2-3 trillion globally per annum is required with $300-500 billion for Africa needed. He added that cooperation and coordination at regional and global level will be necessary to raise the much needed finance. This comment echoed the message of the 2015 Financing Development Conference that took place in Addis Ababa, Ethiopia where world leaders called for creative and innovative solutions by the private sector to scale up investments in activities that contribute to the sustainable development goals.

Dr Shah also noted that technology will play a large part in solving major challenges. Technology, science and capacity building have been identified by the UN as the major pillars of the means of implementation of the Post -2015 Agenda. The research, development, deployment, and widespread diffusion of environmentally sound technologies in the context of a Green Economy is also closely linked to other core elements of implementation, including innovation, business opportunities and development, trade of environmental goods and services, finance and investment, and institutional capabilities. In order to eradicate poverty and reorient current unsustainable development trajectories over the period of 2015 - 2030 which is the lifespan of the SDGs, affordable technological solutions have to be developed and disseminated widely in the next 15 years.

In view of the above, Mr Shah remarked that the policy decisions to be taken be it economic growth, social inclusion, investments, cooperation or technology will have to have a long term focus for the benefit of future generations. He went on to highlight the challenges of implementing the SDGs.

2.1.7 Challenges of SDG Implementation

Implementing the SDGs in an Integrated Manner – Challenges of Cooperation
When negotiating the 2030 Agenda for Sustainable Development, UN member states agreed that the SDGs should be addressed in an integrated, indivisible manner by recognising their interlinkages to ensure that the Agenda is realised. This therefore called on all countries as well as all stakeholders, acting in collaborative partnerships to implement the agenda[10]. Mr Shah explained that at global level, there has been little to no cooperation or coordination in implementing the goals. He added that to address the SDGs in a cross cutting manner calls for inter alia, adopting

[10]UN SDG Knowledge Hub 25 April, 2017

more collaborative structures for keeping the information flows going, especially among sectors that do not normally work together.

National Level Implementation – Competing development plans
Mr Shah noted that another challenge with implementing the SDGs has been the issue of competing goals that has seen countries preferring to push implementation of their own national goals ahead of global goals. He added that the problem with the 17 SDGs is that none of them is new. The 17 goals are all related to issues that countries and organisations were already working on before the SDGs were adopted e.g. poverty alleviation, access to clean water etc. As a result, SDGs have to compete with national development plans and frameworks and in most cases countries choose to prioritise what is important for them to implement. He added that in some cases, this has been exacerbated by political transitions with some governments sometimes reversing what the previous governments have put in place towards implementation. Note in point, USA declaration to pull out of the Paris agreement.

Business and Financing - Lack of funding
Mr Shah advised that the financing of the SDGs requires coordination between public and private sector institutions. He noted that there has been no sizeable increase in international public and private flows. He added that financial regulation is still at odds with SDG implementation. According to the International Monetary Fund (IMF), in advanced economies, an increase in infrastructure spending of one percentage point leads to an increase in gross domestic product (GDP) of 0.4% in the first year and up to 1.5% after four (4) years[11]. Long-term infrastructure investments should be a key component of economic policy around the world, and should be done in a way that crowds in private capital. To do so, however, financial regulation at a national level must be aligned with sustainable development. At the moment, global finance is highly regulated. Banks, insurance firms, stock exchanges, asset managers, public pensions and other institutional participants in the financial market are regulated by national entities, ranging from central banks to dedicated financial regulators. Although, participants may want to significantly alter their practices to align themselves with sustainability criteria at the moment financial regulation does not allow that. There is therefore need to align financial regulation with global development financing. To belabour the point, it is worth noting that since the global financial crisis, financial regulators around the world revisited key banking, insurance and investment regulations to enhance financial stability and better understand and mitigate the risks caused by excessive leverage and the complexity of the financial services industry. However, these initiatives have not directly taken into account the challenges of sustainable development and the need to align financial market development with SDGs.

Mr Shah summed up the challenges by adding that despite significant discussions, debates and many forums to address the issue of funding; there was still insufficient public and private financing. He advised that the risk perception of emerging markets remains high hence the hesitation by international investors to fund infrastructure projects. He added that on the whole, there is general confusion about what public and private financing can do.

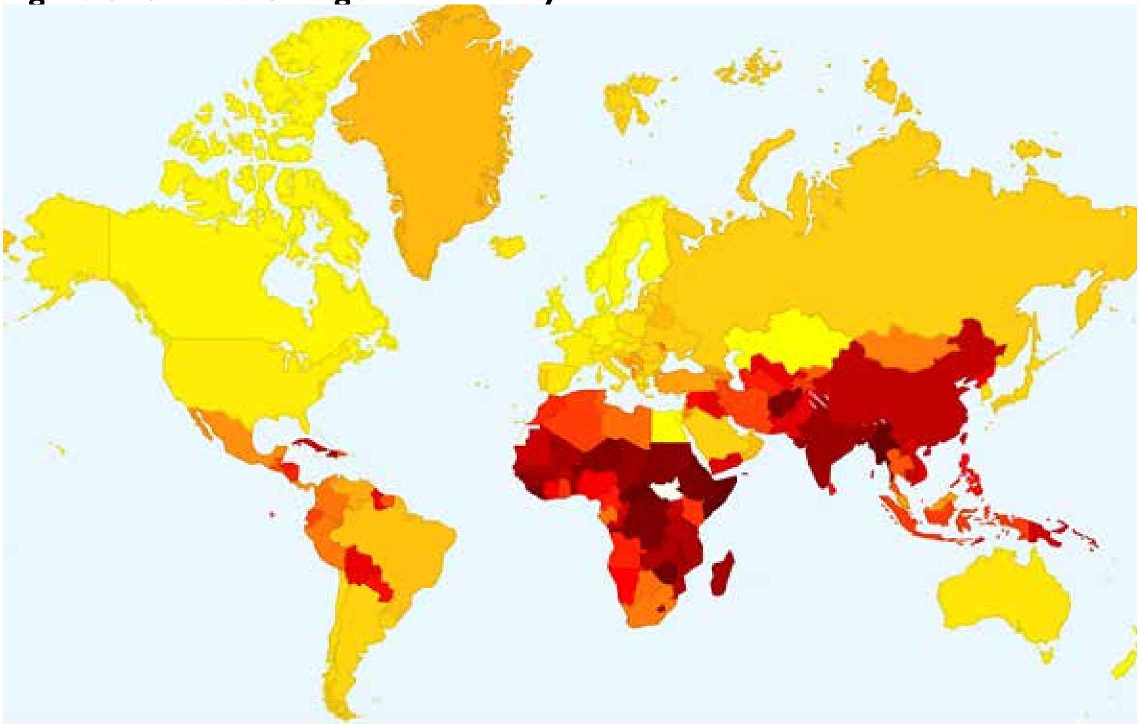
[11]International Monetary Fund (2014), World Economic Outlook report. "Chapter 3: Is it time for an infrastructure push? The macroeconomic effects of public investment" [Accessed on 20 September 2016]

2.1.8 The Importance of Africa for the SDGs

Mr Shah explained that Africa is in the limelight when it comes to SDGs as the statistics indicate that the world's poorest countries are located in Sub Saharan Africa. He noted that with its growing population there is hope that Africa could become the centre of the world's population and urban centres one day. He added that whereas that is possible in theory, population argument alone may not achieve what is expected given that Africa also doubles as the centre of financing needs, particularly infrastructure. With limited funding and a low appetite by Development Finance Institutions (DFIs) to fund infrastructure projects in Africa this may not be achieved.

He also explained that Africa remains a hot-spot for climate vulnerability. He echoed the sentiments by the Governor of Botswana that environmental issues are not top priority in Africa as demonstrated by the number of projects that are pursued in those countries. He remarked that looking at the MEFMI countries as an example, it is safe to say that these countries are the least contributors to economic change. Figure 6 below shows the climate change vulnerability per country. The coloured zones shows the countries that are more vulnerable to climate change.

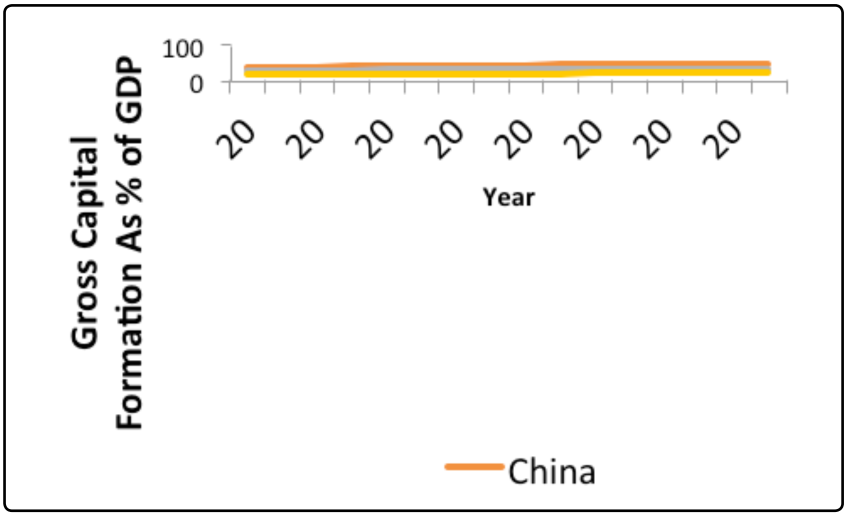
Figure 6: Climate Change Vulnerability



Source: Center for Global Development

He emphasised that the least developed countries contribute zero to economic change in climate change. Figure 7 below shows the gross capital formation as a percentage of GDP. From the graph, it is clear that Africa needs an investment push to be able to make meaningful economic contribution towards clime change.

Figure 7: Gross Capital Formation as a Percentage of GDP



Source: World Bank

2.1.9 Financing Global Development: An Agenda for Africa's Development Finance Institutions

Mr Shah noted that the central challenge of global finance is to channel the world's abundant saving to the world's investment needs for sustainable development. He explained that responsible development finance should be goal-oriented, public and private, technologically-enabled, focus on institutions and provide local and global perspective. He observed that meeting this definition will require fundamental shifts in public and private finance, both globally and domestically. He noted that to achieve that, domestic resource mobilisation (tax collection), business investment (domestic private sector), official development assistance (international public finance), FDI, Portfolio Flows (debt and equity), remittances and regulatory reform (enabling environment) are critical.

He noted that DFIs in Africa can be critical for the achievement of SDGs for the following reasons:

- Successful history and general agreement of their value (at least compared to other regions)
- Private sector financing is needed for the SDGs, but will not be mobilized on its own
- Changing global conditions may make it harder for international flows over next 5-10 years.

He then outlined an Agenda for Africa's Development Finance institutions premised on seven (7) points as follows:

1) Alignment with Agenda 2030
2) Analytics and Research
3) Architecture and Additionality
4) Acceleration of Technology
5) Advocacy at Global Level

6) Absorptive Capacity and Knowledge
7) Asia-Africa Connections

Elaborating on the Agenda, Mr Shah explained that **alignment** of national plans with Agenda 2030 (SDGs and COP 21 Agreement) is key. He explained that this may involve re-thinking any long term investments in projects that are not commensurate with an environmental protection initiatives and actively promoting the SDGs as an investment framework for public and private investments.

In addition, the role of **analytics and research** should be enhanced to ensure that data on lending and investment operations is standardized across countries and made public in easy to use and accessible ways. This may involve partnering with local universities and research centers to improve fundamental understanding of DFIs through specific research. Best practices would then be shared regionally though coordinated mechanisms.

With regards to **architecture** (understanding of place within broader financial eco system), Dr Shah called for constant re-assessment of DFIs to ensure that they are not duplicating efforts of other financial institutions. He also called for linkages between DFIs and Sovereign Wealth Funds and Sovereign Development Funds; and linkages between DFIs and global pools of capital (New York City, London, Dubai, Hong Kong) to be established. This may require that Africa open offices in these global pools of capital.

He called for **acceleration** of the diffusion of technological support. He noted that significant technological progress in energy, finance, transport infrastructure and other critical SDG areas is expected to be made over the next fifteen (15) years and therefore the acceleration of diffusion of these technologies and the accompanying business models is critical. DFIs should therefore develop strategies to ensure that they serve as a financing link between technology development and diffusion.

He noted that **advocacy** should be extended from national to regional and global forums. He added that the national DFI community for Africa should consider having a voice at the following forums:

- United Nations: ECOSOC and SDG-related gathers
- MDB Annual Meetings: ADB, AIIB, NDB and World Bank/IMF
- International Financial Policy: G20 (rotating presidency: Germany in 2017, Argentina in 2018), FSB, BIS

On **absorptive capacity and knowledge**, Mr Shah added that the discussion of absorptive capacity is not new, but remains an issue in many regions across Africa. The concept of absorptive capacity is premised on the aid's impact on growth and is dependent on the quality of its recipients[12]. He noted that there should be a specific focus of how national DFIs in the region can systematically build absorptive capacity across the region's economy. He underscored the focus on education (at all levels), training and planning capacity as a starting point towards achieving that goal.

Finally, he called for the strengthening of strategic dialogue between **Asia-Pacific and Africa** with regards to financing development. He noted that Asia-Pacific's long and rich history in this sector can be of great help to African institutions that are looking to significantly expand their operations. He noted that Africa must double their Investment/GDP ratio if it is to achieve the SDGs.

In conclusions, Mr Shah introduced the Sustainable Development Solutions Network (SDSN), which was launched in 2012 by the UN Secretary-General Ban Ki-moon to support the development and implementation of the SDGs. The SDSN operates under the auspices of the UN Secretary General (UN SG) and is directed by Professor Jeffrey Sachs, Special Advisor to UN SG. The SDSN is intended to promote integrated approaches to solving interconnected economic, social and environmental challenges, at local, national and global levels and to help overcome problems of compartmentalization in technical and policy work. It has a network of over 400 Research Centers and Universities around the world. The SDG Center for Africa was launched in 2016 in Kigali, Rwanda. It is Chaired by President Kagame and co-chaired by Mr. Aliko Dangote. The SDG Centre for Africa provides training, research and policy advice to governments in the region on SDG implementation and is directed by Dr Belay Begashaw.

Key Message in Summary:

1) The SDGs are a useful framework to guide development finance
2) The SDGs will be implemented in an era of profound transitions
3) Each region and each country will take own path on SDGs
4) Africa is central to the SDG challenge and opportunity
5) Africa's financial institutions must play the right role in SDG implementation
6) New policy and research institutions can help

2.1.10 Discussions

The delegates thanked Mr Shah for an insightful presentation. They noted that form the presentation, Africa still has a lot to work towards in the area of climate change. One delegate sought clarification on whether climate vulnerability was not related to geographic location as shown by Figure 6 where the Democratic Republic of Congo and Brazil are both astride the equator and host to major tropical rainforests and river basins (Congo and Amazon) but seem not to have equal vulnerability levels. The delegate noted that looking at the figure, one could conclude that Africa is headed for catastrophe with regards to climate change. Another delegate wondered if Africa was capable of adapting as far as climate change is concerned and if it was

[12] Heller and Gupta 2002, Clemens and Radelet 2003, World Bank 2004

possible for the UN to advocate for awareness of these issues. He wondered how Africa's lack of contribution to the Paris goal on climate change can be reconciled with the USA's withdrawal to the Paris group. He posed the question that if the USA is out, why should African countries stay? Another delegate noted that the SDGs enthusiasm currently seems to be rhetoric as nothing is happening on the ground. The delegate noted that banks in the region raise short term finance and that generally, DFIs are not helpful to African economies. The delegate further noted that institutional arrangements for DFIs do not seem to work well for African countries. Citing the example of Moçambique, he noted that DFIs have not been successful because of political patronage and bureaucracy. He noted that in the end DFIs contribute to vulnerability and complications after they pull out usually in protest of political issues leading to governments being left to finalise the projects. He noted that in the end, it becomes too costly to public funds as the gap created after DFIs pull out has to be filled.

The Governor of Mauritius shared the experience of Mauritius where in the 1980s banks were refusing to lend to the new Export Processing Zones (EPZ). He noted that DFIs intervened and medium to long term financing became available to start-up businesses.

Regarding automation and technology development, delegates wondered how the equation could be balanced in the long term considering that population in Africa is growing at a very fast rate and jobs would have to be created for the growing population. In response to that, Mr Shah noted that in the USA a number of people employed has remained static in the last 17 years but the country has progressed in terms of technology and economic growth. He noted that the concern in the USA is job satisfaction. To address the question, he advised that there is no way of looking at things collectively in terms of return on labour in relation to return on capital. He advised that Europe is best at providing social equity with a 45 – 46 percentage of GDP distributed through social benefits such as health. He argued that as far as social safety nets are concerned, no one has figured it out as yet.

On development banks, Mr Shah agreed with the sentiments raised by delegates and advocated for specific designs e.g. governance, risk management and for lessons to be learnt from past mistakes to improve the performance of DFIs. He added that examples could be learnt from China's banks that took on the role of DFIs in the 1991 and have become a global success story. He noted that in Africa, there is little clarity about the sectors the development banks can finance and what products; in fact, they tend to be influenced by the Ministers of Finance or Presidents. He added that it is important for development banks to proactively shape domestic developments and ignore the political machinations. He noted that in fact, both development banks and commercial banks are both influenced by politics, the level of influence is what is different.

On climate change, his response to the questions raised by delegates was that the world economy continues to grow at 3% per year. He noted that even if intensity of that growth goes, it gets hard to decrease emissions. He added that there is no rapid decarbonisation in the world.

The delegates commented on the absorption capacity and noted that it seems to be an unsolvable problem. They wondered if hiring more people could solve it. They also wondered if Africa could leverage on China's change of strategy of moving away from manufacturing. In in the discussion, it was noted that Africa will not be a natural beneficiary to China's change of strategy to move away from manufacturing but residual. They noted that other Asian countries such as Vietnam and Indonesia would be the natural beneficiaries. The delegates noted that China is highly automated. They noted that it will be immature for Africa to think that manufacturing jobs will move to Africa. In closing, the Chair noted the majority of population in Africa are excluded in terms of employment and development. He added that the takeaway from the discussion should be to improve governance and technology as well as address fiscal issues.

2.2 SESSION 2:

EMERGING AFRICA INFRASTRUCTURE FUND: DEVELOPMENTAL IMPACT

Presenter: **Mr Martijn Proos**, *Director, Emerging Market Fixed Income, Investec Asset Management*

Moderator: **Mr Rogerio Lucas Zandamela,** *Governor, Banco de Mocambique*

This session introduced delegates to the Emerging Africa Infrastructure Fund (EAIF), a dedicated debt fund for sub-Saharan Africa offering long term lending on commercial terms to support privately owned infrastructure. The fund is managed by Investec Asset Management. Investec Asset Management is responsible for deal origination, deal execution, portfolio management and the day to day operations of the Fund. Investec Asset Management has offices in Cape Town and London. The session explained how similar funds while not the answer, could still be useful to Africa's infrastructure funding needs.

2.2.1 EAIF Overview

EAIF is a Public Private Partnership (PPP) which was established in 2001 by the Private Infrastructure Development Group (PIDG) – a donor-financed group set-up to help overcome obstacles to private sector involvement in infrastructure development in developing countries. PIDG founding members were DFID (UK), SECO (Switzerland), DGIS (Netherlands), Sida (Sweden), and the IFC/World Bank. Today, the membership also includes Australian Aid, KFW and FMO.

EAIF was established to conduct investment business for the purpose of improving the provision of infrastructure in Sub-Saharan Africa in order to assist in the elimination of poverty, in particular by underpinning economic growth. EAIF aims to address the lack of available long-term foreign currency debt finance and to supports projects that promote economic growth, reduce poverty and benefit broad-based population groups.

EAIF leverages public funds with medium-term loans from DFI's and commercial banks to facilitate long-term financing of infrastructure in Africa. Through the life of the Fund, the equity has been levered through excess of US$825m of debt provided by nine (9) private sector lenders, comprising a mixture of Development Finance Institutions and Commercial Banks.

PIDG operates through a Governing Council, a Central Management Office (CMO) and the PIDG Trust. The Governing Council, the key decision-making body, represents the PIDG Members who provide grant and loan funding to the PIDG Trust. The PIDG Trust invests in, owns and manages the PIDG subsidiary companies. It is a Mauritian Trust, currently administered by a UK-based Principal Trustee, SG Hambros Trust Company Ltd. EAIF is a Mauritian limited liability company.

2.2.2 EAIF Products

EAIF provides a range of debt financing products that include the ones below:

- **Senior Debt products:** structured and corporate finance loans and can lend as a single or co-lender.
- **Subordinated and mezzanine debt products:** subject to certain restrictions, EAIF can provide subordinated loans or mezzanine debt where such financing is required and deemed suitable
- **Local currency loans:** can be provided subject to the development of a suitable currency asset/liability management policy
- **Bridge finance:** can be granted on the basis that it is subsequently converted into a longer term loan consistent with EAIF's policies and objectives.
- **Bonds:** as an anchor or cornerstone investor for bond issues for companies and projects that meet EAIF's investment requirements.

2.2.3 Size, tenor and terms

The typical debt amount available from EAIF for any single transaction is US$10m–US$50m (or the EUR equivalent). Loans are offered up to 15 years and where required the tenor can be up to 20 years. Underwriting is up to a maximum of US$50m.

2.2.4 EAIF Sectors

Energy generation

Gas storage and supply

Transport

Infrastructure components

Telecommunications

Water and waste services

Agribusiness

Mining

2.2.5 Eligible Countries

African countries are eligible for application for financing as shown in the Figure 8 below.

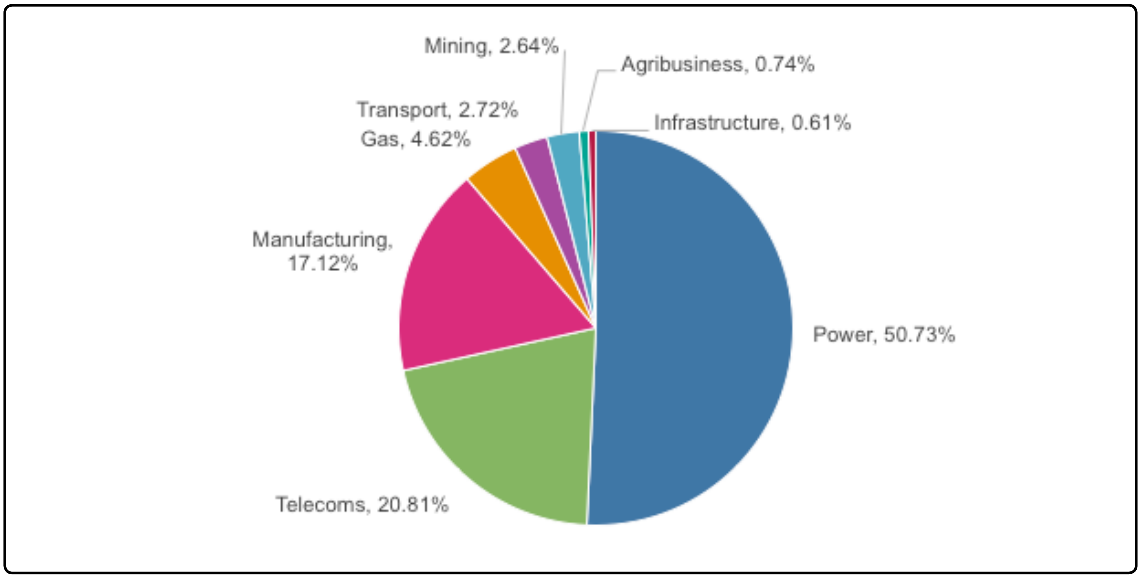
Figure 8: Countries Legible for EAIF Financing

Source: Investec Asset Management

2.2.6 EAIF Key Stats 2001 – 2016

Since the fund was established, 70 transactions have been signed to date, with a total commitment value of approx. USD1.3bn. End of year 2016 active loan portfolio stood at USD685m. Currently invested in 18 countries and 7 sectors as shown below:

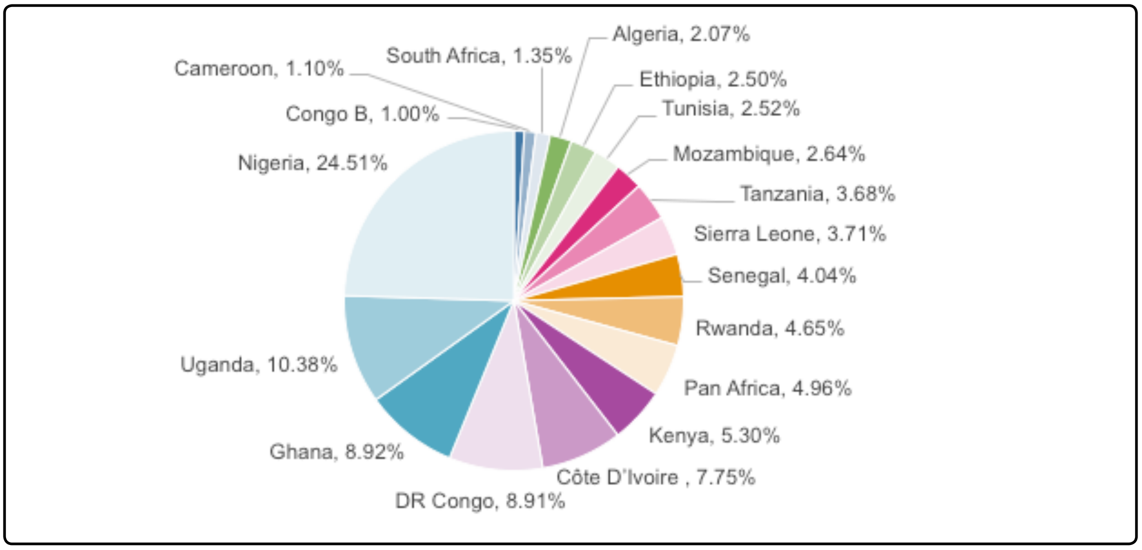
Figure 9: Project Portfolio by Sector



Source: Investec Asset Management

69.3% of capital mobilised with EAIF is in countries that are considered fragile and the same percentage of the portfolio is invested in DAC 1 & DAC 2 countries[13].

Figure 10: Project Portfolio by Country



Source: Investec Asset Management

According to EAIF, about 14,500 permanent jobs have been created since the fund was established. The report also noted that 180m people now have improved access to infrastructure services and this has led to USD1.5bn of fiscal benefits to host nations.

[13] Development Assistance Committee (DAC) is a forum to discuss issues surrounding aid, development and poverty reduction in developing countries

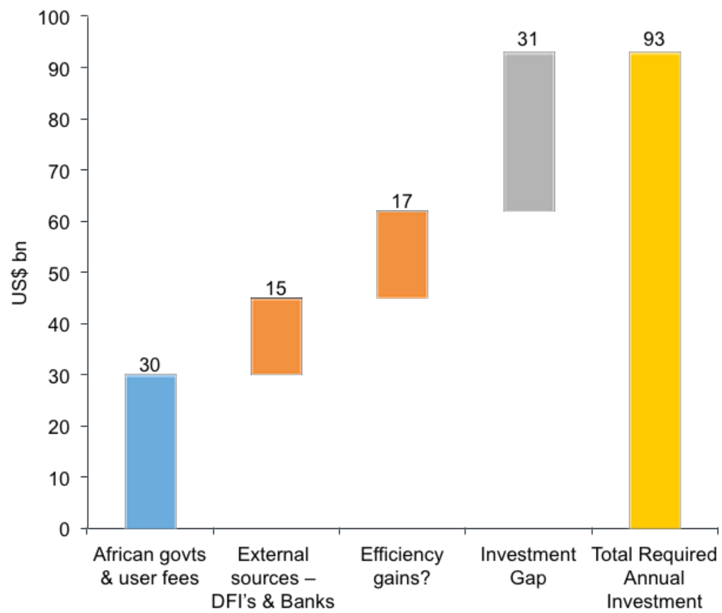
2.2.7 EAIF Market Opportunity and Strategy

Although the fund has been successful to some extent, Mr Proos noted that there is still a growing number of key infrastructure projects that are short of funding, due to:

- Collapsing African government revenue that leads to less capacity for capital expenditure (capex);
- Rising African government borrowing costs;
- Receding Chinese interest; and
- Basel III requirements which reduce commercial banks interest and ability to provide long term financing in SSA.

Mr Proos also indicated that more needs to be done for people to get the services they require. He noted that there is no such thing as "no bankable projects" as they are many. However, they need to be identified, documented and submitted to the right people. Figure 11 below shows the World Bank estimates of Africa's annual infrastructure financing gaps.

Figure 11: Africa's annual infrastructure financing requirements



Source: World Bank, Africa Infrastructure Country Diagnostics, 2011

The 2016 African Economic Outlook by the AfDB, the OECD and the UNDP noted that "urbanisation is a necessary but insufficient condition for structural transformation". For urbanisation to provide the growth benefits, a range of infrastructure provision is vital. This includes, electricity, water sanitation, sewage, road infrastructure (roads, bridges, tunnels, etc.), ICT broadband, mass transit systems, and education, health care and/or rregional freight corridors.

In conclusion, Mr Proos ran through the transactions that EAIF has co funded in the last 10 years that include:

Seacomm - the first undersea fibre optics cable along the east coast of Africa, connecting Eastern African countries to Marseille and Mumbai, co-built with India-Europe cable. EAIC provided 12-year debt financing at USD 36.5 million in 2007. Project sponsor is Industrial Promotion Services Kenya (Aga Khan Fund for Economic Development), Jubilee Holdings Ltd., Venfin, Heracles Telecoms, Convergence Partners and Shanduka Group. Co financiers are FMO, Nedbank Capital and Rand Merchant Bank. Apart from improving connections between countries within Eastern Africa, Seacom enables international access via connections to Marseille and Mumbai. Seacom made/makes a major contribution to telecommunications development in Eastern Africa.

Kivu Watt Limited - Integrated Methane Gas to Power Project utilizing Lake Kivu's unique methane gas resources. EAIC provided USD 25 million in 2011. Project is sponsored by Contour Global LP and co financiers are FMO, AfDB and BIO. When complete the project will consist of a Gas Extraction Facility plus a 25MW power plan. Once this project is completed, more gas to power projects on Lake Kivu are expected to come online. The project will reduce the risk of toxic release of lake gases through a controlled reduction of lake methane levels. The Project will also enhance lake stability, job creation (200 during construction, 60 during operations) and will be Rwanda's first independent power project, first project financing and largest single private investment.

Giga Watt Global Limited - Greenfield development, construction and operation of an 8.5 MW Solar PV power plant in the Agahozo-Shalom Youth Village ('ASYV') – a residential community in the rural Eastern Province of Rwanda. EAIF provided US$ 10.6mn senior debt. The sponsor is Gigawatt Global, Norfund, Scatec and the co financier is FMO. The project model is expected to be replicated across Africa, where a joint venture is created between a commercially viable power project (commercial enterprise) and the youth village/orphanage (social enterprise) allowing the orphanage to secure a source of long term income. Skills transfer, training and development of local employees will be undertaken during the operational phase of the project. The project will provide reliable and clean power to the national grid, sufficient to power approximately 15,000 additional households.

Nyumba Ya Akiba S.A.R.L - The Project consists of building and operating the first sizable and the first new cement plant for at least 40 years in the Democratic Republic of Congo. It is a 1.18Mtpa plant to be located 70km from Matadi port & 200km from Kinshasa. 11year senior debt financing including a 3 years grace period. EAIF provided US$ 30mn senior loan in a IFC B Loan structure, (2014). The sponsor is Lucky Cement (50%) and Rawji Group (50%). Co financiers are Habib Bank of Pakistan, IFC, AfDB and EKF. The project is meant to provide the country with a reliable and stable source of cement supply, which will address current cement shortage in the country and thereby support economic growth, infrastructure development, reduce implementation times for various other projects and help stabilize prices.

DI Frontier Management – Siti 1 -The project involves the development, construction and operation of a 6MW run of the river Hydro Power Plant ("HPP") in the village of Chesowari, in the Mount Elgon region of eastern Uganda. The project will add 6 MW of renewable power generation capacity to the national grid and 22.5GWh of clean energy annually. The sponsor is DI Frontier Market Energy & Carbon Fund (DI Frontier) and VS Hydro. Co financier is FMO. EAIF signed in 2015 for USD 5.5 million senior debt.

2.2.8 Discussions

The delegate thanked the presenter for a well thought out presentation. They noted that none of the Governors know about this fund and wondered what Investec was doing to promote the fund. They also sought clarification on the criteria used to choose the projects for funding as well as the interest rates, given that Nigeria seemed to be the biggest beneficiary while other countries have not received any form of debt from the Fund. In response, Mr Proos advised that there was no set criteria for choosing projects as different aspects were evaluated. He added that sometimes clients complain that Investec is expensive while commercial banks remark that it is too expensive at LIBOR plus 6%. Return on equity of 3-5% and average yield of 6-7%. He noted that clients are booked by private equity.

The delegates further noted that when relating to the first presentation that brought to the fore the vast needs for infrastructure development funding in SSA, the fund seems to be small. They wondered why the African governments were not participating in these funds so that the fund could grow.

The delegates noted that the fund was targeting many sectors and wondered if that was going to be sustainable over a long period. As an example, if 5% of funds is allocated to infrastructure and infrastructure needs got bigger market share, would the allocation of the fund be considered successful? They urged Investec to broaden the base to make capital markets invest in the fund to get experience. Mr Proos advised that it is the plan in the long term.

The delegates noted that for the EAIF fund, equity is pursued by governments but governments are not allowed to borrow. They also noted that the misconception about weak governance and institutions, the fund would not have been successful if there was that kind of problem. Related to that, they noted that the fund is successful because investors are governments and not private sector corporates.

In conclusion, delegates noted that getting key players to agree on a template which can be signed off is usually a major challenge as most governments agree to PPP but do not commit to implementation. They noted that this project is a start in the right direction. They wondered how this can be scaled up so as to make impact given that problems in infrastructure are large and many. They also noted that it seems that there is too many funds targeting the same market and they are all small. They wondered if there is scope to rationalise the funds and make the funding pool bigger and resources invested more effective towards the grown of the continent.

3. FORUM PROGRAMME

DRAFT AGENDA

MEFMI REGION GOVERNOR'S FORUM: RESPONSIBLE DEVELOPMENT FINANCING

Basel, 23 June 2017

Programme		Presenter	Moderator
08:30-09:00	**Registration at BIS**	**All**	
09:00-09:30	**Welcome Remarks**	**Dr Caleb Fundanga** Executive Director, MEFMI	**Mrs Gladys Siwela Jadagu** Public Relations Manager, MEFMI
	Remarks by Asset Management	**Mr James Hatuikulipi Investec Managing Director** Africa ex-SA Investec Asset Management	
09:30-10:00	**Presentation**	**Long-term Finance for a Sustainable Future** **Mr Aniket Shah** Programme Leader Financing for Sustainable Development Initiative, UN	**Mr Moses Dinekere Pelaelo** Governor, Bank of Botswana
10:00-11:00	**Discussion**	**ALL**	
11:00-11:30	**Break/Group Photo**		
11:30-12:00	**Presentation**	**Emerging Africa Infrastructure Fund: Developmental Impact** **Mr Rogerio Lucas Zandamela** Director Emerging Market Fixed Income, Investec Asset Management	**Martijn Proos** Governor, Banco de Moçambique

Programme		Presenter	Moderator
12:00-13:00	**Discussion**	**ALL**	
13:00-13:15	**Shuttle BIS and Les Trois Rois**	**ALL**	
13:15-14:45	**Lunch at Les Trois Rois**	**ALL**	
	Welcome Remarks	**Dr Desné Masie** Director, Investec Investment Institute	
	Vote of Thanks	**Mr Patrick Mutimba** Director, Financial Sector Development Programme, MEFMI	

Director of Ceremonies   Dr Caleb Fundanga

4. LIST OF FORUM DELEGATES

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RESOURCE PERSONS:

1. **Mr. Aniket Shah –** Programme Leader finance for sustainable Development Initiative, UN
2. **Mr. Martijn Proos** – Director, emerging Market Fixed Income, Investec Asset Management.

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