InfrastructureAfrica

2014

CONFERENCE PROCEEDINGS

21–22 JULY 2014

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ACRONYMS AND ABBREVIATIONS USED THROUGHOUT THE CONFERENCE

ANC	African National Congress
ASISA	Association for Savings and Investments South Africa
AU	African Union
BRICS	Brazil, Russia, India, China, and South Africa
DBSA	Development Bank of South Africa
ECIC	Export Credit Insurance Corporation
EU	European Union
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft fur Internationale Zusammenarbeit GmbH – German Development Agency
ICT	Information and Communication Technology
IPP	Independent Power Producers
ITU	International Telecommunication Union
MDGs	Millennium Development Goals
NEPAD	New Partnership for Africa's Development
OECD	Organization for Economic Co-operation and Development
PICC	Presidential Infrastructure Coordinating Commission
PIDA	Programme for Infrastructure Development in Africa
PPPs	Public Private Partnerships
RE	Renewable Energy
REC	Regional Economic Commissions
REIPPP	Renewable Energy Independent Power Producer Procurement Programme
SADC	Southern African Development Community
SANRAL	South African National Roads Limited
SMME	Small, medium and micro enterprise
SOE	State-owned enterprises

DAY 1: 21 JULY 2014

PLENARY 1 MEMBER OF EXECUTIVE COUNCIL'S ADDRESS

Speaker: Honourable MEC Ms Nandi Mayathula-Khoza
Gauteng Department of Infrastructure Development

South Africa has a unique approach to the Millennium Development Goals (MDGs) with respect to infrastructure planning. Infrastructure planning is coordinated from the Presidency in the form of the Presidential Infrastructure Coordinating Commission (PICC) that regards infrastructure projects as key catalysts of economic development. Examples of such catalytic infrastructure projects are the 2010 stadia, the King Shaka International Airport, the Gautrain Rapid Rail project as well as the Medupi Power Station project.

From a continental point of view, African nations have adopted a multi-national and a multi-lateral approach to development, and have articulated this approach into their national development goals in terms of Agenda 2063. According to the African Union (AU), Agenda 2063 is an approach as to how Africa must learn from its past, build on the progress currently underway and strategically exploit all possible opportunities available in the short-, medium- and long-term periods in order to ensure positive socio-economic transformation within the next 50 years.

Whilst deficiencies in infrastructure, such as roads, rails and ports constrain Africa's economic development, other pressing challenges include issues such as energy needs for economies with burgeoning urban populations. In this respect, Gauteng is rolling out the Gauteng Green Agenda as a climate change mitigation and adaptation initiative, as well as the Green and Smart Economy Programme. These programmes consist of the roll out of roof top solar projects that reduce power supply and energy efficiency retrofit projects. Other programmes are about affordable, clean energy projects where coal driven boilers are replaced with natural gas. Gauteng has also introduced the Smart Schools Programme with all new schools having IT front-end and back-end infrastructure.

The African continent stands to gain from key deliberations from this conference and in particular, the conference hopes to increase the number of investment players who can engage in infrastructure projects such as commercial banks, investment banks, as well as alternative funding sources such as pension and sovereign wealth funds. This conference will encourage key project developers throughout Africa to showcase their bankable projects and is an opportunity for matchmaking between banks with infrastructure development companies, among the other business opportunities that it offers.

PLENARY 2 CRITICAL CHALLENGES TO ADDRESSING INFRASTRUCTURE REQUIREMENTS FOR AFRICA

Speaker: Mr Jayendra Naidoo
Co-Founder and Executive Chairman
J & J Group

The ANC Government's aim since 1994 has primarily been the delivery of infrastructure, goods and services to the people of South Africa. From a continental point of view, where Africa is a natural market for South African exports, South Africa has an opportunity to deliver infrastructure, goods and services to Africa. It is from this context that those in power must focus on developing infrastructure for the Southern Africa region that will enable SADC countries to compete globally. Infrastructure development is key to initiatives aimed at making the SADC region more competitive in this respect.

External factors are key to stimulating infrastructure development, such as the 2010 FIFA World Cup that led to the building of stadiums and the Gautrain Rapid Rail system. Another external factor is South Africa's compliance with the International Telecommunication Union (ITU)'s digital migration standards, which has modernised South Africa's digital networks. Such external push factors (among others) have presented a wide range of both opportunities and challenges to re-develop sectors including power, water, sanitation and telecoms.

Consequently, there are even greater opportunities for businesses to get involved in infrastructure development, such as the exploitation of natural gas in Mozambique and Namibia, the enormous hydro-electric power potential in the DRC, as well as prospects for mining coal in Botswana that, all told, can deliver industrial development on a vast scale. In this respect, finance is a secondary thing of importance. There is a lot of finance of various kinds available for funding infrastructure projects in Africa. The determining factor that unlocks finance for infrastructure investment is whether the project is worth investing in, or is bankable.

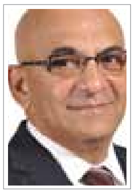
The primary challenge to get finance flowing into infrastructure projects is to make them bankable. This involves processes of engaging local and international interests such as differing land acquisition systems in countries, as well as policy and regulatory processes, such as obtaining licenses. Another crucial issue in bankability processes is the quality of the off-take partner and their creditworthiness, and the terms under which they are required to do the off-take in the infrastructure project.

In energy projects, Eskom has the ability to do the off-take as an off-take partner, as witnessed by the successful Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) where Eskom shouldered energy project off-take responsibilities. Given the experiments in South Africa of infrastructure projects, such as REIPPPP and the Gautrain Rapid Rail system (among others), two issues are needed to achieve even greater success. These issues reside in business and in government.

Business needs the personality of an 'infrastructure activist', a radical problem solver who is a developer and a political manager of sorts who clearly understands the risks involved in infrastructure projects. An 'infrastructure activist' must be a good communicator who is adept at managing relationships with important players such as local communities, local political leaders, government stakeholders, different suppliers in the construction industry and financiers. An 'infrastructure activist' is also somebody who can manage diverse and competing interests on the business side and deliver the stable management side of the project after the commission stage. Businesses that succeed in infrastructure projects are those that have such 'infrastructure activists'.

On the government side, there is a need for a different kind of planning approach that moves from the announcement of a plan to the management of a value chain; an approach that is mindful of the timeframe and the linkages between the developer, the investors, the companies involved in construction, the manufacturing inputs, the operators and the regulators. Such an approach is mindful where the key people are in the various stages of the project and how they relate to the politicians.

PLENARY 3 IDENTIFYING, PREPARING AND FINANCING CRITICAL AND BANKABLE POWER, TRANSPORT AND WATER INFRASTRUCTURE PROJECTS INTENDED TO CREATE ONE AFRICA



Speaker: Mr Rieaz 'Moe' Shaik
Group Executive: International Finance
Development Bank of South Africa (DBSA)

Inequality issues still plague contemporary Africa, as is the case with the ratio of voluntary aid given compared to the transfer of wealth to developed countries. The ratio is quite disproportionate with $US500–$US550 for every $US5 received in aid. Our current systems seem to entrench inequality. However, the new BRICS (Brazil, Russia, India, China and South Africa) Development Bank in China, and with South Africa hosting the regional BRICS Bank, will hopefully release capital needed for infrastructure development in Africa.

Hard infrastructure is a catalyst for socio-economic development at all levels in the economy, such as industrial development, among others. Any deficiency in infrastructure supply is bound to have serious local economic repercussions that even affect how economies relate to each other in global international trade processes. Africa is caught up in a globalising world that is characterised by competition and cooperation. It is imperative that African countries find a way of cooperating with each other while competing with each other for scarce resources such as finance and markets.

Africa is the second fastest growing region in the world, with significant amounts of foreign direct investment flowing into African countries. These significant flows of investment have not been translated into changes in the lives of African people. As a result, the continent is still grappling with issues such as poverty, high mortality rates, and poor health services, as well poor social and economic infrastructure. The major contributing factor to this paradox is the lack of integration in African regional economies. Africa suffers from exceptionally low rates of intra-African trade flows and regional integration that fall way below global averages. Regional integration plays a more important role in local economic progress and social development than in global integration.

While infrastructure development has been elevated by African leaders as a key development priority, much still remains to be done. Africa suffers from enormous infrastructure backlogs that require an estimated US$93 billion to finance annually. Infrastructure delivery stands at the confluence of the variables of supply, demand, inclusive processes, the people and the state. In this respect, the 'deliverology' of infrastructure is underpinned by supply side and demand side equations.

The supply side equation is: 'PI X PP X F X D X O&M', where: 'PI' is choice of the right project; 'PP' is right project preparation; 'F' the availability of finance; 'D' the delivery of project at the right time; O&M: operation and maintenance. Firstly, governments need to identify projects that matter and contribute to inclusive growth and job creation. Secondly, projects must be well prepared in order to attract adequate investment from willing investors. Thirdly, the ability to finance projects rests on strong macroeconomic fundamentals such as good growth rates, a viable economy and an investor-friendly climate, among other matters. In addition, the delivery of a project needs engineering and construction skills to ensure local content in projects as well as coordination and oversight skills. Lastly, operations and maintenance of developed projects require a skilled workforce and strong oversight institutions.

On the demand side, the equation is: 'GDP X J X U X A X WTP X US'. The demand side of the equation lies in the ability of the consumers/citizens to engage, consume, and pay for the infrastructure provided. With GDP – a strong economy is needed that can withstand external and domestic shocks. J – Jobs: creates sectors that must include those that can generate stable jobs, and that can move people out of poverty and develop skills required by the economy. U and A – the affordability and numbers of users service relies on the number of employed people in an economy and their proximity to services and infrastructure. WTP: willingness to pay refers to a culture of responsibility, and the recognition of the consumer's role. US: user satisfaction is reliant on the appropriateness and quality of the infrastructure.

Elements in both demand side and supply side equations, such as financial, technical, regulatory, political and economic and governance issues make up the 'political economy' of infrastructure delivery.

In matters of regional infrastructure delivery, the factors of project origination, project preparation and project implementation are important. Project origination relates to issues of integrated infrastructure planning based on regional cost benefit analysis as well as the appropriate choice of projects. Project preparation is about issues of bankability and the feasibility of trans-national projects that weigh costs and benefits and all other risks across the countries concerned. Project implementation deals with the availability of competitive, transparent and optimal financing structures as well as the alignment of construction processes and operation and maintenance requirements.

All of these issues revolve around an enabling environment conducive to regulatory frameworks, the available capacity to handle transnational infrastructure projects and 'trustful of transnational' relationships.

PLENARY PANEL 1 THE EVALUATION OF PIDA'S IMPLEMENTATION AND PROGRESS

Moderator:	Hayley Walters, *Managing Director, Accenture*
Panel Members:	Dr Maurice Niaty-Mouamba, *Transport Consultant, African Union (AU) Commission* Duncan Bonnet, *Partner and Director, Whitehouse & Associates* Professor Wiseman Nkuhlu, *Chancellor, University of Pretoria* Dr John Tambi, *Transport infrastructure Expert, NEPAD Agency* Mtchera Chirwa, *Chief Public-Private Partnership Infrastructure Specialist, AfDB*

Key Questions:

- What has been achieved so far in PIDA infrastructure development projects in Africa?
- How successful have Regional Economic Commissions (RECs) been in attempting to articulate PIDA projects at regional levels?
- What major obstacles hamper the implementation of PIDA projects?
- What is the role of the private sector in PIDA infrastructure projects?
- What key measures are needed to drive PIDA projects forward?

Key points:

- Implementation of key regional PIDA projects is underway following successful institutional project preparation processes.
- Robust institutional capacity is needed in articulating PIDA infrastructure projects at both regional and country levels.
- The lack of skills required to propel PIDA infrastructure projects towards bankability poses significant problems for regional infrastructure development.
- African national governments need to attract more private sector investment players in PIDA infrastructure projects.

Synopsis:

Since the adoption of the Programme for Infrastructure Development in Africa (PIDA) in 2012 by African heads of state, the programme has progressed to a stage where the 51 original infrastructure projects have been decomposed to 433 specific projects. These 433 specific projects have been prioritised into 83 specific regional projects.

The first measure of PIDA's progress is the Dakar Financing Conference in June 2014 that identified 16 bankable projects that are in a state of early implementation. The second measure of progress has been the apportioning of responsibilities for infrastructure projects. In this respect, the AU Commission is responsible for PIDA policy issues and the NEPAD Agency is responsible for the facilitation of the implementation of PIDA. The Regional Economic Commissions (RECs) are responsible for the ground level operations.

The third measure of progress is the commitment of resources by the African Development Bank and GIZ (Deutsche Gesellschaft fur Internationale Zusammenarbeit GmbH – German Development Agency) to capacitate RECs by deploying consultants to assist in implementing PIDA programmes. The fourth measure of progress is that given the fact that the RECs have been capacitated to implement PIDA programmes, PIDA is now at the stage of implementation with PIDA programmes being articulated into national development programmes, so that countries can take responsibility for their own PIDA programmes.

Countries need the requisite capacity to move PIDA's multi-billion dollar infrastructure projects ahead to full delivery. Project preparation is very important – in moving projects to full bankability that can attract private sector investment. It is also important to harmonise different legal and regulatory frameworks in implementing cross-national PIDA projects in order to attract substantial investment in projects.

The challenges facing PIDA are legion; firstly, there are the issues of ownership – with respect to cross-national projects that straddle several countries. Related to this issue is who is responsible for project finance – which has crippled many infrastructure projects. The lack of sufficient political will between countries to drive such projects has led to failure of some of these projects. In addition, PIDA projects are quite complex and have a tendency of discouraging private sector investment as well as not being connected to local development issues of countries.

Secondly, there is the problem of bankability of projects where some projects cannot attract private sector funding due to poor project preparation skills. Related to this is the lack of technical skills in operating special purpose vehicles (SPVs) that are vital to the operation of cross-national infrastructure projects.

A number of measures are needed to drive PIDA projects forward. There is a need to integrate infrastructure projects (e.g. integrating Information and Communication Technology - ICT, energy and transport) in order to make them bankable for private sector investment. Even though PIDA has 83 projects, there is a need to look at them in an integrated way – in order to make them bankable and for them to have a wider developmental impact.

Secondly, with respect to the issue of ownership, RECs must internalise PIDA projects in their planning processes so as to facilitate their integration into individual national development programmes. Related to this is that a strong measure of political will is needed from countries handling regional PIDA projects in order to drive them forward, as well as deeper levels of political, economic and technical planning between the countries concerned in order to realise the potential of PIDA's regional projects.

The private sector has a significant part to play in PIDA projects, especially in developing energy projects related to oil and gas as well as in ancillary infrastructure projects such as ports, rail linkages, road linkages and independent power projects. However, the private sector has been slow in responding to PIDA projects due to the way these projects have been packaged, which views the private sector as a mere add-on and not as an important partner. Strong leadership from African governments is needed to ensure that the private sector comes on board in PIDA projects as well as to ensure sufficient project preparation to attract private sector investment in PIDA projects.

BREAKAWAY PANEL 2 COUNTRY SESSION: UGANDA

Moderator:	Ambassador Julius Peter Moto, *The High Commissioner of Uganda to South Africa*
Panel Members:	Kabiito Karamagi, *Managing Partner, Legomarc Advocates* Peter Kahiigi, *Director of Information Security National Information Technology Authority (NITA) Uganda* Joseph Kanyamunyu, *Managing Director: Uganda and Rwanda, Hill & Knowlton Strategies* Graeme Reid, *Managing Director, Athena Properties*

Key Questions:

- There are tremendous opportunities for infrastructure development in Uganda, given the rapidly urbanising population of the country.
- The telecommunications sector and real estate sectors are fertile opportunities for private sector infrastructure investment in Uganda.
- The East African Community that Uganda is a part of offers a huge market for investment opportunities including infrastructure development.

Key Points:

- Debates concerning the centralisation and decentralisation of energy for economic growth must realise that decentralised systems can eventually be integrated to the central system.
- Decentralised energy is necessary in rural areas, but has hitherto un-thought through applications for urban areas such as in informal settlements
- Decentralised energy also faces unique challenges and opportunities from country to country.
- Public Private Partnerships are important in decentralised energy systems: but governments should undertake feasibility studies to encourage the private sector to get involved and needs to understand the profit motive of the private sector.
- Decentralised systems must be looked at holistically, not only energy, but also water and sanitation.

Synopsis:

Uganda's National Vision 2040 provides development paths and strategies to operationalise Uganda's development. One of these strategies is primary infrastructure development – referring to power generation, road infrastructure, railway networks, airports and civil aviation, oil refinery and associated pipelines; the other strategy relates to education, health water and sanitation. The third strategy deals with the agricultural sector, while the fourth focuses on science and technology.

All these areas call for both public and private sector investments in infrastructure. An example of private sector investment in Uganda is Athena Properties, which is a member of Centum Investments that has extensive investment interests in large scale, mixed income housing developments in Uganda. Centum also has interests in power, agriculture, health and education.

There are tremendous opportunities for the real estate business in Uganda in terms of retail, office and residential investments, given a young population, a growing middle class, and a rapidly urbanising country. The need to provide modern infrastructure in order to accommodate the increases in urban populations in several urban centres in Uganda provides another stimulus for infrastructure development and investment.

Uganda has experienced a significant boom in the telecoms industry. The country has a mobile penetration rate of around to 50–51%, which is expected to go up to 70% by the end of 2014, due to the increased use of mobile telephony to facilitate mobile money transactions. Although the mobile penetration rate is rising, the government is constrained by the lack of resources in increasing the rate of telecommunication penetration with respect to providing broadband, optical fibre and LTE (fixed and wireless communication) in different parts of Uganda. In this respect, there are opportunities for private investment that can provide broadband, optical fibre, LTE (fixed and wireless communication) communication facilities in the country.

The discovery of oil in Uganda is bound to kick-start the foundation of secondary industries such as manufacturing, especially those that are based around ICT. Uganda has a good number of ICT graduates, a highly literate population, and 13 Special Economic Zones that offer prospective manufacturing opportunities in the country. Uganda also offers a favourable investment climate; business registration takes only one day; with just US$100 000 dollars one can get an investment license, machines can be imported tax free, and investment profits can be freely repatriated all over the world. Investing in Uganda also means you are associated with the bigger East African community, of which Uganda is a member, and which has a population of over 130 million people.

With regard to land acquisition, Ugandan law forbids foreign-owned companies from owning or acquiring land, with the exception of leasing land for 99 years. With regard to employment, foreigners can be employed, provided there is proof that there is no local with the skills required.

BREAKAWAY PANEL 3 COUNTRY SESSION: GHANA

Moderator:	Juana Purchase Hatfield, *Country Risk Specialist, DBSA*
Panel Members:	Kutoane Kutoane, *Chief Executive Officer, Export Credit Insurance Corp. SA SOC LTD* Yaw Keteku, *Associate Partner, Vantage Capital* Paul Runge, *Managing Director, Africa Project Access* Rajen Pillay, *CEO, Garuda Finance*

Key questions:

- What are the practicalities associated with doing business in Ghana?
- What makes Ghana an attractive business destination?
- What challenges do investors need to be aware of when operating within Ghana?

Key Points:

- Ghana's recent economic downturn is cyclical and of short duration.
- Long-term economic expectations for Ghana are good.
- Extensive development is occurring in the port cities to improve oil and gas trade.
- There is a major energy deficiency in Ghana. This provides serious limits to the growth of business, but a good opportunity for investment.
- The renewable energy sector has become very attractive for business, with strong support from government.
- Ghana provides stable government and business regulation to make it attractive to investors. Previous investment has been successful.
- Risks are not too high to preclude interest by investors.

Synopsis:

Ghana is viewed as a credible destination for foreign investment when compared to many other West African countries. It has been politically stable, it has a strong legal system that is supportive of business and it has robust governance systems in place. Corruption is relatively muted, except possibly amongst lower officials. It has a sophisticated banking system, high-level skills are available and it is a sophisticated market. In the World Bank Business Index, Ghana is ranked 5th, two places behind SA, but higher than all of the other BRICS countries. The Ghanaian government is business friendly and promotes private investment and Public Private Partnerships (PPPs) actively. It is a donor-dependent country, but the government is aware that it needs to move away from this model.

Despite a short-term decline in economic growth that has been forecast, Ghana is expected to grow between 7–8% in the medium to long term. This growth will be underpinned by the development of natural resources, such as gold, cocoa, and crude oil deposits. Ghana enjoys substantial technical and financial support from the international community, especially the IMF, World Bank and other bilateral donors.

The advantage for South African companies is that it is an English-speaking country, and it is a pleasant place. The current risks in Ghana are high fiscal and current account deficits, a double-digit inflation and a depreciating local currency. Ghana has low international reserves and a mounting public debt. Fitch dropped its ratings on Ghana in 2014 and the Cedi (Ghanaian currency) was devalued this year. A result has been the need for the government to give guarantees for investments and the need in future for government to discuss parcel risk guarantees with multilateral donors. With the weak currency, US denominated loans have become a problem.

Ghana is not a hub that allows access to other West African countries, both because of its small size in comparison to its much larger neighbouring countries and because of language differences with some of its neighbours.

Agriculture is the strongest sector of Ghana's economy; mining is afflicted with the worldwide price downturn. Yet significant development is occurring with the link between the towns of Accra and Tema growing, intensive construction taking place in Accra itself, and a fishing village at Shama is being developed. Oil and gas are the new and exciting developments, though not unreservedly yet. Ghana has three oilfields, but they have not produced at the expected rate yet. The Takoradi port is being developed for the oil trade and industrial parks are being built in the town itself. The Tema oil refinery in Accra is being rehabilitated so it can produce at full capacity. The Tano Shallow Water Block is being explored for oil. The country will need to use the income from oil and gas strategically, but there are indications that the bureaucracy has a balanced view on how to handle the oil business.

Ghana has a major energy deficit. Ghana has two power utilities, the Volta River Authority, and Electricity Company of Ghana, but they have not been able to keep up with growth. Both utilities' credit worthiness is under pressure. The West African gas pipeline is not helping in this.

This energy deficit is providing opportunities for investors.

To address the energy deficit, the government is placing a strong emphasis on the renewable energy (RE) sector. There are a number of RE projects running, for example the Capone Combined Cycle Project, which is a model project or a solar power project in Navrongo (in North-East Ghana). About 20 companies have received RE licences, of which South African fund managers are seeking investor support for eight. The government intends to bring renewable energy up to 10% by 2020, with a feeding tariff of 20 cents.

Yet, support for RE projects is happening under duress due to the recent dropping of ratings for Ghana by Fitch and the devaluation of the Cedi. So, to get the Capone Combined Cycle Project going, the government has had to sign a Government Certainty Agreement (in effect, a guarantee), and used the Export Credit Insurance Corporation (ECIC) and MEGA instruments to secure the project. This shows that future deals will be difficult and that the government will have to discuss parcel risk guarantees with multilateral donors. In addition, the weak currency makes US denominated loans a problem.

From an investor's point of view, the risks of doing business in Ghana are currently estimated at five out of seven (with one the least risky, and seven the most). This is relatively high, but this is likely to be a short-term phenomenon. The key issue is the fiscal deficit, which has become untenable; it is being funded by increasing taxes that can be harmful. In terms of the regulatory system, Ghana is at seven or eight out of 10 because of the number of reforms that have taken place, which makes it attractive to investors.

The ECIC is currently exposed to about US$150 million in projects in Ghana. By the end of 2018 it expects to be sitting with US$700–800 exposure. This shows the trust investor business is currently placing in Ghana, despite the macroeconomic problems. Two sectors of potential interest to investors are RE and telecoms. The government is expected to create RE funds to attract investment in renewable energy projects, as it is very aware of the need to develop the energy sector. Telecoms are attractive to investors as there is cell phone infrastructure but only for voice calls; investment could expand the existing infrastructure.

Pure investors (i.e. investors who invest their own money who are therefore more risk-friendly, and not banks or pension funds who administer other people's money) have had good experiences with Ghana: they had good returns with relative stability and are prepared to invest more. Pure investors interested in Ghana could be of two types: investors from Asia with large amounts of liquidity; and the investors from Europe who face low interest rates in Europe (at below 1% per annum) and would make a return of about 5–6% in Ghana.

The impact of the Ghanaian government reinforcing the law that businesses have to declare the reasons why they are taking money out of the country is not marked: it does not limit businesses as this law has been on the books for a long time and international companies have always had to declare the reasons for taking money out. Even with the reinforcement of the law, the government has not constrained the repatriation of funds. Generally the panel did not see the reinforcement of the rule as changing the playing field. What it has changed, however, is that Ghanaians have been more keen to take their money out of the country illegally, and that this has led to a reduction of foreign exchange available and has contributed to the devaluation of the Cedi.

PLENARY PANEL 2 FINANCING INFRASTRUCTURE DEVELOPMENT IN AFRICA

Moderator: Sean Cleary, *Chairman, Strategic Partners*

Panel Members:
Viv Govender, *Senior Analyst, Vunani Private Clients*
Andrew Johnstone, *Chief Executive Officer, African Infrastructure Investment Manager (AIIM)*
Adré Smit, *Senior Policy Advisor, Association for Savings and Investments South Africa (ASISA)*
Richard Arlove, *Chief Executive Officer, ABAX Group*
Rajen Pillay, *Chief Executive Officer, Garuda Finance*

Key questions:

- How to pay for infrastructure development in Africa?
- How to improve the efficiency of the capital deployment in the delivery of infrastructure?
- How to close the financing gap by developing and bringing to bear efficient sources of finances that have not been traditionally associated with the delivery of infrastructure in Africa?

Key points:

- The 2010 World Bank Report identifies a critical lack of investment in infrastructure in Africa, which will be to the detriment of development on the continent.
- Funding for infrastructure projects has moved from government money, to donor grants, to development funds that needed to be repaid, to PPP funding that creates a profit for investors.
- South African banks cannot be involved in the funding of infrastructure projects due to Basel III.
- Asset managers and life funders in South Africa are engaging National Treasury to open up ways in which they can participate in funding long-term infrastructure projects.
- There is enough money around to fund infrastructure.
- The issue lies in the institutions: the quality of regulation, the nature of the enabling environment, the application of the funding to the purposes for which it is intended.

Synopsis:

A World Bank Report in 2010 on infrastructure in Africa identified three key points: first, African infrastructure is highly defective relative to the overall requirement by African business and societies; second, the costs of African infrastructure networks were approximately twice what they should be for Africa and African companies to be competitive; and, third, even if the infrastructure that exists were be used to its full and efficient potential, Africa would still have a shortfall of US$31 billion a year in infrastructure provision. The report shows that finance and efficiencies are crucial in overcoming the difficulties of infrastructure in Africa.

Funding from donor countries in Europe has slowed down over the last few years and China has become the single largest source of funding in Africa. Asia has large pools of liquidity that are looking for investment; they are not hesitant to come to Africa. They need to be encouraged to do so. European investors might also be attracted because the interest rate is so low here and they will be able to earn 5–6% on their investment in Africa. Infrastructure projects can help leverage this differential, but they need to be sold to investors.

The last few years have seen an increase in PPP financing for infrastructure projects in Africa, e.g. water infrastructure, toll roads, prisons, hospitals, government buildings, power plants, renewable programmes. There are several critical points about PPP financing: first, the recognition of the need to link infrastructure with industry, i.e. infrastructure needs to be built to support the growth of industry; second, the private sector is now seen as critical in the development of infrastructure; third, there has been a shift in funding for infrastructure projects: where in the past infrastructure was funded from the public coffers it shifted to donor money about 30 years ago, which did not need to be paid back, then to development financing, which was based on the idea of trickle-down financing, but which expected the money to be repaid, and lastly to private sector investment funding of infrastructure projects that produces a profit. In addition, there is a trend to recognise the importance of doing maintenance on existing stock just as much as building new stock.

Infrastructure in Africa needs large amounts of money. Yet, huge amounts of money are available and have, indeed, already been committed for the task. Yet, at the moment this money is not flowing. There are problems in the articulation of the projects, in deploying funds effectively, in the ability to identify bankable projects capable of execution, in establishing the level of co-operation across national boundaries that is necessary for many infrastructure projects. Definitely with the creation of the new BRICS Development Bank, the problem will no longer be the ability to access funding to build infrastructure, but the ability to identify, package, and execute bankable projects on a cross-border basis.

Recently the South African government recognised that it needed to invest in infrastructure. This was not seen by the new government in 1994 and investments that should have been made were neglected. While it is good that the government now wants to make those investments, the structure that it has chosen is a centralised economy.

Historically there has been a bottleneck in South Africa: there were huge amounts of money in pension funds, but they were not being invested in infrastructure. The reasons given for this were mandate issues and the need to protect pensioners. The US gave guarantees for funds to invest their money into infrastructure, in order to release this money. The disinterest to invest in infrastructure despite high levels of liquidity created mistrust between pension funds and government.

Private investment in infrastructure is challenging for asset managers and life funds. The Old Mutual group is the leader in this group; it has been involved in it for the last 15 years, while others are only now entering the space.

Some two years ago Association for Savings and Investments South Africa (ASISA) formed a working group of asset managers and life officers who were involved in infrastructure funding, in order to get an idea of their needs and concerns. The Basel III regulations that were passed in 2010/11 made it more difficult for banks to fund long-term projects and they are selling off their interests in infrastructure programmes. This opened up the question of how asset managers and life funds could enter this space. Infrastructure projects are definitely of interest for pension funds because of the length of investment that is necessary.

From about 18 months ago, ASISA formed a task team with National Treasury and representatives of the Banking Association of South Africa, venture capital associations, departments of state-owned enterprises, and the government's infrastructure co-ordinating committee. This is to open better avenues of exchange and communication between the industry and government. The question the task team posed is: What are the blockages that prevent this industry from getting involved in the infrastructure funding market? The following blockages were identified:

- Need for government to improve the investment environment, especially to improve lead times.
- Need for bankable projects: feasibility studies and the pipeline of projects need to be produced on a consistent basis and need to be available to industry.
- Life offices can get involved easily because they administer their own balance sheets. Managers, however, only have mandates that do not allow them to invest into direct infrastructure. These mandates need to be changed or the articulation of the investment needs to be more appropriate.

With this information, National Treasury and the industry began to work on how to address these issues within each of their spheres. It has led to much more interest by the industry in this type of funding; some have engaged by doing direct financing, while others are looking at creating other mechanisms.

There are also ways in which treasury can offer guarantees for returns to pension funds to make their investment in infrastructure more safe. At the same time Treasury wants to ensure that competition is in the system of funding, which would bring down the price of the investment.

Pension funds do have to be careful with their money, however, because the money invested is usually saved by the working class person who depends on that income in old age. It is not money from wealthy people who do not need to work for their money and who can afford the risk.

ASISA has strategic objectives in line with the National Development Plan in which infrastructure plays a major part. That is why ASISA is engaging with Treasury to unblock the stops in order to begin investing in this sector.

The way renewable energy has been rolled out in South Africa is a recipe that has been well received and is seen as global best practice. What is needed to replicate this kind of success in other sectors is for other ministries in government to state clearly what they want the private sector to do. Business and private funds need to know clearly where government is going and what it is going to support. This means that government needs to identify exactly what it wants to do, needs to identify what it is prepared to budget from its own revenue, how it wants to do it, and needs to agree clearly with the private sector as to who does what and what money is needed where. It needs to indicate which risks it is prepared to carry in a project, so that business can calculate exactly how it can enter the project. It takes about 10% of the final cost of the project to prepare the project properly, to articulate the project clearly – this will allow the private sector to come in fully.

To illustrate the importance of the South African government being very clear about what it wants and how it wants to achieve it, is the example of South African National Roads Limited (Sanral), which first stated that it was going to borrow money from investors and put forward plans to how it would repay this; then suddenly government changed this and stated that it was going to use a user-paid principle. This policy inconsistency drives investors away from the market.

The requirements for a decent infrastructure programme are:

1. Development of a national long-term policy framework for investment, which has been achieved largely through the national infrastructure plan.

2. Improvement of the integration of different levels of government, which the PICC has done by bringing together ministers of the economic cluster together with the provincial and regional levels of leadership; this has also been supported by the Infrastructure Development Bill; both are designed to remove blockages in the system.

3. Creation of a national infrastructure pipeline of projects. The PICC has drawn up a document, but it not yet a pipeline. A pipeline has to be prioritised, which clearly stipulates the risks that are involved and identifies those the government is taking over and which the private sector should be taking.

Project preparation is critical – without it projects get lost. Investors should already be involved at the preparation stage; this would build the trust at a much earlier stage, so the project will work. The DBSA has introduced an amendment bill which is building in preparation costs into its responsibilities.

There is a lot of engagement by the private sector with government, but possibly there is too much fragmentation in the private sector (ASISA, CESA).

It is also important to note that much of the expenditure in state infrastructure is not actually reflected on the government balance sheet. Investment in infrastructure by Eskom and Transnet, for example, occurs within these state-owned enterprises (SOE) using their own balance sheets and seeking to manage their debts through their own cash flow. There is a consideration that government, in order to increase its fixed capital formation, needs to rethink the models that are being used for SOEs at moment and create new finance models for them.

Mauritius has successfully positioned itself as a financial centre, especially for the Indian subcontinent, in a similar fashion to Singapore or Switzerland. Since the 1990s, about 40% of all Foreign Direct Investment was structured in Mauritius. A similar trend is not happening with Africa. Mauritius can be a facilitator for Africa, where projects and finance meet. Many risk factors in Africa are known quantities, especially infrastructure, but also corruption and political instability. Mauritius provides risk assessments and enables business to be conducted to make investment easier. The most important criterion for an investor is the return he/she will get. A problem for the position of Mauritius towards the Indian subcontinent may, however, be the appointment of the new Governor of the Reserve Bank of India, Raghuram Rajan, who might change the Reserve Bank flows in a way that will be negative for Mauritius. The private sector does have to look at return on investment (ROI). Some investors are also interested in the social impact element of investment (or the sustainable impact of investment). Pure private equity of the Blackstone type might not go this way, so it is a question of matching the right projects to the right investors.

Risks associated with infrastructure projects change over the life of the project: risk in the development phase is high; once the building is going on, it is lower; once the project is in operation, the risk is the lowest. This affects the cost of funding at each stage and points to the need to procure money appropriate to each stage of the project. As a result, different investors can play a role at different times: pension funds will go for the long-term investments, whereas other investors will go for the high risk sections. Funds need to be created flexibly for investors.

There are different funding models – yet in each the infrastructure needs to be paid for. There is direct funding, as in a toll road where the user of a road pays as he/she is using the road. There are bank loans, as in the building of the airport. Thirdly, there is indirect funding where infrastructure is paid for by taxes that are then repaid later from a wider base of taxes.

It often looks as though South Africa is losing out if it exports raw materials and does not develop them into manufactured projects. The problem of developing an internal production line, for example platinum products such as converters, means that when platinum is no longer used, an entire industry will be destroyed in South Africa. Probably the way to control raw materials would be the template of OPEC where a bunch of exporting countries that produce the same resource set a shared price, getting the most for the resource.

China is seeking to do roughly what Japan sought to do in the 1970s, namely secure long-term supply agreements for oil, gas and minerals (of which it is in short supply). It is doing this for its own reasons, not to bring benefits to Africa. The responsibility for ensuring that regulations are in place lies with African governments; that is not China's responsibility.

DAY 2: 22 JULY 2014

BREAKAWAY PANEL 4 — AGRICULTURE AND TRANS-BOUNDARY WATER PROJECTS IN AFRICA

Moderator:	John Gibbs, *Partner/Director, PwC*
Panel Members:	Onyebuchi Memeh, *Head of LC and Trade Products Africa, Transaction Banking, Standard Chartered Bank* Grant Gibbs, *Executive Director, Hippo Water Roller Project* Doug Momberg, *Faculty of Health Sciences, University of the Witwatersrand* André Wolfaardt, *Specialist Project manager, Africa's Agribusiness Unit, Deloitte Consulting*

Key Questions:

- How can there be successful sharing of water sources across national boundaries?
- How can countries create sufficient storage capacities to enable food security?
- In what ways can small-scale farming be enabled in order to provide for food security?

Key Points:

- Water and storage infrastructure is not being built because of the lack of necessary structures are not in place. Government plays a critical role here.
- Storage is one of the key infrastructures that will enable small-scale farmers to farm profitably.
- Only goods that can be stored can provide the collateral for debt by farmers.
- There is a critical gap in water provision between large-scale, investor-driven water projects and the local communities. Small-scale transport options need to fill this gap.
- The SADC region has shown the successful way to deal with restricted and previous water resources on a regional basis in a fair and equitable manner.

Synopsis:

There is no food security in Africa because African countries are not food self-sufficient. The lack of infrastructure is at the root of this problem. The low food self-sufficiency comes foremost from the fact that there are not enough storage facilities in Africa. The scarcity of storage is shown by the fact that of the 24 million tons of storage capacity in SADC countries, 18 million are in South Africa alone.

Storage is needed to manage the crops safely, which means that it can be used as collateral for debt. Storage is critical for a farmer to be able to sell when the price is best. Without storage facilities, farmers have to sell at harvest when everyone else is selling and the price is at its lowest. By allowing crops to be used as collateral for debt, storage would also allow the expansion of small-scale farmers. Storage as an infrastructure is critical in the value chain, something that may not always have been recognised. In many countries it is governments that own these facilities and that take a direct interest in them.

SADC has used water as mechanism for cooperation for regional integration; this was one of first agreements signed on a regional level. The approach of regionalism has taken Europe as the benchmark, as the water problems that Europe face are similar to those of Southern Africa. A regional approach demands the integration of variables that go much further than normal water projects do: governance, population density, community resilience. This provides the opportunity to identify where it is that resources and infrastructure need to be focused. It is possible that Geographic Information Systems (GIS) will allow better trans-boundary water management, infrastructure management and resource mobilisation.

The biggest problem when accessing water is infrastructure – or the lack of it. In Africa, communities are often spread out very far geographically, making it costly to put in water infrastructure. Governments might lack the resources to put in infrastructure. Maintenance costs of infrastructure are high, with breakages, stealing or damage by weather and animals also playing a role. Unreliable rainfall patterns affect the water table and thus the availability of water.

When there is no rainfall to provide water, water needs to be transported in from far away. This transport – traditionally done by girls and women by carrying buckets on the head – is laborious and time consuming. Solutions to cover this stretch have to be adapted to the African rural environment: low-tech, low need for maintenance and spare parts, fitting into water practices of communities affected, simple in design, and durable.

Low-level infrastructure gives time for large-scale infrastructure projects to be built. There needs to be a balance between different needs for water: drinking water and sanitation by people; agricultural needs; and infrastructure developments that need massive amounts of water. Agriculture is possibly one of the most inefficient users of water. Water can be used for war – as a target for a resource that needs to be controlled. Yet in Southern Africa water has been used to build regional cooperation: a model that is working very well. The cost of water for production also needs to be factored into prices.

There are various forces affecting food security. The first is the growing world population: by 2100 the world population will reach 10 billion people. The fastest growth is expected in Sub-Saharan Africa. Much of this population will be in urban areas. Africa will no longer be led by agriculture. This will set different needs and pressures in terms of food security. Second, as people get wealthier, their dietary requirements change with a larger demand for meat and dairy. This poses problems as more land and energy is required to produce meat, especially beef. The third issue is the low production level in Africa: food production in Sub-Saharan Africa has dropped per capita by about 10% in the 40 years leading up to 2010, because of significant under-investment. No yield-increasing technologies were adopted. The fourth issue is the movement of price and the correlation of the price of food to the oil price. Transport in the food industry means that the oil price has a direct impact on the food price. The fifth issue is the limited infrastructure that is available to store food on the route to the market. The result is that farmers can only sell close to the market or close to direct routes to the market. This keeps prices low and thus does not stimulate interest in production. A sixth issue is the climate with the El Nino over the Pacific Ocean, which creates regular periods of droughts and flooding in Africa and thus has a high impact on agriculture, fishing and mining in Africa. Climate change can lead to competition for scarce resources, such as water and land, and can render down-stream countries vulnerable to the use of water by up-stream countries. The last issue is political stability: instability creates serious obstructions in the supply of and access to food. In war situations, armies tend to control all access to food, leaving citizens with nothing.

A shortage of funding to assist with building food security is created by the lack of land tenure that can be used as collateral for a loan. Instead, value-chain funding has been introduced to enable investors to have tangible assets as collateral for loans: this is when the commodity that is produced is in storage and funds can be advanced against it. This is, however, a lengthy process as the capacity of small farmers needs to be built up first by means of government and aid agencies and only then will big funders come in to build bigger storage plants.

Capital is not actually the problem in funding infrastructure in food production in Africa. The issue are the hurdles that block agricultural productivity. As soon as these hurdles are removed, there will be a flow of capital. Government plays a crucial role in this – it has to work together with private business.

The most limiting aspect of farming is debt – it is not possible to farm with 100% debt. Farmers need equity and there need to be mechanisms to set that up. This is the space where PPPs can come in, where government for example set up credit guarantee schemes for the first 10–15% loss, and a donor agency gives the same – this would give up to 30% leeway in terms of risk-carrying capacity. The PPP would then provide the right input for the scheme to work.

There needs to be a careful mix between intervention by government and the self-control exercised by farmers. Government is needed, for example, for intervention to stop dumping and to look after their own farmers and secure own supply. The idea is for government not to control but to intervene on behalf of farmers to protect food security. Control can damage the flow of food.

BREAKAWAY PANEL 5 ICT AND TELECOMS IN AFRICA

Moderator: Nitesh Singh, *Managing Executive, Communications, Media and Technology Group, Accenture*

Panel Members:
Peter Kahiigi, *Director, Information Security, NITA Uganda*
Suveer Ramdhani, *Chief Development Officer, Seacom*
Ellie Hagopian, *Deputy Chairperson, Wireless Access Providers Association and Chief Executive Officer, Nomosphere*
Loïc Falletta, *Founder and Principal Security Consultant, Yinkozi*

Key Questions:

- How can Africa deal with telecoms and ICT security threats?
- Home connection vs business connection: how can home connections be improved?
- What role does government want to play: a regulator, an owner/creator, or an enabler?
- ICTs have great significance in the transport sector. Is it possible to go further?

Key Points:

- PPPs are an important piece of ICT and telecoms development.
- Knowledge sharing between government and industry is key.
- The more a country is developed, the more it is vulnerable to a cyber-attack.
- There are often regulation challenges when installing telecoms in African countries: either too much or too little regulation.
- Sim swaps pose a security threat for mobile money applications.
- Opportunities in Africa have the benefit of hindsight from developed countries.
- There have been many acquisitions of cell companies over the last few years because the cost of doing business is too high.
- Smartphones need to adapt to the market and its options.
- If consumers start to use more data, then we can start lowering prices.
- Local education and inputs is what is going to mitigate risk.
- It is very hard for a small company to get into the market because many will not invest or sign agreements.

Synopsis:

Seacom operates a submarine cable system to bring faster internet to South Africa, but it has expanded in various ways. The connection on the coast has made it so that beaches and landing points on the eastern seaboard became an ecosystem of city-to-city interconnection.

There is still a need for international and metropolitan fibre. Fibre needs to get into homes as much as it gets into enterprises. Uganda is landlocked, so they needed to open up borders to interconnectivity. Their partner is Seacom, so there was a big bust of activity in internet connectivity. Sixty percent % of Uganda's population is under 30 and are eager to acquire new information and technology and connect to the internet. The issues Uganda is facing include security concerns due to the ubiquitousness of the internet. In Uganda there are also very interesting mobile phone innovations.

Installing Wi-Fi in residences is more challenging than doing so in corporates. Infrastructure build and infrastructure costs are the challenge. In a business, the company pays, but when a residence is run by a body corporate, it is hard to make that internet investment because residents can choose to use it or not. The key challenge is the business model behind how to connect.

The more a country is developed, the more it is vulnerable to cyber-attacks because then you are better connected. Cyber security is asymmetric. Algeria has the highest internet threat rates (38% are victims of a cyber crime). All risk must be taken care of and mitigation for risk must be considered. South Africa is targeted because they have a good connection, so the country is exposed.

Seacom's partnership model finds a challenge in regulation. Sometimes there is too much regulation or sometimes no regulation at all. There are unrealistic expectations of what an economy can actually deliver. Sometimes the economy is too small to put so much investment into it. Sometimes there is no re-usable infrastructure, and they must create national, regional, and metro systems.

From a policy perspective, the government needs to decide what they want to be: a regulator, an owner/creator, or an enabler? The industry needs to know. Then everyone can take a step back and realign around the principles.

Africa's literacy rate is at an all-time high, and so is democracy; it is poised for additional growth. Opportunities in Africa have the benefit of hindsight from developed countries. Africa can learn from other countries' mistakes, yet often this does not happen. Africa will create niche operators that have three-year life cycles, or build fibre alongside each other, and towers right next to each other, wasting resources.

Africa can learn a lot from innovation programmes (especially mobile money transactions) in East African countries (more people use mobile money than bank accounts). This creates a new set of challenges. The Central Bank and telecoms companies each want to act in different ways, but they are both dealing with money. Sim swaps also pose a threat, because theft can happen easily. This has created opportunities for governments to create regulations.

There have been many acquisitions of cellphone companies over the last few years because the cost of doing business is too high. There are towers all over for different businesses. There could be a regulation stating that if a company builds infrastructure, then it cannot stop a perceived competitor from accessing it. This could help alleviate high costs of doing business. Many countries are also trying to develop public access infrastructure.

A PPP is in the works to create protection of investments in the ICT sector in Uganda. Uganda learned to swim from the deep end, and countries that have not yet embraced things such as mobile money and new fads have a great opportunity to create solid regulation and avoid some of the same problems Uganda had.

Government needs to decide where they are going to sit and what regulations will be created with PPPs. Government and private companies need to recognise where they have expertise, and where they lack expertise, and consult with each other to make sure all is understood and regulated properly.

A key action that can move telecoms forward is to share expertise between government and industry. Government needs to be willing to listen, and industry needs to be interested in growing the industry rather than lobbying for their own company. Investment is also key to help with technical advances. There are many government-owned Wi-Fi options. The question then is: what parts should government fund?

Smartphones need to adapt to the market and its options. Seventy percent of Southern Africa uses BlackBerry. There is a company that wants to create a smart phone for $25. It can then create a business model that relies on an app store and other profit options. The sim swapping risk can be mitigated with more secure phones.

Mobile operators do not want to do much to advance the internet on the continent. The big guys are Vodafone, MTN, and Airtel. All of the others are on their way out. Africa needs to look into how to make infrastructure costs lower. Seacom has reduced the cost of international bandwidth. A 30% price decline yearly is their goal. Africa needs more capital deployed in LTE.

Uganda deliberately supported mobile operators over the last ten years to guide them to areas that they commercially would not usually go. East Africa has integrated backbones to offer low price traffic for companies. Universities, schools and hospitals are working with government and large mobile operators because of economies of scale.

Rwanda has got a company to build an LTE network across the country and provide them facilities so that the infrastructure can be there and can help other companies plug in. Last mile Wi-Fi is great because most devices have a Wi-Fi connection, however it is not good because it has a limited range as compared to 3G. The number of points you have to install is very high and very expensive. How can you pay for this?

Mobile carriers can offer Wi-Fi offload, which can help create better speeds and cheaper goods. But does it make business sense to install this with a lifespan of three years? Offload is useful in dense areas. But then does it make business sense? How do you make money? For example, WhatsApp is going to start offering voice calls, and mobile operators feel threatened. They are considering bundling in content and functionalities, which means that business models will shift.

Africa has the ability to create models that will work anywhere. There are various new business models around the world. Thirty percent of global traffic is on Netflix. That plus Facebook and YouTube comprises half of all global internet usage.

Seacom is lowering the cost of broadband, but it is not going to the consumer. Capital then goes into other ideas. If consumers start to use more data, then we can start lowering prices. Sometimes government blocks fibre deployment because they plan to do that, but it never happens. Government needs to their define role. Hopefully they will become an enabler rather than a participant.

The evolution in technology has caught many people by surprise. People now use data, not voice. The solutions to today's challenges require governments and private sector to sit together to think about ways to give people services in the most affordable manner. They need to discover pain points and try predict the future.

Local education and inputs is what is going to mitigate risk. Google creates items that might work but then they manage them and use the information. Governments must create these things to build confidence.

It is very hard for a small company to get into the market because many will not invest or sign agreements. This limits entrepreneurship. Small, medium and micro enterprise (SMME) integrators need to make value, which is to create simplicity out of complexity. Bringing all the pieces together into something that works for an SMME is a great opportunity.

ICTs have great significance in the transport sector. Is it possible to go further? In Uganda yes, but then the laws must be set first, allowing people to meet without being together physically. A company would need an attendance sheet to allow for video conferencing and chair groups. Barclays had issues and used audio recordings in court, so one would need to create a legal framework. MTN used GPS coordinates to understand areas and movement to help with public safety and lighting installation.

BREAKAWAY PANEL 6 PROJECT DEVELOPMENT AND ACCESS TO PROJECTS

Moderator:	Greg Nott, *Director, Werksmans Attorneys*
Panel Members:	Richard Young, *Head of Cooperation, European Union (EU)* Mark Whyte, *Director - Crisis and Security Consulting, Europe and Africa, Control Risks Ltd* Alan Sproule, *Director for Project and Export Finance in Africa, Standard Chartered Bank*

Key questions:

- What do we mean by projects?
- What do we mean by access?
- What role should governments take on in order to enable project development and access?

Key Points:

- Government needs to provide a pipeline of projects that investors can engage with.
- Government needs to give clear guidelines as to which infrastructure development it wants to take place, the parameters of it, how the funding will take place, and how government itself will be engaged in the project.
- The European Union is introducing projects based on 'blending', where different forms of funding are brought together to invest in infrastructure.
- Security and risk can affect every single stage of a project, including the development and preparatory phase. They should be explored fully right from the beginning of a project.

Synopsis:

Infrastructure development is one of the top political priorities in Africa. Public projects form the backbone of economies, such as rail or power. These projects are driven by government and government has to make space for and define this space for the involvement by the private sector.

In project development, the initial stages need to be done by government: to state what it wants to build, how it wants to finance it, and what involvement by the private sector it wants. The clear definition of the project makes it clear to developers where the opportunities lie and what the requirements are for getting involved.

Banks look at the economic rationales of a project to evaluate investment. Macro projects such as cross-national border projects or north-south corridor projects cannot be financed as a whole but are broken up into distinct projects, each one attracting its own financing. Only projects that have very clear boundaries defining them will attract financing from a bank. The government gives a concession, for example, to a particular operator for a particular rail-line for a particular purpose – then that is very clearly established and attracts the private sector. The bank also looks carefully at what that private sector player is – it wants to see someone who has experience, and has the clear capacity to deliver the project. Those are two key things a bank would look at.

At the moment, Kenya and Nigeria are attracting significant financing because the economic fundamentals and the legal framework are sufficiently strong to make it trustworthy for the private sector.

A routine system of funding of infrastructure projects in road-building within the EU was to employ consultants to design the road, go to tender, build the road, make sure it is supervised, and sign off at the end of building. This was very unimaginative and uncreative. The major difficulty was in ensuring that everyone was on track in terms of timing, supervision and implementation of the project. The experience with these types of projects has taught us that they need to be more creative in approaching these issues.

The EU now uses two concepts: 1) leverage: it wants to lever its grant money to have a bigger effect; and 2) blending: the idea that EU grant money can be given together (blended) with loan money. Projects suitable for blending are particularly projects with which they want to do socially useful things.

Blending often tips the balance towards a project that is socially important but that would otherwise look marginal and not attract funding. A bit of grant money from an agency such as the EU can tip the balance and bring in the private investment.

In Africa, the blending approach has led to the Infrastructure Trust Fund, which has leveraged about 10 billion euros worth of investment in Africa (this programme is not valid in SA). At present, the blending happens between direct grants, interest rate subsidies, risk capital, and in some cases guarantees. The EU is now investigating how to expand this to private banks.

In South Africa the EU has put together a programme called IIPSO (Infrastructure Investment Programme for South Africa) with National Treasury. Based on an investment of 100 million euros, the aim is to use blending to create funding for new infrastructure projects.

Viewing the development of infrastructure on a regional basis is critical to the EU – this is the original form in which the EU invested its money. It is a more recent development to apply funding on national levels.

It is critical that the financial adviser gets involved in a project from the beginning, at the same stage as the technical and legal adviser comes up with a project where the cash flow makes sense. Security and risk profiles should be performed for all stages of the projects, right from the beginning. This will make a project much safer and more reliable, and will prevent later expenses that are not budgeted for.

Project preparation is very important and insufficient preparation will result in a grant giver having to do its own studies to establish the feasibility of a project, which can take several years. Involvement of the potential funder (such as the EU or the DBSA) in the preparation of an infrastructure project from the very beginning will allow the funder to alert the developer of the needs from a funding side that need to be incorporated and will make the project a much more trustworthy investment for the funder.

To accelerate projects and to ensure they do not get stuck, government policy needs to be clear about what it wants to build and why, and the framework within which it sees this happening. Then investors will do that pre-development work because they are sure that the project will be run the way it was proposed. If government changes its requirements during the process of the project, it destroys the interest and trust from the private sector.

In Britain they have introduced an early contractual engagement, where the contractors are engaged with the financiers and the project owner from the beginning in order to hammer out the project. Even if there is no guarantee that that contractor will get the work, it puts the developer in a very strong position to win.

In terms of a pipeline of projects by government, what is most important for the investor or financier is the certainty that a specific project is actually being discussed within government, even if it is not accepted yet. To the financier, the serious discussion of the project by government confirms that there is value in supporting a developer who wants to implement the projects.

PICC has become political, but CESA wants to bring the business sector to the fore and bring transparency and enhance the visibility of projects, especially very large ones, so that the private sector can align its resources towards these projects. CESA is proposing a Project Development and Monitoring Agency as an arm of the PICC: to encourage PPPs into projects and to bring the transparency that the private sector expects.

With all infrastructure projects, they are subject to a wide range of security and security-related threats and risks, wider threats to resilience, and increasing cyber threats. All have the potential to cause loss to investors, to create reputational damages for governments and infrastructure owners and operators, and a loss of stakeholder confidence, especially investor confidence. Security issues and risk management issues can often be overlooked at the early stages of a project – but these threats and risks need to be considered at the early stages, alongside regulatory risks, operational risks, financial risks and others. One of the impacts of not considering security at an early stage is that it can cause additional expenditure that was not budgeted for at a later stage, or it results in unforeseen losses. At that point engineering solutions are often implemented to address security risks that are not the most effective ways of dealing with these threats and risks. Security risks also need to consider the impact of the local communities amongst which the projects will be situated.

BREAKAWAY PANEL 7 ENERGY IN AFRICA

Moderator: Jason Schäffler, *Technical Coordinator, REEEP Southern Africa Secretariat*

Panel Members:
Gari Matarirano, *Senior Counsel, MacFarlanes*
Dr Moses Banda, *Director, Kalahari Geoenergy*
Ian Curry, Director, *Basil Read Energy*
Andrew Etzinger, *Senior General Manager, Eskom*
David Jarrett, *Managing Consultant, RDJ Consulting Services CC*

Key Questions:

- What kind of metering system can address energy problems and challenges in Africa?
- How can Africa deal with energy security?
- How can Africa confront and limit power theft?

Key points:

- The unique opportunity in Africa is the ability to learn from developed continents.
- Africa needs to accommodate for energy storage, and has an opportunity to lead in this industry.
- Homes should be set up to be able to connect to the central system eventually, even if they will only be using solar at the current moment.
- Ministry division causes problems for comprehensive and integrated planning.
- Some believe that mega projects are not the solution, and that small scale, manageable, replicable, and inter-connectable projects are better.
- Often the communities that we think are poor, are not really that poor, or are able to spend more than we expect.
- Ownership and flexibility needs to be given to local communities in order for energy infrastructure projects to be

Synopsis:

Access to electricity is still a huge challenge in Africa. Electrification and delivering energy into Africa has a multi-faceted, diverse series of views. The unique opportunity in Africa is the ability to learn from developed continents. Africa needs to identify the local systems available, and then connect them into a continental network, so as not to deny access to electrical power.

Africa also needs to accommodate for energy storage. This is a new concept, and Africa has the ability to lead in this industry. Many African countries have a national utility for energy, and there is a fear in releasing control to independent power companies.

There is also great interest in renewables (solar, wind, hydro), and some places are looking at geothermal. Kenya is producing 300 MW, and hopes to reach 800MW by 2020. The government is often a problem because state-owned electricity is the only thing allowed because it is worried about the poor not being able to have access. There is great hydro potential in Zambia.

Africa needs to look at a plug and play infrastructure. When one looks at rural electrification, they see that if one cannot be connected to the central system, one should do solar. Why can one not fully wire these homes to be able to connect to the central system eventually? Then one can link into solar in the meantime? It is an international problem that can be plugged into long-term solutions.

Ministry division causes problems for comprehensive and integrated planning. At a household level, one needs cooking, heating, lighting, and power. These are four specific types of infrastructure that need to be brought into the same project. Current solutions always address one or two of these, when in fact all need to be looked at together. New build and electrification is what needs to be looked at.

There should also be greater partnership between the public and private sector. Planning, laws, and commitments need to be very clear when creating these projects. Laws must be in place and everyone must be informed. Regulatory bodies must be independent and consistent. If this is addressed early with the participation of the private sector, then there will be greater interest in energy investment.

Lessons from Eskom's international experience show that metering and billing systems need to be in place from the start, otherwise it creates a big problem. There is potential to leapfrog in technology, but one needs to do it in a way that ensures that all parties can operate in the same way, rather than having different municipalities using different revenue collection methods. There is a need to provide electricity that can eventually link into stand-alone communities. In addition, lower consumption before supply is the most important thing to look at now.

Africa needs to be mindful of energy security. Power imports are not reliable, which is something to be considered. With limited resources, integration is key. Eskom has come under fire for exporting while also importing, so they need to find a balance.

Many customers are going to rooftop photovoltaic systems in places where they do have access to the grid, so it should be everywhere. Companies and governments can create drop-down supply that is configured to plug into existing systems in the future.

What is the hold up with the INGA 3 expansion? There are diplomatic hold-ups, and issues of trust as well as of frame-working. Governments are also looking at the security of supply from a national perspective. The big problem is the peak-hours, not the actual generation. Mega projects are complex and hard to roll out effectively. Some believe that mega projects are not the solution, and that small scale, manageable, replicable, and inter-connectable projects are better.

Eskom has had to deal with power theft. There is the Yaka prepaid system in Uganda, but they are looking forward to smart metering and billing. Uganda is also looking into independent power generation. They are advised to tread carefully with pilots because some meters trip or are unreliable.

The sector has not yet heard a success story of sustained affordability of electricity to the poor by the private sector. Economies of scale are important, and deep rural telecom lines can help and can be used as corporate social responsibility (CSR). Often the communities that are thought to be poor, are not really that poor, or are able to spend more than expected.

Community-based energy projects help to limit energy theft. If a community owns the distribution, then they will self-police. Also a community trust can help the local community decide what the best investment is.

Each sovereign state will have a decision on how something will be rolled out or implemented. A company cannot require a certain kind of roll-out all over world. Namibia rolled out solar plans as well as hybridised power plants. The country must also look at other projects in the pipeline.

The energy mix will trend towards modern energy sources, as Africa has the greatest population growth of all continents, which implies tremendous pressure and opportunities.

PLENARY PANEL 3 THE TRANSPORT SECTOR AND INVESTMENT OPPORTUNITY IN AFRICA

Moderator	Dr John Tambi, *Transport Infrastructure Expert, NEPAD Agency*
Panel Members	Steven Mwale, *Director Commercial and Technical Services, Road Development Agency Zambia* Johny Smith, *Chief Executive Officer, Walvis Bay Corridor Group* Jim Gerson, *Executive Project Manager, GE Global Growth and operations Africa* Dr Siele Silue, *Advisor in charge of Transport, Office of the President, Republic of Côte D'Ivoire* De Buys Scott, *Head of Infrastructure Advisory, KPMG*

Key questions:

- How is Africa faring in transforming the transport field?
- How can companies and governments integrate Africa's existing transport networks to boost interconnectivity on the continent?
- How can one create transport corridors?

Key points:

- Africa will gain advantage and investments if it looks at regional development rather than national development.
- 'Just Do It' – take the Nike approach in implementation.
- Project preparation is important because the local context is different all over Africa. One must know what the need is from the local community.
- Transport is a public good and an investment opportunity.
- Freight transport is easier and more straight forward to develop than passenger transport.
- Africa should be providing African solutions to African problems.

Synopsis:

There is no standard for transport in Africa. NEPAD and PIDA worked to create plans, however not much has changed yet with transport infrastructure (road, rail, air, sea, pipeline). Only 4% of global air transport is based in Africa.

Roads, rail, and air were emphasised in African countries' plans in the 1960s, then investment was made in the 1970s; but then in the 1980s and 1990s, infrastructure started deteriorating because there were no maintenance plans. The investments focused on procurement, and ignored maintenance. In the 2000s and lately, there has been some turn-around and improvement. Governments now realise that transport networks are key for economic development. Africa will gain advantage and investments if it looks at regional development rather than national development.

There is great overcrowding on roads in Nigeria. It is estimated that 70% of freight is moved on roads. Currently 220 km of rail infrastructure is being built and renovated to address this problem. Nigeria is also proposing more rail expansion.

Transnet in South Africa recently had to deal with ageing locomotives. Five years ago, they decided to invest in locomotives.

This is good for the industry, but it also does not provide much more opportunity to the market. This year, they decided to do a programmed buy, so that they have a schedule for buying more, and this means a larger investment, more opportunities, and clearer mandates.

Capacity building is going well in the sector, but it is not yet visible on the road. Africa is still lacking in actual transport development on the ground.

How can companies and governments integrate Africa's existing transport networks to boost interconnectivity in the continent? How can transport corridors be created? All countries have plans, but the sector needs to see where they are implemented. Namibia gained independence 24 years ago, and looked into how to develop their economy. They have two million people, and a majority of the land is desert. They decided that they needed to start with transport infrastructure. 65% of their ports consist of non-Namibian traffic. They are currently investing US$200 million into a new container terminal. This is for neighbouring countries. How do they do it? They just do it; dust off the plans and do it.

The pontoon on the Zambezi River is old and sometimes traffic cannot cross, which results in a huge amount of trade lost. A local bridge project will allow rail and road transport.

Project preparation is important, and the selection of projects is also important. The local context is different all over Africa. One must know what the need is from the local community, a suggested two sessions at local level is necessary to determine what is needed. In cities one needs to look at desire and demand, and then design transport around that.

Transport is a public good and an investment opportunity. Where does the investor start? Bankable feasibility studies are part of a process that keeps going back and forth before all risks are understood and then they can 100% structure the 'procurability'. The key thing is proper consultation. Regional transactions are often the answer, because then the various stakeholders can pool everything together. Deals with equity and investment are a part of a very competitive global market. PRASA did the largest global transaction recently though, so it is possible in the African context. There needs to be a political champion for it to work. It is possible.

Freight transport is easier and straight forward to develop. Passenger transport always requires more from society. Transport is a citizen's right, and so it always comes up in speaking engagements by government officials.

In many African nations, the people say, 'We don't want you to build our houses, we can do that, we want you to create a way for us to get our goods to market so we can do it ourselves'. The public needs to remind the government of their promises and their commitments; they need to help them.

Africa should be providing African solutions to African problems. Engaging and looking at real problems on the ground is key. Africa needs to understand how and when to engage with various stakeholders.

Transportation in the rail sector can look to the Gautrain as an example. In 2010 the Gautrain started with two train stations. In four years it now has ten stations. It is an urban solution. It can apply rurally though as well.

In Zambia and Congo, the current state of the Pedicle Road is not great, but there is a contractor working on it. The development has moved away from the pontoon approach, and is now installing a bridge. Zambia recognises the importance of Pedicle Road, and maybe Congo will not benefit enough or as much.

All projects should start with the question, what do you want? Sometimes one needs help with the thinking process. African nations cannot develop as islands, they must develop together.

PLENARY PANEL 4 PENSION FUND AND PRIVATE EQUITY FUNDING INVESTMENT INTO AFRICA

Moderator: Shayne Krige, *Director, Werksmans Attorneys*

Panel Members:
Dr Gil Mahlati, *Chairman, African Financial Group*
Nicky Prins, *Chief Director, Capital Projects Unit, National Treasury South Africa*
Alastair Campbell, *Managing Director, Vantage GreenX*
Omar Vajeth, *Global Business Development, SembCorp Industries Ltd*
Jonathan Berman, *Managing Director, Fieldstone*

Key questions:

- How can one leverage pension funds to fund infrastructure projects?
- There is a huge amount of projects to choose from. How does one choose the right project?
- How is Sanral's current role going to help or hurt?
- Fund managers ask the key question: would you like us to manage risk or search for yield?

Key points:

- Pension funds are often very strict and uncomfortable with taking construction risks.
- Pension funds from all over the world have been facing challenges due to the recession, and they are looking into the developing world.
- Local currency is a challenge when buying out infrastructure debt since most Individual Pension Plans (IPPs) are done in US dollars.
- An infrastructure investment needs to be prepared for a 20-year commitment.
- Many clients have an interest in investing in social infrastructure.
- The industry needs to look at what the private sector wants and policy makers, governments need to understand both sides and help them understand the models that work.

Synopsis:

The Organization for Economic Co-operation and Development (OECD) recently stated that the funding requirement for new infrastructure up to 2050 requires trillions of dollars. Climate change alone requires an investment of 45 trillion dollars up to 2050. It makes sense for pension funds to look for long-term investments.

Pension funds are often very strict and uncomfortable with taking construction risks. Often they are limited to using assets that are rated or listed. This thinking is driven by the need for predictable repayments.

Pension funds from all over the world have been facing challenges due to the global recession, and they are looking at the developing world.

Government, business, and labour are working together to find good finance plans for pensions. The problematic issues are the industries' abilities to perform tasks needed to scale. This is not a traditional area for investment. The National Treasury re-did interviews about pension investments after one year, and there was a huge transformation in the appetite for renewable energy infrastructure investments. Internationally, investors are not able to do this or able to scale up, but now South Africa is becoming a leader in institutional investors playing a role in renewable energy. IPP options have helped to enhance this. One can start out as a junior partner, but by round three one can start to work as an equal partner. This can expand beyond renewable energy. There is an IPP/PPP conference taking place in August to discuss this further.

The market volume for pensions is leading the creation of new investors. You cannot market and regulate this. Australia navigated the area with great success.

Local currency is a challenge when buying out infrastructure debt since most IPPs are done in US dollars. Equity is less of a challenge though. It will probably be a long time before commercial and development banks get involved in this.

Renewable energy infrastructure investments by pension funds have worked well. How is Sanral's current role going to help or hurt? The risk is that Sanral is a private concession, and with regards to e-tolls, the danger is that if the concession is defaulted on, investors will see it and look down on state-owned entities. What does this say to other PPP projects? This could set a bad precedent should the government cut the contract. However, if it is clear that it is not the rule, and that it is an exception, then it could be ok. Then it must be proven that there is a good relationship that can be re-negotiated and that investors are treated fairly.

Pension funds very rarely decide on their own what to invest in. Rather, they look for a fund manager; from there, they decide where to allocate investments, and decide what kind of freedom to give to the manager.

Significant capital goes into the rest of Africa through the Johannesburg Stock Exchange. The rest of the continent is not as developed in their financial institutions. Yet many of them find innovative ways to create pension funds. This is where there is a great opportunity for pension investments in infrastructure projects. An example is the privatisation of electricity in Nigeria and oil in Tanzania.

Those who want to invest in Africa are driven by a search for opportunities, and people know that developing countries need private sector investment and are open to such, making a number of opportunities available.

The average return on private equity on the continent is only 11% now. The search for quality yield is of paramount importance when looking into funds to manage. Fund managers ask the key question: Would you like us to manage risk or search for yield? Vantage GreenX finds that many people are opportunistic and willing to take risks provided they manage it for them.

There are a huge number of projects to choose from. How does one choose the right project? Institutions and pension funds are interested in getting involved earlier because it helps mitigate risk because they can play a more meaningful role.

South African projects are usually very well structured and easy to invest in. The rest of Africa is often more difficult, since a lot of time and money needs to be invested in re-developing and advising on a project.

One needs technical capabilities in a pension fund to get involved in infrastructure investments. There is a gap between older managers (such as Old Mutual) and new institutions entering the market. A skills transfer is necessary to develop skills in the industry.

African governments are not always ready to provide such pension options, nor do they have the experience. This is why these conferences exist. Many clients have an interest in investing in social infrastructure. Some investors want SRI categories in their pension portfolio. The industry also needs to get better at understanding how feasible projects are. There are many lessons to learn quickly as we continue.

The playing field needs to be understood and all players need to be following the rules. The worry is that one might build a precedent for failure that will ruin the market moving forward. An infrastructure investment needs to be prepared for a 20-year commitment.

Water boards are challenges in this sector. Nelspruit has a good water programme and shows a good example of government taking initiative and letting private entities invest into the water sector. The disappointment lies in the follow up.

There is deterioration in the management of municipalities. Municipalities need an 'Infrastructure Finance Company' like there used to be. There are global funds to manage this, but local ones should exist as well. Perhaps they should not be funded by pension funds, but rather by the DBSA. Water treatment facilities will need to be upgraded; it should be a FDI initiative rather than pension funds. Africa should move away from INGA and big projects and into smaller projects that address local needs.

One sample model is a small renewable energy projects fund that is not forcing infrastructure projects towards pension funds. They use development bank money to start and to absorb risk, and then reach out on a commercial level to private sector funding to mitigate risk.

Positive things are happening, but the industry needs to stop looking at only what private sector wants; it should also be looking at policy makers and governments to understand both sides and help them understand the models that work. Government also wants to be given a fair deal. Infrastructure development is something that will help all of us.