Brief on the NEPAD CBN - 5% Agenda Campaign

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• Assembly/AU/Dec.508(XXII) NOTES WITH SATISFACTION the NEPAD Agency’s 5% Agenda campaign by the Continental Business Network (CBN), aiming to increase investment allocations by African institutional asset owners, like Pension and Sovereign Wealth Funds, into African infrastructure from its current low base of about 1.5% of assets under management to a more impactful 5%.
September 2017
Launch of the 5% Agenda and Finalization and adoption of the 5% agenda business communiqué.

December 2017
Undertook consultations and sensitisation among the various stakeholders and building of consensus on the 5% Agenda eg: AU Summit, Annual AfDB Meetings

January 2018
Highlights on 5% Agenda at the AU General Assembly

January 2018
Adoption of the 5% Agenda and decision by the African Heads of State.

2018
Identify supportive countries and develop an implementation roadmap. Sensitization of 5% Agenda to the EAC
**NEPAD integrated approach to enhance infrastructure financing**

- **PIDA SDM**
  - Assure projects are well prepared at an early stage in order to mitigate risk.
  - Guarantee efficient use of resources allocated by MDB.
  - The 2nd SDM will look at viable projects in the EAC.

- **NEPAD IPPF**
  - Detailed eng. Design
  - Detailed feasibility studies
  - ESIA

- **PIDA CBN**
  - Engage with and mobilize private sector for innovative funding

- **NEPAD 5% Agenda**
  - Ensure effective domestic resources mobilization

- **Project Bonds**
  - Modalities to setup a Resource Centre
  - Build partnership with DFI
  - Target Africa’s Diaspora, Pension Funds, Sovereign Wealth Funds etc.
  - Issue project specific bonds for greenfield projects or refinancing projects
Developing Innovative project financing mechanism

• Payment Guarantees Mechanism

1. One of the main concerns from the private sector and obstacles to financing, are the lack of ‘Payment Guarantees’ and innovative financial structures to circumvent these issues.

2. The biggest confidence boost a private investor can receive is in the form of a “payment guarantee” or “sovereign guarantee”.

3. As a result, there is need for a guarantee instrument which will normally come from the government’s Ministry of Finance or some equivalent.

4. There are a number of guarantee instruments that support Africa’s infrastructure project structuring. However, all these instruments provide partial guarantee instruments with varying conditionality and complex requirements for qualification and access to funds.
Developing Innovative project financing mechanism

1. NEPAD Agency will play its role of coordination and lead facilitator institution in to gather all the Development Finance Institutions (DFIs) and the Multilateral Development Banks (MDBs) with the sole aim of having a frank and open discussion on the establishment of a and aggregated scheme.

2. Pool all the partial guarantee instruments into a “big facility” that will provide for 100% financial guarantee for institutional investors such as Pension and Sovereign Wealth Funds and Insurance Companies to invest comfortably in PIDA and trans-boundary infrastructure projects.

3. The “big facility” will serve as the guarantee mechanism that will payout in the case of payment defaults by project owners/operators through African Ministries of Finance.
## The African Guarantee Scheme

### Context

- Existing pipeline of champion infrastructure projects in development (PIDA Projects)
- +30 existing risk mitigation instruments in Africa
- +19 risk mitigation instruments aligned with objective
- Importance of individual African infrastructure Projects
- Importance of the entire African project portfolio to regional growth
- Diverse coverage of projects throughout the continent

### Opportunity

- Leverage the existing pool of risk mitigation instruments and utilize for the mobilization of African Institutional Investment
- Focus the pool of existing risk mitigation instruments on prioritized cross-border projects
  - Politically endorsed by African member states of the African Union
  - Selected given their high level of economic impact at national and regional levels
- Enable effective utilization of existing risk mitigation instruments (currently underutilized)
General Proposal on the conceptual formulation of the African Guarantee Scheme

Why an African guarantee scheme

• It is crucial to set an aggregated risk mitigation instrument to provide comprehensive guarantee to enable private sector/institutional investors to invest in PIDA Projects
• Potential to unlock over US$25 billion of finance, almost a third of the annual finance required to finance Africa’s infrastructure

Proposal

• **Option 1:** Pool all existing risk mitigation instruments streamlining access
• **Option 2:** Select PIDA projects
• **Option 3:** Through the G7 and G20, mobilize new resources into the African Guarantee Facility to cover a greater number of projects
  • Existing schemes earmark a portion of their current guarantee to PIDA Projects
• **Option 4:** Blended scheme: sovereign guarantee + aggregated guarantees or a combination of partial guarantees
Integrated Proposal on the conceptual formulation of the African Guarantee Scheme

Proposed model to establish the Guarantee Scheme

How to conceptualize it

Guarantee Fund
Covers for the financing/funding provided by

DFIs, MDBs
Early equity investors (technical sponsors, engineering companies),
Long term investors (institutional investors)

100% Guarantee covering for the cost of project preparation
(Approx. 10% of the project total cost)
IPPN

CBN

100% Guarantee covering for the investment required for a smaller scale Pilot Project

AIF

100% Guarantee covering for the investment required for the initial complete project
(with a possible 50% Guarantee coverage provided that the remaining 50% is covered by a sovereign guarantee.

Complementary risk mitigation instrument (Guarantee facility)

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Thank you