

The Continental Business Network (CBN)

NEPAD Planning and Coordinating Agency



NEPAD - TRANSFORMING AFRICA



Background Context

The Dakar Financing Summit(DFS)

Main Bottlenecks to PIDA implementation

- Lack of funding for project preparation
- Lack of capacity for project preparation
- Lack of project financing
- Lack of involvement of the private sector

4 DFS outcomes

- PIDA Service Delivery Mechanism(SDM) for early stage project preparation
- Support to Infrastructure Consortium for Africa(ICA) on the establishment of the Roundtable of Project Preparation Fund(PPFs) in order to enhance cooperation
- Africa50 was established to finance infrastructure projects including PIDA projects
- The PIDA Continental Business Network (CBN) to engage and advance private sector priorities and requirements to invest in regional and cross-border projects



The Continental Business Network (CBN)-Part 1

- CBN is an African heads of state initiative to facilitate private sector advice and leadership in essential continent-wide infrastructure projects through the creation of high level private sector forum. **It acts as an exclusive infrastructure investment advisory platform providing though leadership on a range of strategic issues like policy, investments risk ratings, project structuring and specifically the existing constraints to the implementation of the PIDA projects.**



The Continental Business Network (CBN)-Part 2

Objectives of the CBN

African business leaders have coordinated with NEPAD in defining the **eight key objectives** of the CBN as outlined below:

1. **Serve as a key private sector engagement platform for NEPAD and the African Union Commission (AUC) to engage the private sector on PIDA and infrastructure projects**
2. Build capacity in private sector firms so they can more successfully bid for infrastructure-related contracts
3. **Assist in catalysing partnerships between African project sponsors and assist them in obtaining the needed project development resources (e.g., financial advisory, technical, legal, etc.)**
4. Provide guidance to African government agencies responsible for infrastructure development on ways to engage the private sector based on best practices
5. **Provide guidance to African government agencies responsible for infrastructure development on ways to engage development partners on required inputs at a project level to achieve “bankability”**
6. Help government prioritize the “quick-win” projects so that early demonstration projects can create market momentum and pave the way for creating a regional infrastructure market with greater development impact
7. Create a database of private sector infrastructure professionals
8. Be an advocate for African-based infrastructure developers and professionals

How the CBN is different from other initiatives

- The CBN focus **exclusively on financing and implementing PIDA /African infrastructure projects**, which distinguishes it from other platforms having multiple mandates
- The CBN has been envisioned as **the first private sector body that is truly representative of African heads of states and endorsed by the AU**
- The CBN has been conceived as a high level public-private coordinating agent, with the ability to convene the most senior representatives of the private sector (**effective platform for the private sector to engage with the highest levels of Governments on the implementation of PIDA projects**)



CBN Vision

- CBN as the NEPAD natural partner to give a market view point on the “*investability*” of PIDA projects and cooperate on its progress
- CBN as the technical advisor in reviewing the financial and commercial viability of PIDA projects
- CBN as a self-sustaining private sector forum with attractive membership benefits
- CBN as an enabler for African job creation by providing input to the NEPAD Job Creation Advisory on the maximum use of African inputs (materials, services, equipment, labor, etc.) in PIDA Projects without jeopardizing project financial viability



A Guiding Framework (institutional options for CBN)

| Institutional options | Building on an existing private sector platform <i>(A private sector institution is effectively used to establish the CBN, with the institution incorporated into this new entity)</i> | A dual mandate <i>(A private sector platform is given responsibility to coordinate private sector involvement in project implementation through the various NEPAD Agency / AU / REC / DFI initiatives. This feeds into the high level collaboration and coordination work of the CBN)</i> | A distinct CBN <i>(A completely new entity is established, distinct from existing private sector platforms, and incorporating representatives from these various other initiatives)</i> |
|-----------------------|---|---|---|
| CBN relationship | | | |
| Institutional design | The nature of representation within the CBN defined based upon the initiative used as the CBN "building block". | A "Leadership Council" of strategic business leaders develop and drive the CBN's mandate, supporting the CBN Chair. A "Steering Committee" representing private sector groupings and platforms is established within the CBN. Expected to have a small office for technical support to chairperson, with secretarial support from NEPAD Agency. | In addition to a "Leadership Council" and "Steering Committee" representing private sector initiatives, various public sector organisations are represented in the CBN through an "Observer Status" platform. Expected to have a small office for technical support to chairperson, with secretarial support from NEPAD Agency. |
| Other initiatives | Depending on the final institutional design other private sector initiatives may or may not be directly represented in the CBN. | Private-sector focused African and global initiatives have representation in the CBN through the "Steering Committee". | Private-sector focused African and global initiatives have representation in the CBN through the "Steering Committee". Public sector given "Observer Status" in CBN. |
| Advantages | <ul style="list-style-type: none"> -Existing structures already exist -Allows CBN to be quickly set up -Able to make use of existing institutional knowledge -Reduces duplication of effort | <ul style="list-style-type: none"> -Ensures a distinction between high level and project issues -Roles and responsibilities are well-defined -NEPAD Agency would have greater ability to facilitate and oversee CBN | <ul style="list-style-type: none"> -Represents a new and fresh start -Enhances direct access to Heads of State and ensures that private sector constraints get the requisite airing -NEPAD Agency would have greater ability to facilitate and oversee CBN -Bottlenecks are dealt with directly |
| Risks | <ul style="list-style-type: none"> -External influences may reduce effectiveness of CBN -NEPAD Agency's ability to facilitate CBN may be compromised | -Limited public sector representation in CBN may make effective collaboration and co-operation challenging. | -Likely to result in duplication of effort and membership between various initiatives |



Opportunity: Institutional Investor & Political Agreement on 5% Agenda

- **Institutional Investors:** *Consistent expressions of strong interest in investing in African infrastructure provided risks are mitigated and returns meet performance targets*
 - African Pension Funds: Can serve as anchor investors crowding in peers and international investors
 - International Institutional Investors: Consistent expressions of strong interest, especially in co-investment with host country pension funds
- **Political Leaders:** *Solid commitment to mobilise institutional investment for Africa's infrastructure*
 - Endorsed by Heads of State: 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%”



Addressing the impediments blocking institutional and other long-term investment in Africa's infrastructure

1. Institutional investors (pension funds, Sovereign Wealth Funds, insurance companies) interested in investing in African infrastructure to meet their financial performance requirements (+ US\$ 1.1 trillion in AUM)
2. Real and perceived risks impede their investment - infrastructure development and construction, credit, currency, liquidity, political interference, etc.
3. There are a number of risk mitigation and guarantee instruments that support the financing of Africa's infrastructure

However, low utilisation of DFI risk mitigation instruments to date worldwide

-In 2017 only US\$500 million of DFI guarantees reported for project finance infrastructure projects; US\$ 8 billion from Export Credit Agencies

-All reported DFI guarantees are from World Bank Group

Source: Thomson Reuters Project Finance International Annual Leagues Tables, pp. 77-78.



Unlocking Risk Mitigation Capacity in Africa: Blockages & Opportunities

Current Blockages:

- Partial risk mitigation coverage
- Restrictions (Export Credit Agencies require home country content)
- Complex requirements and extended timeframes for qualification and access to funds

Opportunities to Scale for Africa Infrastructure:

- Private sector insurers & reinsurers interested in expanding political risk insurance and nonpayment insurance to African infrastructure
- Expand political commitment from “*Blended Finance*” to “*Blended Risk Mitigation*” to realize *5% Agenda*
 - Example: *ATI African Energy Guarantee Facility*, a partnership with MunichRe and EIB (EIB provides “second loss” after Munich Re absorbs first loss up to agreed upon annual maximum)



General Proposal on the conceptual formulation of the African Infrastructure Guarantee Mechanism (AIGM)

Why an African Guarantee Mechanism?

- Aimed at mitigating the key risks preventing African and international institutional investors from investing in Africa's infrastructure
- In Africa alone, potential to unlock over US\$25 billion of finance -- almost a fourth of the annual financing gap of Africa's infrastructure
- Used worldwide, potential to unlock billions more in institutional investment

Initial Options from Experts

- **Option 1:** Create a new large-scale *African Guarantee Facility*
- **Option 2:** Crowd-in existing risk mitigation support through an *African Infrastructure Guarantee Mechanism* that serves as a one-stop shop referral system to existing providers of risk mitigation
- **Option 3:** Request existing risk mitigation providers to implement a joint application process managed by the *African Infrastructure Guarantee Mechanism*
- **Option 4:** *Blended Market-Based Scheme using market incentives to catalyse the creation of an expanded African market in specialist infrastructure risk mitigation and reinsurance managed by the African Infrastructure Guarantee Mechanism*



AIGM: Immediate Next Steps

1. Receive feedback on preliminary AIGM Discussion Paper
2. Conduct in-depth discussions with public and private sector providers of risk mitigation, reinsurance, and brokerage functions
 - Define ways to expand coverage and scale to meet pension funds investment criteria
 - Define ways to streamline access to risk mitigation
 - Define optional implementation mechanisms
3. Test approach with Pension Funds in March 2019 Conference (Mauritius)
4. Present AIGM Plan at World Bank Spring Meetings
5. Implement initial mechanism for Pilot Projects
6. Refine based on lessons earned & scale



Overview Implementation Roadmap for the *5% Agenda and AIGM*

September 2017

Launch of the 5% Agenda, finalization and adoption of the 5% *Agenda Business Communique*

December 2018

Undertook consultations and sensitisation among the various stakeholders and building of consensus on the 5% *Agenda*

October 2017

Highlights on 5% *Agenda* at the Annual World Bank Meetings.

January 2018

Adoption of the 5% *Agenda* and decision by the African Heads of State

2018 - 2020

-Held the first Technical Working Group to formulate need for mainstream risk mitigation through ***African Infrastructure Guarantee Mechanism (AIGM)***

-Sensitization of 5% *Agenda* (EAC, governments, DFIs, African & other pension funds)

-Identify supportive countries and develop an implementation roadmap

-Test in Pilot Projects

-Adapt as needed & scale throughout continent



CBN Action Plan- Steps for the implementation of the 5% Agenda

1. CBN members help operationalize the 5% Agenda
 - Provide input on ways to enhance investability of 2-3 PIDA Projects
 - Identify pilot projects for recycling to institutional investors
2. CBN members provide input on AIGM
 - Overall scheme and process for accessing risk mitigation instruments
 - Assessment optimal use of AIGM for 2-3 PIDA Projects
3. CBN members provide guidance on optimal institutional structure



Challenges and Avenues to be explored

- How can we enable **the effective coordination** of Project Preparation Facilities (PPFN), risk mitigation instruments, and **private investors towards the implementation of specific pilot PIDA projects and within the framework of the 5% Agenda?**
- What are **the funding requirements that are necessitated** to apply this integrated approach?
- What CBN **institutional structure** can facilitate its operation and engagement of CBN members in support of PIDA Projects?



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