

# AfDB IDEV-Norad Financing Private Sector Development

30-31 October 2017

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**NEPAD  
BUSINESS  
FOUNDATION**

# Role of the NEPAD Business Foundation

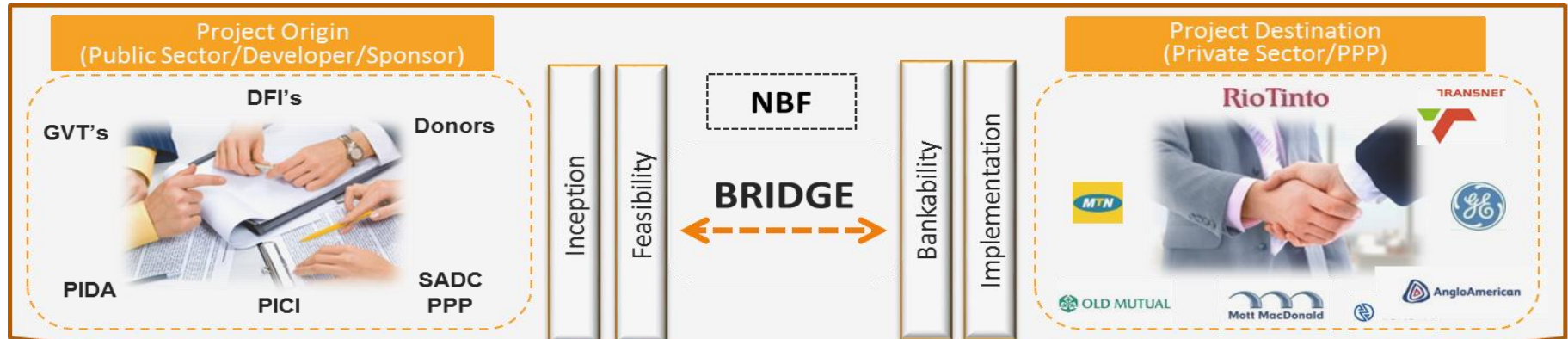


## Who We Are:

We are a pan-African non-profit organisation which mobilises private sector to drive economic growth aligned to the NEPAD Strategic Framework

## What We Do:

The NEPAD Business Foundation (NBF) plays the role of neutral facilitators that work with you to support strategic projects of sustainable developmental importance that deliver real impact across the African Continent



## NBF Stakeholders

- Regional Economic Communities (RECs)
- NBG/Continental chambers of commerce
- Development agencies/DFIs / Donor agencies
- African governments



MOUs

## AU/NEPAD/REC Structures

- Assembly of the African Union (AU)
- NEPAD HSGOC
- NEPAD Steering Committee
- NEPAD Planning and Coordinating Agency
- Southern Africa Development Community (SADC)

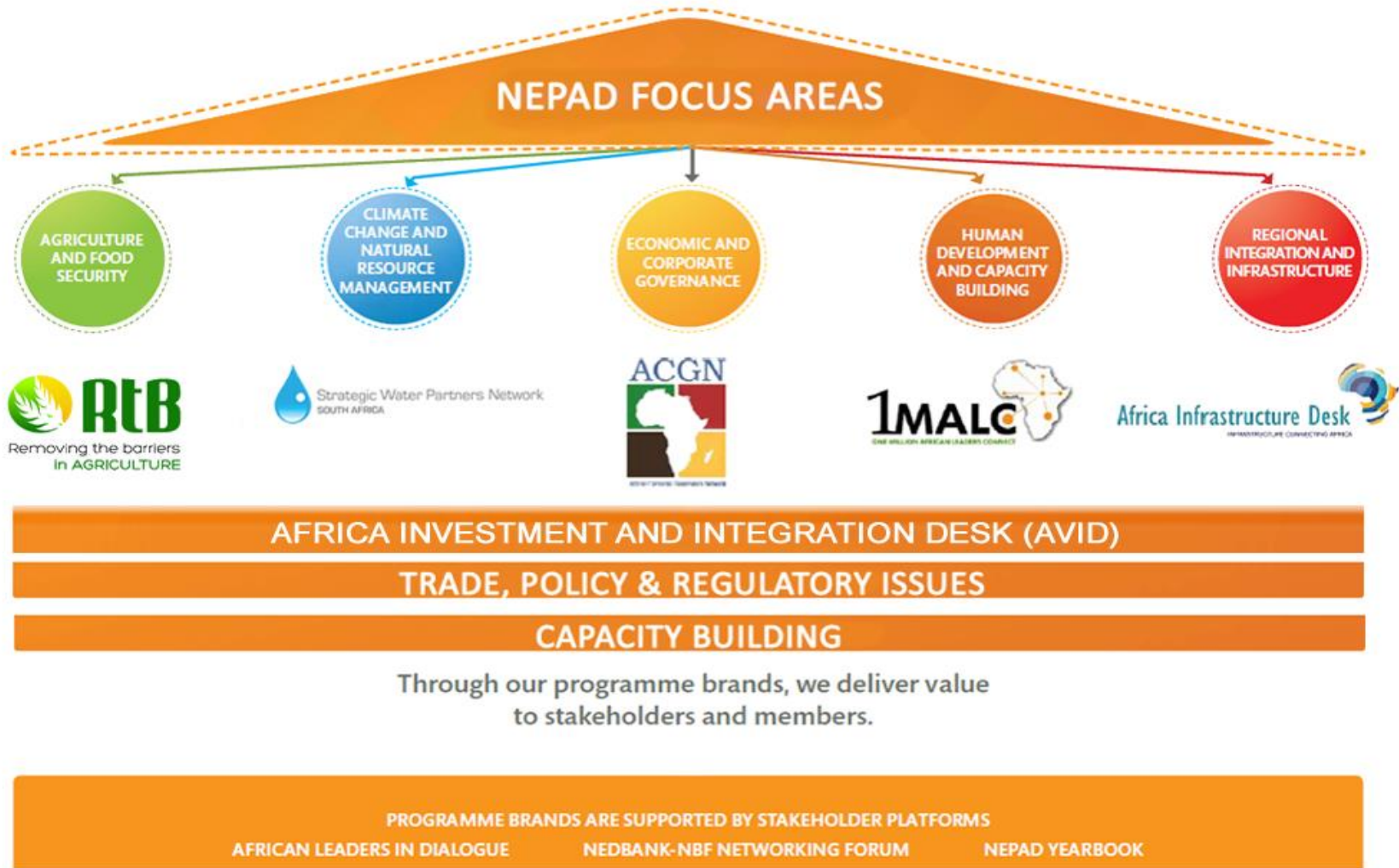
# NBF Programme Focus Areas



NBF programmes mirror the continental level NEPAD Planning & Coordination Agency (NPCA) Thematic Focus Areas

NPCA

NBF





# Continental Integration – Halfway towards it...

## A common market spanning half of Africa

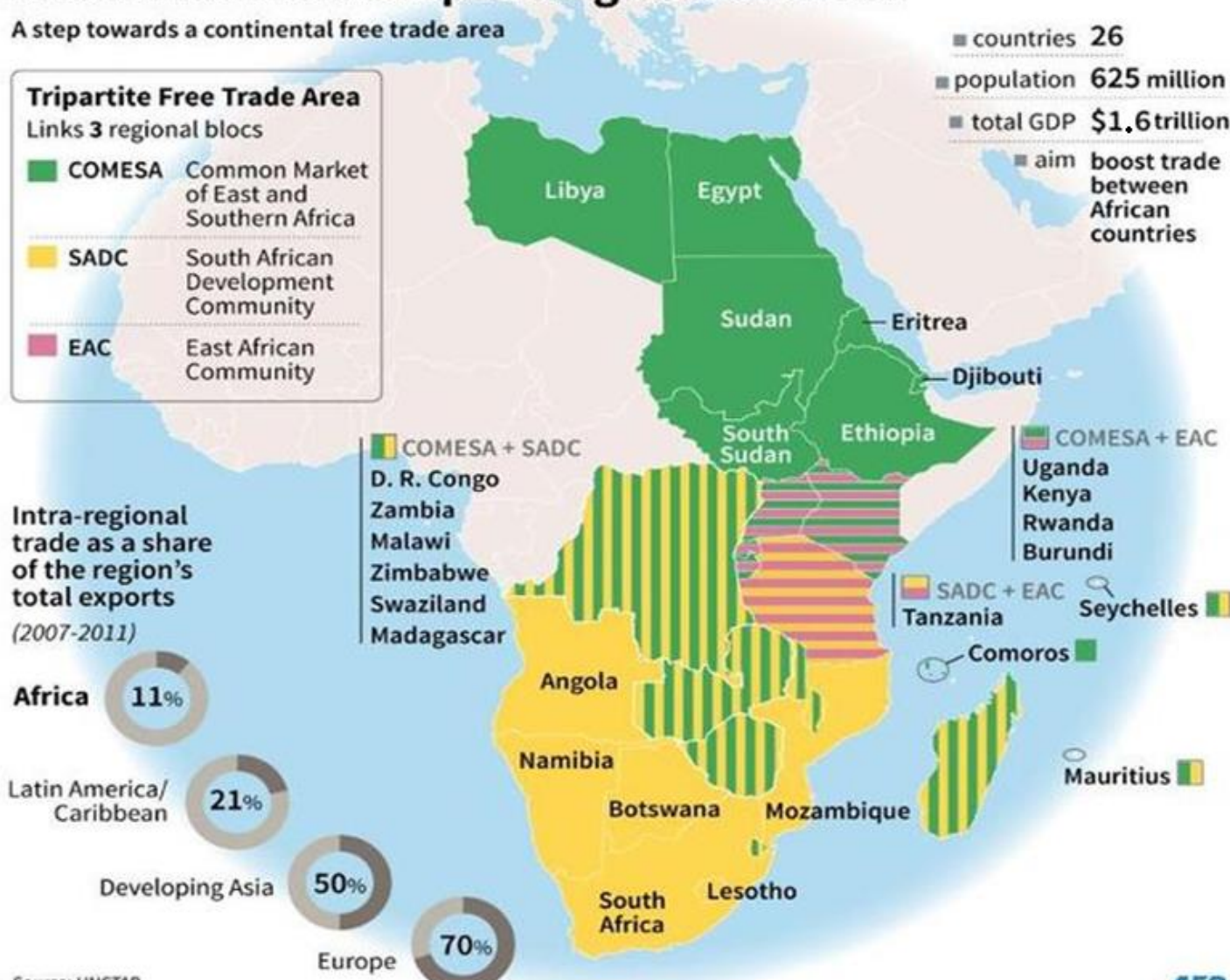
A step towards a continental free trade area

### Tripartite Free Trade Area

Links 3 regional blocs

- **COMESA** Common Market of East and Southern Africa
- **SADC** South African Development Community
- **EAC** East African Community

- countries 26
- population 625 million
- total GDP \$1.6 trillion
- aim boost trade between African countries



The Tripartite Free Trade Area (TFTA) Agreement has been signed by the 22 of the 26 Member States:

Angola, Burundi, Comoros, Democratic Republic of Congo (DRC), Djibouti, Egypt, Kenya, State of Libya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Tanzania, Uganda, South Africa, Swaziland, Zambia and Zimbabwe.

Only Egypt and Uganda have ratified to date.





# Private Sector's Role in Industrialisation

- Private sector generates an estimated **70% of Africa's** output, approximately **two-thirds of its investment** and **90% of employment** on the continent.  
(Source: African Union)
- Private Sector perspectives must be considered in the generation of the regional industrialisation plan because it may influence:
  - **Target industries** and supporting cross border **value chains**
  - **Infrastructure requirements** for energy, water, transport, etc
  - **Policy/legal amendments** required to enable investment
  - Practical **incentives** required to enable investment
- Private Sector can provide useful information and successful examples with regard to value chain management and the **involvement of SMMEs** in those chains, including the description of on-the-ground-challenges and solutions on value chain management of different commodities.
- **Local content requirements** : supplier development and inclusive business models encouraged



# Barriers to Private Sector Development in Africa

## Constraints to business, trade and investment:

- Access to and cost of finance
- Tax rates and/or administration
- Access to skilled labour
- Economic and regulatory policy uncertainty – including licenses, authorizations, permits, and inspections
- Exchange rate/foreign currency fluctuations
- Customs regulations, procedures and bureaucracy
- Inefficient bureaucracy
- Non-tariff and other trade barriers
- Supply of reliable and efficient infrastructure
- Lack of market competition
- Corruption

(Various Business Guides)



# Types of Constraints

## Access to resources, factors of production

- Skills
- Finance
- Water, energy



ADMINISTRATION

## Administrative burdens

- Bureaucratic institutions
- Customs, regulations, procedures



## Non-tariff and other trade barriers

- Transport, ICT & Logistics
- Import quotas, subsidies, customs delays, technical barriers
- Various systems preventing or impeding trade

## Market inefficiency

- Competition
- Corruption



**Clearly, there is overlap amongst the types of constraints**



# Addressing administrative burdens

## Simplify Administrative Process

**CUT / RED TAPE**

Administrative burdens refer to regulatory costs in the form of:

- Requiring permits
- Filling out forms
- Reporting and notification requirements for governments.

## Impact of excessive regulation that can be redundant or bureaucratic

- Hinders action or decision making
- Filling out unnecessary paperwork and complying with excessive administrative procedures and requirements such as licences
- Unnecessarily limit innovation, trade, investment and economic efficiency in general
- Opens up avenues for corruption and bribery
- Added costs eventually passed onto consumers

**CAUTION**

# Addressing administrative burdens

## What is required to fix this?

- Regulatory management reform to improve the framework of the administrative system,
- Organisational reengineering eg. Single Window at border posts
- Use of information and communication technologies (ICTs) eg. central online site to fill in forms to ease cross border freight
- Better information on the delivery of services and administrative requirements
- Coordination of multiple requirements stemming from the public administration.



# Export Documentation in SADC - example



# Export Documentation

Vendor  
Export  
Import  
Total

Nr of Documents	Nr of pages
6	29
24	506
21	66
<b>51</b>	<b>601</b>

10 – 15 days lead time

Invoices = 5

Sets = 7

SADC certification = 28

Customs Stamps = 84

Customs Signature = 56

Export Documentation = 83

Nr of Pages = 634



Total Non SADC Load

**Plus:**

SADC invoices

SADC Certificates

Total

Nr of Documents	Nr of pages
51	601
+ 4	+ 5
+ 28	+ 28
<b>83</b>	<b>634</b>

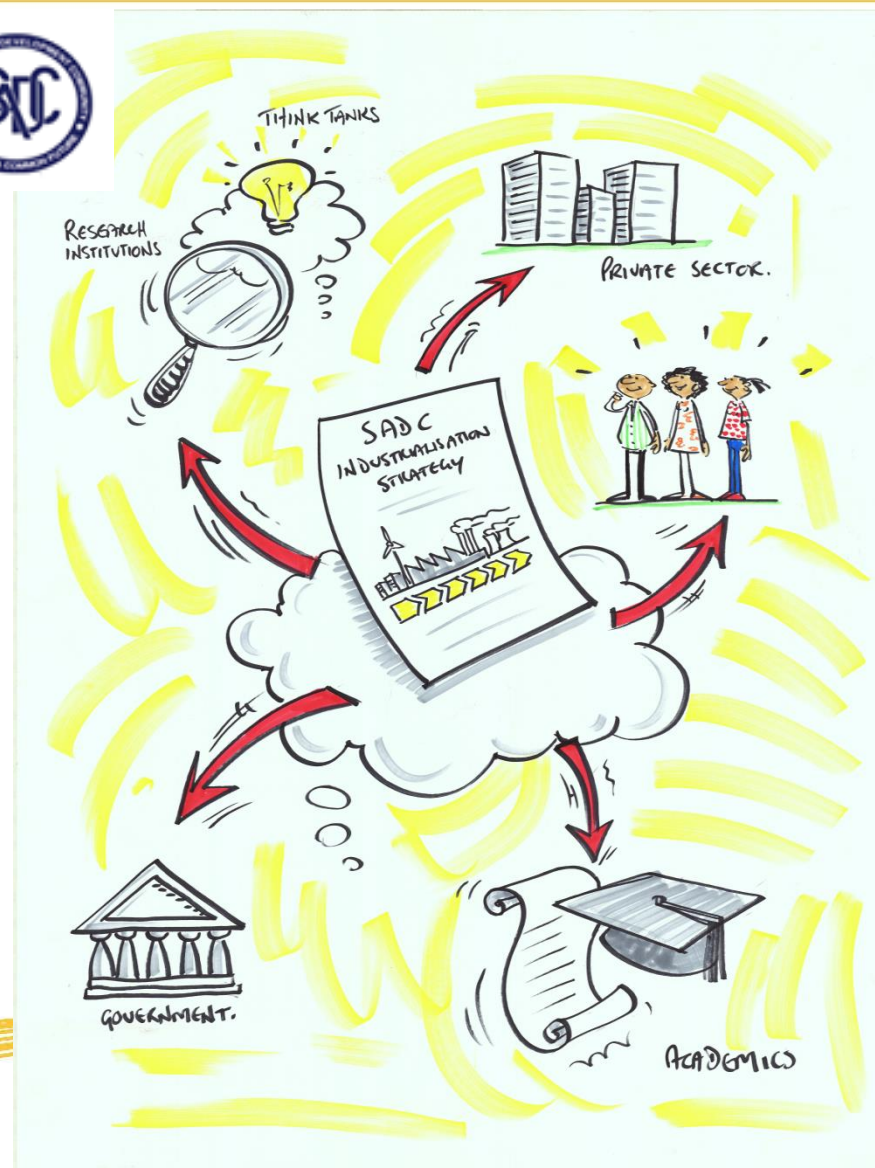
10 – 12 days lead time

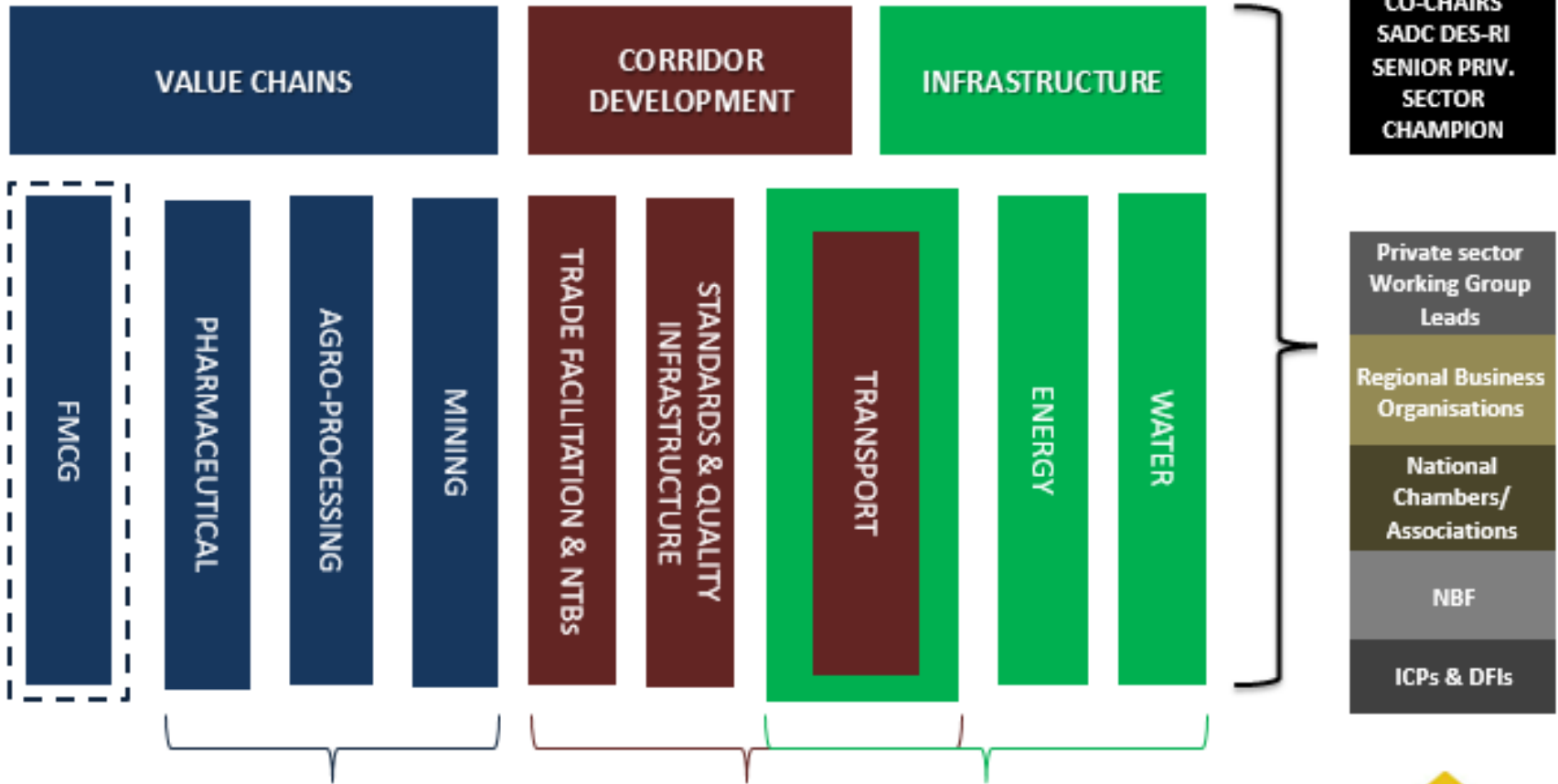


# SADC's Regional Integration Priorities

## Regional Policies Relevant to the Privat Sector

- Regional Indicative Strategic Development Plan (RISDP) – SADC's blueprint for regional integration (2005) and Revised (2015)
- Regional Infrastructure Development Master Plan (2012)
- SADC Industrialisation Strategy and Roadmap
- SADC Industrialisation Action Plan
- SADC Implementation of WTO Trade Facilitation Agreement
- Regional Agricultural Plan and Regional Agricultural Investment Plan
- SADC Regionalisation of African Mining Vision





Issues are driven through SADC processes



## Addressing non-tariff barriers (NTBs)

- **Hard and soft infrastructure shortcomings** must always be addressed together.
- **Policy certainty, including stability, predictability, consistency and transparency** is a prerequisite to attract investment for regional industrialization, regardless of sector or scale.
- **Prioritization and sequencing** is the key to successful implementation. Prioritization should take into account geographical links, opportunities for incremental implementation to allow for short-term gains, and industry-specific requirements to support priority value chains.
- **Enabling trade** through the removal of non-tariff barriers, coordinated border management and a solid regional transit system is a prerequisite for industrialization in all sectors.



# Trade Facilitation Working Group– Next Steps

- Mutual Recognition/Accreditation Programme
- SIRESS Corporate payments= 14 countries / 73 banks
- Centralised clearance through Corridors via Corridor Authorities (e.g., motor vehicle licensing).
- SADC Invoice Declaration
- Enhancing policy certainty through the standardised use of tariffs, fees and levies
- Non-tariff barriers should be logged via the NTB Monitoring Mechanism
- Retailer Standards: Standards drafted to customise certification at plant level (Global Capacity Builders Programme, ties to Global Food Safety initiative – being undertaken by CGCSA)

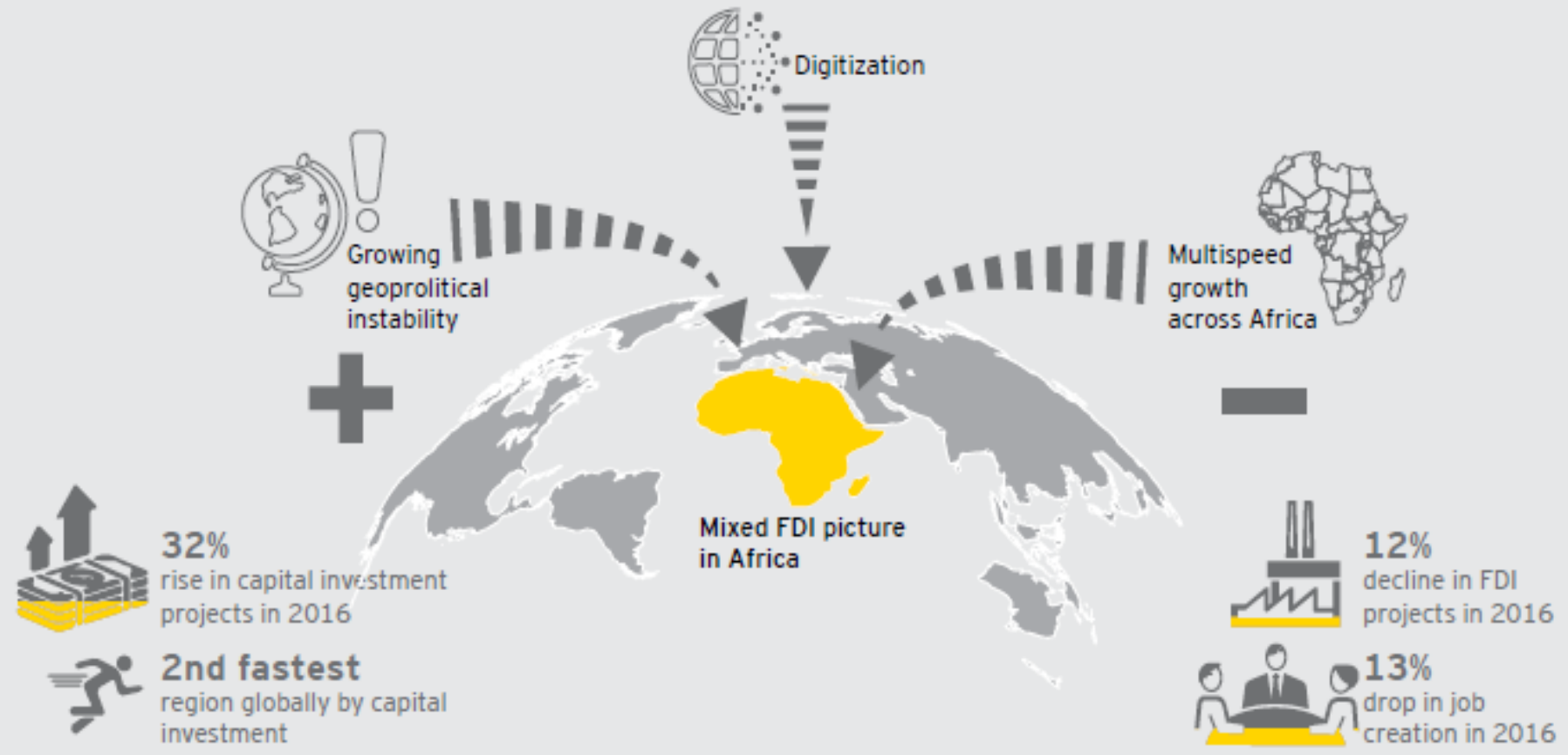


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# **Foreign Direct Investment in Africa 2016**

# FDI in Africa - 2016

Heightened global uncertainty results in uneven FDI landscape for Africa

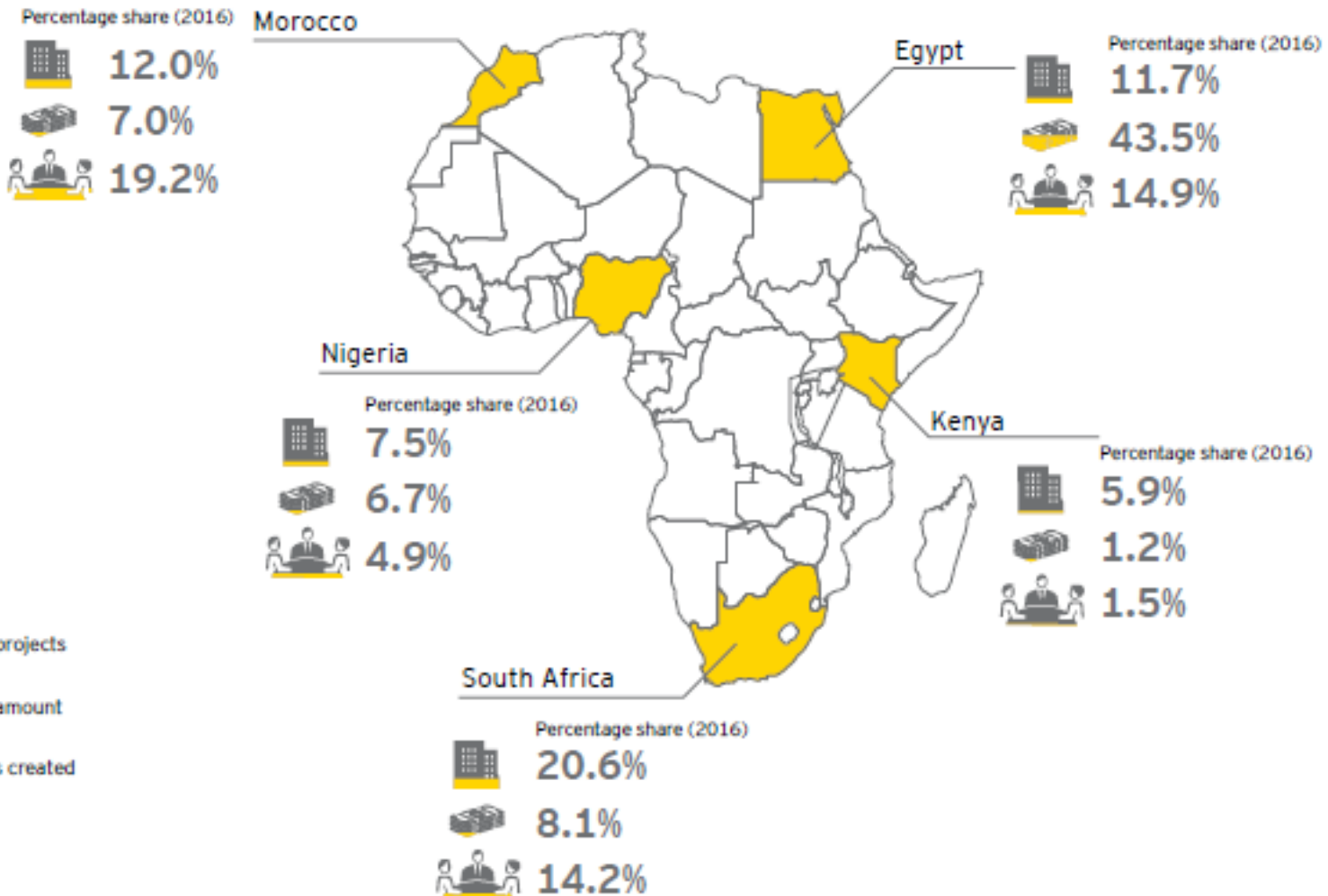


Source: fDi Markets.

"Global investment climate faces a stormy outlook for 2017," fDi Intelligence website, [fdiintelligence.com/locations/global-investment-climate-faces-a-stormy-outlook-for-2017](http://fdiintelligence.com/locations/global-investment-climate-faces-a-stormy-outlook-for-2017), accessed 7 March 2017.

# FDI in Africa - 2016

Africa's hub economies account for the majority of FDI



# FDI in Africa - 2016

China picks up pace in Africa amid uncertainty around US policies and Brexit.



US



UK



China



Japan

Two of the biggest traditional investors face domestic uncertainty on account of Brexit and policy changes under President Donald Trump.

Asia-Pacific has become a more visible FDI investor.

**#1**
















China emerges as the largest jobs creator.

**125%**

Year over year rise in Japanese FDI projects.



# FDI in Africa - 2016

Source country	FDI projects			FDI investment (US\$b)		Jobs created from FDI	
	2016	2015	Percentage change	2016	Percentage share	2016	Percentage share
 US	91	96	-5.2	3.6	3.9	11,430	8.9
 France	81	58	39.7	2.1	2.2	8,087	6.3
 China	66	32	106.3	36.1	38.4	38,417	29.7
 UK	41	77	-46.8	2.4	2.5	2,383	1.8
 UAE	35	50	-30.0	11.0	11.7	8,109	6.3
 South Africa	29	33	-12.1	1.6	1.7	2,925	2.3
 Japan	27	12	125.0	3.1	3.3	6,630	5.1
 Switzerland	27	18	50.0	0.5	0.6	1,557	1.2
 Spain	23	16	43.8	0.8	0.8	2,049	1.6
 Italy	20	16	25.0	4.0	4.3	2,137	1.7
 Germany	19	38	-50.0	0.4	0.4	2,389	1.8
 India	18	45	-60.0	1.2	1.2	1,924	1.5
 Morocco	17	14	21.4	4.8	5.1	3,957	3.1
 Kenya	14	36	-61.1	0.1	0.1	462	0.4
 Nigeria	11	14	-21.4	0.4	0.4	732	0.6

# Capital markets in Africa

- Liquid, efficient capital markets are important enablers of investment into Africa
  - ❖ Capital raising
  - ❖ Refinancing
  - ❖ Exit mechanism
  - ❖ Treasury management
  - ❖ Hedging of currency, interest rate, equity and commodity price risks
- African capital markets growing but remain underdeveloped – a number of challenges:
  - ❖ Huge array of regional, asset class, and market access initiatives – but not sufficiently aligned
  - ❖ Private sector voices not sufficiently heard, often consulted late in the process, so that emerging priorities often not aligned with commercial requirements

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# **Private sector requirements for investment**

# Private sector requirements

Huge opportunities abound in Africa... strategic programmes such as PIDA/PICI and CAADP, as well as AfDB's new Africa50 fund, seek to facilitate investments on a large scale

However, four key needs not being adequately met today:

- ❖ **Information** – what, where, when are the project opportunities
  - ❖ **Project Preparation** – transforming an opportunity into a feasible, bankable project that meets investors' requirements
  - ❖ **Matching** – linking financiers and investors to project owners and technical players.... whether in consortia, as PPPs, or as third party investors
  - ❖ **Coordinating with the public and DFI sector** – building the required government and regulatory support for the project, and benefiting from DFI products and services
- 

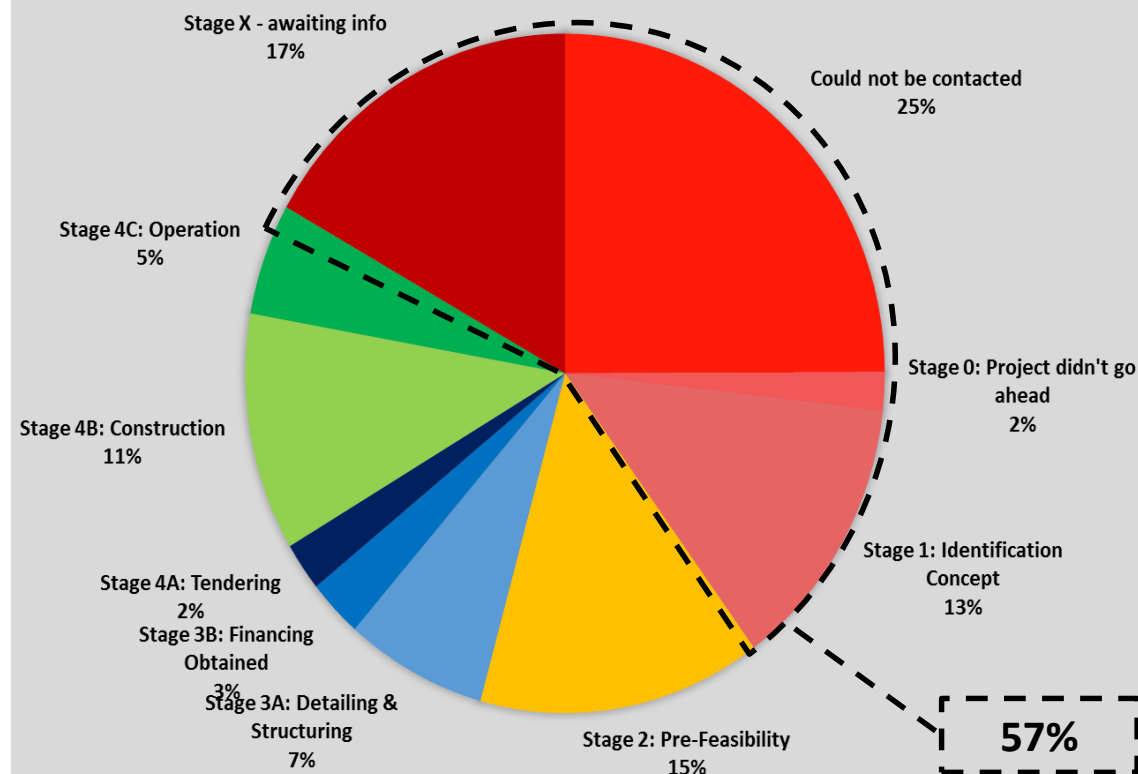


# Over 50% of Infrastructure Projects are still at early stage



## DEVELOPMENT OF PIDA INFRASTRUCTURE PROJECTS

(433 PROJECTS ASSESSED)



### OBJECTIVE:

1. To support the implementation of regional infrastructure masterplans (e.g. PIDA, SADC RIDMP) and projects by mobilising the private sector

### NBF ACTIVITIES

1. Project champion to drive the implementation of priority regional projects by leveraging the private sector
2. Facilitate preparation of infrastructure projects through early stage engagement of the private sector
3. Joint effort with financiers to solve strategic infrastructure issues in Africa

### EXPECTED OUTCOMES

1. Public project Sponsors receive services and infrastructure from the Private Sector that they expect/require
2. Private Sector is able to submit good proposals to Public Sector that satisfy their expectations and achieve value for money
3. Continuity/progress on priority infrastructure projects on the continent

### CHALLENGES:

- Lack of project development expertise (technical, financial, legal)
- Shortage of project development capital
- Bad investment climate
- Weak project champions

# NBF Solution



Inclusive and Sustainable Economic Growth  
*"Business for development"*

Objective : Mobilise private sector development to engender long term sustainable economic and social growth in Africa

Trade, Investment and Market Development

NBF Services  
Interventions

## Enabling environment

Policy, regulatory harmonisation, Trade facilitation

## Infrastructure

Transport  
Water  
Energy  
ICT

## Finance & investment

Business matchmaking  
Project pipelines  
Fund management

## Market development

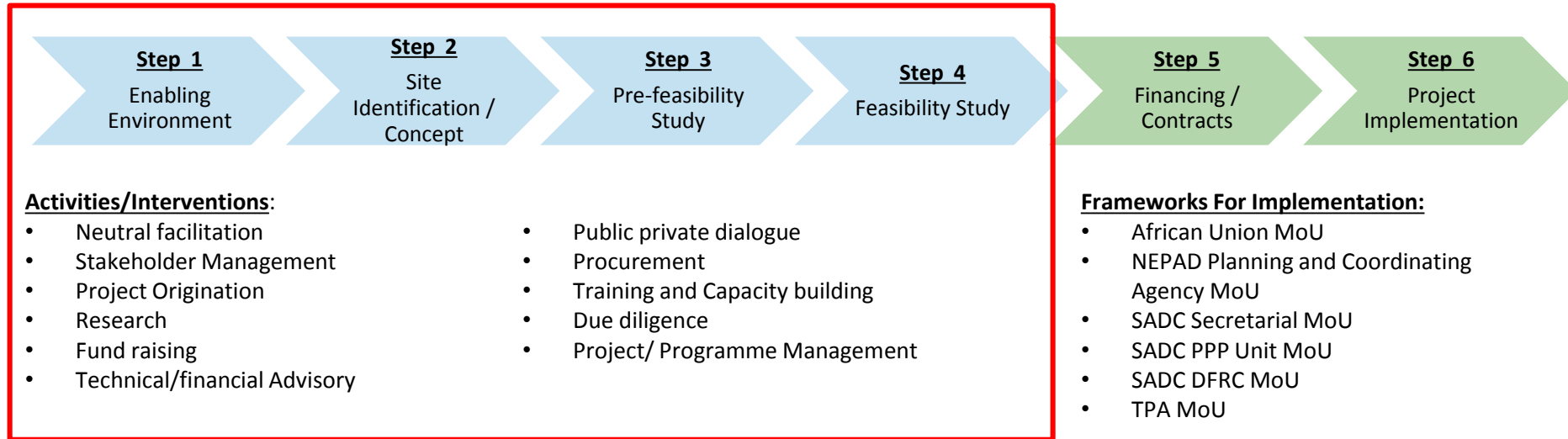
Market analysis  
Market access  
Local economic development  
Local supply chains

Sustainable Landscapes

# NBF's Early Stage Involvement



## PROJECT LIFE CYCLE



## PROJECTS UNBLOCKED AND OPPORTUNITIES OPENED

### Outputs:

- Project origination and portfolio tracking
- Project due diligence
- Assistance with Project Preparation for Pre-Feasibility and Feasibility Studies (incl scoping, funding, procurement, technical advisory, early stage financial structuring, etc)
- Assistance with enabling legal, policy, institutional environment
- Assistance to develop supporting markets

### Outcomes:

- Progress on priority transport projects (km)
- Progress on priority water projects (litres)
- Progress on priority energy projects (MW)

### Impact:

- Improved regional integration
- Improved economic environment
- Reduced cost of business
- Local Economic Development

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# **North South Rail Corridor Case Study**



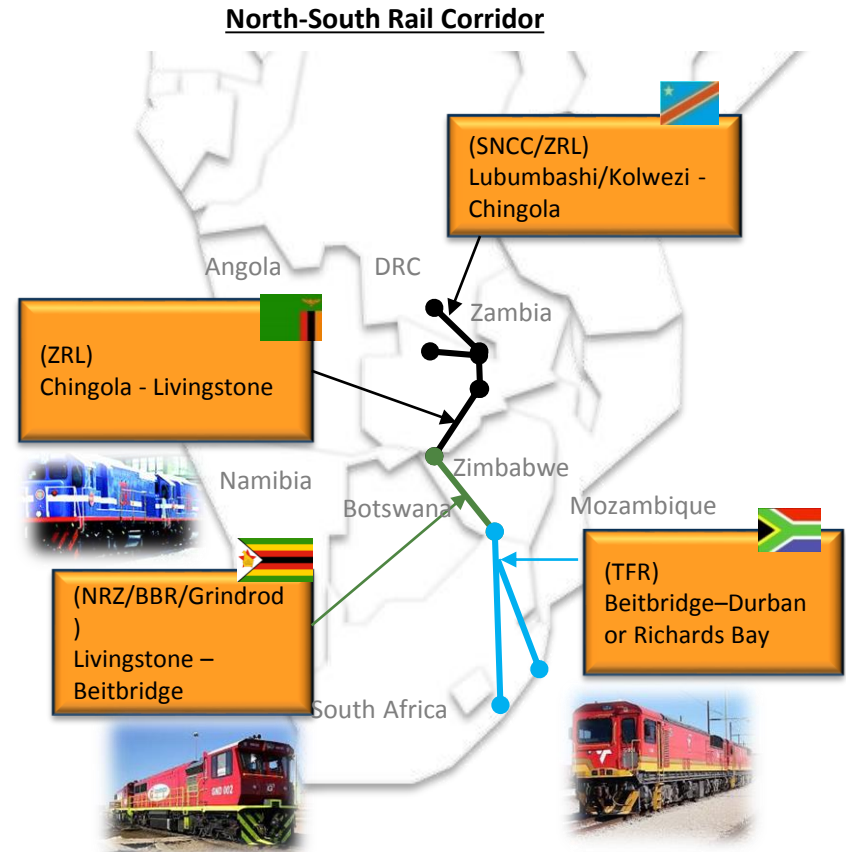
# Proof of Concept: North-South Rail Corridor

## Problem Statement:

- NSC Rail freight market share is less than 10%
- Lack of co-ordination between the respective operators (4 countries / 5 operators) resulting in a non-competitive transport solution due to:
  - Service delivery challenges
  - Operational Challenges
  - Infrastructure challenges
- Infrastructure, equipment and safety challenges
- Limited available funding

## Expected Outcomes:

- Rehabilitation and upgrade of the existing infrastructure and equipment
- Seamless rail logistics corridor that will promote the migration of traffic from road to rail
- Innovative funding strategy for the entire corridor
- Operational and maintenance strategy that will allow efficient, safe and competitive operation of trains.
- Clear value proposition for why governments and private sector should invest in rail infrastructure and equipment



Sources: Trademark SA, Afri-ID, 2013

## Successes YTD

Improved coordination facilitated by the NBF the NSC corridor has already resulted in a reduction of transit times

2013 Transit Time

**15 Days**

2016 Transit Time

**7,5 Days**

# THE NORTH-SOUTH RAIL CORRIDOR

DELIVERING A SEAMLESS, SAFE, PREDICTABLE, RELIABLE AND COMPETITIVE RAILWAY SERVICE



## RAIL CORRIDOR OBJECTIVES



**FUNDING:**  
Innovative funding model for the corridor



**OPERATIONS:**  
Seamless railway service



**ROLLING STOCK:**  
Improved rolling stock reliability and availability



**FREIGHT VOLUMES:**  
Achieve growth in freight volumes to over 20% in market share by 2020 (short-term)



**INFRASTRUCTURE:**  
Rehabilitation and upgrade of infrastructure

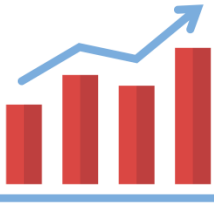


**EXECUTION PLAN:**  
Take practical and feasible initiatives to attract volumes



**PROJECTS:**  
Identification of short, medium and long term OPEX and CAPEX projects that are feasible

## RAIL CORRIDOR BENEFITS



- A single coordinated operating, infrastructure and financing plan across **6 countries** endorsed by **7 rail operators**
- Rail market share anticipated to grow from under **5%** (2014) to over **20%** (2020)
- Total corridor volumes (road + rail) anticipated to grow to **13.6 million tonnes** (2020) and **40 million tonnes** (2040)

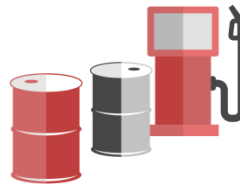
- Improved **regional integration** and collaboration across 6 countries
- Local economic development and **Job creation**
- Reduced **import and export cost** of goods
- **43 000** avoided annual HIV infections



The North South Rail Corridor will contribute significantly to the mitigation of **carbon emissions** and energy efficiency in Southern Africa



- **2.6 million tonnes** of carbon dioxide will be avoided annually.
- This carbon savings equates to annual sequestration achieved by over **230 000 ha** of forest.
- Annual savings of **618 million litres** of diesel.



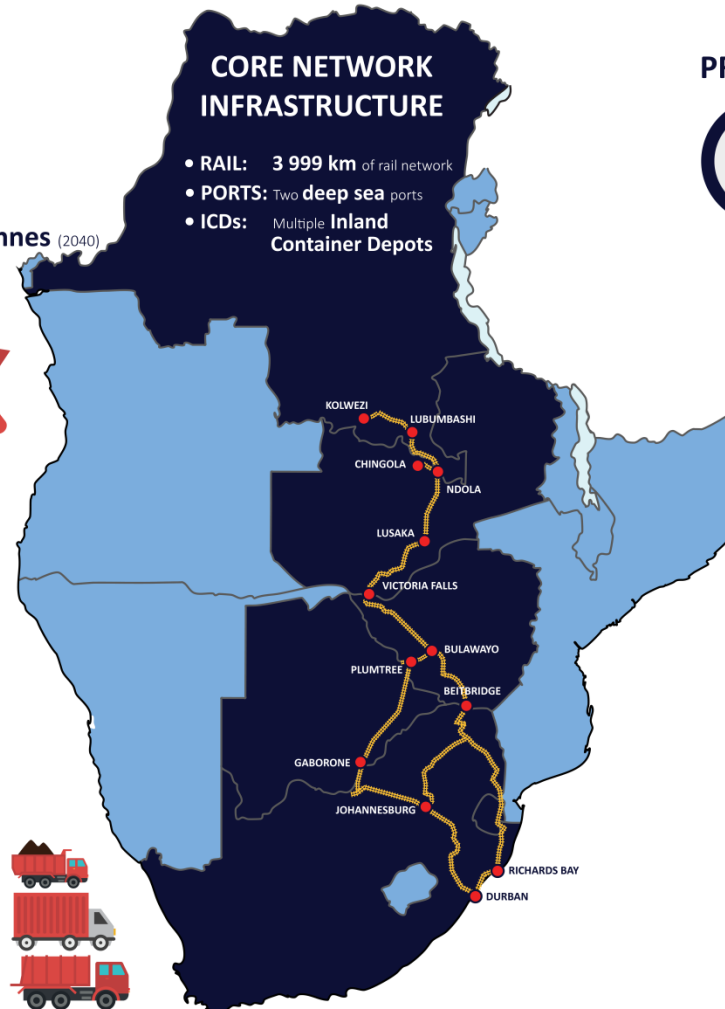
The promotion of **rail over road** transport will contribute to the preservation of Southern Africa's road network

- **84 700** - the number of avoided truck trips annually. This equates to over **on the road daily.**
- This equates to over **200 less trucks** on the road daily.
- Annual road maintenance costs avoided - **\$214 million.**



## CORE NETWORK INFRASTRUCTURE

- **RAIL:** 3 999 km of rail network
- **PORTS:** Two deep sea ports
- **ICDs:** Multiple Inland Container Depots



## PROJECT MILESTONES



- 2014**
  - Q1 2014 - Q4 2016:** Extensive emergency repair rail track maintenance completed for the corridor
- 2015**
  - Q1 2015:** Transit times reduced from over **15 days (2013)** to **7.5 days (2016)** from Durban to Ndola.
  - Q4 2015:** Political support secured from SADC ministers of Transport to proceed with the NSC rail study.
- 2016**
  - Q2 2016:** Grant funding secured for the NSC corridor.
  - Q4 2016:** Memorandum of Agreement (MOA) signed between Rail Operators on the corridor.
- 2017**
  - Q1 2017:** Anticipated date of completion of the study is Q4 2017.
- 2018**
  - Q1 2018:** Implementation of projects is anticipated to commence in 2018 and 2019



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# **Public Private Partnerships**

# Public Private Partnerships (PPP)



**Increased  
Government  
buy-in for PPP  
models**

African Private sector is slow on uptake of financing trend to support development

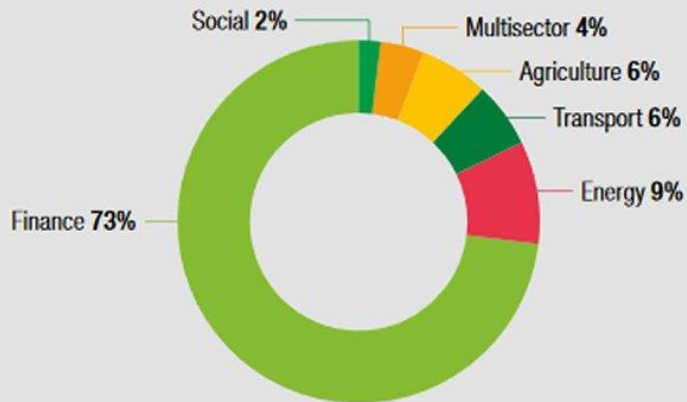
PPPs can enhance infrastructure and services on the African Continent

*Why should the private sector intervene?*

**Capacity building  
within  
Government is  
required**



Private Sector Operations by Sector, 2016



**LIKELY OUTCOME  
Inclusive Growth  
in line with  
Green Growth**



# Public Private Partnerships

- Government and business leaders across Africa have come to accept the benefits of Public Private Partnerships as a strategic option, an alternative procurement and financial structuring methodology
- PPP policies supported by a PPP framework that outlines required institutions, procedures and rules stating how PPPs will be implemented in that country
- PPP units established and appointment of staff dealing with the regulatory and or technical advisory services are being upskilled



# Public Private Partnerships

## Question :

*What will it take to enhance infrastructure and services on the African Continent and can PPPs significantly contribute to address the infrastructure and service delivery backlogs?*



1. Governments should use relevant **PPP principles** i.e. life cycle cost consideration to improve its decision making regarding major project procurement
  - long term integrated financial planning and budget processes required
  - highlight the significant contingent liabilities should the PPP option be utilised
2. Governments should be aware of the conditions of **project preparation** funds that may favour traditional procurement methodologies
3. Consider application of **sustainability** imperatives at pre-feasibility and options analysis phases and incorporating it across the entire life cycle of the project to deliver optimal results.

# Public Private Partnerships

4. Government departments and/or its utilities should **empower** their decision makers and the key project team members to be able to :

- Find and contract, if required, with a suitable project preparation facility
- Procure an external transaction advisory (TA), team
- Properly interact and instruct the TAs from a position of strength
- Appoint a winning bidder through a regulated and competitive process with the support of the TA
- Monitor and manage the construction- and the operations up to hand back phase.




# PPP Capacity Building

## **Capacity building is most crucial first step to empower PPP units :**

- PPP legislation and frameworks
- What are private sector's expectations in a PPP project
- What are government's obligations in a PPP project
- How to package a PPP project taking into account complexities from technical, financial, implementation, risks etc.

## **NBF accredited World Bank APMG PPP training course**

- Since February 2017 successfully trained (108) government and private sector PPP practitioners
  - Government PPP practitioners from National (National Treasury GTAC), Regional (Gauteng Province Treasury and Gauteng Infrastructure Financing Agency-GIFA) and local governments (Johannesburg-, Ekurhuleni, Tshwane and Ethikweni Metro's), State Owned Companies i.e. Eskom.
  - Focus on electricity generation, transmission and distribution PPPs whilst water and sanitation PPP focus the second most requested topic
  - Private sector PPP practitioners from construction, consulting engineering companies, lawyers and bankers.
- 



# PPP Capacity Building

Next NBF PPP training events:

1. Cape Town, South Africa : 21-22 November 2017
  - in partnership with the British High Commissioner and this session will focus on Infrastructure specifically water and sanitation
2. Dar es Salaam, Tanzania : 27-29 November 2017
  - in partnership with the SADC Banking Association and the Institute of Directors, Tanzania



Unlocking African potential

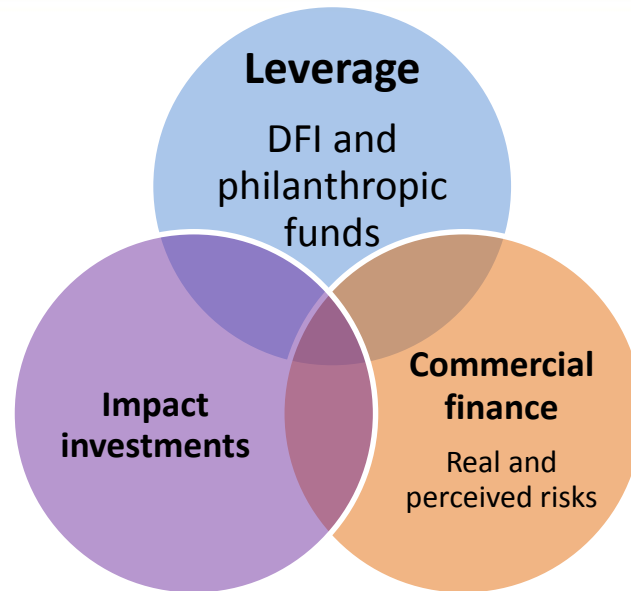
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# **Financing private sector investment and development**

## Ajen Sita - Africa CEO EY

“By 2030, Africa remains on track to be a **US\$3t economy**. However growth needs to become more **inclusive and sustainable to eradicate poverty** at the levels that are required. If we accept the reality that **physical connectivity** – enabled by regional integration and the development of physical infrastructure – **will remain a key stumbling block to inclusive growth across Africa** for at least the next decade, then the **need to actively embrace digital connectivity** becomes critical. However, efforts to harness the potential of digital technologies as a fundamental driver of inclusive growth are still far too piecemeal and fragmented.

What is required is a far **more collaborative effort between governments, business and non-profit organisations** to adopt technological disruption, and **create digitally enabled offerings** with a particular focus on health, education and entrepreneurship.”



## Blended Finance

The strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets

### Various initiatives

- EU ACP Private Sector Development Programme
- EU External Investment Plan
- USAID Southern Africa Trade & Investment Hub
- Southern Africa Business Forum
- NBF Africa Infrastructure Desk and Africa Investment & Integration Desk

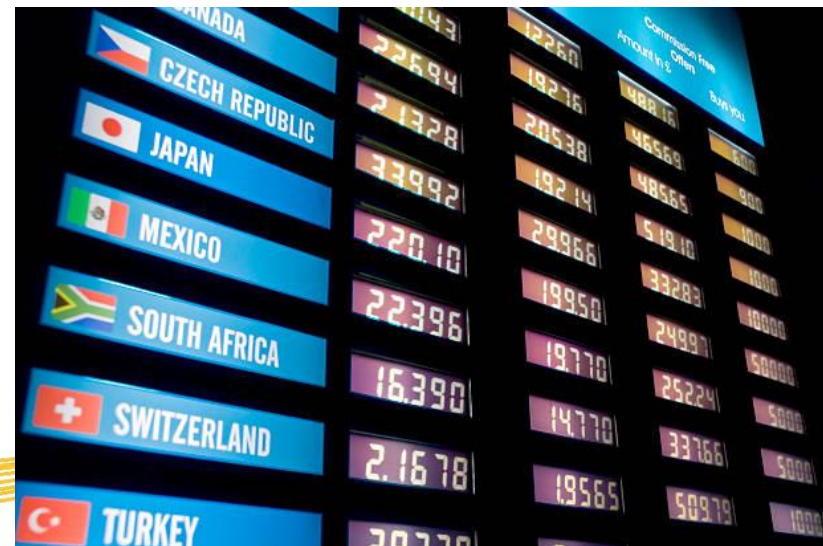
Understand changing dynamics in Africa of the future :

1. Inclusive growth – financing and support for SME’s across the value chain :
  - Trade and policy barriers – SADC Simplified trade regime
  - Access to finance – need innovative microfinancing and SME financing options, SIRESS for SMEs
  - Access to markets – linkages to commercial supply chains
  - Capacity building
2. Industry 4.0 and technology development – financing African Techpreneurs
3. Green financing – money to made from waste and green technologies eg. Green bonds for renewables, REIPP



# Financing for the future

4. Proactive private sector – involvement in early stage of project development and should not wait for tenders to come out
5. Innovative approaches to PPPs – Ethiopian model
6. Public private dialogues and collaboration platforms must be better supported by DFIs/donors
7. Better coordination of African capital markets



1. Governments are investing heavily in infrastructure projects in Africa to address massive need
2. **Opportunity for private sector development through procurement :**
  - DFI's supporting the infrastructure projects need to ensure some level of preferential procurement for African companies to implement these projects
  - **Local Economic Development (LED)**
    - Clearly stipulate local content requirements eg. NBF study on LED in Tanzania – funded by AfDB
    - Assessing current LED legislation/policy
    - 10% requirement for LED in contracts but no clear definition of what is expected
    - Ensure that local skills and companies are included in the implementation/supply of goods, technology, services to these projects
    - Creation of domestic production of goods
    - Capacity building and skills transfer to ensure long term maintenance of infrastructure by local expertise

# Objectives of the study

1

To understand the current policy, legal and regulatory provisions for Local Economic Development through infrastructure development programmes/projects in Tanzania



2

To make recommendations that will provide an enabling environment (policy, legal and regulatory) that will ensure that the infrastructure development programmes/projects are planned and procured in a manner that will support and maximize Local Economic Development objectives



3

To identify large scale programmes/projects and/or infrastructure related industries with high potential of achieving Local Economic Development objectives



# UNLOCKING AFRICAN POTENTIAL™

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