MOBILISING FINANCE FOR INFRASTRUCTURE
A STUDY FOR THE DEPARTMENT FOR INTERNATIONAL DEVELOPMENT (DFID)

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SUMMARY REPORT

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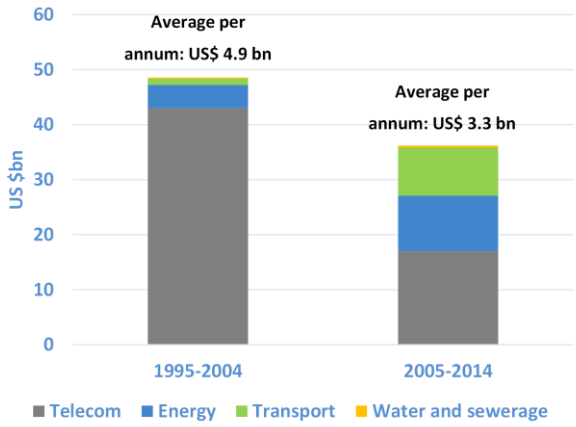
The volume of private financing of infrastructure is insufficient when compared to Sub-Saharan Africa's (SSA) financing needs

The objective of private financing of infrastructure projects (and without the need for governments to offer credit guarantees), is to transfer financing risks to the private sector. This not only frees projects from the constraint of the size of government balance sheets, but also creates 'fiscal space' to finance other public services that cannot be financed privately. But SSA lags behind other developing regions in attracting private finance for infrastructure. Why is this? Is it due more to *a lack of bankable project opportunities*, or *supply-side problems* facing providers of finance? Are these problems upstream (enabling environment) or downstream (inability to execute transactions) in nature?

In the decade from 1995-2004, public-private partnerships (PPPs) in DFID's focus countries in SSA[1] were largely in cellular telephony. There is now more of a spread across sectors, particularly in energy and transport. However, the overall lower annual volume of financing, at just over US$3bn per annum, is well short of the flows required to underpin current and projected rates of economic growth.

Figure 1: The telecoms share of PPP project financing in DFID focus countries shrunk and energy and transport grew between 2005-2014 compared to 1995-2004 (excludes S. Africa).



Source: CEPA analysis.

Private finance is also highly concentrated in certain countries and sectors

Looking behind the headline figures, most recent activity has been concentrated in relatively few countries. For example, excluding South Africa, nearly 40% of projects that have reached financial close since 2010 were located in only three countries: Nigeria (18%), Kenya (11%) and Uganda (10%). Moreover, outside of telecoms, private financing has been concentrated in a few sub-sectors, with specific characteristics:

- In **energy**, in the period 2010-14, **95%** of projects financed (excluding South Africa) were in **electricity generation**. These, as well as projects in the pipeline, mainly involve:
    - Independent power producers (IPPs) selling power through power purchase agreements (PPAs) to typically single state-owned off-takers which effectively underpin minimum levels of demand. Many of these transactions have a cross border element in which the source of generation is in one location with consumption elsewhere, such as the planned Inga (DRC) and Mphanda Nkuwa (in Mozambique with sale of power to Eskom in South Africa) projects.
    - Alternately, power plants can sell power to private off-takers where there is a high level of demand – a so-called 'anchor' – such as for a mine. The planned Moatize coal

[1] All figures are for DFID focus-countries in SSA excluding South Africa, specifically: the Democratic Republic of the Congo (DRC), Ethiopia, Ghana, Kenya, Liberia, Malawi, Mozambique, Nigeria, Rwanda, Sierra Leone, Somalia, Sudan, South Sudan, Tanzania, Uganda, Zambia and Zimbabwe. CEPA also undertook more detailed fieldwork in Ghana, Kenya, Mozambique and Nigeria.

IPP in Mozambique is an example of this.

  - Some projects (such as the Kwale Sugar Plantation in Kenya) combine dedicated private use of power with the sale of excess power not used by their own operations to a public off-taker.

- Nigeria's **seaport sector** has accounted for around **88% by value of all transport projects** in DFID focus countries in SSA for the period 2010-14.[2] Although traffic risk is an issue, as with any transport infrastructure, seaports often have a good commercial business case and access to foreign exchange revenues, which makes them easier to finance. In more challenging transport sub-sectors such as rail, anchor loads from mines or other load drivers tend to be required to achieve commercial viability; for instance, the planned Nacala corridor in Mozambique is based around a railway which will enable more coal to be exported from the Moatize mine.

The ability of governments to originate and prepare projects is a major downstream barrier

A commonly observed downstream barrier is the inability of governments to prepare and package project opportunities. There is often a limited awareness of what is required for private finance to be secured. Poorly packaged projects are too often offered to the market, based on purely technical specifications rather than as a full financial package capable of securing interest from investors and lenders.

Downstream barriers such as limited capacity to originate, prepare and appropriately package projects that meet the requirements of financiers are significant challenges but addressable with donor resources.

Given limited capacity to originate and package opportunities, there is a resulting high reliance on unsolicited proposals (USPs). These are projects identified and promoted by the private sector rather than being initiated by the public sector. They can be often opaque arrangements, not least in terms of how project rights – often worth millions of dollars – are acquired. This lack of transparency makes it more challenging for different development finance institutions (DFIs) to participate in their financing and for donors to provide any required subsidies. This tends to delay project timelines and whereas, at best, the approach can produce one-off successes, government-led programmes show the best outcomes in terms of volumes of transactions concluded. Indeed, SSA's main success stories have come from government-led programmes:

- Since 2005, as a result of its ports concession programme, Nigeria has attracted US$7.2bn of investment in its ports.[3] and the government has raised approximately US$2.5bn through the sale of electricity assets under its electricity privatisation programme.[4] Through these two separate programmes, Nigeria has led the way in terms of asset divestment.

- Kenya's power utility KPLC has gained market credibility through a successful IPP programme, which has included ten closed transactions worth nearly US$2.2bn since 2008.

[2] Two seaport projects: the Lekki Deep Seaport and the Onne Port expansion account for the majority of the investment in Nigeria. The PPI database includes these projects as having reached financial close, but there is some evidence that the projects are still seeking to attract some additional private finance.
[3] World Bank PPI database.
[4] Nigeria Bureau of Public Enterprises.

- South Africa has recently attracted US$14bn to its renewables sector.

Together, these four government-led programmes account for a significant portion of private finance raised in SSA over 2005-14. This suggests a strong correlation between government led PPP programmes and capital mobilisation, when compared to one-off unsolicited transactions.

USPs can bring innovation to infrastructure, for instance in developing new approaches or in developing PPP opportunities on the back of purely private investments.[5] However, countries need frameworks to address their potential downsides, to improve transparency, and to achieve value for money in the absence of a competitive dynamic.

The extent of the resources required to support project preparation activities is often underestimated, with more funding being required to support such activities. Rather than just being grant funded, more of this needs to be recyclable.

Several SSA countries are being supported by donors to strengthen their ability to originate, develop and package projects for private sector investment. The Infrastructure Advisory Facility approach, as undertaken by DFID in Nigeria, has sought to build an understanding of PPP requirements and to prepare the groundwork for success; it has been applied in the energy sector. In countries such as Ghana and Kenya, the World Bank is seeking to replicate the success of the national project development fund (PDF), introduced initially in South Asia, which allows public sector project counterparties to fund transaction advisors to structure and execute PPP transactions. As PDFs are partially revolving, fees charged to successful projects are recycled to support future ones.

Upstream barriers can be more intractable than downstream ones

Unlike in Latin America, and to a limited extent in India, SSA governments have been reluctant to divest operational network assets. Such assets are, however, easier to finance than greenfield ones. In electricity, only generation has been opened up to the private sector (with a few exceptions). In transport, most activity has been focused on ports and airports, the former based around corporate customers and the latter corporates and wealthier households. SSA governments have tended to avoid PPPs with direct retail interfaces, which helps explain the absence of PPP models in direct household service supply (such as electricity and water distribution). This suggests a reluctance to allow models which involve cost reflective pricing. This is not just a PPP issue, but PPPs can bring the payment issues to a head.

A key challenge is gaining acceptance that users need to pay for infrastructure services if they are to be provided at the volume and scale required.

The implications of an absence of cost reflective pricing for the solvency of state-owned off-takers is profound. Given the need to pay market rates for new greenfield generation – some of it of a temporary nature – retail tariffs are sometimes even below wholesale ones.[6] This problem is compounded in countries such as Ghana where Government customers often do not pay for the

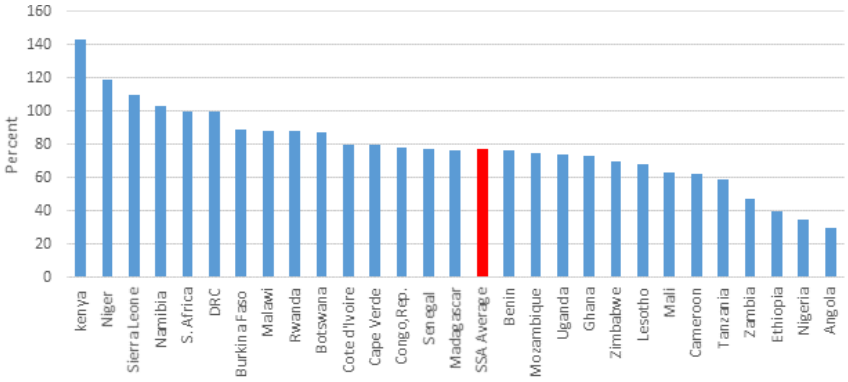
[5] Examples of such unsolicited bids include Lake Turkana in Kenya and Addax Bioenergy in Sierra Leone. The latter was the first IPP and the largest commercial agriculture project and private sector investment in Sierra Leone since the end of its internal conflict.

[6] A number of countries have been provided with temporary power from companies such as Aggreko. However, according to country stakeholders in Mozambique, tariffs charged by such entities can be as high as US$0.15/kWh, which is higher than the retail prices paid by customers.

services they consume. Lenders are understandably reluctant to provide finance to borrowers who are on the edge of bankruptcy (at least without a government guarantee).

The same problems exist in customer-facing road projects, in which there can be a reluctance to pay for services. The Lekki-Epe expressway concession in Lagos was ultimately bought back by government because of the inability to apply cost-reflective tolls. When urban projects with concentrated traffic flows such as this fail, it becomes even more challenging to privately finance large regional transport projects, as the question of uncertainty of future revenue flows is even greater. Nevertheless, such projects are a major ambition of SSA governments for private finance.

Figure 2: On average energy tariffs in SSA are not cost reflective.
Cost recovery: average tariffs as percentage of average historical costs



Source: IMF, Energy Subsidies Reform in Sub-Saharan Africa (SSA): Experiences and Lessons,2013.

Implementing PPPs which impose cost-reflective tariffs and address other difficult issues is a political challenge for governments that often fails to survive political cycles.

However, consumers have been shown to pay for mobile telephony services which has been an unrivalled success story, even in some of SSA's most challenging contexts.

Given increased rates of economic growth, affordability is becoming less of a problem than it was for populations as a whole. Without a greater willingness to pay, however, realised through more cost reflective user charging, infrastructure of the desired quantum and quality simply cannot be delivered. At its heart therefore, the question is as much one of infrastructure *funding* as *financing*.

PPPs create a range of upstream political economy challenges

Political economy barriers to PPP are much more wide-ranging than that of just paying for services. Governments may wish to hold on to state assets for either revenue or political reasons. Too often the private sector is seen as a last resort when government cannot find another way of delivering the project.

In the case of regional projects, there are further complications as projects can benefit countries differently, creating different priorities and incentives. For example, a landlocked country is likely to be more interested in a transport corridor than a country with existing ports.

Longer term solutions require a mix of policy reforms

Investors and lenders need to be confident that projects are bankable. This means that they produce a sufficiently high risk-adjusted rate of return, and that risks are appropriately mitigated and allocated to those best able to manage them. Risk mitigation includes both preventing things from going wrong as well as ensuring that they can be managed should negative events crystallise.

Unless the basic creditworthiness risk is mitigated, private finance will not flow to projects.

The problem with greenfield projects[7], especially in countries new to PPPs, is that is there is no track record that can be relied on that demonstrates the robustness of a project in a downside scenario. In comparison, assets with a track record of performance – or the potential to create a higher level of performance – are typically much more attractive to investors and lenders. Indeed, a key long term reform is for governments to consider opportunities for full (or at least partial) divestments of existing assets. Although not always popular, Nigeria has made hard choices as regards full privatisation of electricity assets, whereas Kenya has partially divested its state-owned generator KenGen, both of which have raised private capital.

As part of the tariff reform necessary in most sectors and countries, subsidies need to be much more focused on poorer groups rather than costly universal benefits. Different sub-sectors also require different types of longer-term reforms. In the power sector, IPPs are typically dependent on the ability of a single off-taker to pay. The creation of power pools, such as the Southern African Power Pool (SAPP) can reduce reliance on one off-taker, reducing risks by allowing power to be sold to alternative customers in the event of non-payment by the primary off-taker. The use of availability structures[8] in transport is one way of securing finance. Under such structures, typically only performance risks are transferred to the private sector, while full traffic risk – for which there is limited risk appetite – is held by government (although this makes government the ultimate payee). Other measures include being creative in terms of the opportunities offered to the market. For instance, it is not only payments from governments and users that can generate returns: packaged property and other development rights in transport projects can improve upside to investors and compensate for downside risks.

In the short term PPPs need the protection of guarantees to attract private capital

The majority of projects involving commercial bank debt have involved the use of PRGs.

Excluding telecoms – which are now financed on a full stand-alone basis – the evidence suggests that the vast majority of greenfield PPPs that have successfully raised commercial bank finance, have done so with the support of partial risk guarantees (PRGs)[9] provided by the main Multilateral Development Banks (MDBs). Similar support can be sought through Export Credit Agency (ECA) support from a participating country. For instance, outside of South Africa, Kenya and Nigeria have the highest levels of private investment in their power sectors – as such, they can be seen as being at the frontier of private financing. In Kenya, five out of seven IPPs closed in the period 2010-15 have required PRG support across a range of government commitments.[10] In Nigeria, four out of four projects have also required PRG support.[11]

[7] During the period 2010-14, excluding telecoms projects and projects in South Africa, over 73% of projects in DFID SSA focus countries were greenfield ones.

[8] In availability structures infrastructure providers are paid for providing assets to a particular standard, rather than by how much they are used or utilised; thus removing demand uncertainty, a particular challenge of greenfield assets.

[9] PRGs provide protection against specific, defined risks, such as non-payment by a government-owned off-taker. They are partial because they do not provide cover for all risks.

[10] This includes the Triumph HFO Plant, the Thika Power Plant, Gulf Power Plant, the Olkaria III expansion and Lake Turkana Wind Farm.

[11] This refers to the Azura Edo and Que Iboe IPPs (both likely to reach financial close in 2015), and the privatisation of Ughelli Power Plant and the Abuja Electricity Distribution Company as part of the World Bank's PRG support for the privatisation of GENCOs and DISCOs in Nigeria.

Unlike credit guarantees, PRGs allow the allocation of different risks to different stakeholders. Commercial performance risks can be transferred to the private sector, whereas governments are required to stand behind their own obligations, such as the responsibility of state-owned off-takers to pay for contracted services. As governments have to indemnify the providers of PRGs such as the World Bank, they help to align interests, given that governments strongly influence the level of retail prices which create the need for guarantees in the first place. Though onerous to governments, they are less so than the commonly used alternative of full faith guarantees in which government is on the hook to lenders irrespective of why a project defaults.

The extent of the coverage of PRGs can be reduced over time as investors and lenders gain confidence in the sustainability of PPP approaches. They have been shown to increase the tenors of finance provided as well as reducing its pricing. There is potential to utilise them more in the case of transport availability structures, in which governments need to stand behind their commitments.

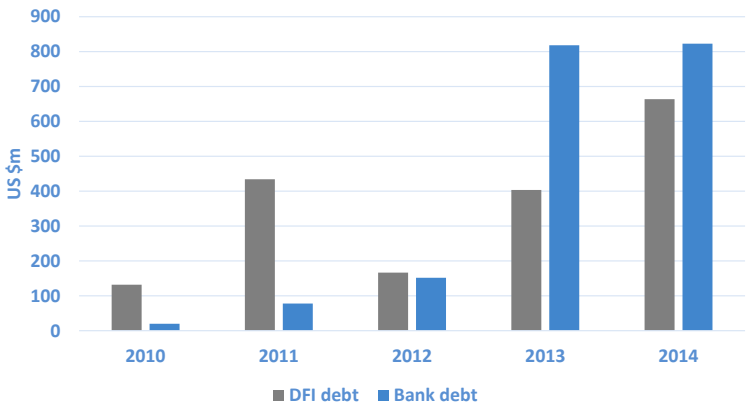
Although political risk insurance (PRI) cover from the Multilateral Investment Guarantee Agency (MIGA) and from national ECAs can also be used without the need for host governments to indemnify the provider, PRGs tend to be available in contexts where alternative approaches are not. For instance, ECA finance requires a national company be involved.

Using concessional International Development Association (IDA) and African Development Fund (ADF) resources (which makes them cheaper than MIGA products) is a cost effective way of deploying subsidy in support of private infrastructure finance. The availability of such funding is, however, limited. Given their role in mobilising private capital – PRGs can support financing commitments of four times the IDA or ADF resource used – consideration could be given on how to scale up their resourcing should the demand for them increase.

Many commercial banks in SSA can now provide long-term foreign currency, but not local currency

Where bankability has been achieved, commercial banks are now increasingly financing projects that previously were financed by DFIs, using long-term foreign currency (FX) finance. In DFID's focus countries in SSA, excluding South Africa, they are beginning to displace the DFIs, although recent totals are affected by a few large transactions.[12] Commercial bank financing is now largely provided by networked banks, which trade

Figure 3: Bank debt has recently surpassed DFI debt as the primary long term finance for projects in DFID focus countries in SSA (excludes South Africa and telecoms projects)



Source: CEPA analysis.

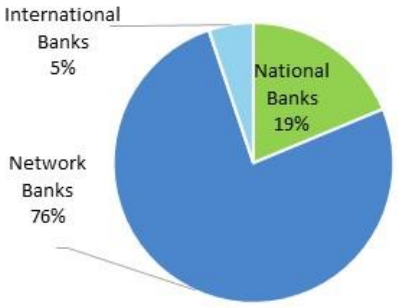
[12] For example, the Lekki Deep Seaport and the Onne Port expansion account for a large proportion of the investment in Nigeria.

Where projects are bankable there are few constraints facing commercial banks, particularly those based in SSA.

across Africa. External European and US international banks without a physical presence in Africa are only a small part of the picture. Most large SSA banks can access long term FX wholesale markets; Nigerian and South African banks are particularly active.[13] Lower levels of finance from external banks may not necessarily be due to regulatory constraints facing foreign banks; rather, locally-based banks are more competitive in their local markets. Even South Africa-based banks have teams seeking to find financing opportunities across the continent.

However, the key difference between India and most of SSA outside of South Africa, is an absence of longer term local currency finance. With the exception of some very rare examples, such as the Lekki toll-road in Nigeria, long term local currency financing has not been involved in transactions. In large part, this is because commercial banks are heavily reliant on their short term deposits for their own funding rather than longer term funds available in FX markets, which creates a tenor mismatch with any longer tenor finance that they would otherwise seek to provide. Although in countries such as Kenya and Nigeria, banks have been able to raise five to seven year funding through bond issues in local currency markets, this compares with the typical twelve year tenors of FX financing provided by commercial banks to projects.

Figure 4: Most bank debt for projects in DFID focus countries comes from banks with operations there, 2010 - 14 (excluding South Africa and telecoms)

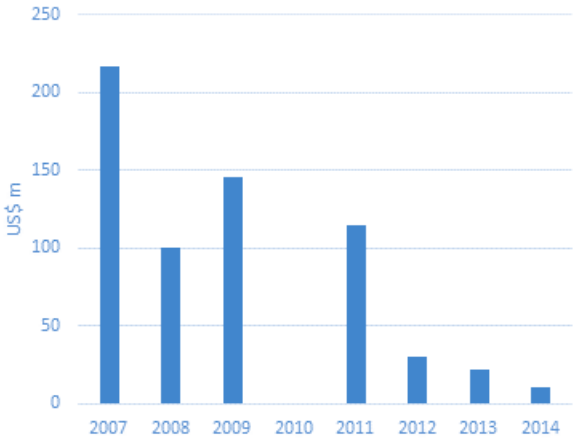


Source: IJGlobal; World Bank PPI Database; CEPA analysis.

Shorter tenors create refinancing risks for projects with longer tenor requirements. Local currency is also typically more expensive than FX, due to higher prevailing interest rates in SSA countries. The absence of term interest rate hedging markets means that projects are at risk from interest rate movements, that can increase financing costs substantially.

Trends in cellular telephony may offer insight into what might be possible elsewhere if similar models are pursued in other sectors.

Figure 5: DFI debt finance to the telecoms sector has fallen significantly in the last few years, 2007-2014.



Source: IJGlobal; World Bank PPI Database; CEPA analysis.

Although other sectors may not follow, because of their particular features (such as less attractive tariffs) the cellular telephony sector does provide some interesting insights in terms of how financing

[13] National banks refer to banks that only have operations in their own country. International banks only export services to SSA.

has evolved within it. Projects were also initially financed by DFIs, as greenfield project financing. As networks have grown, they have been refinanced on a corporate finance basis, using commercial bank debt rather than DFI debt and without the need for guarantees, demonstrating the attractiveness of the telecoms sector as well as possibly the appeal of operational, rather than greenfield assets. This has been provided in a mix of FX and local currency. Local currency tenors have typically been in the five to seven year range.

There is a strong policy rationale for supporting local currency financing solutions

Financing in FX creates significant exchange rate risks that must be borne by customers or governments. The crystallisation of exchange rate risks contributed significantly to the Asian crisis of the late 1990s.

Currency mismatches between a project's receipts and out-goings – particularly between local currency revenues and FX financing costs – can undermine its creditworthiness. Ideally, a project's mix of financing should be matched to its revenues. If local currency financing is to be used, its higher costs need to be accommodated by tariffs (in the same way that exchange rate depreciation costs are reflected in Kenyan retail electricity tariffs). The potential to pass these through to customers, needs to be reflected in contracts and regulatory arrangements. The benefit of this is that local currency financing can act as a hedge against the exchange rate depreciation risks inherent in FX financing, thus reducing volatility in tariff rates and the potential for default. This can be seen as insurance against the risks created by currency mismatches.

As with FX lending, banks will need credit enhancements. There are, however, many DFIs and entities such as GuarantCo that provide local currency partial credit guarantees. If the tenors of local currency financing solutions are to be extended, then as well as addressing credit risk, liquidity risks will also need to be addressed[14] given the nature of the liabilities faced by both banks and institutional investors (such as deposits and pension liabilities – which are not always as long term as commonly assumed). To date, common donor interventions have not focused on addressing the liquidity constraints of both bank and institutional credit providers.

Liquidity as well as credit issues need to be addressed if the volume of longer tenor local currency financing is to be increased.

Potential financing policy interventions include greater provision of liquidity instruments such as 'put options' by DFIs, which enable banks and investors to exit performing investments, if they need liquidity. DFIs could also explore the potential to use their own balance sheets more to raise longer term local currency finance through local market issues, to on-lend direct to projects or else to provide wholesale funding to local banks. Where this creates additional risks for DFIs, donors may need to risk share in this.

Provision of currency swaps is another solution

The other way to deal with currency mismatches is to utilise currency swaps, in which borrowers effectively borrow in local currency, but investors have exposures in FX. The Currency Exchange Fund (TCX) is a donor-backed initiative which aims to create longer term swap markets in more exotic currencies, which do not exist at the moment. This enables projects to benefit from the lower cost and longer tenors of FX financing, whilst mitigating the resulting exchange rate risks. To date, however,

[14] Credit risk is the risk of a project defaulting; liquidity risk is that of financiers being unable to liquidate their performing assets in the event of a need for cash.

TCX has had only limited involvement with infrastructure projects, despite its objective of doing more. There is therefore an opportunity to support it in the infrastructure sector.

As with local currency, attracting institutional finance requires a different approach

The project financing approach is badly matched to the needs of institutional investors.

The types of infrastructure sub-sectors open to private investment, such as electricity generation, tend to lend themselves to project financing approaches. The model observed is one in which the project remains unlisted (reducing its liquidity for both debt and equity), with lenders coming into the transaction at financial close and then typically holding the asset to term. A feature of unlisted equity is that its lack of liquidity makes it more expensive, with equity internal rates of return being typically over 20%. This approach also essentially locks out opportunities for most equity and debt institutional investors.

This is because apart from in the case of highly specialised investors, institutional investors such as pension funds require *operational* and *liquid* assets, not *greenfield, illiquid* ones. This is not just the case in DFID's focus countries, but also in developed countries. In these countries, most debt institutional investors will seek opportunities for investment when a project is refinanced, once construction and other implementation risks have been successfully managed. Historically, institutional debt financing of greenfield projects was only achieved with the support of monoline credit insurers, most of whom have withdrawn from the market following the global financial crisis.

Investment through funds may attract institutional investment

Attracting institutional debt finance to greenfield assets remains close to impossible without strong credit enhancements to mitigate risks and / or the creation of structured funds including first loss capital.

Although some specialist international institutional investors will invest without investment grade credit ratings, most require them, particularly pension funds.[15] As most host countries in SSA do not have investment grade ratings, individual projects also cannot achieve such a rating as it is not possible to 'pierce the sovereign ceiling'. The only way that projects can do so is through credit enhancements, in which the provider's own rating improves the rating of that of the borrower.

International institutional investors also require 'large ticket' opportunities. This mean that projects either have to be very large, multi-billion dollar opportunities or else fund investments, which invest in a pool of different assets. Larger regional projects with strong off-take, such electricity generation for the South African market, are some of the largest and most bankable projects available. It is, however, not clear whether sufficient credit enhancements would be available to make such projects viable for institutional investment at financial close.

The alternative is to seek institutional investment through debt funds, as has already been the case for greenfield equity investment through specialist private equity funds. As well as offering opportunities for larger scale investment, well-diversified asset portfolios also improve risk profiles. However, such portfolios would need to be more diversified than just SSA assets if higher grade investment ratings were to be achieved. Even then, a degree of credit enhancement, say through

[15] In 2014 there were two successful sub-investment grade international bond issues by two Nigerian infrastructure companies: Helios Towers and Seven Energy. The former was for a US$250m, five year, senior unsecured bond with an 8.375% coupon, rated B by S&P. Over 80% of the offer was taken up by fund managers, predominantly from the UK.

partial credit guarantees, would be required. IFC is currently leading a programme which is seeking institutional investment in a diversified pool of greenfield infrastructure loans, utilising its global ability to originate opportunities. Sida is also looking at ways of using pooled fund approaches for both debt and equity investment.

A more SSA-focused initiative could help mitigate risk by incorporating a tier of first loss capital to compensate for the additional risk. As with the Emerging Africa Infrastructure Fund, in which donors have injected first loss equity into its financing structure, this would protect other investors from risks by acting as a cushion. DFID's new development capital could potentially be used to provide first loss capital to structured funds, although it remains to be seen whether this would sufficiently mitigate credit risks. Liquidity risks may also need to be addressed.

Exploring more radical recycling of capital approaches is another way of creating opportunities for both local and international institutional investors

An alternative, although not mutually exclusive approach, would be to focus more closely on creating the types of investment opportunities in operational and liquid assets desired by a greater range of institutional investors. In more developed markets, project finance banks provide debt finance during the construction phase of projects, charging a higher rate of interest to do so, then seek to be refinanced once the project is operational. As set out, it is at this point that a wider range of institutional finance becomes interested. In principle, this approach could be pursued for both FX and local currency financings, with DFIs playing the role of the project finance banks. Donor first loss capital could help them mitigate the additional risks which would be involved in moving from their more traditional model.

A mix of first loss donor capital, together with DFI finance could be targeted on creating more local currency institutional investment opportunities in SSA.

Local currency institutional financing does not face the same issues regarding the need for credit ratings; neither is scale such an issue. However, they are looking for local currency yields which are higher than FX ones. They are also interested in local currency assets as they are better matched to their long term local liabilities (such as pensions) than FX ones (where they would have to deal with long term exchange rate mismatches). As long as projects can demonstrate a track record they would likely be attractive to such investors.

They will usually be interested in longer term assets than banks; however, they do like liquidity, not just to meet unforeseen changes in the profile of their liabilities, but also as they do not wish to miss out on more attractive alternative opportunities. Therefore, the listing of both infrastructure debt and equity instruments on local exchanges is attractive to them; making infrastructure more similar to other asset classes.

Additionally, raising equity finance on local markets would likely help with pricing, as there would not be a need for a country risk premium. There is already evidence that corporate financing by established entities has the greatest ability to attract local currency institutional investment. In Kenya, the partial divestment of KenGen has attracted local equity investors. In addition, a local currency bond offer was also heavily subscribed, without any form of government enhancement.

In conclusion, creating bankable project financing opportunities is by far the most immediate policy challenge and remains a priority. But enabling infrastructure to access local currency financing and

institutional markets, as opposed to the long tenor foreign exchange finance offered by DFIs and increasingly by SSA-based commercial banks, requires additional bespoke policy responses.

Summary of research brief

Is the main blockage to increased private infrastructure investment in DFID focus countries in SSA attributable to the lack of a pipeline of bankable projects and/or a lack of available finance?

A. On bankable projects
   i. What are the main blockages to developing a pipeline of bankable projects? Are the principal barriers due to upstream or downstream issues?
   ii. What are the policy interventions to address the constraints?

B. On access to finance
   i. What are the main types/ sources of finance for projects reaching close?
   ii. What are the principal barriers to increasing the provision of finance to infrastructure projects from both local and international financial institutions?
   iii. Could the provision of public subsidies support the increased provision of finance?

C. We also considered the extent to which above questions differ in the case of regional projects.