

The Long-term Finance Initiative

November 28, 2022



What do we mean by LTF? Why does it matter?

- Allocation of scarce financial resources to stimulate economic growth
- Providing finance that facilitates investment by matching the economic life of underlying assets being financed
- Primarily place emphasis on deepening local markets (maximizing finance for development) to incentivize domestic savings, and reduce donor and FX dependency
- Is sequenced to support sustainable market development and underpinned by improvements in the legal & regulatory environment

The Africa Long-Term Finance (LTF) Initiative

Rationale for the Initiative:

- Significant progress in financial inclusion in Africa – much less in long-term finance
- Deepening the role of finance in allocating scarce resources: supporting economic growth through investment finance
- Where does long-term finance come from today? The lack of quality data constrains investment and policy-making
- Desirable term of finance defined by economic life of underlying asset – impact on affordability

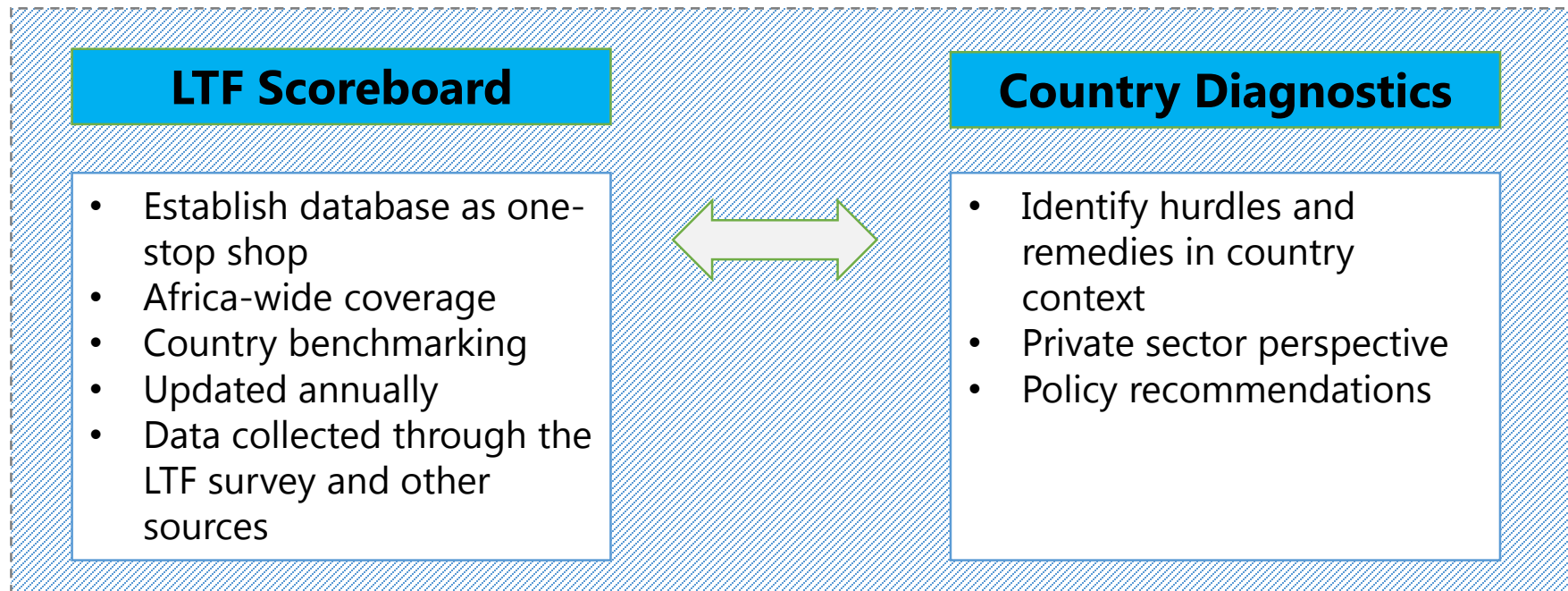
Infrastructure

Housing

Enterprises

Objective: Support deepening of LTF markets through better data and policy reforms

The LTF Initiative implements two mutually-reinforcing activities



The Initiative is hosted by AfDB and involves the following departments

MFW4A

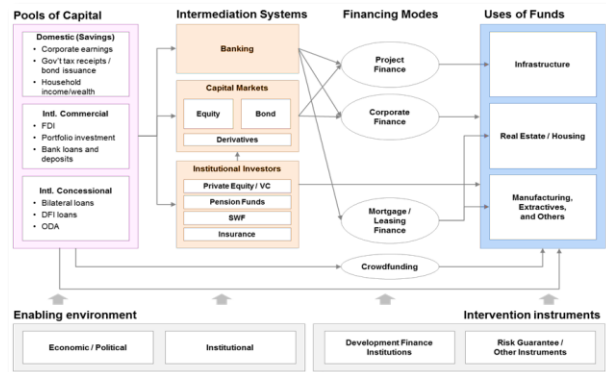
Financial
Sector (PIFD)

Research
(ECMR)

Statistics
(ECST)

AFMI

Features of the LTF Initiative



Integrated perspective:

The initiative takes an integrated rather than a 'silo approach' to identifying and addressing constraints.



Partnership approach:

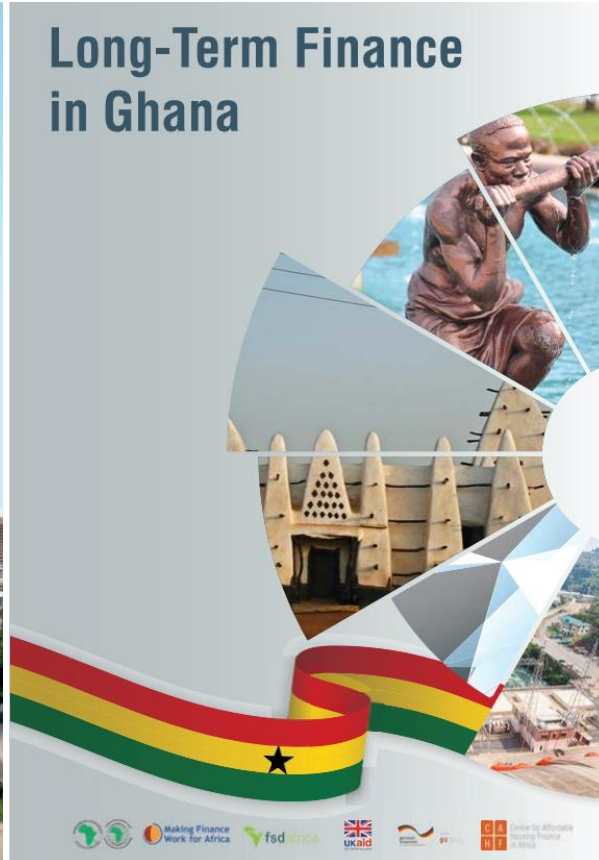
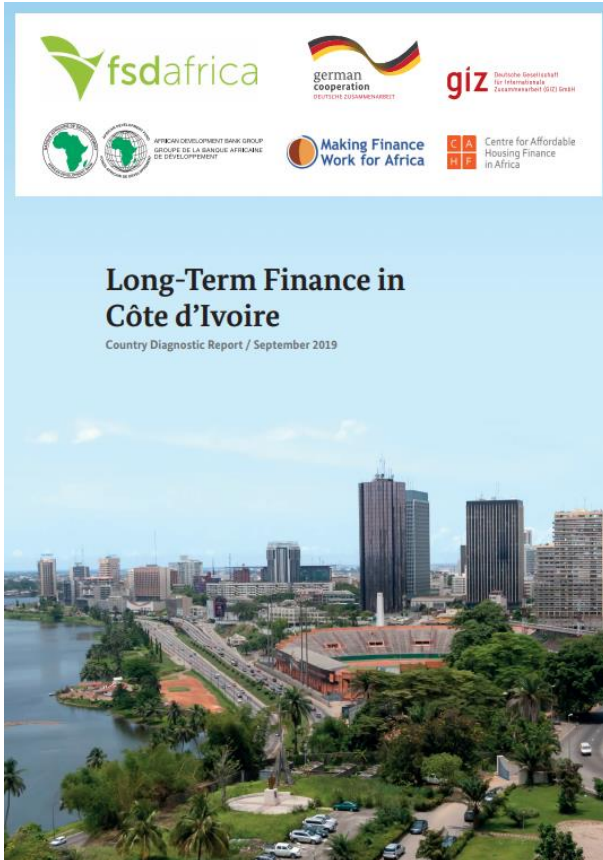
The initiative is an alliance of partners aiming to deepen markets for LTF in Africa.



Private sector focus:

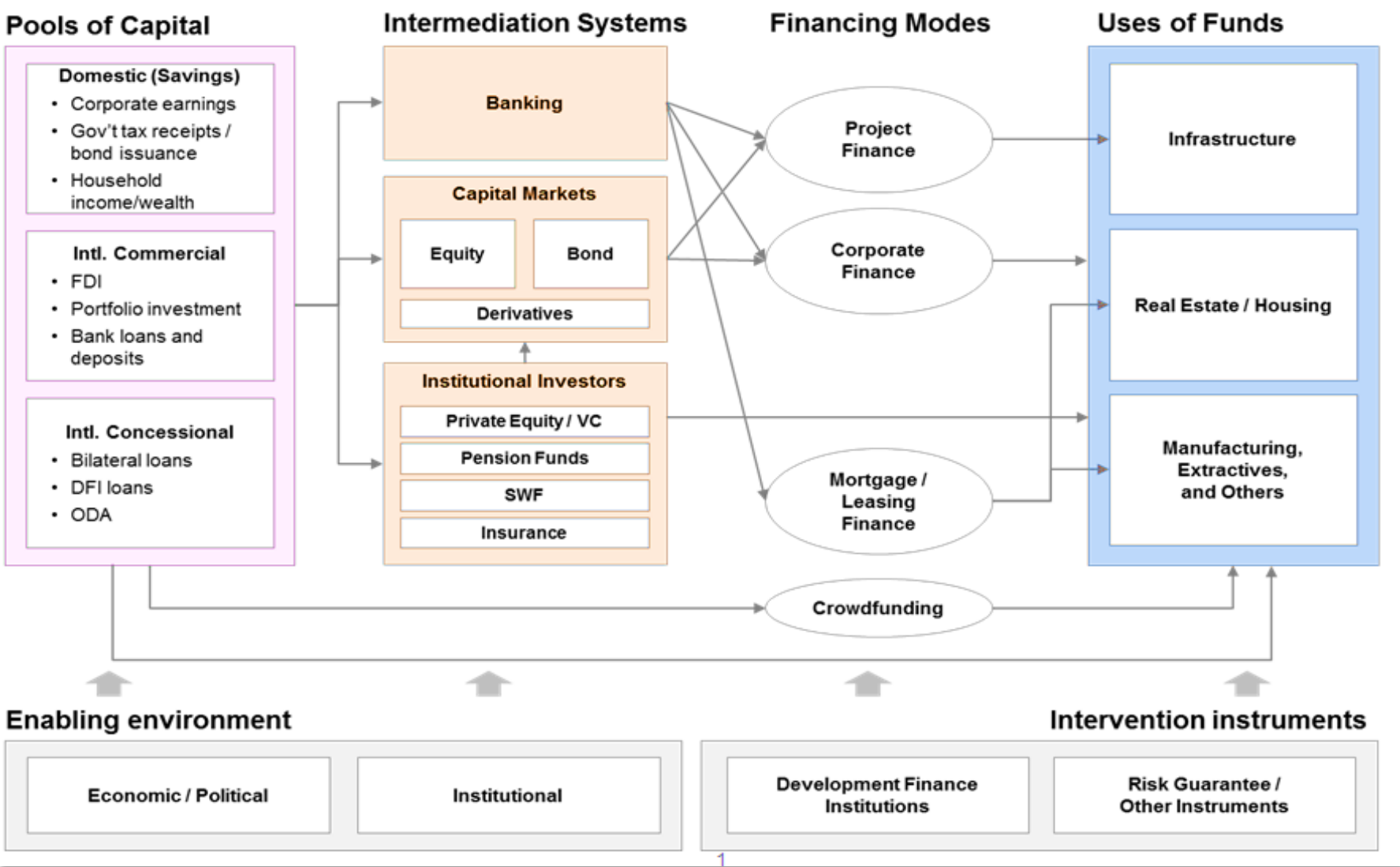
The initiative focuses on practical ways to improve the experience of private sector players in developing, financing and implementing infrastructure projects and serving the housing and SME market.

Country diagnostics

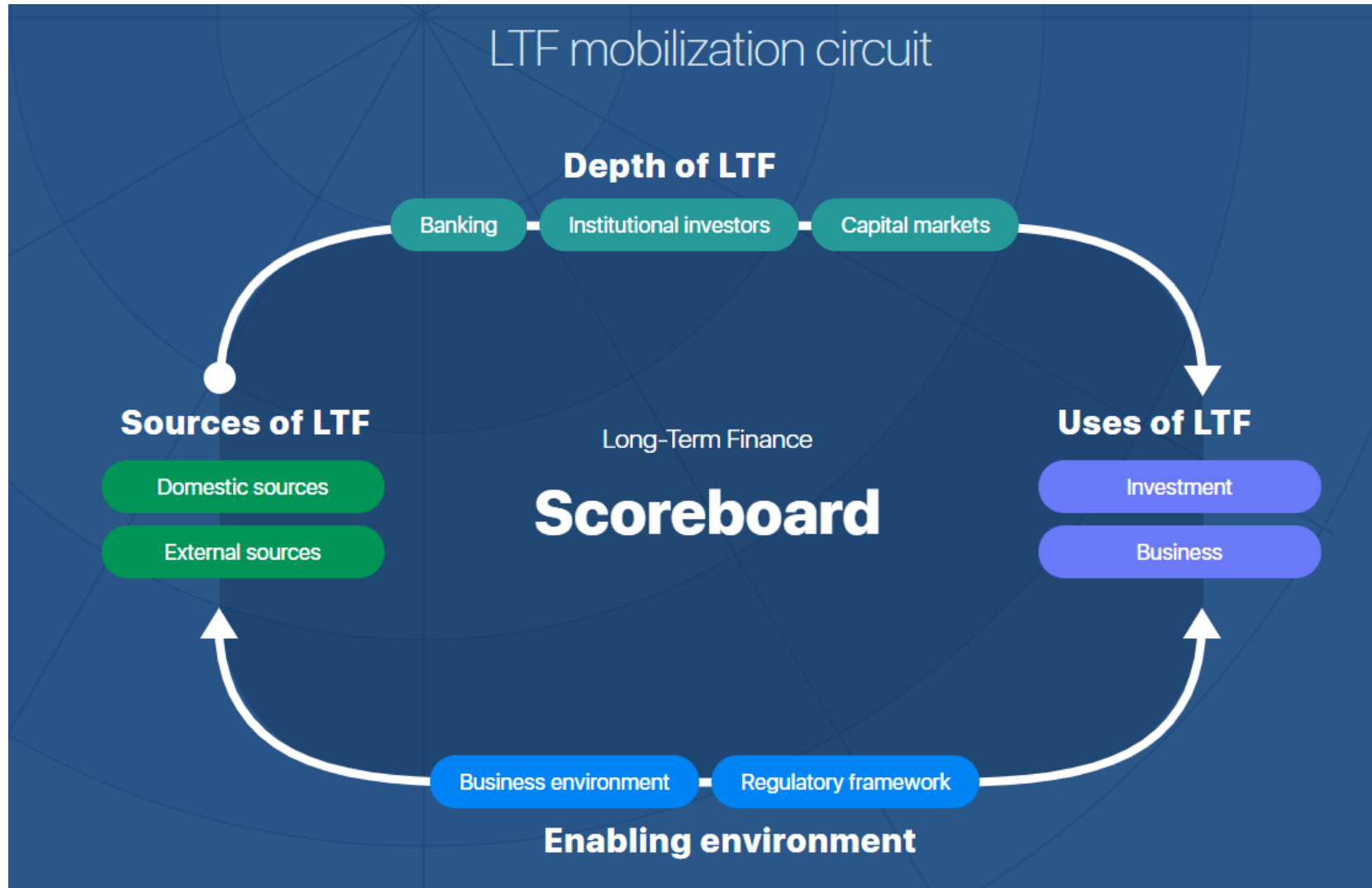


- Provide in-depth analysis of LTF markets in individual jurisdictions.
- Focus on SMEs, the housing sector, and infrastructure finance.
- Follow a transaction-focused, bottom-up approach. The LTF team works closely with private sector stakeholders to draw on their experience.
- So far conducted for Côte d'Ivoire, Ghana, Ethiopia

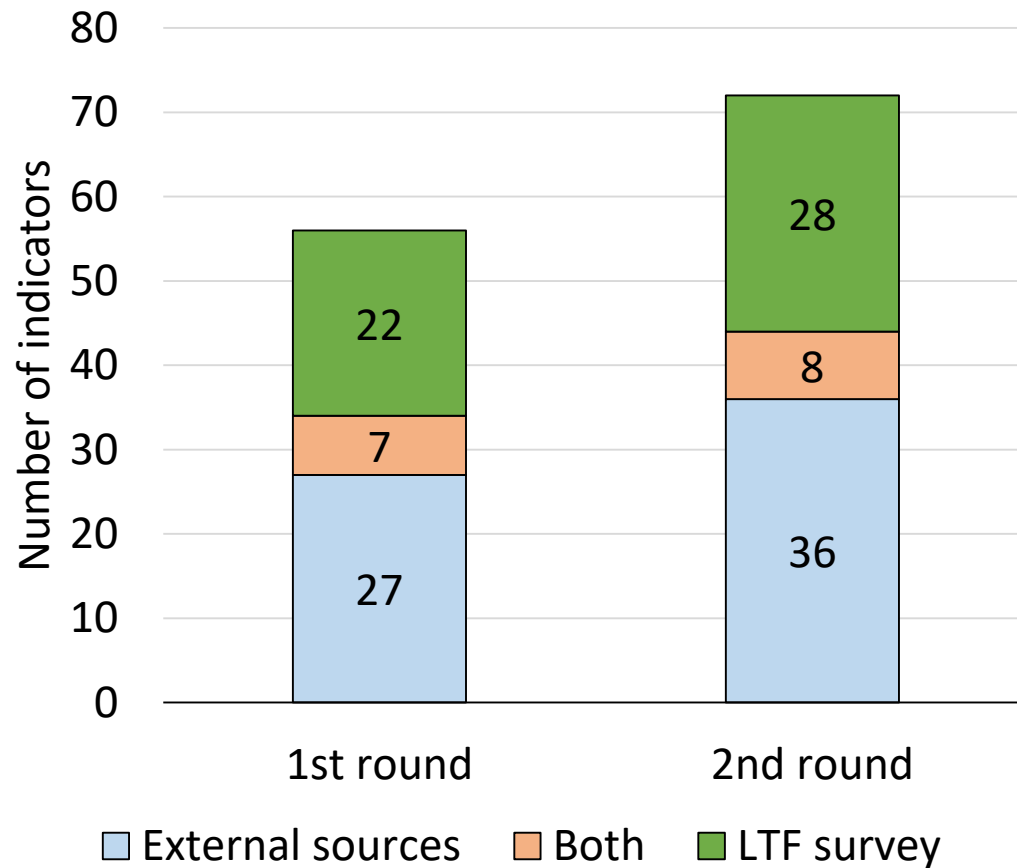
The LTF Framework



The LTF Scoreboard



Data collection



Data were compiled from two different sources:

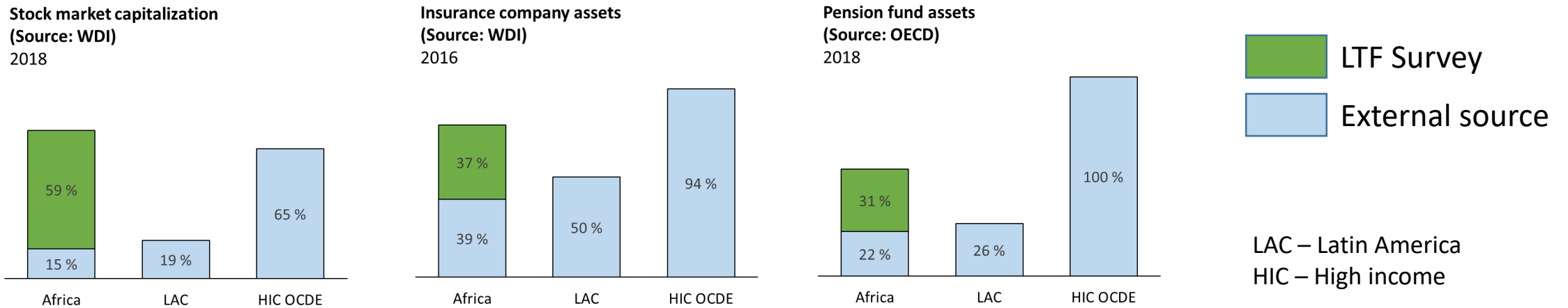
- international databases (external sources)
- the LTF survey with contributions by central banks/ country coordinators throughout Africa

Since the inception of the LTF project, three rounds of data collection have been carried out.

A report on the 2nd round of data collection process and current data gaps can be found on the initiative's website

Added value of the LTF survey

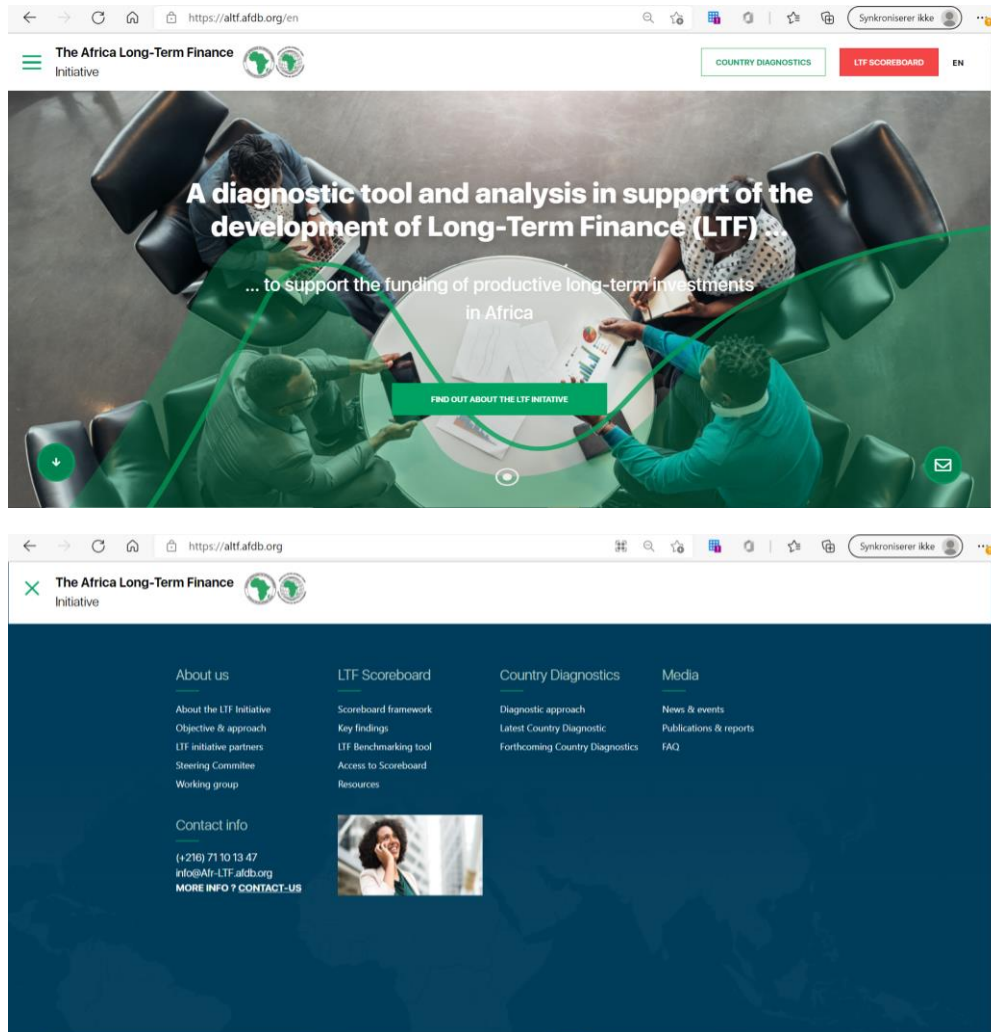
Percentage of countries with available data*



* Year in each graph is the last year with available data in the external sources (WDI, OECD)

- Data collected through the LTF survey adds to the data coverage of other international databases, closing the gap in data availability.
- Despite the progress made, data availability is still limited for several indicators, especially for two categories, viz. “Depth of LTF” and “Uses of LTF.”

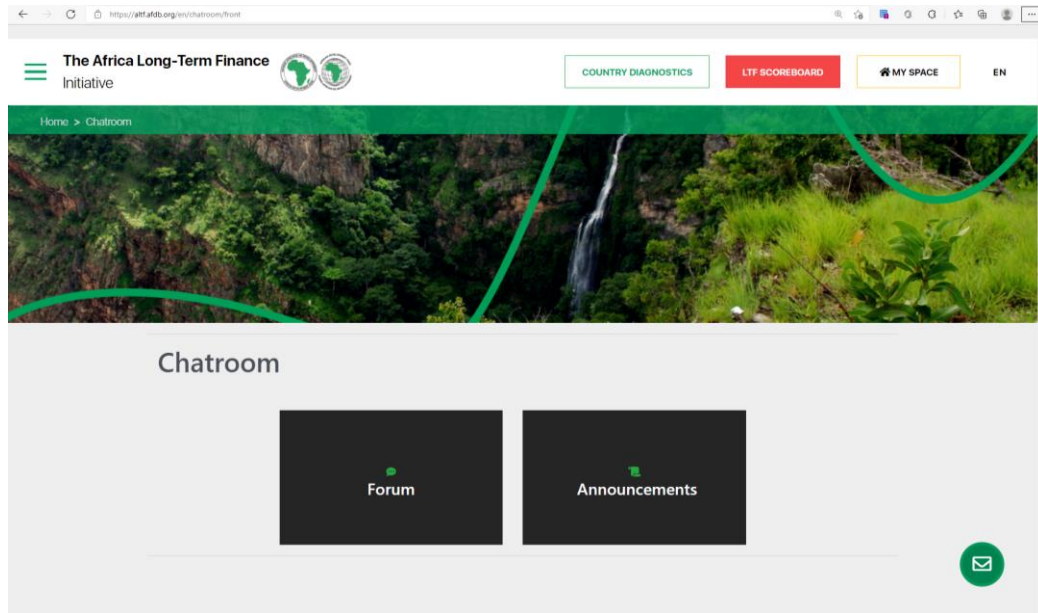
The LTF Initiative Website



<https://altf.afdb.org>

- **About us** (objective & approach, partners, members)
- **LTF Scoreboard** (Database)
- **Country Diagnostics** (Côte d'Ivoire, Ghana, Ethiopia)
- **Media** (news, events, FAQ)

The LTF Chatroom



- The LTF Chatroom can be used to communicate with the LTF team and other country coordinators
- Link to LTF Chatroom: [Log in | The Africa Long-Term Finance \(afdb.org\)](https://lft.afdb.org/en/chatroom/front)
- User Guide: [User Guide ALTF CHATROOM.pdf \(afdb.org\)](#)

Summarizing the status of LTF across Africa

The LTF Radar



LTF Radar

Africa

Country/Region

Africa

Comparative Country/Region

LTF Dimensions

Searching for indicator



SOURCES OF LTF

DEPTH OF LTF

USES OF LTF

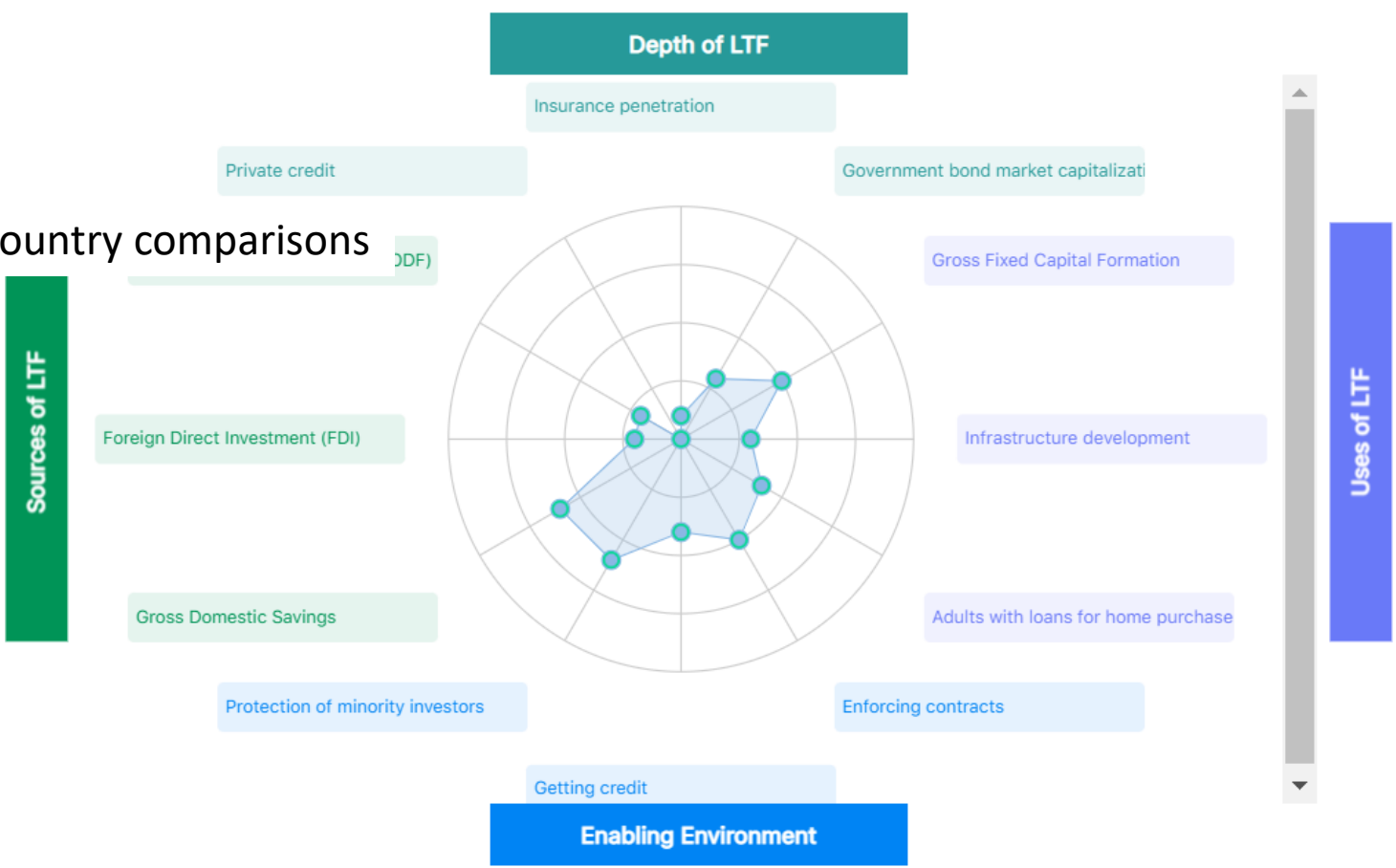
ENABLING ENVIRONMENT

LTF Scoreboard's Radar

Rescaled indicators over 2013 - 2020

Scaling method

Min Max



Allows for country comparisons



The LTF Radar



Africa

Country/Region

Africa

Comparative Country/Region

Kenya

LTF Dimensions

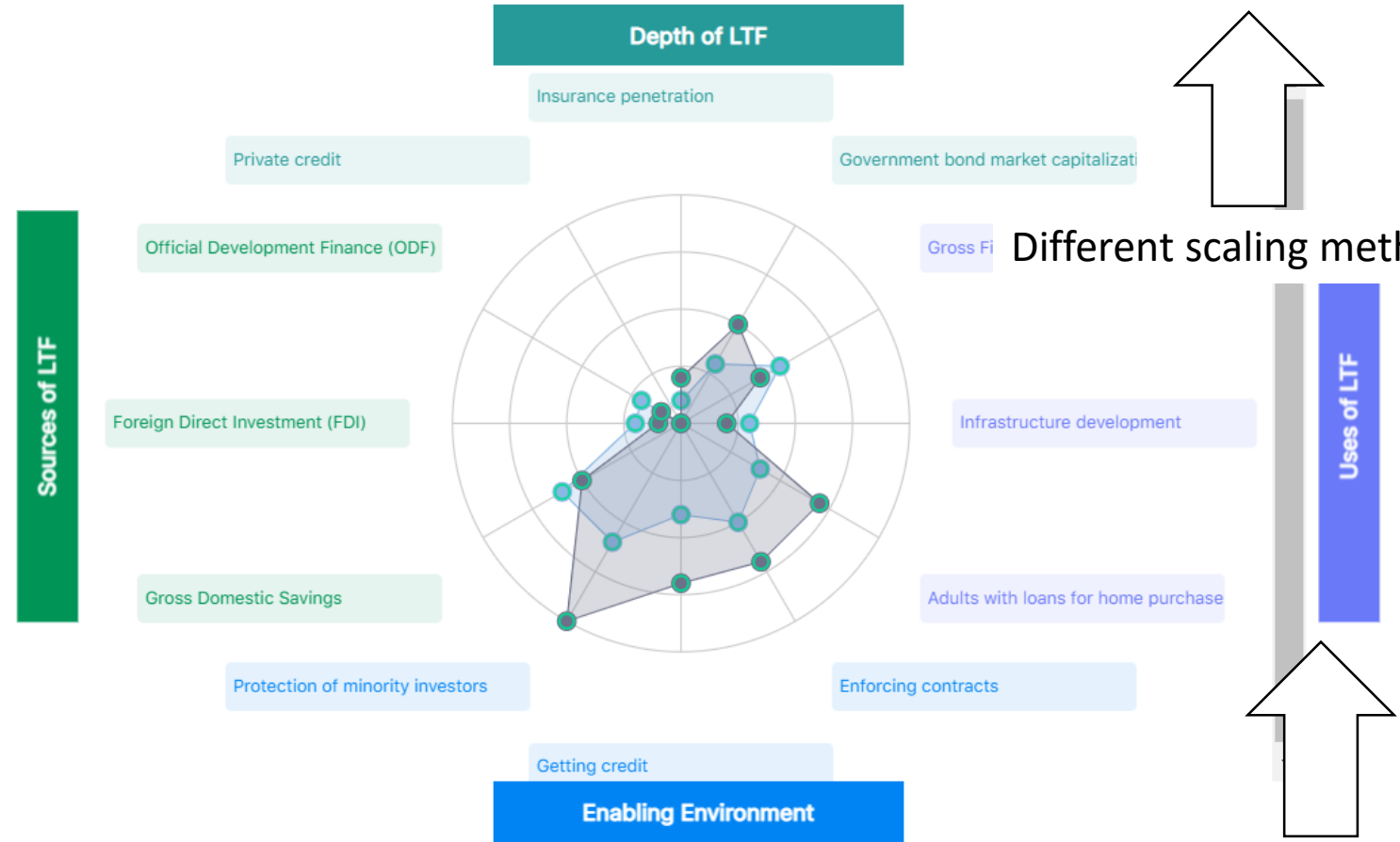
Searching for indicator

- SOURCES OF LTF
- DEPTH OF LTF
- USES OF LTF
- ENABLING ENVIRONMENT

LTF Scoreboard's Radar

Rescaled indicators over 2013 - 2020

Scaling method
Min Max



Different scaling methods

Definitions included

Country comparisons



Africa

LTF Dimensions

Searching for indicator



SOURCES OF LTF



DEPTH OF LTF



Banking



Deposit money banks' assets

Private credit

Long-term credits

Share of long-term credits

Share of Medium & Long-term ...

Long-term deposits

Country/Region

Africa

Comparative Country/Region

Kenya Uganda

TIME FRAME

FROM

2013

TO

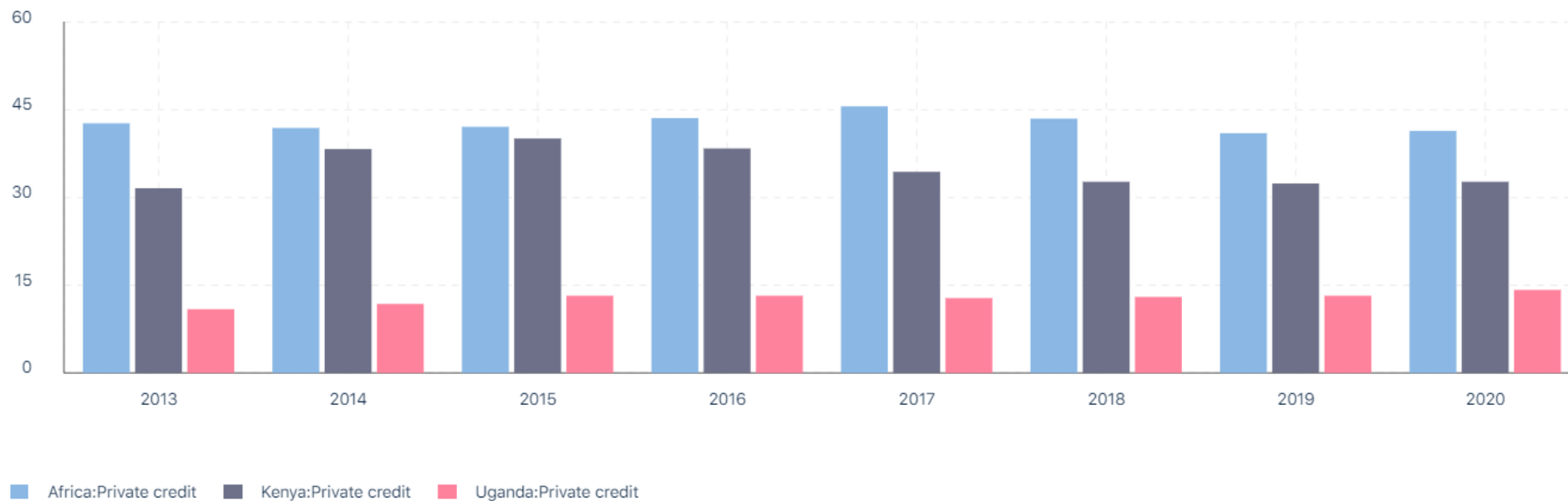
2020

Update Data

Private credit
(% of GDP)

GRAPHS TO SHOW

Observed





AFRICA LONG-TERM FINANCE INITIATIVE

Annual Report 2020

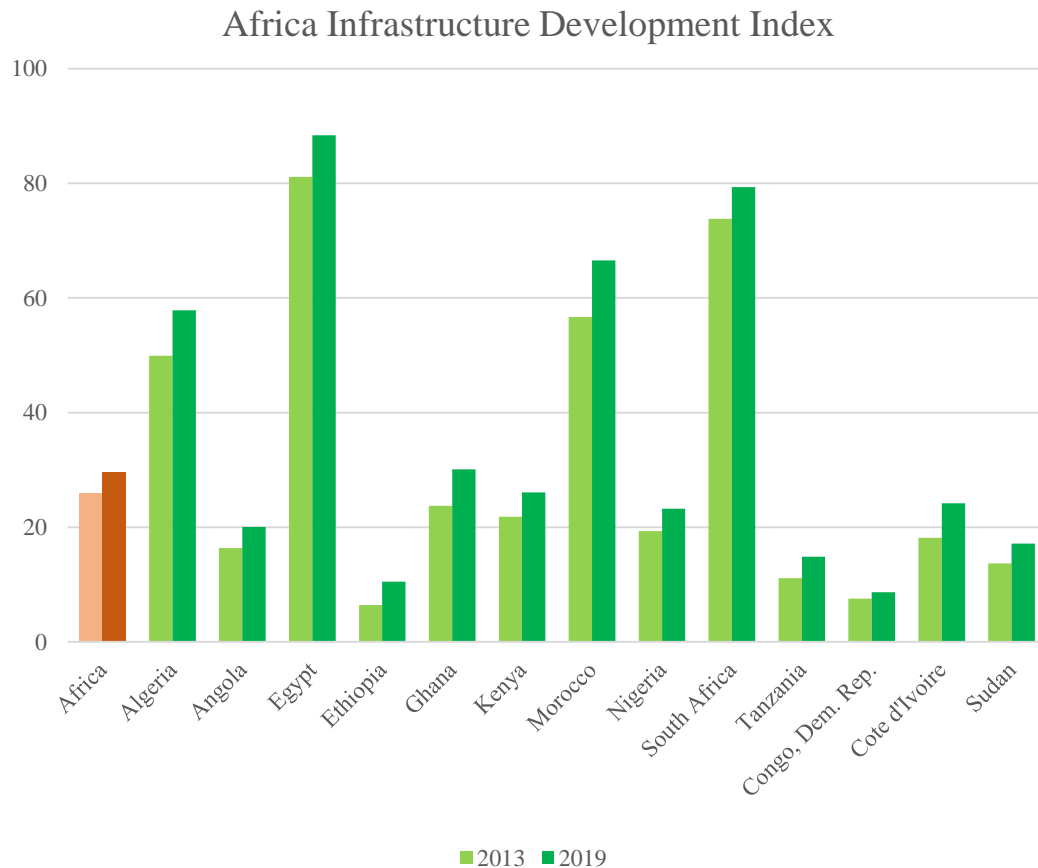
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Main Findings

- The LTF Annual Report 2020 identifies the **key funding gaps** in Infrastructure, housing, and enterprise finance in Africa.
- The report highlights the **need for deepening the domestic market** for long-term finance (LTF) and **reducing the overreliance on banks**.
- A large portion of domestic resources is channeled towards **government borrowing**, which places severe constraints on the availability of long-term finance for the **private sector**.
- To a large extent deepening of the non-banking domestic markets for LTF depends on **strengthening the enabling environment** and institutional infrastructure.

Infrastructure finance



Source: AfDB (Statistics Department)

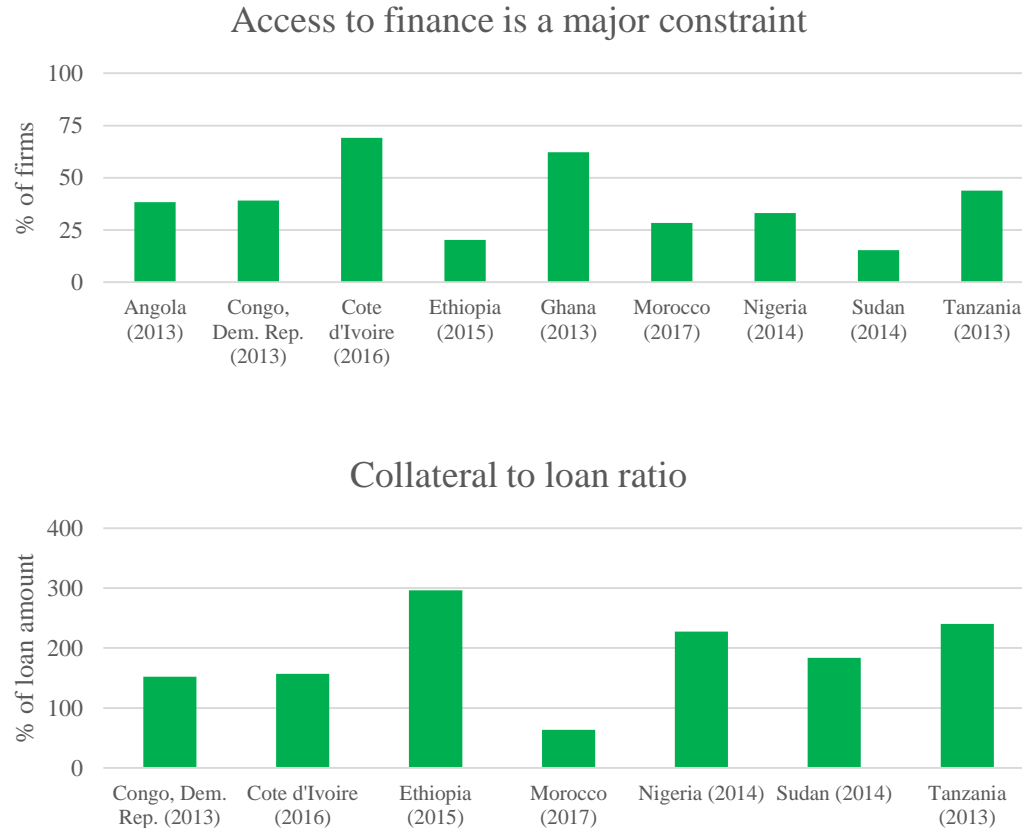
Current state

- Governments supported by multilateral and bilateral donors are still the predominant providers of LTF for infrastructure
- Domestic intermediation process most often circumvented.
- Volume of Private Participation in Infrastructure (PPI) is still quite low, as it places considerable demands on implementation capacity and the supporting legal & regulatory framework.
- The availability of foreign borrowing is volatile and entails foreign exchange risks that cannot easily be passed on to local users of infrastructure services.

Enterprise finance

Current state

- Small and medium-sized enterprises face serious challenges in accessing adequate long-term financing in Africa.
- Traditional banking products are available to most formal enterprises, but often at a high cost.
- Legal, financial, and business environment factors limit the depth and availability of other products and services.
- The vast majority of SMEs do not produce financial statements that yield credible financial information and are reliable/audited.
- Lack of credit histories and collateral often results in severe credit constraints for SMEs.



Source: World Bank (Enterprise Surveys)



Africa

LTF Dimensions

Quick search

SOURCES OF LTF

Domestic sources

External sources

DEPTH OF LTF

USES OF LTF

Investment

Business

ENABLING ENVIRONMENT

Country/Region

Africa

Comparative Country/Region

Kenya Uganda

TIME FRAME

FROM 2013 TO 2019

Update Data

Summary graphs for each category

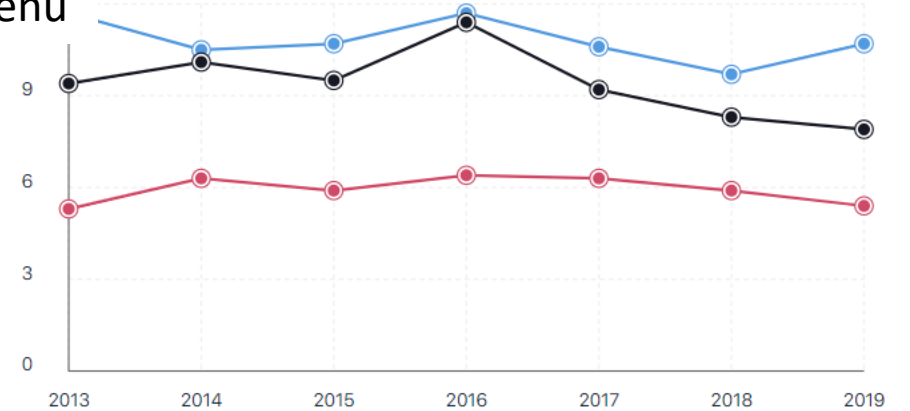
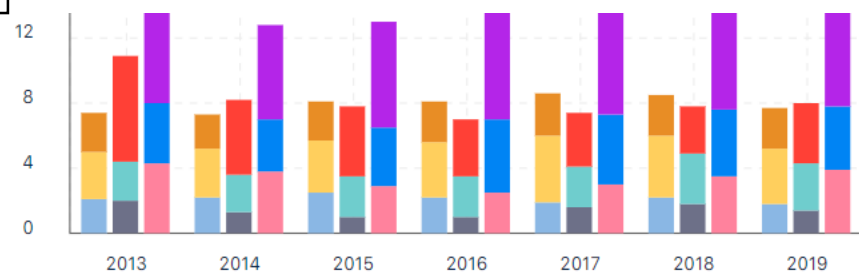
External sources
Foreign sources (% of GDP)



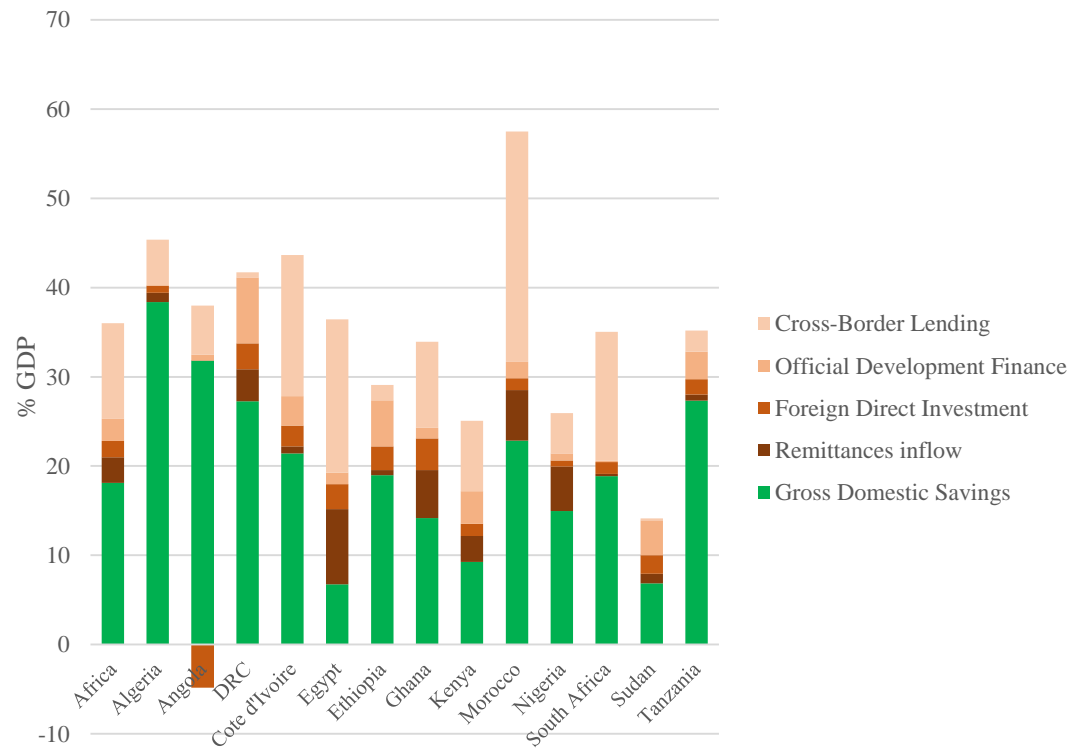
External sources
Cross-border lending (% of GDP)



Data on Sources of LTF accessible through main menu



Sources of finance



Current state

- Domestic saving rates are still quite moderate (ca 20% of GDP across the continent, compared to an average of 25% of GDP in lower middle income countries).
- Foreign borrowing entails foreign exchange risks, and its availability is volatile.

Sources: AfDB Statistics Department (Gross domestic savings, UNCTAD (FDI and Remittances inflow), OECD (ODF), BIS (Cross-border lending)



Africa

LTF Dimensions

Quick search



SOURCES OF LTF

DEPTH OF LTF

Banking

Commercial banks' assets

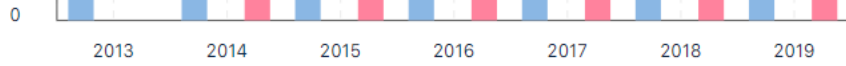
Private credit

Long-term credits

Share of long-term credits

Share of Medium & Long-term...

Long-term deposits



■ Africa:Long-term deposits
 ■ Kenya:Long-term deposits
 ■ Uganda:Long-term deposits
 ■ Africa:Long-term credits
 ■ Kenya:Long-term credits
 ■ Uganda:Long-term credits



■ Africa:Private credit (benchmarked)
 ■ Kenya:Private credit (benchmarked)
 ■ Uganda:Private credit (benchmarked)
 ■ Africa:Private credit
 ■ Kenya:Private credit
 ■ Uganda:Private credit

Summary table

Banking



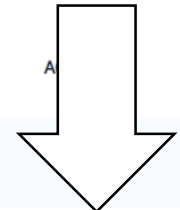
Indicator descriptions, processed by clicking on the arrow next to the respective indicator.

INDICATOR AFRICA KENYA UGANDA East Africa

> Commercial banks' 64.3 55.5 28.6 34.4

Private credit 43.3 34.8 13.5 19.1

Direct link to data



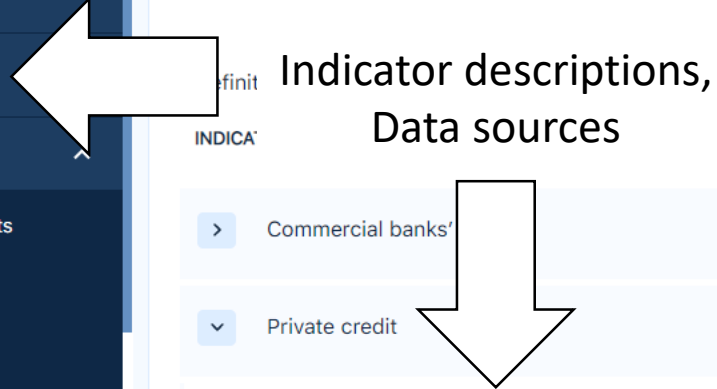
Show Data

INDICATOR DESCRIPTION

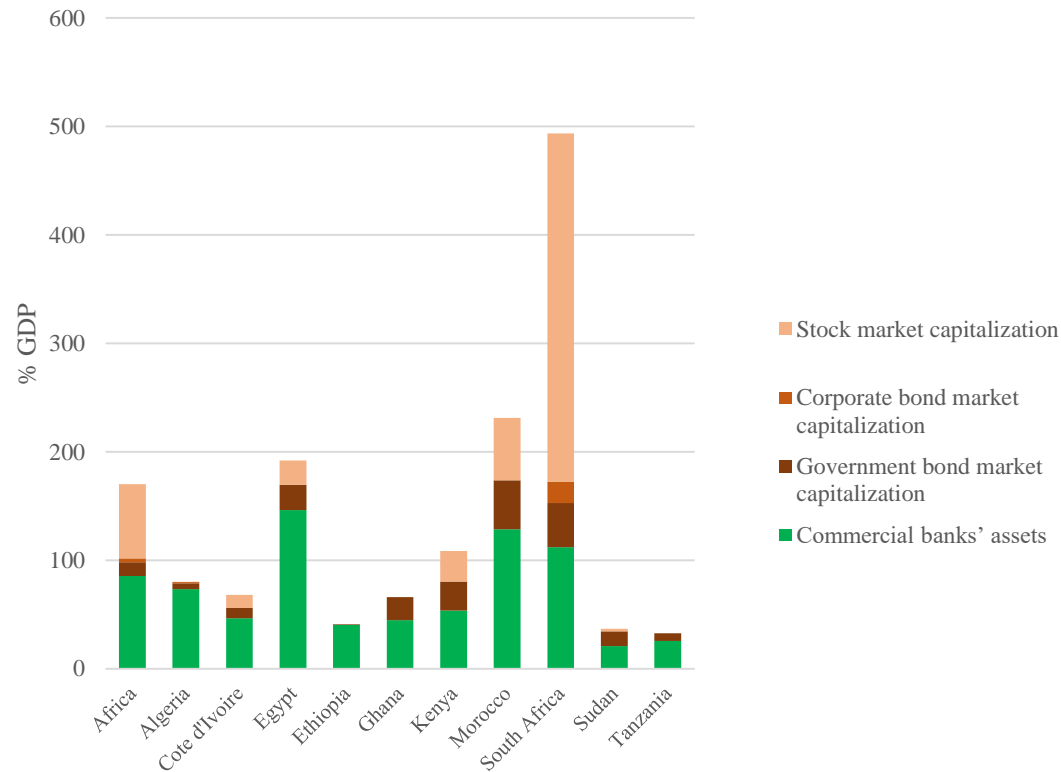
Private credit as a percentage of GDP ratio. Private credit refers to financial resources provided to the private sector by the financial system, such as through loans, purchases of non-equity securities, and trade credits and other accounts receivable, that establish a claim for repayment. Data source: LTF survey & International databases

> Private credit (benchmarked) 25.5 22.8 13.3 22.9

Show Data



Depth of LTF

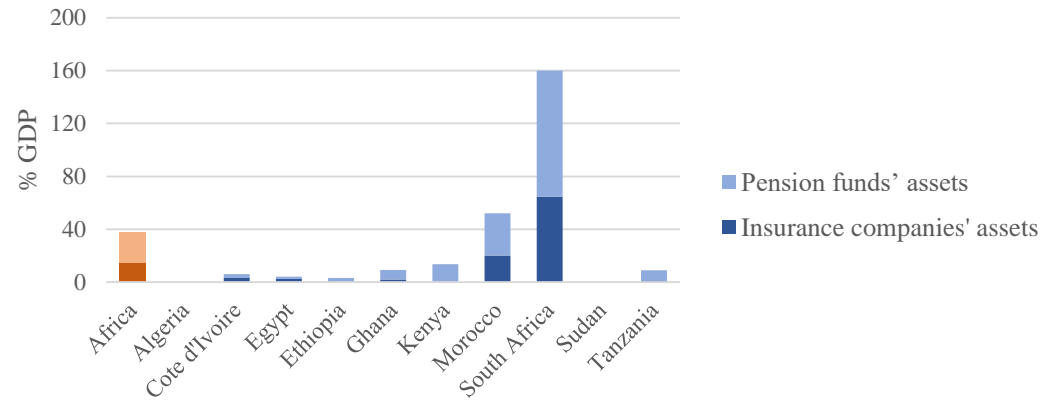


Sources: World Bank (World Development Indicators) and BIS, supplemented by LTF Survey

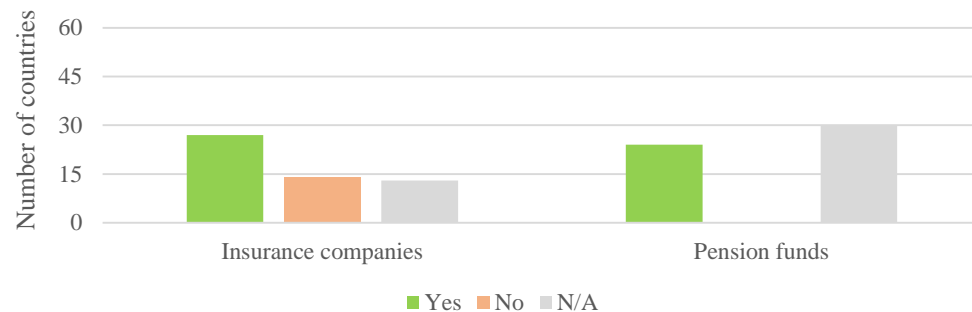
Current state

- The assets of the financial sector in Africa are heavily concentrated in banking.
- The deepest segment of most capital markets in Africa is the market for government securities (mostly short-term).
- In most African countries, stock exchanges are small and dominated by a small group of large companies. Where functioning, e.g. South Africa, capital markets represent a large proportion of financing

Institutional investors



Restrictions on long-term investments



Source: LTF Survey

Current state

- Institutional investors hold a significant portion of their assets as term and savings deposits with banks.

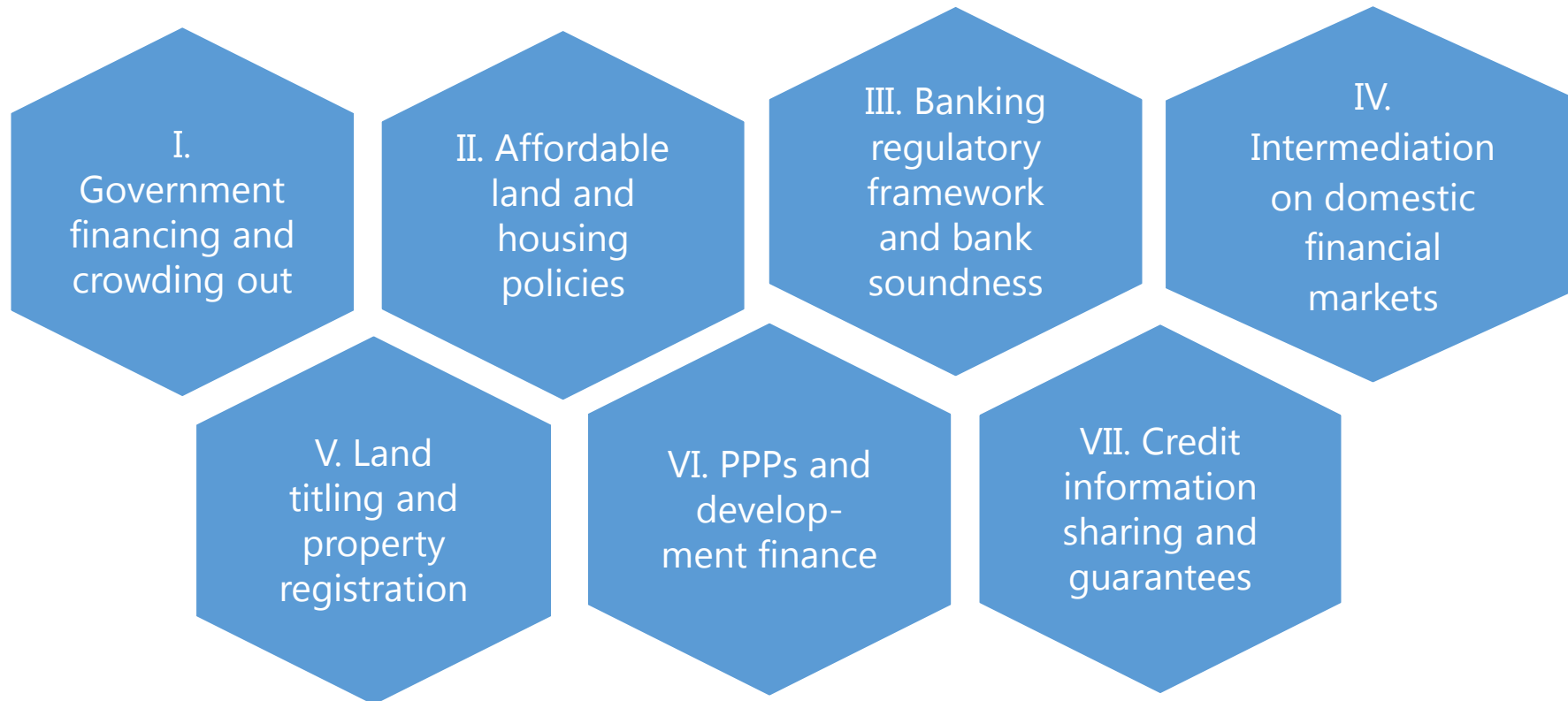
Recommendations

- Disclosure and reporting on investments and returns should be standardized and risk management practices should be strengthened.
- Strengthen the enabling environment so that insurance companies and pension funds are incentivized to invest directly in quoted equity, the corporate bond market or in project finance transactions.
- Encourage diversification of investment policies to include PE and subordinated debt.

Country Diagnostics

Capital markets, Infrastructure, Enterprise, and Housing Finance

Reform areas to augment private sector commitment to LTF in Côte d'Ivoire



Part 1: Significant macro-financial headwinds

Macroeconomic challenges determine the scope for deepening of markets for long-term finance

The extent to which these challenges are addressed by systematic and consistent policy actions will be crucial to financial market-deepening

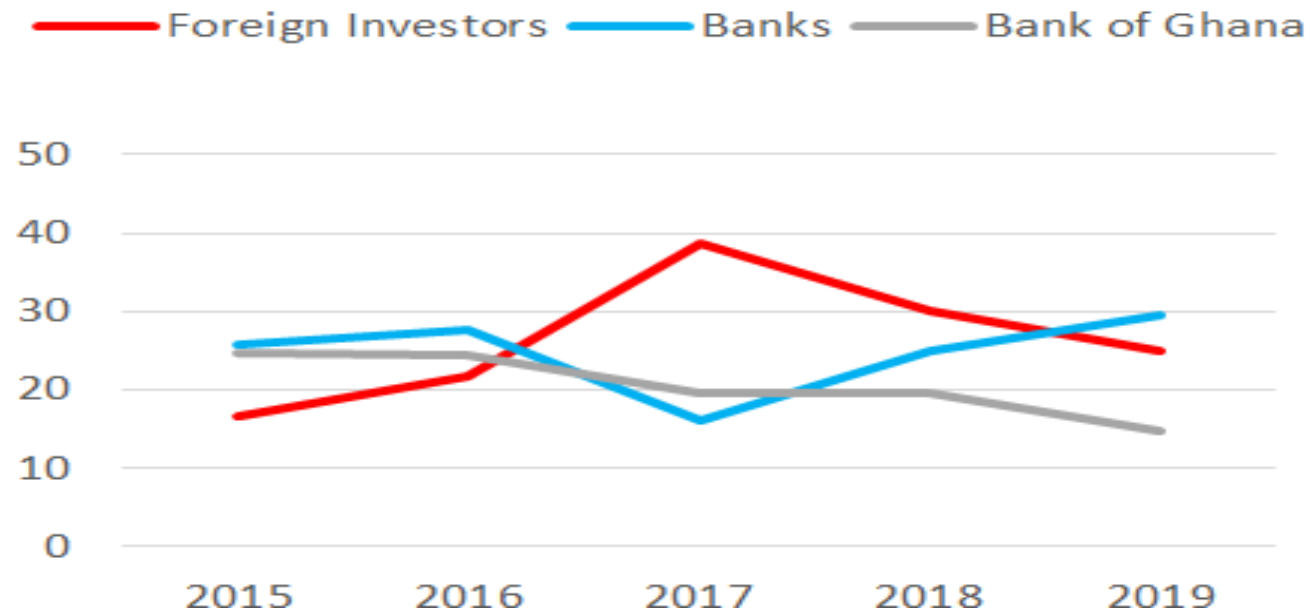
Ghanaian financial system is small with history of fragility

- Financial system assets are concentrated in the banking system which accounts for 68% of system assets equivalent to 37% of GDP
- Credit by banks to private sector (as proportion of GDP) underperforms compared to peer countries (see slide #8)
- Importance of ensuring that financial sector provides value addition (rather than subtraction): concerted action has been taken to address contingent fiscal liabilities – banking sector clean-up (2017-2019), reducing burden associated with payment arrears (energy sector), but NPLs remain high & are rising. Will they expand further as a result of COVID 19?

Government borrowing a threat to deepening of market for LTF

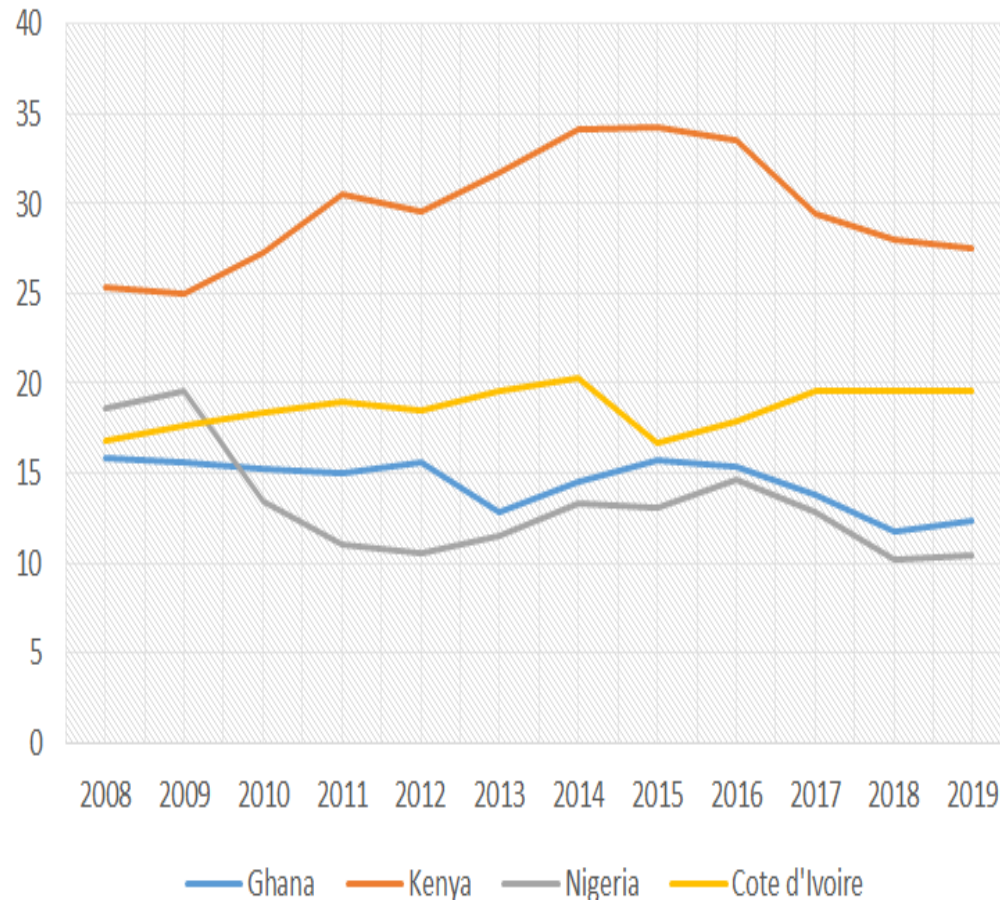
- Ghanaian government's overreliance on borrowing to finance fiscal deficit results in high real interest rates on government debt
- Banks satisfied to make attractive real 'risk-free' returns on buying government securities: falling proportion of banks' assets lent to the private sector

Holdings of government debt (% of total debt stock)

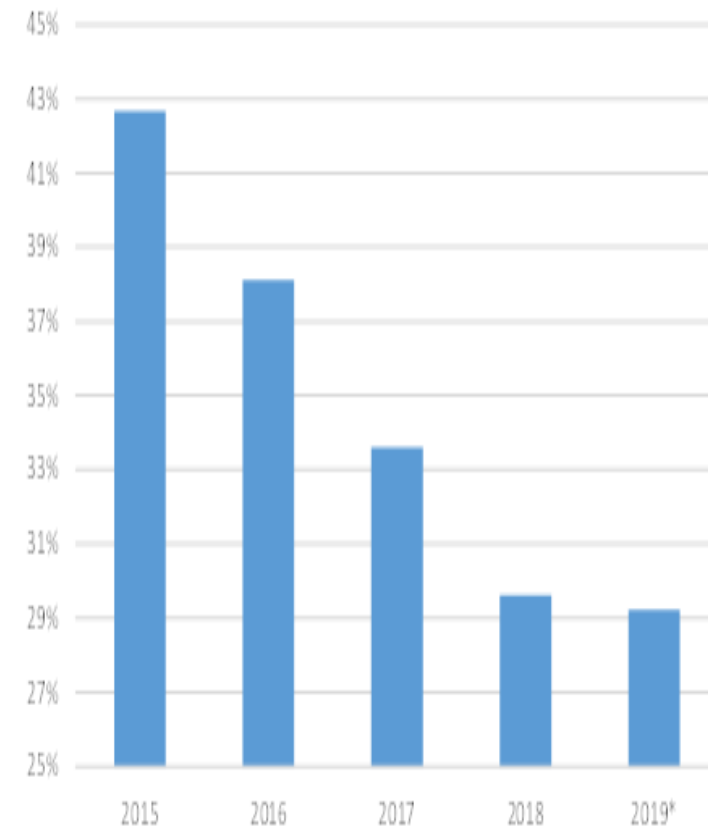


Bank lending is a falling proportion of assets & underperforms peer countries

**Bank lending to the private sector
as percent of GDP**



**Banks' net lending
as percentage of bank assets**

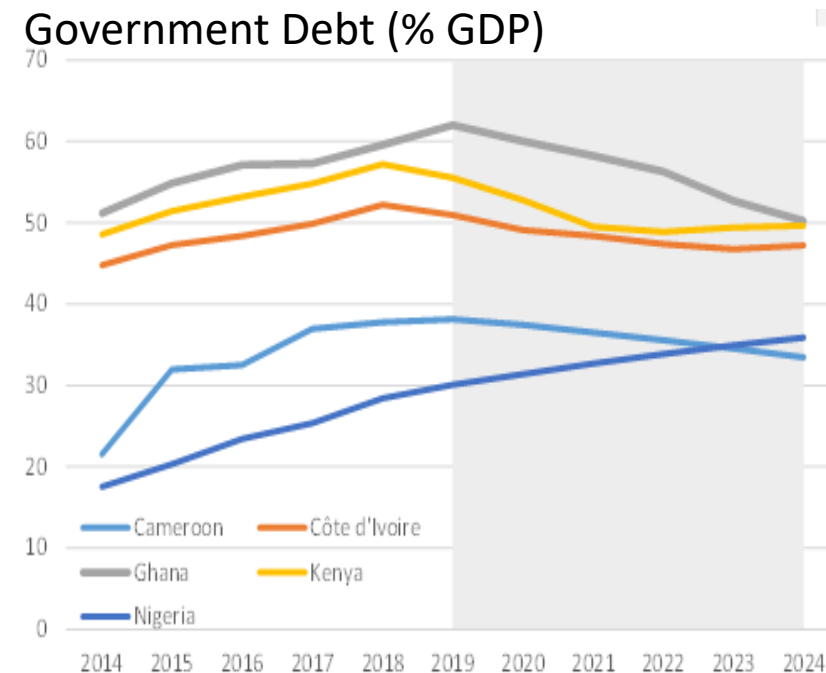
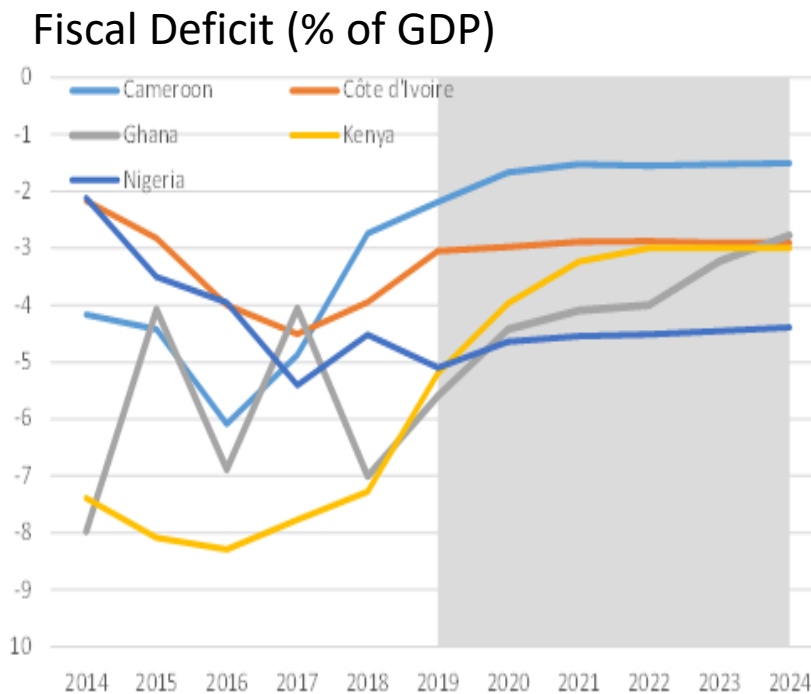


COVID crisis threatens foundation for financial deepening

- Significant rise in fiscal deficit (abrogating 5% fiscal rule) and government borrowing
- Debt highly sensitive to investor sentiment – rising likelihood of debt distress:
 - Sharp drop in foreign portfolio investment in government securities (from 38% in 2017 to only 18.5% end-Dec 2020)
 - Share of sovereign euro-bonds 20 %. During COVID confronted by sharp volatility in the cost of foreign borrowing
- As an emergency measure the BoG began purchasing government securities to ease the fiscal financing burden
- Resurgence in level of banks' NPLs despite loan BoG's forbearance measures

COVID: higher government deficit & debt weaken prospects for fiscal consolidation

Pre-COVID 2020 estimates (IMF WEO, October 2019)



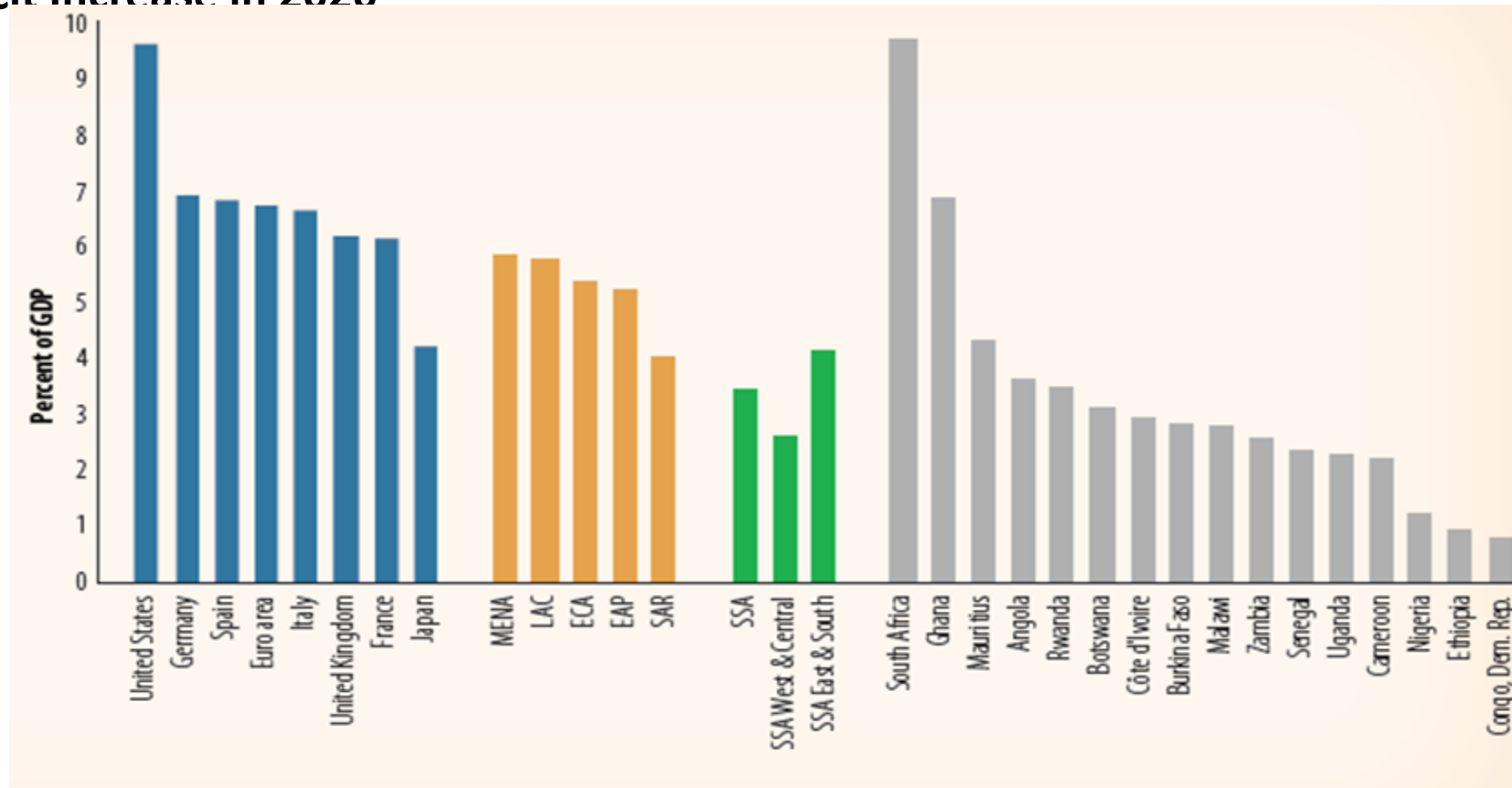
Pre-COVID estimates much below latest 2020 estimates (IMF WEO, October 2020):

Fiscal deficit 2020: 16.4% of GDP
compared to 7.3% of GDP in 2019

Government Debt 2020: 76.7% of GDP
compared to 62.8% of GDP in 2019

COVID rise in Ghanaian fiscal deficit: among highest in Africa (and globally)

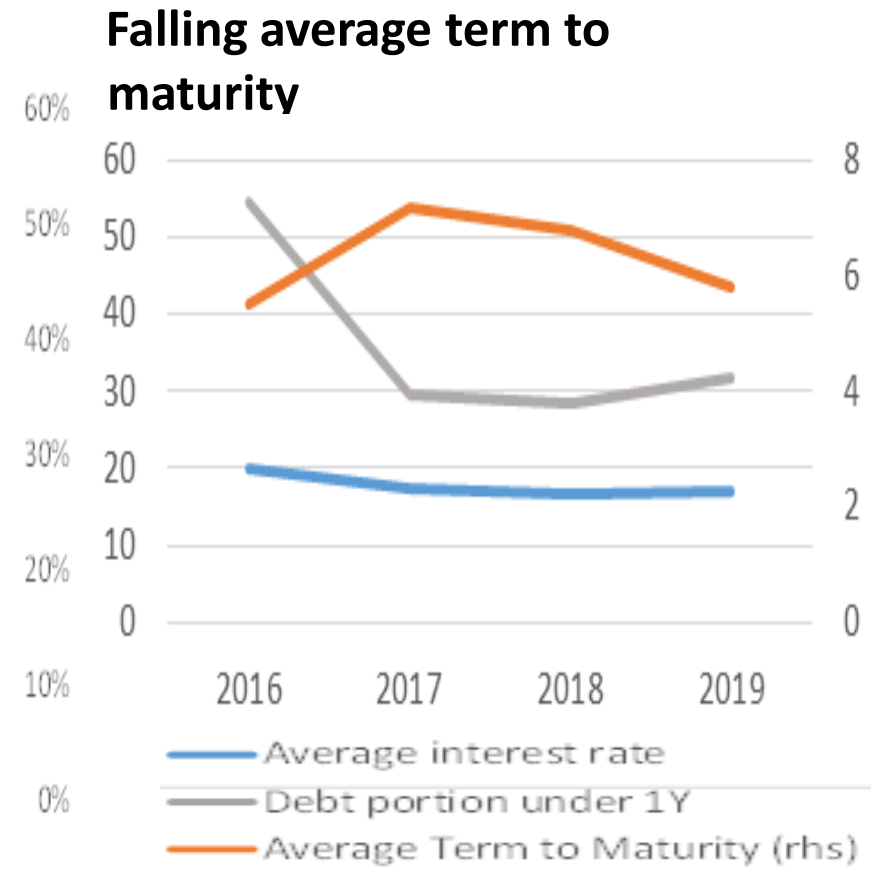
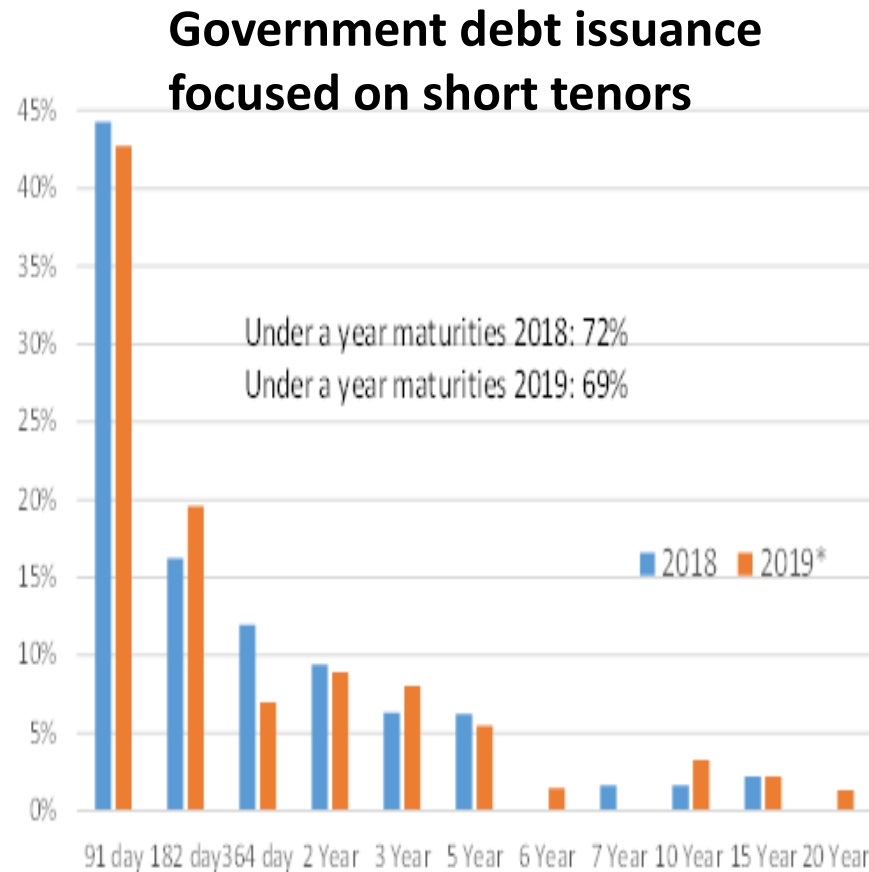
Fiscal Deficit Increase in 2020



Part 2: Building the foundations for domestic capital market development

Next steps in a sequenced approach towards building the capacity of the domestic capital markets

Market for government domestic debt: platform for capital market development



Av. term to maturity of domestic debt: 5.8 years end-2019/4.8 years end-2020.

Strengthening the market for government debt

Extend maturity of government issuances:

- Reduce refinancing risk
- Provide instruments more suitable to institutional investor maturity needs

Continue consolidating issuances so as to create benchmark bond series:

- Strengthening secondary market liquidity
- Benchmark creates basis for pricing other instruments

Strengthen primary dealer program:

- Operationalize government participation in repos
- Extend criteria used in commitments made by primary dealers

Stock exchange has limited potential: small is not beautiful

Stock exchange characterized by:

- Very limited liquidity concentrated in only 5 enterprises
- Alternative exchange for SMEs (GAX) established in 2013 with simplified listing requirements and reduced fees attracted only few (5) listings
- Potential issuers put off by listing requirements (e.g. as regards governance, accountability and access to information) as well as limited appetite for going public: sole-proprietors of smaller enterprises have few incentives for sharing investment upside

Building stronger foundations and incentives for corporate bond market

Measures designed to deepen corporate bond market:

- Creating a local credit rating agency will make it easier for local investor to assess risk in systematic way and for 'new names' to enter the market
- Review requirement that potential issuer must provide audited statements for at least 3 years – facilitating issuance of project bonds with security in future project cash flows
- Create specific framework for securitizations, project bonds and other non corporate issuers.
- Increase capacity at SEC to process issuance applications, publish transparent requirements to issue in the market
- SEC's role in approving quality of underlying assets for a securitization to be replaced by monitoring/oversight function, placing reliance on rating agencies to certify compliance with the SEC's requirements

Strengthening the institutional investor base

Oversight and management of pension fund assets:

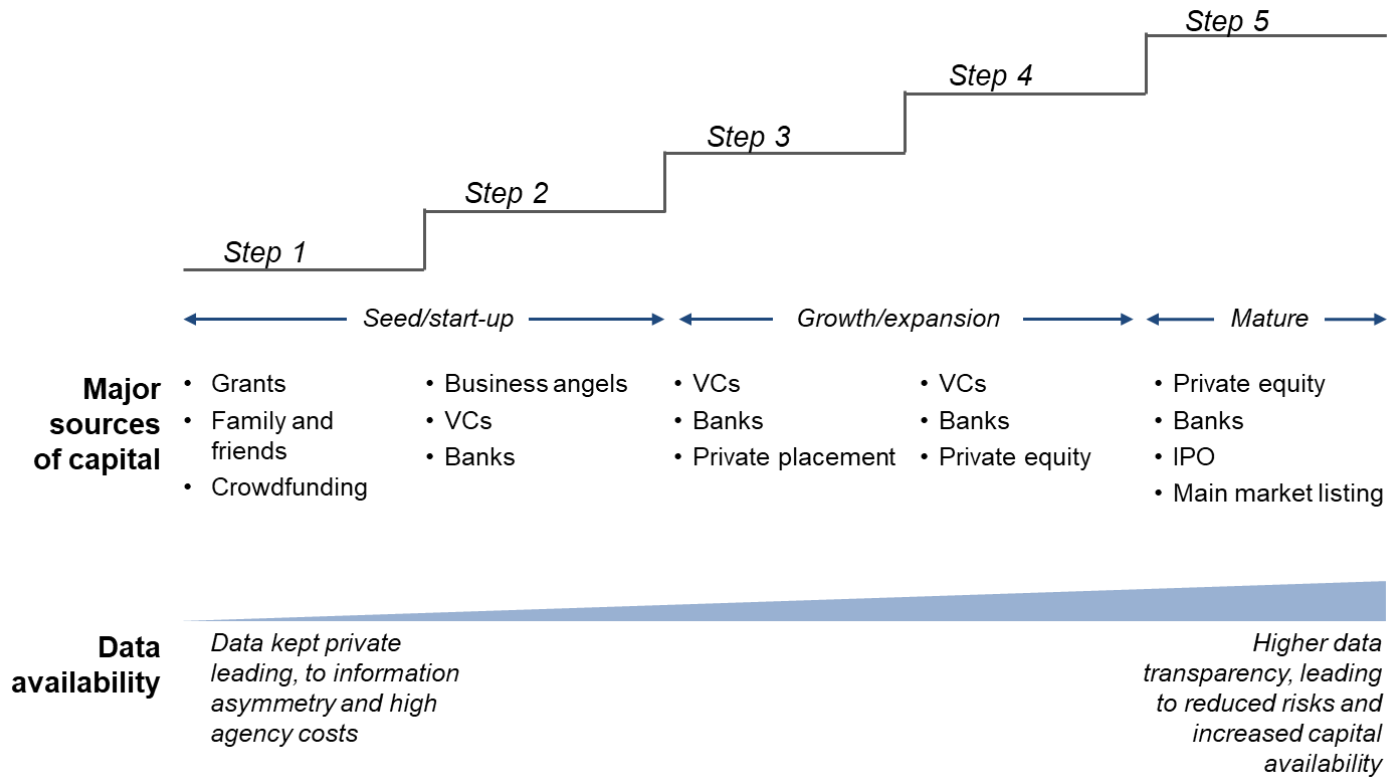
- Require uniform reporting by all pension funds to facilitate comparison of investment returns across funds, strengthen risk-management and enable sector-wide stress testing
- Require pension funds to disclose investment returns and risks to pension savers
- SNITT to be brought fully under the oversight of NPRA
- Outsource the investment of SSNIT's assets, especially as regards SSNIT's decision-making on direct investments
- Provide incentives for pension beneficiaries to reinvest tier two assets (mandatory pensions) in annuities rather than withdrawing lump sums
- Review limit of foreign investments by pension funds (currently 5% of assets) to facilitate risk diversification.

Part 3: Enterprise finance

Overcoming the challenges posed by relying on banks to finance MSMEs by strengthening of the financial infrastructure, innovations in development finance, and adoption of new financial vehicles

Enterprise finance

The enterprise funding escalator



Recommendations

- A more diversified set of options for SME financing is required to support long-term investment.
- Improving the process for the registration and foreclosure on collateral in the case of default by the borrower.
- Establishing the enabling environment for credit bureaus to provide access to reliable and comprehensive information about borrowers' current and past repayment performance.

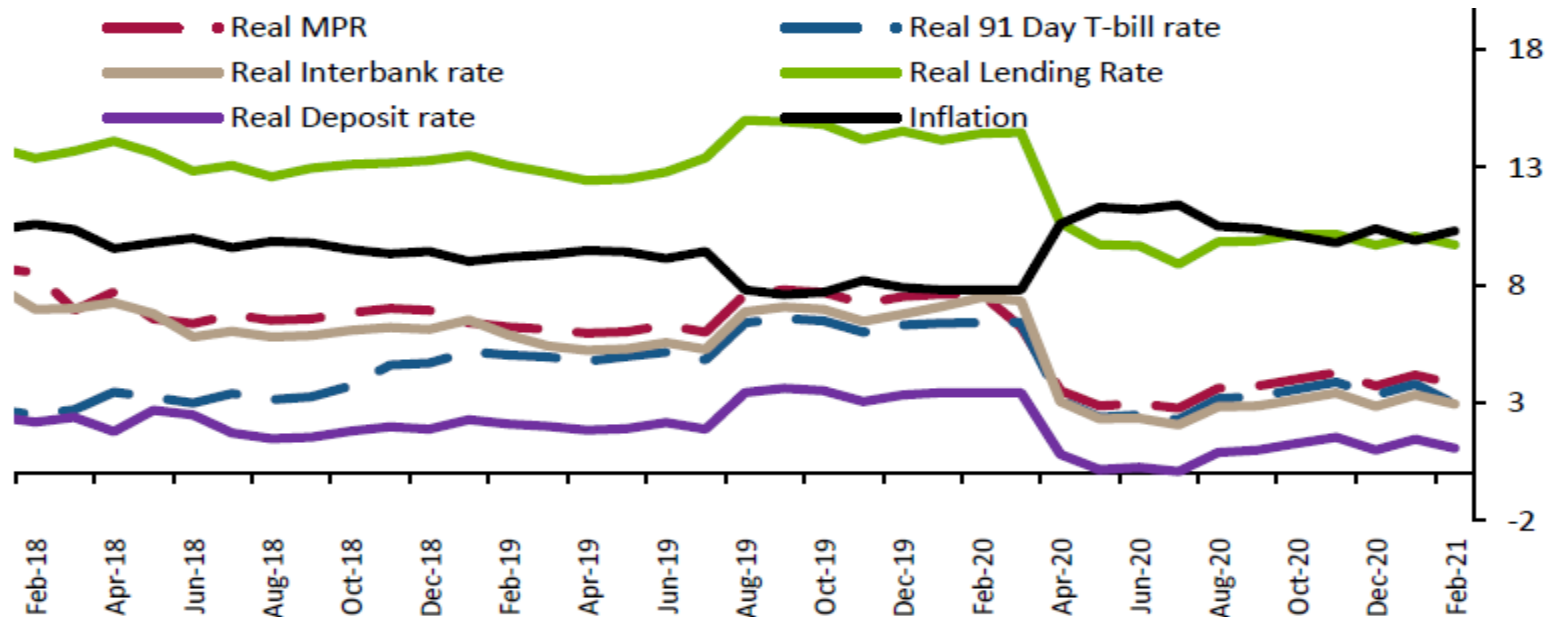
Note: VC = venture capital; IPO = initial public offering.

Source: Long-term Finance Initiative

Crowding out severely hampers enterprise financing

- Banks invest more in government securities than they lend to the private sector
- Real lending rates remain high despite COVID-related lowered monetary policy rate and rise in inflation

Real Interest rates



Enterprises highly credit-constrained

- Enterprise Survey: access to finance was the most important obstacle for 62 percent of surveyed enterprises in Ghana: 72 percent of small and 52 percent of medium enterprises cited access to finance as a major constraint to their growth, many more than large enterprises (23 percent).
- Relatedly, fewer small enterprises (20 percent) and medium enterprises (23 percent) than large enterprises (51 percent) reported having a loan or line of credit (LoC) from a financial institution.
- According to the COVID-19 Business Tracker Survey only 16.5 percent of the respondent firms (mainly MSMEs) had a loan or a LoC from a financial institution. Firms in Ghana also have difficulties securing working capital, given the late payment practices of private and public sector buyers.
- The International Finance Corporation (IFC) estimated that the MSME financing gap in Ghana was equivalent to 13 percent of GDP (about US\$6.1 billion) in 2017. About 74 percent of MSMEs were estimated to be partially or fully credit-constrained.

Breaking the vicious NPL cycle – encouraging banks to lend to MSMEs

Cost of capital prohibitive for most MSMEs



Enterprises have huge incentive to become self-financing leading to reduced investment and growth



Borrowing enterprises struggle to meet payments obligations



Reluctance on the part of banks to lend and only about 8% of small and 15% of medium-sized enterprises of their investment needs financed by banks

(Enterprise Survey data, 2013)

Need to strengthen the legal/judicial basis for contract enforcement and secured transactions

Today collateral registry used predominantly by NBFIs to gain security over assets owned by individuals. The following to be addressed:

- lengthy delays experienced in establishing priority and registering titles to immovable assets
- difficulties encountered due to low capacity of the law enforcement agencies and the wider judicial system;
- lengthy court procedures and high legal fees required to realize collateral in the event of default by the borrower;
- absence of a well-organized secondary market for asset disposal;
- anticipated repeal and replacement of the Borrowers and Lenders Act will address a number of the challenges;
- need for enhanced supervision and enforcement of compliance by BoG;
- public education on the implications of buying assets that have lien over them.

Urgent need to revise Lenders & Borrowers Act

Credit reporting underdeveloped: a glass half full

Need to overcome multiple challenges:

- partial, unreliable and untimely reporting, suggesting BoG's oversight could be strengthened
- costs discourage small FIs (MFIs, RCBs) from reporting due to their relatively large number of very small borrowers, thereby derailing purpose of building credit histories for such small clients
- lack of unique borrower IDs may open for fraud
- poor integration of data sources among 3 credit bureaus leading to competition for data rather than on data analytics, credit-scoring methodologies etc.
- scope of data extremely limited (bank delinquencies) rather than positive information, data available to FinTechs etc.

Currently bureaus sorely underutilized: predominantly only used as basis for salary-based to individuals

Harnessing the public-good value of credit information sharing

Support financial intermediaries in pricing risk: harnessing the benefits of an effective credit reference system by:

- establish institution (commonly-owned and managed by reporting FIs) responsible for collecting data, cleansing data/quality control and regular updates and make data available to all bureaus
- BoG/government to provide initial capital to the data institution and to encourage sharing of positive information available to the authorities and to public utilities
- private bureaus to compete on data processing and analysis
- strengthen efforts to introduce unique borrower ID
- to defray costs consider introducing means to incentivize reporting by smaller FIs

Lessons from development finance for the new Development Bank of Ghana

The history of development finance documents many more failures than successes. Experience suggests following crucial principals:

- *Specific mandate* to act as catalyst for private sector rather than compete with private sector. Speaks for focus on wholesale-only institution;
- *Specific sector focus* to be able to measure impact/outcomes and assemble required technical expertise;
- *Financial self-sustainability* to ensure products act as catalyst to market-development
- *Strong corporate governance*: non-governmental equity owners, selection of board & management according to professional qualifications; oversight by central bank.

Products of DBG with potential catalytic value to financing of MSMEs

- *Credit lines with longer tenors* that allow FIs to extend term finance to MSMEs, thereby providing SMEs with liquidity relief and funding that matches the economic life of underlying assets being financed;
- *Establishment of a factoring platform* to ease MSME access to working capital finance by refinancing issued to well-reputed buyers at significantly more advantageous terms than invoice discounting with banks. Here two important preconditions will need to be addressed:
 - Strengthening of contract enforcement and clarification of regulations regarding assignment of receivables (pending revision of the Borrowers & Lenders Act), and
 - Establishing a mechanism for clearing government arrears, given the government is the largest buyer in the economy;
- *Partial credit guarantees* that share credit risk with participating FIs with parameters (coverage, triggers and timing of compensation payments etc.). After initial capitalization calibrate to be fully financially sustainable.

Risks confronting the DBG

- *Risk of mandate creep* to include lending (not confined to MSMEs) in the industry & agriculture sectors, and administration of subsidy schemes;
- *Risk that comparative advantage will be misinterpreted by market-players:* maturity and stability of the funding provided and the relatively minimal costs of arranging funding compared to soliciting deposits from the public (running a branch network) or the issuance costs, fees and uncertain pricing associated with funding on the corporate bond market ;
- *Risk that government participation will give rise to moral hazard:* misinterpreted to mean access to government funding and principle of financial self-sustainability will not be respected.

Supporting SMEs with private equity finance faces challenges

Venture Capital Trust Fund (VCTF) established to support growth of Ghanaian PE industry's investment in SMEs.

Lessons from the challenges faced :

- PE not that attractive to SME owners, as it requires them to cede/dilute control and income upside on their 'sweat capital'
- Costs of evaluating, preparing & monitoring many small investments incentivizes PE fund managers to 'migrate' to fund larger enterprises. General partners will need to be compensated for these costs if they are to stay focused on SMEs.
- Due to underdeveloped capital markets exit from PE investments poses challenges

Reorienting the VCTF to support provision of long-term subordinated debt

Rather than traditional PE, SMEs better served by subordinated debt provided by permanent capital vehicles:

- SME owners retain their equity and are not required to surrender potential income upside
- Exit is predetermined by terms of the subordinated debt
- Subordinated debt is better suited than PE to the risk appetite of institutional investors, as it provides regular income

Asset-based lending based on collateral in the form of receivables

Similar to the factoring platform suggested earlier asset-based lending using collateral in the form of SME receivables can be used to provide working capital finance to SMEs:

- A revolving pool of SME receivables is used as collateral in a securitization
- Security is provided in the form of over-collateralization and a cash reserve fund
- Relatively low-cost financing when compared to invoice discounting provided by banks

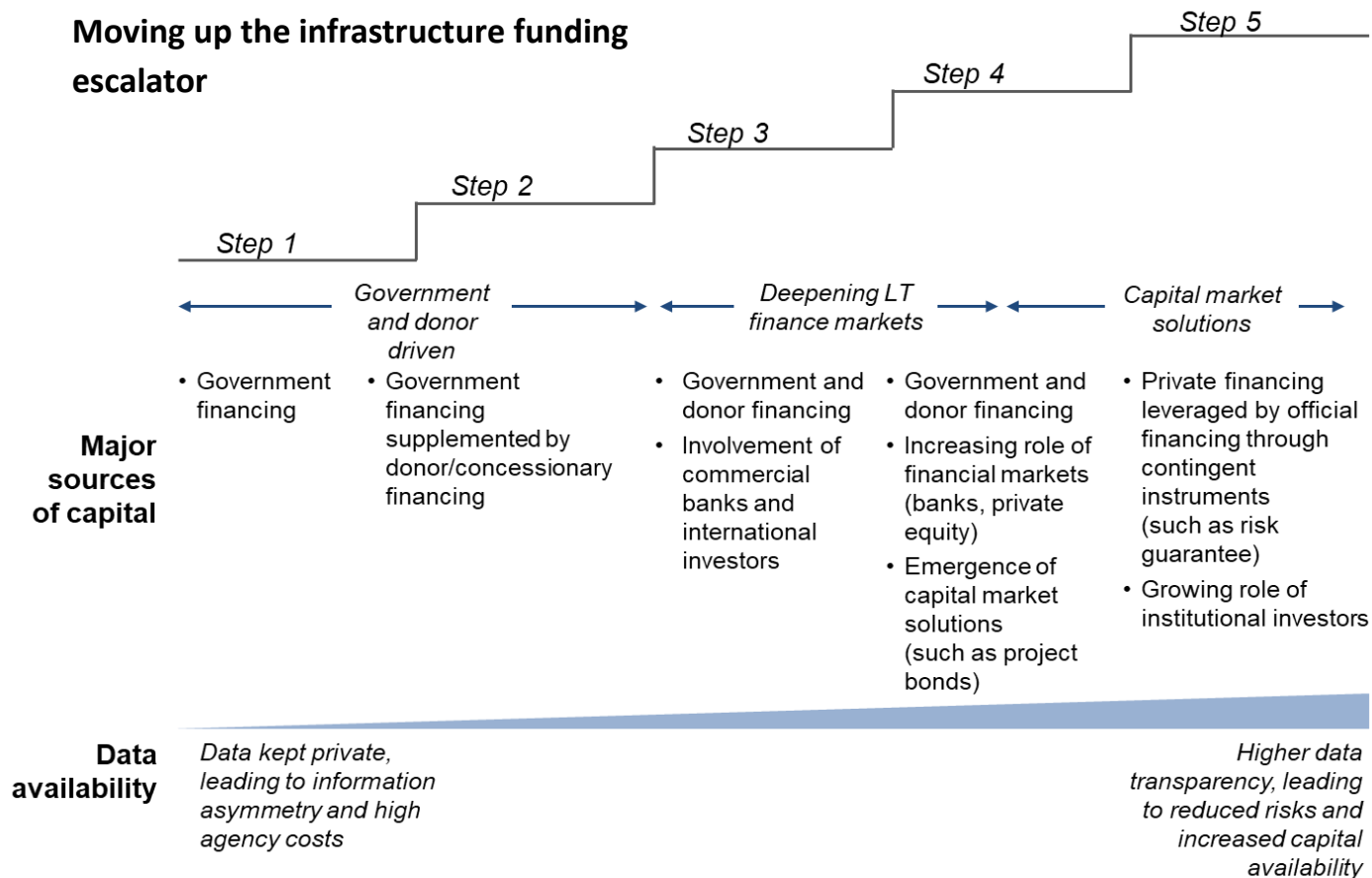
Compagnie Financière Africaine (Cofina) based in WAEMU already issues bonds on BRVM which securitize enterprise receivables.

Part 4: Infrastructure Finance

Building commitment to strengthening the institutional basis and funding for development of infrastructure projects

Infrastructure finance

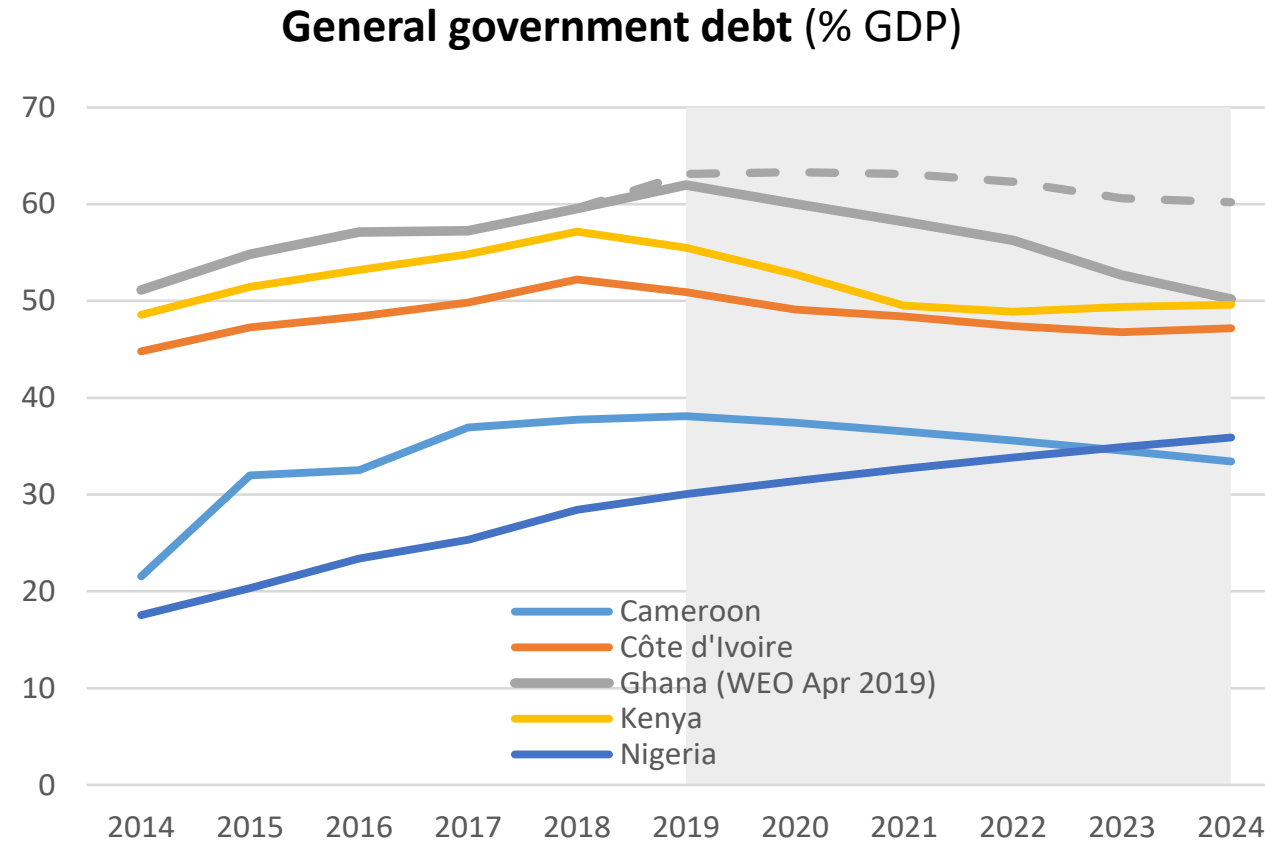
Moving up the infrastructure funding escalator



- To close the infrastructure gap, both public and private investment is needed
- Develop the domestic intermediation process. Gradually reduce reliance on government financing and increase private sector investment by strengthening the local legal, regulatory, and institutional environment
- Gradually place greater reliance on capital markets as a funding source
- Strengthen the institutional independence and governance of infrastructure service providers

Infrastructure Finance Overview

Government's ability to borrow to finance infrastructure projects is constrained by the high level of debt.

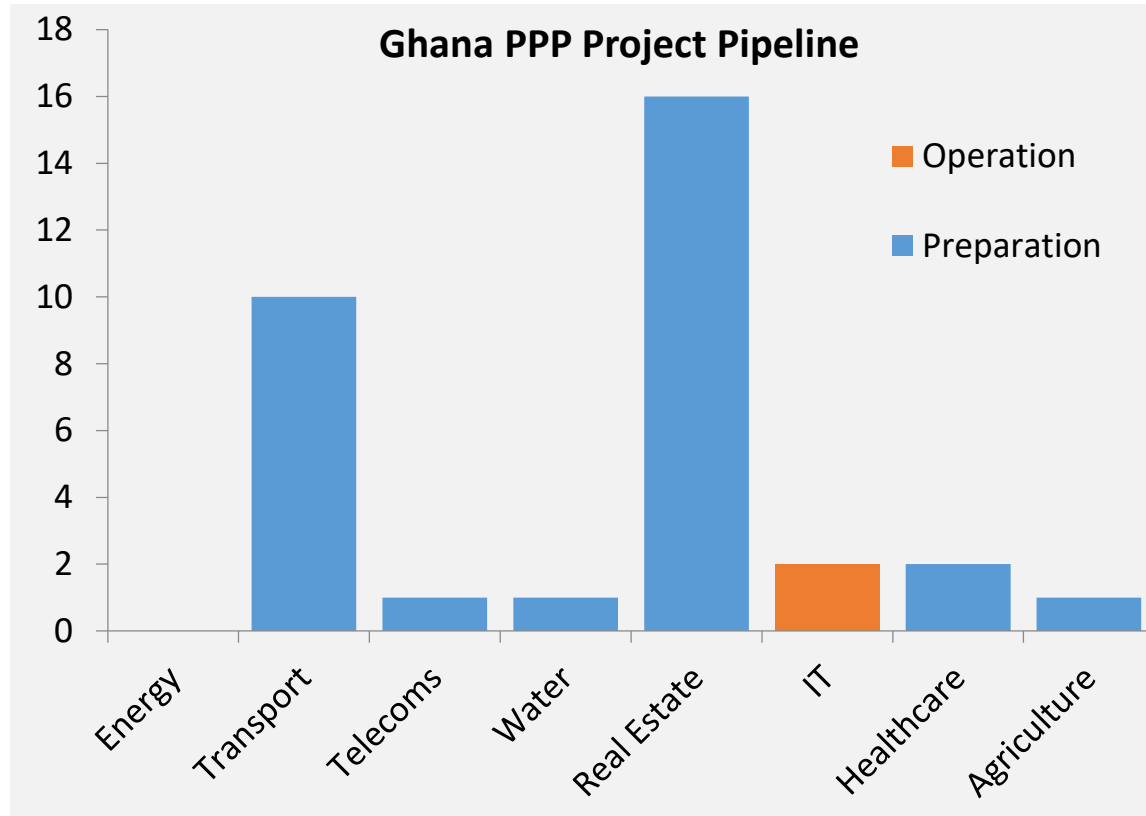


Source: IMF WEO Statistics. Note: dashed line denoted latest IMF forecast.

Strengthens case for increase in private financing of infrastructure

Delivering Infrastructure with Private Funding in Ghana

PPP policy published in 2011 and Central PPP Unit established: the PID within MOF



Lack of progress in PPP pipeline, few projects moving from one stage to the next

Shortcomings in project preparation, procurement and safeguards management

Source: Ghana PPP Portal (ppp.mofep.gov.gh) and interview with the PID on 28th May 2019

- Efforts to enact a PPP law have been unsuccessful
- PID has challenges in coordinating PPPs across all MDAs

Issues and Challenges in Long-Term Financing

Inadequate funding of the project preparation process and lack of capacity in the MDAs to develop bankable PPP projects

Institutional framework and approval process for PPP appear to hinder rather than help the project preparation and implementation process

Bypassing competitive and transparent procurement processes in conflict with the provisions of the PPP policy and the Public Procurement Act

High costs, unsustainable tariffs and operational inefficiencies leading to financial difficulties and high debt burden in the electricity sector

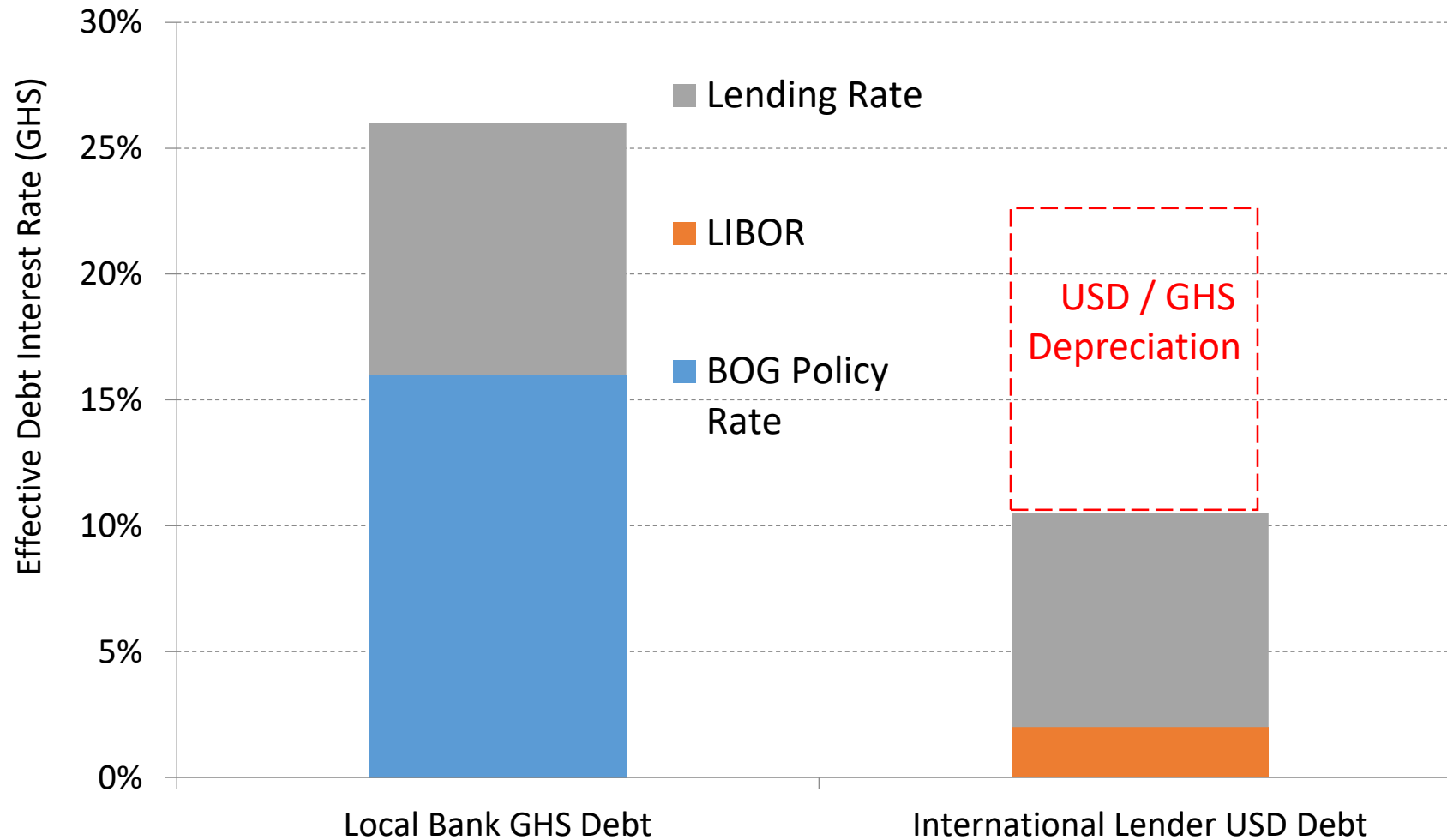
Sources of Finance for Infrastructure in Ghana

- Private sector financing of infrastructure have largely been provided by international lenders and investors with limited participation of local financiers
- Multilateral development banks and bilateral development finance institutions have provided most of the debt financing with some participation by a limited number of international commercial banks

Local currency borrowing should be encouraged

Effective *ex post* interest rates in local and foreign currency are not that dissimilar.

Interest Rate Comparison



Issues and Recommendations

1

Sector ministries do not follow the PPP framework and processes set in the PPP policy, which has no legal backing.

This limits the development of bankable projects.

Enact PPP law to strengthen the legal and institutional framework.

- revise PPP Bill to include creation of an independent PPP body.
- revise PPP policy simplifying the stages and approval process.
- spin the Public Investment Division out of Ministry of Finance as independent body.

Requires buy-in and commitment to implement from the responsible authorities and MDAs. **Ministry of Finance; Presidency; Cabinet; Parliament**

Issues and Recommendations

2

Cancellation of competitive procurement process and single sourcing of private investors deters early stage investors and financing from international institutions.

Private investors for projects should be procured through a competitive process. Requires buy-in and commitment to implement from the Presidency, Cabinet, Ministries, Departments and Agencies, and Parliament. **Ministry of Finance; Ministries, Departments and Agencies**

Develop framework for dealing with unsolicited proposals:

- Guiding Principles: Value for Money, Fair Market Pricing, and Transparency and Accountability.
- Evaluation criteria on acceptability of proposal.
- Government should have oversight/control over project preparation process.
- Procurement method and incentives. If direct negotiation is acceptable, there should be a clear process and protocol. **Ministry of Finance; Presidency and Cabinet**

Issues and Recommendations

3

Limited public funding constrains the development of a pipeline of bankable projects.

Finalize and operationalise Project Development Facility (PDF) to increase availability of funding for PPP project preparation. Requires adequate seed funding and implementation framework. **Ministry of Finance**

Earmark funding from the national budget, which public sector agencies can draw upon to recruit the required expertise for PPP project preparation.
Ministry of Finance; Ministries, Departments and Agencies

Issues and Recommendations

4

Lack of funding and capacity for project development activities on the private sector side.

The facility will undertake the activities required to get privately sponsored project to financial close. It will unlock/attract:

- Local investors as co-developers
- Local banks 3 to 5 year tenor loans in local currency for the construction phase (a construction finance facility can be established)
- Infrastructure bonds post construction

Facility will be financially self-sustaining, deal with unsolicited proposals transparently and focus on the smaller projects which have largely been stagnant on the PPP pipeline.

Government needs to :

- Remove VAT on the management fees of private equity funds as with international practices
- Develop framework for unsolicited proposals
- Get a champion to facilitate the establishment

Private Sector Led Project Development Facility

Issues and Recommendations

5

Most projects are funded in foreign currency, displacing local banks. Perception that foreign exchange funding is cheaper compared to local currency funding – which may not be the case for long maturities.

Structure financing of new projects with a local currency income component.

Ensure that project revenue structure is in local currency, cost reflective, indexed and able to meet funding obligations.

This has the potential to progress the smaller projects in the pipeline (e.g. healthcare and real estate) which can be structured to attract local developers and lenders. **Ministry of Finance; Ministries, Departments and Agencies; Infrastructure Developers**

Issues and Recommendations

6

Local banks depend largely on short-term deposits and other funds, which are not suitable for long-term infrastructure projects.

Create infrastructure guarantee facility to give tenor elongation and/or credit guarantees to local lenders. Requires the appropriate partnership (e.g. Ghana Infrastructure Investment Fund and GuarantCo).

Example: InfraCredit, Nigeria, established by Nigerian Sovereign Investment Authority and GuarantCo

Ghana Infrastructure Investment Fund

7

Local banks depend largely on short-term deposits and other funds, which are not suitable for long-term infrastructure projects.

Establish a Construction Finance Facility which unlocks the funds local banks have available. Post construction, the projects will be refinanced during the operations phase, thus unlocking the funds institutional investors have available. **Ghana**

Infrastructure Investment Fund: