



Financing of Major Continental, Regional and National Infrastructure: Opportunities and Challenges

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Outline



**Continental,
Regional
versus
National
Infrastructure**



**Challenges
related to
Regional -
continental
Infrastructure**



**Preparation,
Structuring
and Financing
Projects**

**Conclusions
and
Recommendations**

Continental, Regional versus National Infrastructure

Regional project; Regional operation; Regional Integration project;
Multinational project? No clear inter-institutional definition

- **Regional Project:** A project taking place in two countries or more with benefits superior to individual projects realized separately.
- **Regional Project:** In Single Country (but involving two countries) with regional impact by which the benefits would be shared by the neighboring countries through positive cross border effects.
- **National Project:** In a single country, with limited regional impact and single country involvement
- **Continental Project:** Cross-regional project



Characteristics of Regional Projects

- Enhanced complexity
- Jointly planned and implemented
- Included in Master Plans or Action Plans of REC, or Specialized Regional Bodies (example PIDA)
- Includes a policy or regulatory dimension that favors regional trade
- All Multinational projects are not regional projects...
- World Bank :
 - Involve at least three countries
- For EU
 - Cross regional dimension (transport)

Challenges for large Regional Projects

- Longer planning process
- Preparation cost: 70% higher than national, weaker capacity of regional bodies
- Project institutional Arrangements: multicountry/utilities agreements
- Project environmental agreements and permitting:
- Project Financial Structuring:
- Project implementation timeline:
- Financial close: nbre of donors and investors

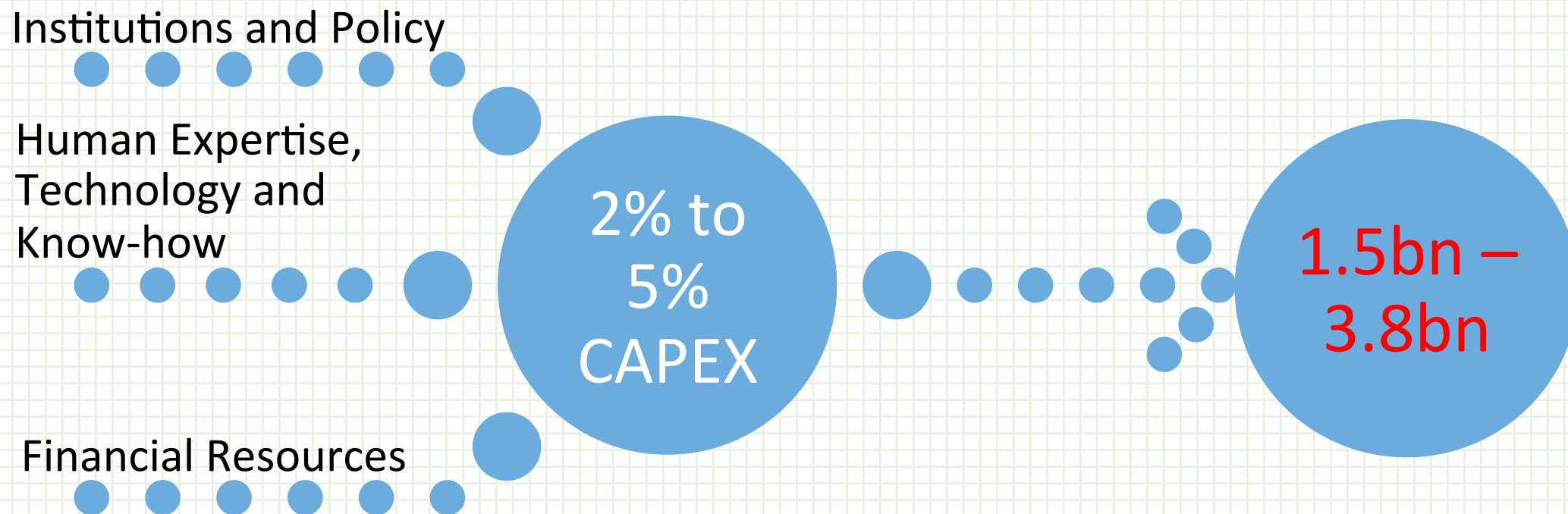
Operational Indicators of complexity:

- ✓ Longer time for signature loan/grant agreement
- ✓ Longer time from approval to delivery of infrastructure
- ✓ Low disbursement rate
- ✓ High risk portfolio projects
- ✓ Aging projects (5 to 8 years)
- ✓ Require large size and wider skills mix in the project Implementation teams



Preparation, Structuring and Financing Projects

First Step: Project Preparation and structuring



The NEPAD Project Preparation Facility (IPPF) – A natural Partner for Project Preparation – Need USDm 200/year ; Trust Funds; Africa 50; SEFA; Climate Funds

Project Development Considerations (1)

Early Decision on Innovative project Structure

- Reduce reliance in public, traditional donor-based financing structure
- Pro-investment procurement framework (less public controlled)
- Independence in Development and Operation Entity for projects
- Limited political and nationalistic centered interest

Bankability of Off-taker

- Reliable risk mitigated project agreements
- Early Negotiation of Commercial Terms
- Plans to achieve creditworthiness of weaker utilities
- Design sector reforms and pricing to achieve creditworthiness

Cost reflective Pricing of regional transmission services

- Harmonized Transmission Wheeling tariff at Pool level
- Predictable pricing for ancillary services supplied by interconnection

Project Development Considerations (2)

Prioritizing overall financial sustainability

- Credible off-taker payment guarantee mechanism
- Reduce VETO right of each participating entity in project governance
- Adopt transparent tariff structure and pricing
- Match long term financing with long term contracts (off-take, concession...)
- Focus on financial risk management from pre-feasibility stage
- To establish a Guarantee Fund for regional projects

Institutional

- Early creation of ad hoc project development institution
 - Institution to be mandated only by countries with a stake in the project
 - One project, one development institution
- Project development institution granted adequate independence
 - Own governance rule
 - Effective delegation of authority with reasonable supervision
- Off-taker involvement in governance to be avoided

Project Development Considerations (3)

Contracting

- Seek Long term contracts to manage commercial risk
- Structured as commercial contracts (even for public sector projects)
- Early negotiation of commercial contracts
- Conditional contracts to be negotiated after pre-feasibility
- Negotiations to be driven at arms length by Project Entity

PIDA Energy: Accelerating Generation and Interconnections



ENERGY PAP

PAP 2020:

- Minimum 60% Electricity Access

2010 Investment estimates Costs

- \$40.3 billion (not including Cost of Gas pipe)

- 9 hydropower Plants (13.74 GW)
- 4 Interconnection corridors
- 2 pipelines (Oil and Gas)
- Breakdown for implementation in 66 sub-projects



PIDA Transport: Accelerating Movements and Trade



TRANSPORT PAP

PAP 2020:

- Linking major production centers
- Port, railways, roads

Investment estimated Cost

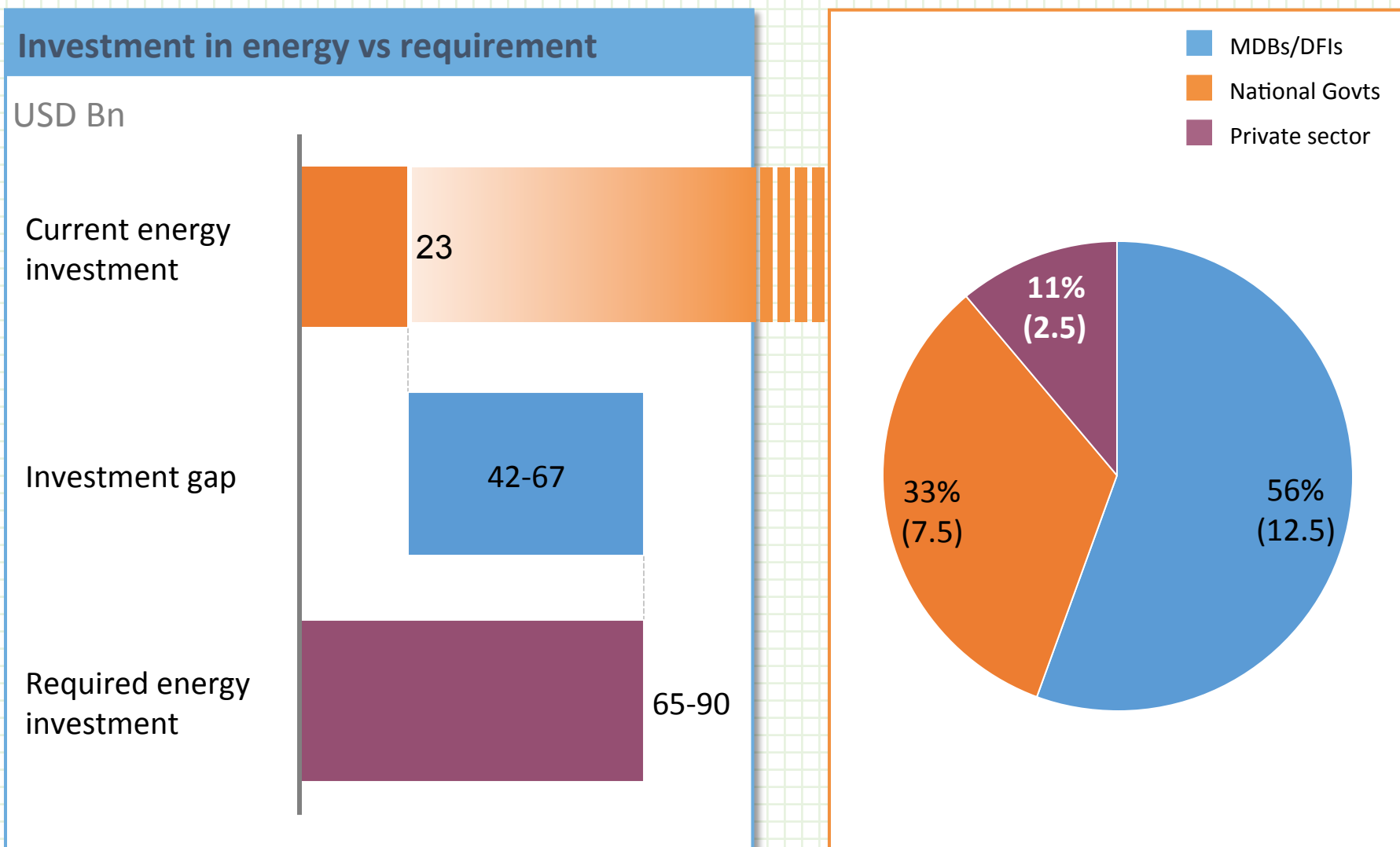
- \$ 25 bn

24 CORRIDORS, PORTS, BRIDGES, AIR PROGRAMMES

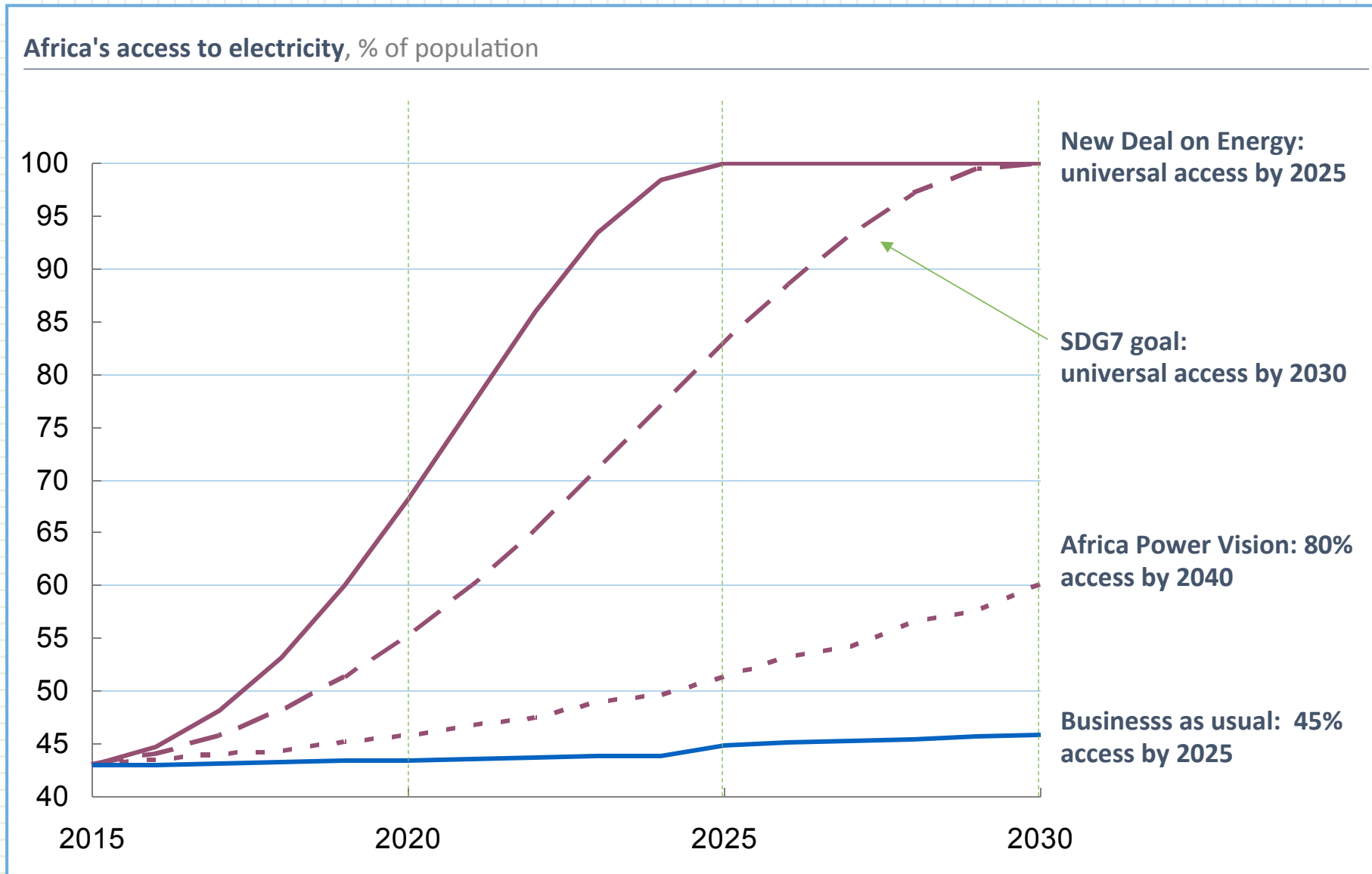
- TAH, Kinshasa-Brazzaville Bridge road and Rail
- Douala-Bangui Douala-Ndjamena Corridor
- Trans-Maghreb Highway
- Central Africa Hub Port and Rail Programme
- Dakar-Niamey multimodal Corridor
- Dakar-Abidjan-Lagos
- Djibouti-Addis Corridor
- Central Corridor
- Yamoussoukro Decision



New Deal for Energy for Universal Energy Access by 2025 - investment gap of 42 - 67 billion/year



The business as usual scenario is untenable and the New Deal on Energy aspires to achieve universal access by 2025





An African Priority... An AfDB Commitment

AfDB



Fund mobilization, and Investments: ADF, ADB, Trust Funds, Africa50, China Growing Together Fund, Climate Funds, Domestic, etc.



Partnerships : DFI, MDB, World Bank, Bi-Multilateral Co, WEF, GEF, African Regional Banks, non-sovereign Funding, etc.



Facilitate Dialogue: Convening Power, Advocacy and Business case for Reforms and Country Transformation and Markets



Technical Assistance and Capacity Building: AUC/NPCA/REC Capacity-building, Inga-3; Power sector Transformation

Project Development and Financing: Energy, transport, ICT, TB-Water



Bank Funding Windows and Bank's Instruments

- **ADB (Private sector finance):** Loans, subordinated debt; Equity; Guarantees for obligations of either the public or private sector entities
- **ADB:** Grants, concessionary loans
- **Nigeria Trust Fund:** for weaker economies
- **Trust Funds,** Africa50, China GTF, Climate Funds, SEFA, etc.
- **Instruments include:**
 - ✓ Regional Operation Special Envelop (around USD1.6 bn/3 years)
 - ✓ Grants/loans for project preparation and capacity building
 - ✓ TA and budgetary support for energy sector reform and institutional changes
 - ✓ Early Stage project preparation financing through multidonor trust funds
 - ✓ Equity investment in IPPs, project development companies or equity funds

- ✓ 2016 approved USD1.7 billion in energy for public and private sectors operations
- ✓ Expect 2017 about \$2 billion for power and leverage \$5-7 billion.

Selected AfDB Financing - Energy

Projects	Countries	Investments (million)	TA – Preparation (million)
OMVG Project (Sambangalou, Kaleta, and Interconnection)	GIN, SEN, GAM, SL	95 UA	3.5
Inga III LH	DRC	0	74
Batoka hydro	ZMB, ZAM	0	1.5 requested
Ruzizi III hydro	RWA, DRC, BUR	133 UA	1.42
Rusumo Falls hydro	RWA, BUR, TANZ	80.0	IPPF support



Selected AfDB Financing – Energy (2)

Projects	Countries	Investments (million)	TA – Preparation (million)
North-South Interconnector Corridor	EGY, SUD, ETH, TAN, KEN, ZAM, ZIM, MOZ, SA	212 (Kenya-Tanzania)	2.0 (ZIZABONA) 1.0 (Kenya Tanzania)
WA Corridor (NGR-SEN)	NGR, BEN, TGO, GHA, CI, LIB, SIL, GUI, B-GUI, GAM, SEN	126 UA (CSLG)	0.5 (GH-TOG)
Kenya (Eldoret)-Uganda (Kampala): Oil pipeline	KEN, UGA		? IPPF



Selected AfDB Financing - Transport

Projects	Countries	Investments (million)	TA – Preparation (million)
Project to rehabilitate the Lome-Cotonou road and facilitate transport on the Abidjan-Lagos corridor Phase I	BEN, TGO	77,95	
Project for rehabilitation and transport facilitation on the Lome-Cinkanse-Ouagadougou cu9 corridor	BUR, TGO	175,66	
Trans-Sahara Highway	ALG, NIG, CHA	120,37	
Douala-Bangui and Douala -Ndjamena Corridor	CAM, CEN, CHA	108,8	

Selected AfDB Financing – Transport (2)

Projects	Countries	Investments (million)	TA – Preparation (million)
Project for support to the air Transport sector for west and central Africa	Countries of central & west Africa	8	
Programme for road improvement and transport facilitation on the southbound Bamako-Dakar corridor	MAL, SEN	66,06	

Conclusions

- **Key Accelerating project development and Financing requires:**
 - Financing large regional infrastructure is complex but with potential cost saving benefits (5 to 15%), and transformative development impact
 - Projects require careful preparation and development: Strengthen Project Preparation Capacities
 - For energy universal access, financing gap is important: USD42-67 bn/year by 2015
 - Prioritizing overall Financial sustainability of projet is key
 - Strengthening regional markets (Power Pooling)
 - Early decision on project structure public or private
 - Set up (early) of dedicated Independent Project Development Entity
 - Structuring based on long term commercial-type contracts
 - Develop financial risk management package and de-risking projects: Guarantee Fund
 - Develop Regional PPA standards
 - Seize opportunities for Partnership