

**Private Project Developers Scaling Investable Infrastructure in Africa:
Benchmarking Project Development Practices
to Mobilize Private Capital**

*with technical support from Ai Capital and
Global Clearinghouse for Development Finance (GlobalDF)*

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**Global Clearinghouse for
Development Finance**
*mobilizing the private sector
for development*

The Imperative of Infrastructure Project Development: Building Investable Projects to Scale

- ***Delivering on Africa's infrastructure gap is critical to economic growth***
 - *Of total infrastructure projects in low and middle income countries with private sector participation in 2015, only 6% (US\$6.3 billion) for 23 African projects; of which 16 were in South Africa's REIPPPP's Program (2015 PPI database, World Bank)*
 - *Bottleneck is not finance, but instead the lack of **investable infrastructure projects** that can mobilize private capital*
- ***How to secure private sector funding and expertise for project development?*** Development costs 5-12% total project cost (public sector project preparation facilities hard to access and low amounts)
 - ***Increase Probability of Financial Close:*** *How to create conditions so confident project will reach financial close and operation?*
 - ***Reduce Timeframes and Risks:*** *Reduce development timeframes for financial close? How to reduce risks to drive down cost of finance?*
 - ***Raise More Finance for Project Development:*** *How to raise equity and debt required for the long time period and high costs of project development?*
 - ***Engage Private Expertise and Providers of Services/Equipment:*** *How to motivate greater engagement of private sector as engine for project development?*

Objective of the Investing in Project Development Benchmark (I4PD Benchmark)

- Isolate the critical success factors that underpin the successful development of investable infrastructure projects (medium – large projects over US\$ 50 million)
 - Comparative benchmark of key industry project development practices and requirements
 - Input directly from the professionals engaged in infrastructure development and finance
- Engage private sector investors and infrastructure practitioners to serve as “engine” in project development
 - Accelerate the mobilization of private expertise and capital to increase the development and number of investable African infrastructure projects
 - “Crowd in” and incentivize project developers to build pipelines of investable African infrastructure projects
 - Build Ecosystems to connect critical inputs – developers, expertise, investors
- Engage public sector in creating “infrastructure-enabling environments”
 - Implement targeted interventions can speed up and scale development of investable projects

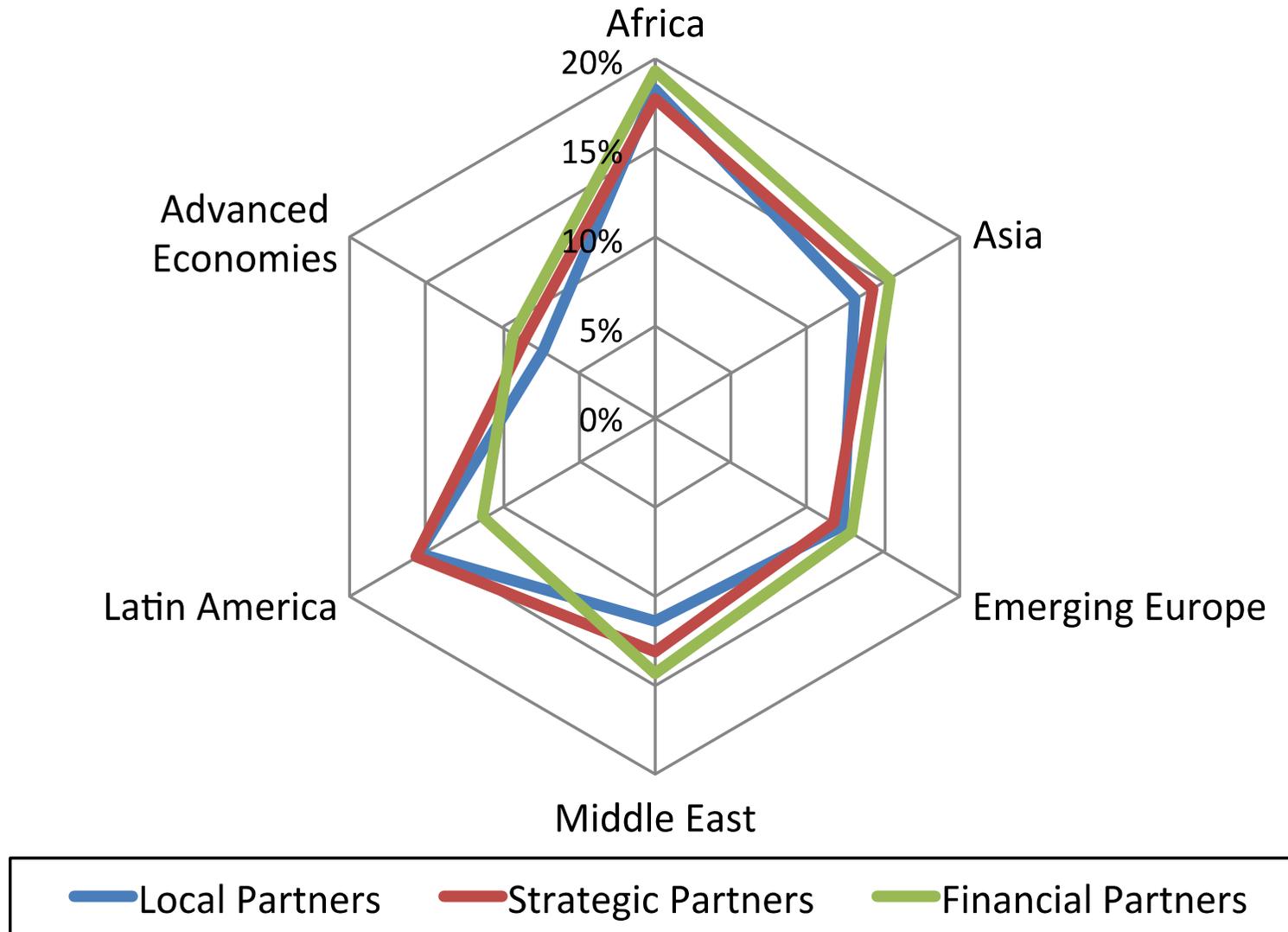
Methodology Aimed at Key Practices Determining Success of Infrastructure Project Development

- Input from leading practitioners and providers of finance
 - Project developers, financial advisors, investors, project finance lawyers, etc
- Covers the entire project development from project inception to financial close
- Focuses on the specific project development challenges and requirements
- Organized in Eight Pillars:
 - Project development efficiency
 - Government-related impediments to project development
 - Project development costs
 - Project development funding
 - Project developer compensation
 - Infrastructure development impact
 - Sustainability and social impact
 - Local stakeholder inclusion

1) Higher Risk Premiums Required in Africa than other Developing Country Regions

- Due to the high perceived risk and cost of capital, Africa is the only region where the survey participants stated that the required internal rate of return (IRR) is 16-20%
 - Longer time periods for project development (average 5 years)
 - High failure rate (80%)
- Same range for securing local partners, strategic investors, and international financial partners
- All other developing country regions are reported as having a lower IRR threshold of 11-15%

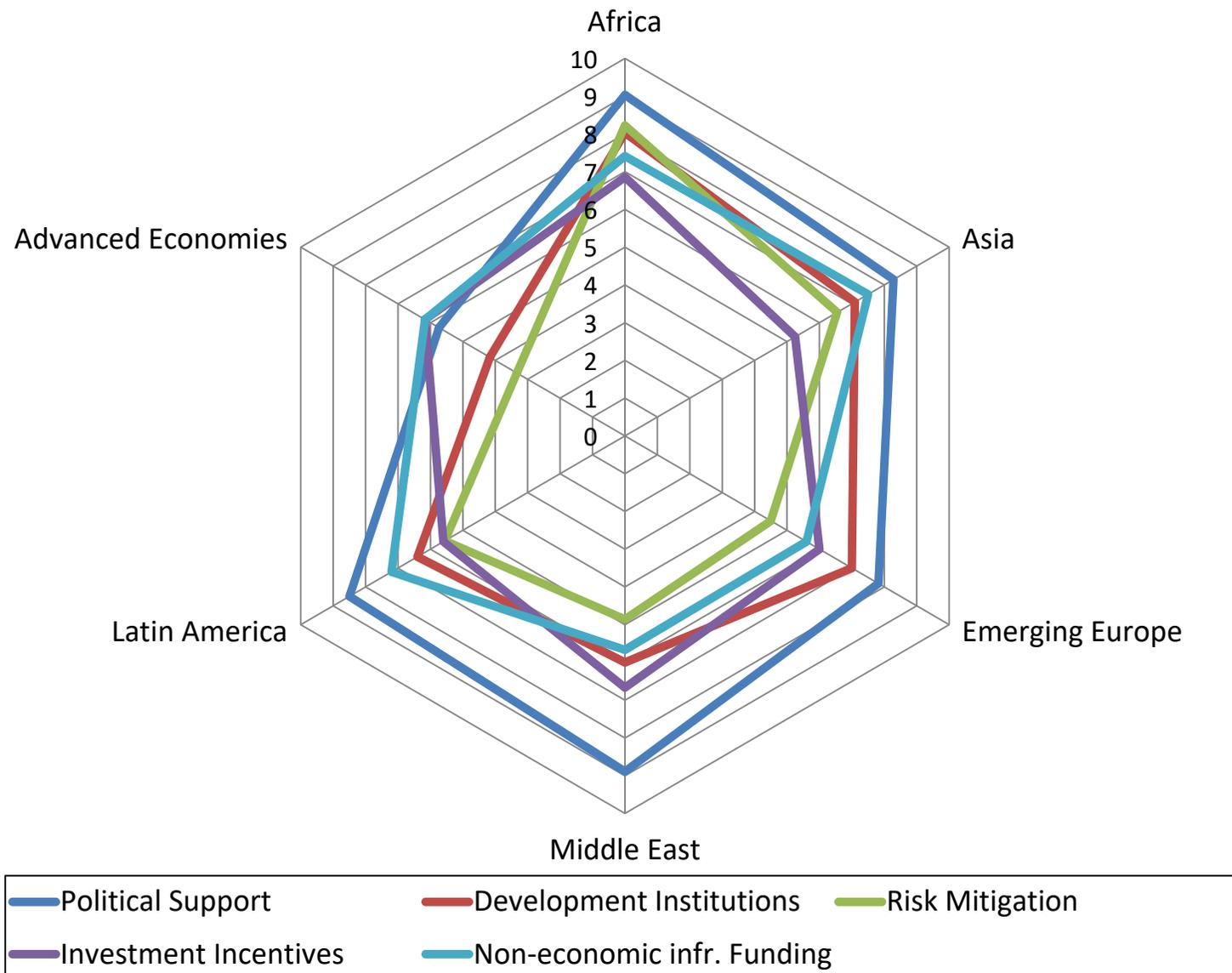
Higher Required Rates of Return for African Infrastructure Projects



(2) Requirement for Greater Public Support

- Survey results indicates that African infrastructure projects are perceived as requiring greater support compared to other developing country regions
- Key areas critical to successful infrastructure project development:
 - Political support
 - Risk mitigation
 - Support from development institutions
 - More investment incentives
 - Greater funding for non-economic infrastructure

More Support Required for Infrastructure Projects (scale 1-10, 10 most important)

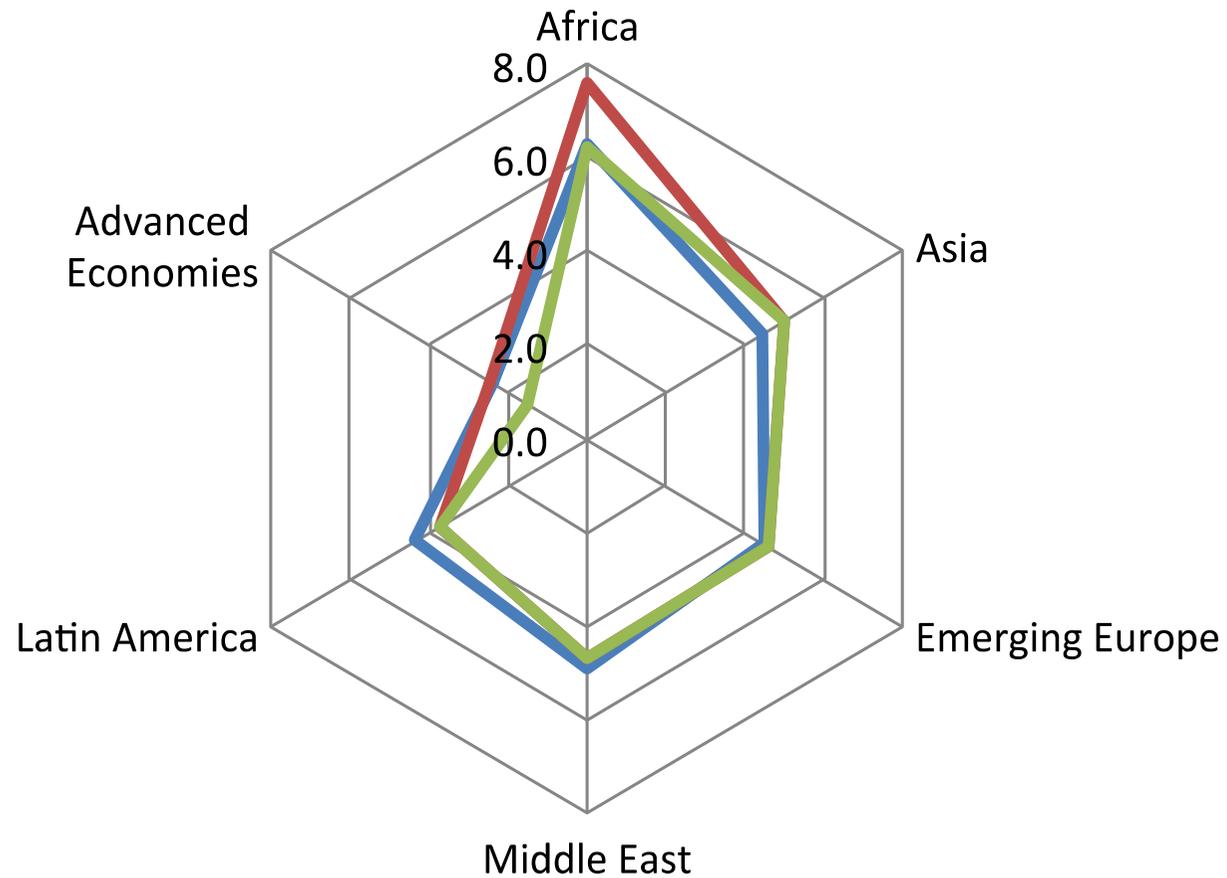


(3) African infrastructure projects face significantly greater difficulty in securing qualified professionals

Results underline the embryonic stage of the project development industry in Africa and the need for public interventions such as training, focused on the high professional standards required for the development of investable infrastructure projects.

- When assessing difficulty on a 1-10 scale (with 10 the hardest), respondents assess the other developing regions as significantly easier to secure qualified professional staff
- For example, the difficulty of securing a local qualified project developer in Africa is stated on average as 7.6 versus 5.0 for Asia, 4.6 for Emerging Europe, 4.7 for the Middle East, and 3.8 for Latin America
- Securing local professional staff in Africa is assessed at 6.6, versus 5.0 for Asia, 4.6 for Emerging Europe, 4.7 for Middle East, and 3.8 for Latin America

Difficulty of Securing Qualified Professional Staff (scale 1-10, 10 hardest)



— Project developers — Local project developers — Local professionals

(4) More Challenges for African Project Developers than other Developing Country Regions

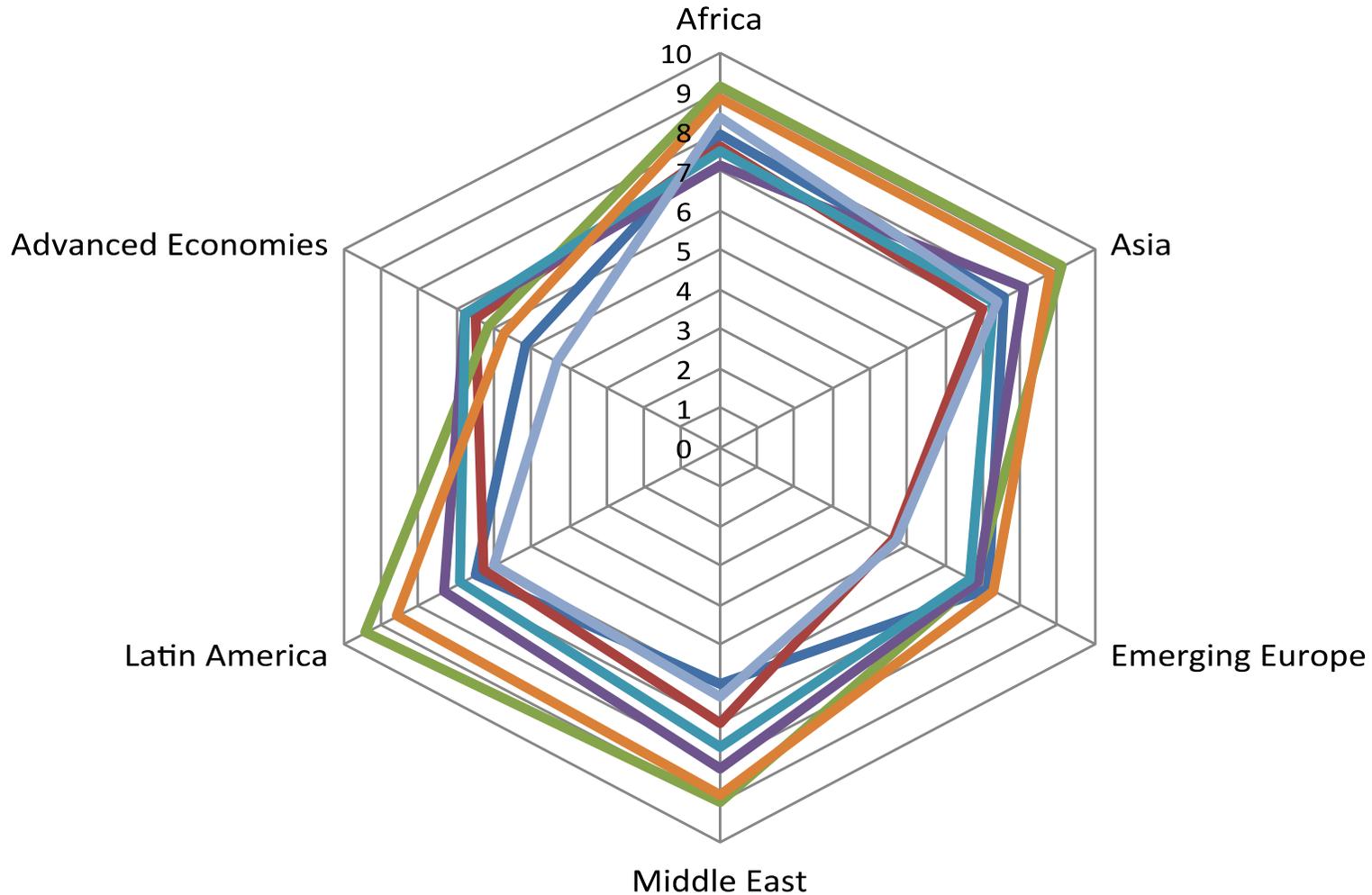
Respondents assert that ***the project success rate is low for African infrastructure projects:***

- The average project success rate is 20% in Africa and Emerging Europe.
- Better project success rates are reported for other developing country regions
 - 25% in Latin America, 27% in Asia, and 40% in the Middle East
 - Project success rate for the advanced economies is reported at 46%

Against this high-risk backdrop, ***the various roles of private sector project developers in Africa are perceived as more demanding and important*** than in the other developing country regions

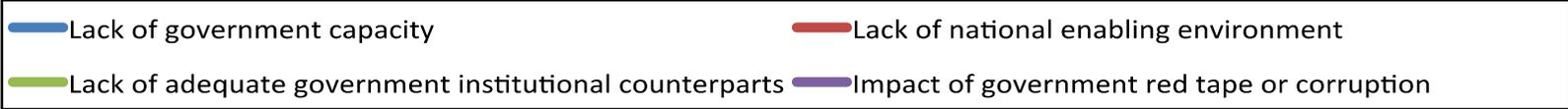
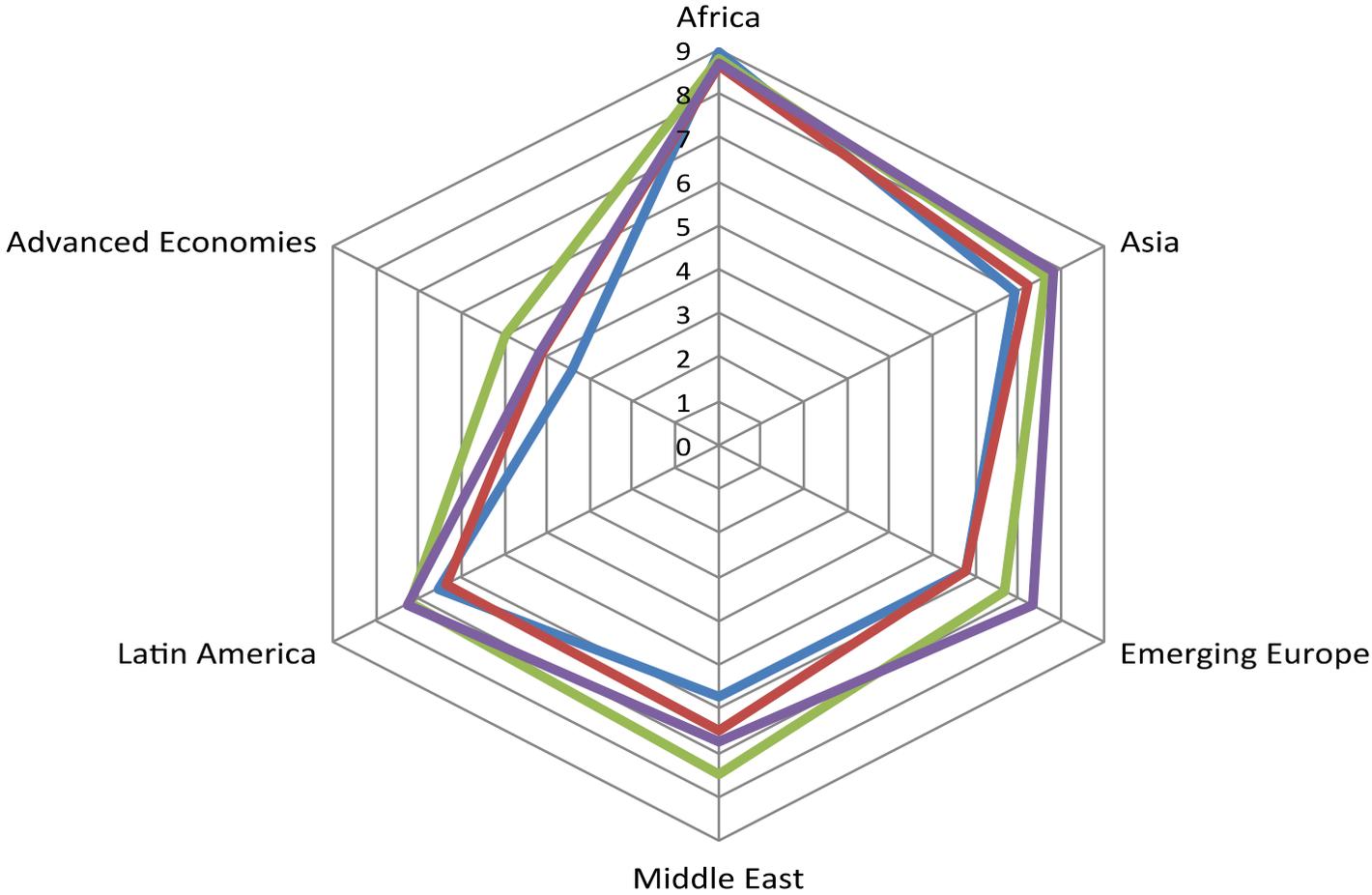
- These factors significantly drive up the risk profile and cost of developer finance and equity.

Most Important Roles for Project Developers (scale 1-10, 10 most important)



Design project ownership	Structuring Finance	Securing off-take agreements
Securing competent staff	Negotiating contracts	Negotiating w/gov
Securing risk mitigation		

Greater Government-Related Impediments (scale 1-10)



Imperative for Solutions

- Results underscore the urgent imperative for de-risking and reducing the costs for project development in Africa
 - The uniquely complex and challenging African environment means that the success rate of project development is extremely low
 - In turn, high risk translates into fewer projects being developed
 - And those projects in development need to pay high premiums to attract finance and investment and compensate for that higher risk
- ***If the African private sector project development community is not engaged as a partner to create “infrastructure-enabling environments,” infrastructure and job creation in Africa will not be developed at the pace and scale required for the continent’s economic growth and sustainable development***

The Roadmap to Enabling African infrastructure Environments

- ***Create new partnerships in infrastructure project development:*** By understanding the difficult challenges facing project developers working in Africa, governments and their development partners can provide targeted support frameworks and also come to better understand the high risks and resultant premiums
- ***Jumpstart project development through government programs:*** Participants note the leadership role of the South African government by setting up effective infrastructure programs, also catalyzing the development of the country's private sector infrastructure project development ecosystem

Roadmap (continued)

- ***Increase use of risk mitigation for off-take agreements and access to long-term finance:*** Secure off-take contracts unlock the private sector project development ecosystem
 - incentivizing private sector project development investment
 - driving down the cost of developer finance for the development process and project long-term finance (debt and equity).
 - Guarantees as well as innovative risk mitigation and finance facilities will be needed in most cases to ensure access to needed long-term finance
- ***Increase the number of adequately skilled African professionals, decreasing project development costs and facilitating scale:*** Given the lack of adequate local project development professionals in the majority of African countries, there needs to be public support for the professionalization of the project development industry in Africa and the training of local professionals

How to Advance Partnerships in Project Development?

Urgent need scale up development of investable infrastructure projects: How can infrastructure private sector participants work together to scale up investable projects?

- *What business models can be used to “crowd in” the engineering community? For example:*
 - Ways to scale up ways that engineering companies can take equity ownership of projects?
 - Create more co-engineering partnerships (turn-key contracts)?
- *What can governments do to reduce risks for the engineering community?*
 - For example, guarantees? Incentives? Ways to deal with mitigating performance risks in co-engineer turn-key contracts?
- *Other ideas?*