Session 3: Financing PPPs

Designing the AFDB PPP Framework
CONTEXT – FINANCING PPPs
DFIs play an important role in private investments in infrastructure

- Ensuring projects are well structured
- Providing long-tenure, reasonably priced debt
- Making strategic equity investments
- Mitigating risks for investors and other lenders
- Using their relationship with governments to reduce political risk
- Leveraging private finance

Out of 269 infrastructure projects with private participation in Africa (2009-2019)...  
...173 (64%) had support from a multilateral / bilateral DFI

Source: PPI Database, World Bank Group
Long-term debt is expensive and inaccessible... making DFI support critical

Most PPPs involve financing of infrastructure facilities requiring long-term financing.

Debt accounts for 66% of the private investment in infrastructure in Africa, rest is equity 32% and subsidy 2%.

Source: PPI Report 2019, PPIAF (World Bank Group)

But...

While in some countries long-term, reasonably priced debt can be accessed... in other countries not

Which means...

Many PPPs get stuck at financial closure stage

Long-tenure debt is more accessible in some countries than others...

% share of loans with tenure of 5+ years (2018)

- Algeria 53
- Namibia 52
- Zambia 12
- Zimbabwe 7
- Chad 3

...and domestic interest rates vary widely between countries

Average interest rates in % (2018)

- Malawi 32.3
- Namibia 10.1
- Cabo Verde 9.0
- Sierra Leone 17.9
- Kenya 13.1

Source: World Bank Data and IMF
Benchmarking with peers

What is similar?

Financing instruments
- Most peers have same / similar set of financing instruments
- Most peers do not have PPP-specific instruments

What is different?

Approach to promote PPPs
- Maximizing Finance for Development (WBG)
  - considering private-finance options before selecting public-financed implementation
- Use of financing for systemic impact (ADB)
  - use of sovereign loans to establish VGF and PDF facilities

Institutional focus on PPPs
- PPP-specific units, processes and systems

PPP-specific packaging
- Instruments that meet specific requirements of PPPs

Innovations by peers
- Multi-project financing platforms via country-level entities
- Blended instruments combining concessional and commercially priced finance
- Sub-sovereign finance
- Regional revolving funds
Innovations for financing PPPs

ADB
- Multi-project financing platforms for PPPs (e.g. India Infrastructure Finance Company Limited)
- Support for establishment of VGF facilities

World Bank
- Maximizing Finance for Development approach
- Blended-Finance Facility (part of IDA Private Sector Window)
- Multi-project financing through financial intermediaries
- Sub-sovereign finance program

EBRD
- Project-specific bonds, in combination with subordinate instruments and risk guarantees

EIB
- Blending of European structural and investment funds and private financing
- ACP Investment Facility II (financially sustainable revolving fund)

ADB = Asian Development Bank, EBRD = European Bank for Reconstruction and Development, EIB = European Investment Bank, IADB = Inter-American Development Bank, and WBG = World Bank Group
AfDB’s strong record in financing infrastructure PPPs

- 41 lending and guarantee operations for PPP projects (2006-2017), identified as part of IDEV evaluation

- 41 financing operations (debt) for projects identified as PPP
- Bank provided guarantees in 13 of these operations as well
- Financing of PPPs in 55% of countries in Africa
- Focused on transport and energy sectors, 94% by loan value
- Experience of financing both sides of PPP transactions
  - Government contribution
  - Private investment
- Experience of integrated financing packages
  - Commercial + concessional loan
  - Project finance + partial risk guarantee
- Operations directed towards PPPs are not separately identified

Increasingly, the Bank takes the lead lender role, helping structure financing packages, leading due diligence and mitigating risks for co-lenders
What does the Bank need to improve... according to key stakeholders

- Findings from the Bank’s PPP evaluation*
- Suggestions from internal stakeholders

- PPP-focused financing facilities / packages
- Institutionalization of innovations
- Classification of PPP operations
- Diversifying sectoral portfolio, leveraging strength areas
- Integration with upstream support
- Realigning incentive structure and results framework to incentivize PPP efforts of Bank staff
- Strengthening early-stage involvement in financing transactions
- Wider and stronger dissemination of offerings and experience

* IDEV Evaluation of Bank’s Use of PPP Mechanism 2006-2017, published in 2019
DESIGN APPROACH AND OPTIONS FOR BANK SUPPORT IN PILLAR 3
Transitioning from a purely demand-responsive role to a strategic role

**Always consider PPP alternatives**
- For indicative projects identified in the country strategy paper
- For projects for which Bank has received a financing request
- For projects in a Bank-supported sector program

**Leverage strengths to structure optimum financing package**
- Help draw in co-financiers leveraging Bank’s strong quality at entry, ability to manage political risks, risk mitigation solutions
- Use PPP expertise and experience to structure optimum financing package
- Leverage robust processes for mitigating risks

**Replicate and disseminate**
- Formalise innovation
- Disseminate widely
- Replicate experience in future projects

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**Bank catalysing deal flow**
- Integration with Country Strategy Paper
- Integration with upstream and midstream support
- Encourage consideration of PPPs

**Private-sponsor request**
- RMC Request

**Co-financier Request**
- Bank responding to opportunities
Wider, and more systemic impact on the African PPP market

**Reinforce position** in energy and transport PPPs

and

**Leverage experience** in other sectors to expand the PPP portfolio, e.g. water, wastewater, urban development, mobility, irrigation, health, education, ICT

- Gradually evolve support for sub-sovereign PPPs (extend SME intermediary approach to sub-sovereigns)
- Use of sovereign facilities to support PPPs (e.g. VGF)
- Use of multi-project platforms to enhance Bank’s impact and catalyse development of domestic financing of PPPs (e.g. IIFCL in India, BIFFL in Bangladesh, PT SMI in Indonesia)
- Mix of concessional and non-concessional finance, especially in PPPs in urban infrastructure and social sectors
Integrating with Pillar 1 and 2 to deliver tangible outcomes...

Upstream
- Country PPP Diagnosis
- Gaps in the RMC PPP Framework
- Identification of indicative Pillar 1 operations
- Sector review and strategy

Midstream
- RMC Requests for support
- Indicative lending opportunities
- Potential PPPs
- Pilot PPPs

Downstream
- RMC Requests for support
- Bankable PPPs to be financed
- Sector Complexes

Pillar 1 operations
- ECVP
- Identification of indicative project lending operations
- Sector complexes

Pillar 2 operations
- PPP Advisory
- Sector complexes/Country & Regional Offices
- Opportunities Identified by the Country/ Region/ Sectors

Pillar 3 operations
- Sector complexes/Country & Regional Offices
- Opportunities Identified by the Country/ Region/ Sectors
- Bankable PPPs to be financed

Sector Reform Programs by Respective Sector Complexes, facilitating long-term investments
Questions for panellists and participants

✅ What are key lessons / experiences of peers that the Bank should consider?

✅ Is there a need for PPP-specific financing instruments? What kind of financing instruments does the Bank need to develop (if any)?

✅ What should be the role and positioning of the Bank as a financial institution?

✅ How can the Bank increase the systemic impact of its financing operations?