



*Obstacles and opportunities to financing
infrastructure projects in sub Sahara Africa.
The UBA experience*

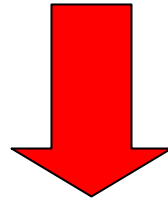
*Tony O Elumelu, MFR
GMD/CEO, UBA PLC
September 2006
Washington DC*

www.ubagroup.com

Context setting

What exactly do we mean by infrastructure?

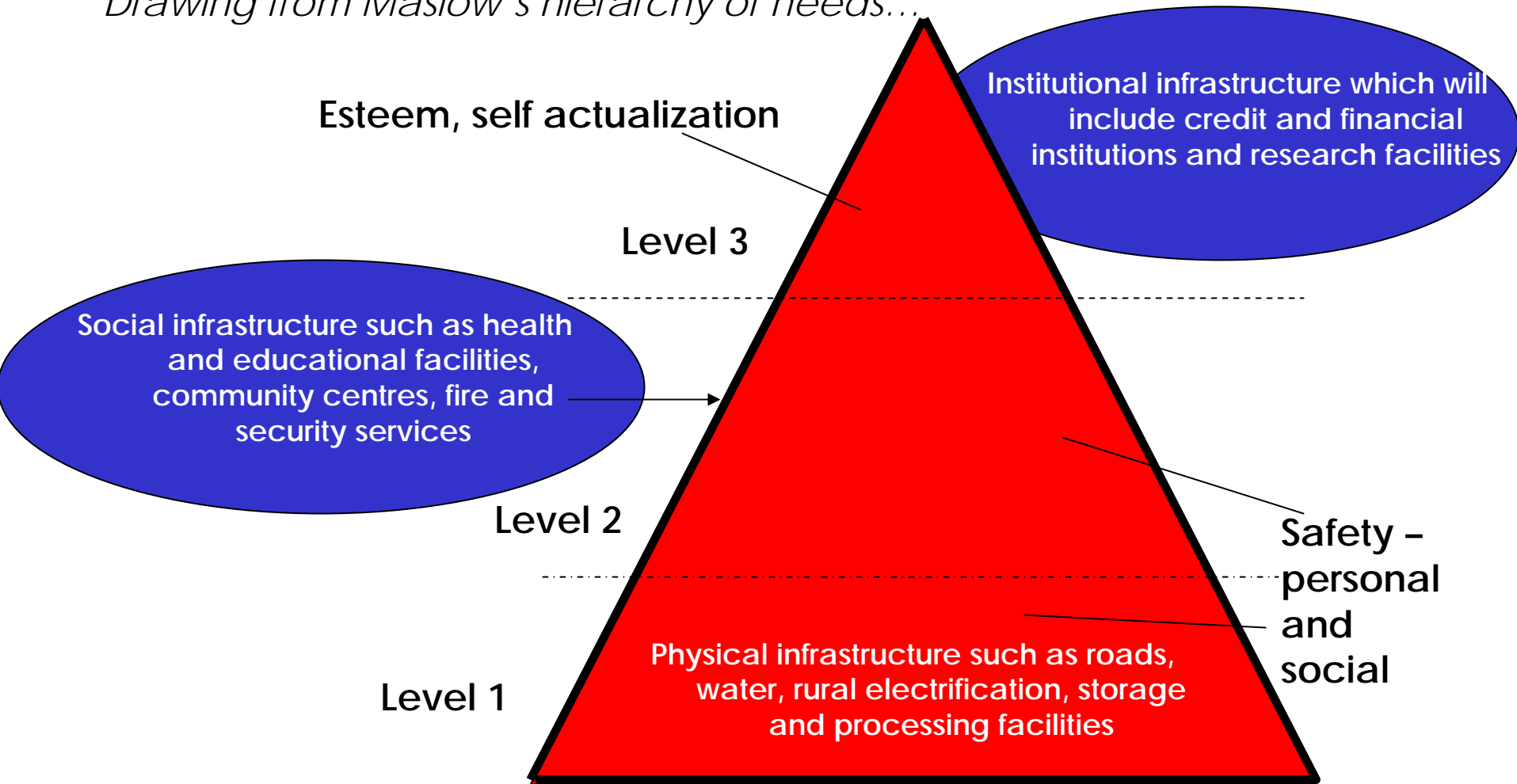
- In the broadest sense infrastructural facilities embrace
 - Law and order through to education and public health; and
 - Transportation, communication and water supply



In other words, infrastructural facilities are elements in the package of basic needs which a community requires to produce a *better standard of living*

How best do you classify infrastructure?

Drawing from Maslow's hierarchy of needs...



Our focus for the purpose of this discussion is on Level 1

Current situation analysis

How acute is the infrastructural deficiency in Africa?

- As cities grow, the need to meet the increasing demand for urban infrastructure services becomes an important policy problem
- Although governments have long recognized the vital role that modern infrastructure plays in facilitating economic growth and poverty alleviation, the results demonstrate that historic policy prescriptions have failed

Stock of infrastructure in SSA and other emerging regions...

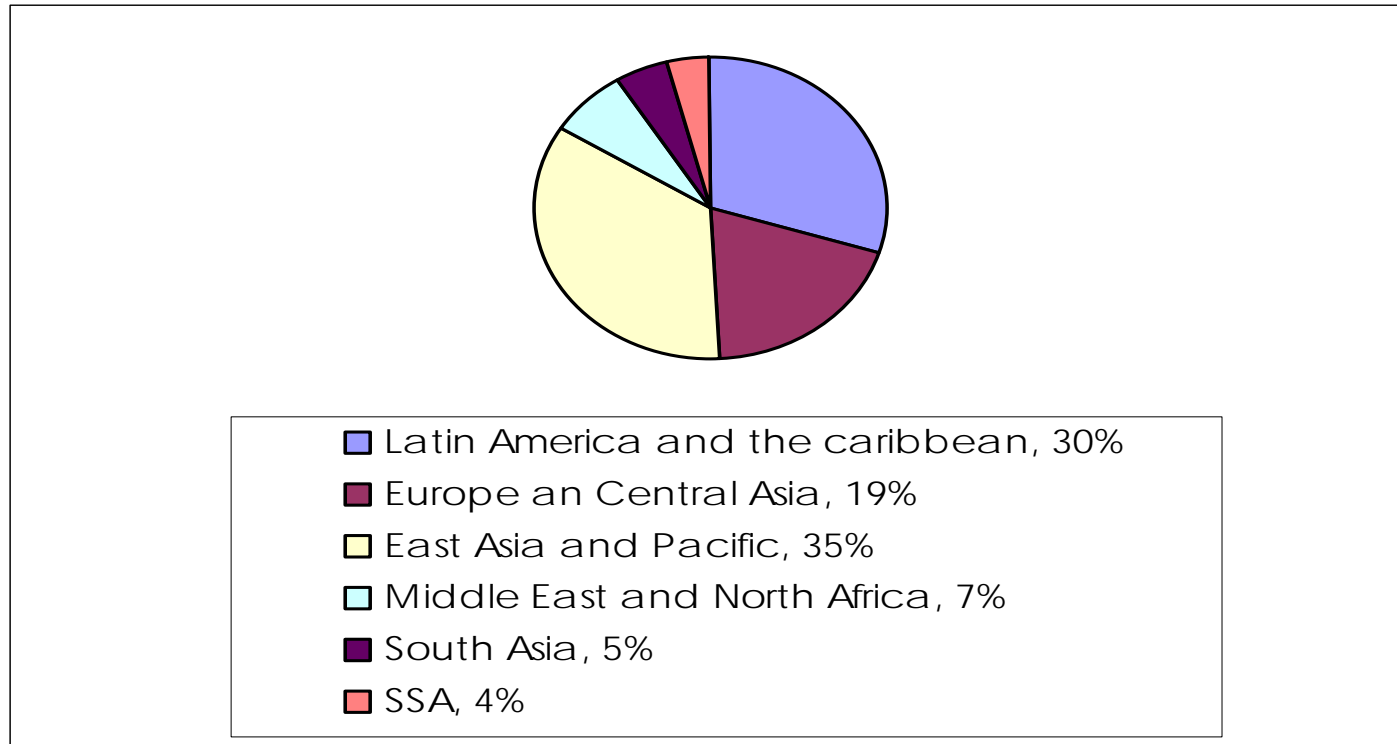
	installed capacity per 1000 persons (KW)	Electricity consumption per capita Kwh	Av telephone manilines per 1,000	Access to improved water source (% of population)	Road density (km/sq km of land)
Developing regions					
<i>East Asia</i>	223	921	59	71	0.15
<i>Europe and Central Asia</i>	992	3425	217	88	0.11
<i>Latin America and the Caribbean</i>	431	1709	150	88	0.15
<i>Middle East and North Africa</i>	338	1411	86	84	0.08
<i>South Asia</i>	99	426	31	76	0.94
SSA	105	394	29	62	0.08
Developed regions	2044	8876	501	99	0.58

Source: World Bank, World Development Indicators, 2003

Note: SSA includes South Africa which 'flatters' headline indices

Low stock levels are a direct derivative of investment levels in SSA...

Regional composition of international investment in infrastructure, 1992-2003.
Total spend, \$622Bn



Source: Dealogic Bondware and Loanware and World Bank estimates

Why is this deficiency so acute?

Some of the key reasons are...

- The prevalence of monopoly (state owned) providers
- The inherent inefficiency of such service providers
- Scarcity of resource largely because governments succumbed to populist measures to hold prices at levels which did not cover costs
- A failure to adjust to and plan for evolving economic conditions

Why is this deficiency so acute?

Some of the key reasons are...

- Little or lack of depth in local capital markets
- Absence of incentive structure (through the tax mechanism) to encourage infrastructure financing

What level of funding is required to begin to remedy deficiency?

Using Nigeria as an indicator...



Key characteristics

- Total land mass covers 923,768 sq. km (10% of total size of Europe)
- Population in excess of 100million, majority of which reside in rural regions with minimal infrastructure
 - Important to note that access to market (state of infrastructure) is positively correlated to low incidence of poverty
- Infrastructure (which exists) remains concentrated in major towns
- 2005 GDP, c. \$100Bn
- GDP growth c. 6% (target 10%). As a rule of thumb, expenditure on infrastructure should in absolute terms equate to growth rate as a proportion of GDP or in Nigeria's case c. \$6Bn per annum

What level of funding is required to begin to remedy deficiency?

Using Nigeria as an indicator...



Priority expenditure

	\$Bn
Power	11
Railways	8
Roads	2
Aviation	1
Total	22

5 year projection per FGN estimates

Large as it seems, this may still be insufficient to keep pace with anticipated growth

Old challenges, new thinking

New ways of thinking are gaining momentum...

- Fiscal pressures and the success of the pioneers of the privatization of infrastructure services are acting as catalyst
- Governments **ARE** now keen to involve private sector in the provision and especially the **financing** of infrastructure
- Government is also more receptive to pricing policies which will be more efficient in times of congestion
- But, bottlenecks remain:
 - There needs to be a healthier flow of capital from international markets
 - Multilaterals need to play a role by providing risk mitigation instruments (including guarantees and political risk insurance)
 - Multilaterals must also help deepen the capacity of local capital markets
 - Local parties must take steps to improve credit worthiness, corporate governance, investment planning and financial reporting standards to facilitate access to both local and international capital markets

New ways of thinking are gaining momentum...

However, it is our view that the substantial investments required for infrastructural development in SSA will not materialise unless there is a *strong institutional framework for protecting creditors' rights, effective covenants and reliable avenues for legal enforcement and remedy*

What have we been doing at UBA?

- Getting financing strategy right is one of the key things that define a well conceived infrastructure project
- Getting it wrong invariably leads to exposing the project to undue risks that may have far reaching implications and may make project unsustainable in the long term
- At UBA we have devised mechanisms which enable us dimension, price and mitigate two key risks:
 - Political risks
 - Commercial risks

What have we been doing at UBA?



Some recent examples...

Project	Project description	Deal size	\$'MM UBA role
Tinapa	World-class integrated business resort. Located on the Calabar River, and contiguous to the Calabar Free Trade Zone (Calabar FTZ), Tinapa is the first integrated business and leisure resort in Nigeria		350 Financial Adviser, [Co lead Arranger]
Leeki Concession	Redesign, reconstruction/expansion, operation/maintenance and tolling of 49.5km of expressway on a Design Build, Operate, Maintain & Transfer basis		300 Co Lead Arranger on senior debt
Aviation Development Fund	Rehabilitation & manitenance of airport infrastructure		150 Financial Adviser, Lead Arranger

Parting shots

Way forward...

- Some ideas on how we would like to see foreign partnerships develop in Nigeria in short/medium term
 - Credit enhancement for local currency bonds to deepen local capital markets - multilaterals
 - Assistance with development of securitisation laws - multilaterals
 - Cross currency swaps - multilaterals
 - Infrastructure fund – private equity and emerging market specialists etc

Thank you