

Bloomberg Invest: Focus on Africa

Building Africa

Jennifer Zabasajja: Good morning. Thanks so much for being here. This is really an important topic, infrastructure. Maher, you were talking a little bit about it last night at the dinner. I want to start off with the Twitter poll because we love Twitter polls here at Bloomberg, and specifically when we asked our Twitter audience what the priority in Africa needs to be, infrastructure was at the top. It just shows just how important it is.

Sérgio, I wanted to start with you because IFC, of course, infrastructure and the importance of infrastructure is key to your business. Can you talk about what exactly you're focusing on with the IFC and growing infrastructure and the gaps that we're seeing in infrastructure across the continent right now?

Sérgio Pimenta: Sure, Jennifer. Good morning. You're absolutely right, the Twitter poll does show that infrastructure is extremely important, and it's particularly important in Africa where there are still significant gaps when you look at it in terms of what is needed to be done. I think we made some estimates that by 2030, the continent needs investments of 150 billion a year to get to cover the gap that is still there, and right now, the level of investment is about half of it.

What are we focusing on? Infrastructure has several main components. I think the first one we're focusing on is energy. Energy is one of the areas, we heard it in the previous panel, that is extremely important in Africa. When you look at the growth of the population, the number of people who are not connected to, or don't have access to energy is actually growing, estimated at about 600 million people on the continent. There's really a need to do something there. Two-thirds of the people in the world that don't have access to energy are in Africa.

We have been very focused on that sector. We've invested, on the IFC side, about \$3 billion over the last decade in energy. We've been, of course, focusing first and foremost on renewable energy, this is the future of energy, and that's something that we've really been focusing on. We're also looking at innovation in energy and looking at different models like mini-grids and off-grids and different systems.

We just launched, for instance in DRC, our program called Scaling Mini-Grid. Which is taking a simple formula of bringing in private sector, working with the government, setting up a replicable model that we can take to one secondary city and then replicate to another one and another one and another one. We launched this in November, and we're very excited to see that this program should work and then we can of course replicate it also in other countries all over the continent.

Jennifer: Where are you seeing it working particularly well?

Sérgio: Mini-grids is called mini, but in reality as you know, it's actually pretty sizeable grids in secondary cities that can serve several millions of people. It's particularly suitable for countries with large geography and where populations are spread, so DRC, obvious candidate, but also the Sahel. We've been looking at

developing this program in other countries like Chad. Any country where population is quite spread, it's quite important. I think we estimated about 30% of the population in Africa that doesn't have access to energy today could be served through this type of structure. It's something that's very important. That's one.

The other part that is also very important in what we're focusing on, is digitalization. It was not the first one on the poll, but there is a component of infrastructure behind it that we are supporting. Particularly with what happened with the pandemic, we have been really seeing an acceleration of the digitalization in Africa. We have also identified that there's still significant gaps on the infrastructure side of it, so we have been investing in it. Just in one year, we put \$1 billion in that sector last year. We're putting almost another \$1 billion this year on shared infrastructure, whether it's cables, whether it's towers for mobiles, and so on. Really trying to push that part of the agenda.

Of course, transport infrastructure. I don't want to talk about it before Maher does, but it is a very important sector for us. It's also very important because when you look at the evolution of the economy in Africa, and you see the development of regional value chains and the importance of having a continent that is connected. All the transport infrastructure is extremely important there.

Jennifer: Maher, we were talking a little bit about this a few days ago specifically. Sergio outlined this very well for us. The money is there, right? The investing is going to a lot of these projects. We see that in this chart right here. There's a lot of investment into somebody's project, but the projects are not getting done in most cases. What's happening in between? As a private operator, what is it that you're noticing the gaps in?

Maher: I think most of the money that is out there, is trying to find its way to projects through governments and public sector. When actually a lot of the major projects that are underway are public private sector, or even private sector projects. Private sector bring in a whole different approach to raising funding. What we've had experience in is challenges around stability, and stable power sources, connectivity, pose a big challenge for investors trying to bring funds into the country. The private sector need to work with the public sector in trying to resolve these challenges.

The funds that are coming into Africa are usually looking for very clear guarantees. They are patient capital, but trying to find the right projects that they get to, which are mainly now being driven by private sector development, whether it is in the ports, whether it's in the ICT sector, or the transport sector. These are posing challenges where we found in our case working in Nigeria, we've worked on a number of projects in the ICT sector. We've developed a data center where we've had to raise funding from a mix of XM banks and private equity.

This funding has its own challenges that are quite different than the challenges that let's say, you get from the public sector and working with governments. I think that if we are able to bridge some of the reliability issues that are found on in terms of power, logistics, matching the sea ports with the infrastructure that goes hinterland it can unlock a lot of more potential.

Jennifer: How do we get there?

Maher: I think working closely with governments, try to make them understand that improving the ease of doing business, and where the challenges, the perceived risk that financier's find entering into African markets is a very important step. The the issues around connectivity across the continent is a very important part of moving goods, and reaching the population is a big factor in unlocking the potential of the continent.

Jennifer: Sergio, just on that note, that Maher was just making. A lot of it too is contingent on the government that is in power, and if they are supporting some of these projects. How are you with IFC navigating that and finding the right projects to support and take to the public sector to then back?

Sergio: Jennifer, I think the point there which is quite important, is that when we look at how we can support infrastructure in Africa, a lot of financier's and you said it, there's funds available. There's a lot of financiers who are looking for long term opportunities to put their funding. I think the major problem is that it's very hard to find what banks call bankable projects, right? There's no project that are completely finalized and that you can say, we'll go and we'll do that.

Then the second point is exactly what Maher was saying, which is governments in Africa, not just in Africa, many other continents, they have a limitations on their fiscal space. Given the needs of the populations to develop infrastructure, you do need private sector capital to come into these projects. The approach we took at IFC, we realized this a few years ago when we were looking at-- We had a small investment portfolio in infrastructure in Africa. We were asking ourselves, "Why are we not doing more?" Well actually, we are probably financing about 70% to 80% of the projects out there. Why is it so small? How do we grow this? How do we grow this space?

That's an approach we took about three, four years ago, of creating ourselves as much as we can. IFC, being the private sector arm of the World Bank Group, working with the World Bank, working with other development partners, working with governments, working with private sector. How do we create a space where there's more projects? What that means is that when we look at a development need, there's a need for energy, there's a need for digital infrastructure, there's a need for a new port, or an expanded port.

We go and we engage with partners. We say, "Okay, what's happening? How can we help? How can we create the space?" It's regulatory work. it's working with the governments in terms of finding the right structure, private, public partnership, helping structure. Then go to investors and say, look there is an opportunity, have you looked? Sorry to come back to my mini-grids in DRC, but it's an important one. How many investors are looking at mini-grids in DRC.

Now that we're doing all the work with the governments, with the municipalities on finding the right background where investors can come. Now we're going and knocking at doors, saying come and bid for this type of projects. Our motto now is Creating markets, Creating opportunities, it's really creating markets and infrastructure.

Jennifer: Maher, do you see a benefit to maybe starting small versus tackling a lot of these infrastructure problems on a grand scale with governments? How do you as a private operator approach this?

Maher: Definitely, it's much more advantageous to break it down to smaller blocks, because you manage the risk better and you can get much more private sector involvement. Companies that are focused on certain areas, whether it is in the ICT Sector, the seaport sector, roads, bridges, can focus in areas that they are knowledgeable in and can bring the requisite finance into that specific area.

Some of the examples that we've worked on, were currently developing a Seaport and free-zone and Lagos and we're having to go to a mix of financiers. We've broken it down into climate funds, focusing on power and renewable energy. We're focusing on private deals to develop the Seaport. We're also focusing on our banks to develop the main infrastructure of the port. We've broken it down into blocks and it makes it much easier to approach it, not easy but easier.

Jennifer: How much do you have to engage the government then in those discussions?

Maher: Certainly, you need all the fiscal support, you need consistent policies, you need to have them engaged in certain areas where their agencies are responsible. If you're working in the maritime sector, you have to ensure that the National Port Authority is supporting you. If you're working to develop a power project, you have to ensure that the power sector is supporting it. Especially if you develop more power than you need, then you need to be able to feed it back into the grid and that takes the right permitting to be able to do that.

Jennifer: There are not consistent policies, correct? How do you get around that at this point in time?

Maher: Well the policies are consistent across administrations, it's just making sure that from one administration to the other they continue. Where we've managed to have some progress is around economic zones, free zones, which are popping up across the continent. In Nigeria there's over 30 free zones, and there's more popping up across the West Africa region. These economic zones, like the one we are developing in Lagos, they give a reliable set of tariffs, levies, land rights, which are very important to investors coming in to financiers, the guarantees that come with it and underlying factors that start to increase risk and the ease of doing business. The economic zones actually resolve a lot of those issues, so there is some progress in that space.

Jennifer: Sergio, I just want to get to this question from our audience for you. It lends to what we were just talking about, so in most African countries it's near impossible to fund infrastructure projects without government buy-in. Which is what we were talking about, or political nods from the top. How do you address this specifically from an IFC perspective? How much are you engaging with the public sector?

Sergio: I think it's a very good question, but it's a question that is even beyond Africa. In all countries, infrastructure projects for many sub-sectors of infrastructure

are either delivering a public good or something similar, which therefore requires some form of government involvement. I think what we focus on is really on looking what is the role of the government in these projects and how does the government deliver what the government needs to deliver in an effective way.

It's a lot around first, making sure the regulatory environment is appropriate. That there is a bigger plan and that's a lot of the work we do with our colleagues at the World Bank in terms of like, what should the energy sector be in this country? How should the telecom sector be in this country? Then promote a system where you have better delivery for the public. Therefore looking at more competition so that prices can go down, that quality can go up. Then we have teams that can help governments in terms of building their own capacity, to be able to be the counterparty of private sector. It's very important to have regulators that are effective, that can look at how different players from the private sector come in and help deliver the goods.

We look at what we can do, so both at the World Bank and IFC we have teams who do that. In particular at IFC, we have teams that specifically give advice to governments on private public partnerships. What these teams do, what we do is that we engage with the government who say, "I want to bring in a new operator of telecom. Let's say, we want to bring a second or third license, and so on." Or "We want to build a toll road somewhere, so how do I do it as a government?" We have teams who can help on the technical side, on the regulatory side, on the financial side, and also, very importantly, on environmental and social issues.

If you want to build a new road, are you going to displace people? Are you going to have an impact on the environment? On biodiversity? We look at all these aspects, and we help the government follow what we consider international best practices on all these dimensions. These teams can also help governments then go and do a bid so that the private sector can come in and make the best offer so that you end up having good private sector companies, following good standards, coming and applying and investing in Africa.

Jennifer: It's not just the initial project that these governments need to buy into, it's seeing it through. Which is a lot of the issue that we're seeing, a lot of these projects are just not getting done. Is that where the regulation comes in, is that what you're alluding to?

Sergio: I think it's a combination of that, you need the regulation, and a lot of work needs to be done in many countries to make sure that regulations are up to date. Particularly when you look at digital infrastructure, which few generations ago we didn't know what it means, so we need more updated regulations. Then it's a lot around capacity, because if you set up a regulator, you need to have the people who have the competence, and there's a lot of competent people in Africa who can do that, it's just a question of making sure that they get selected to the jobs and that they get the opportunity to help the countries. This is an area that we can also help.

Jennifer: Is that happening anywhere specifically? Would you say the DRC is an example of that?

Sergio: I think it's interesting to say that in DRC, for instance, what we've been doing is working at the municipal level. We've been identifying some of the municipalities where this can happen. Yes, I think it's happening, and you can see it across many other countries in Africa, where you see innovative projects in infrastructure that are coming up. Whether it's around renewable energies, but also around, I would say, more traditional infrastructure, such as roads, and airports.

We have helped develop good models of private sector management of airports, which is pretty common around the world. You can see that some of the governments in Africa are embracing that model also and bringing in private sector operators. Then what you see, is you see a shift from a situation where you had something that was not very effective, usually needed subsidies from the government every year, to very profitable operations that contribute, pay taxes to the government, pay revenues to the government, and that's a very good model to follow.

Jennifer: We're also seeing much more increasingly, and I want to bring up another chart that we have to, specifically when we talk about projects being invested in. China specifically, is obviously a very big part of the story. This chart specifically just shows how much, I don't think it's this one, but we do have one which shows just how many loans China has actually given to the country. Not this one, it's going to come up in a few minutes, I promise. For a lot of people that is a concern. Maher, you've worked specifically with Chinese investors. Talk about how it's different working with them and why you chose to take in that money as opposed to elsewhere.

Maher: We've been in a joint venture with Sinopec, the Chinese national oil company for over 20 years, in Nigeria. They come at Africa with a very different approach to investing. They're also involved in many different parts of the economy. They've invested in ICT projects, transport projects, power projects. What we found is that, culturally, a very different approach to doing deals than let's say their European and American counterparts.

Jennifer: How so?

Maher: They rely heavily on government guarantees. Their capital is very patient. They have a very long-term outlook. Ensuring that they manage their resources very carefully for the future of their country is polarizing sometimes, because they take a very China-centric approach. What we found is, culturally doing business with them, you've got to look very carefully at how to protect your interests versus theirs. That said, the Chinese have an ability to look long-term, to make changes that are appropriate for the business. The projects that they've been looking at in Africa are mainly around resources and bringing their technologies and their capabilities into the African continent for a long-term sustainability. That's the different outlook I've seen working between Chinese and other counterparts.

Jennifer: Sergio, is that a concern for you?

Sergio: What we see in Africa is that there's many different investors from different countries investing in Africa, and China as the chart shows very well, is a very significant investor in Africa. There's two points that on the IFC side we look

carefully. One is as the private sector arm of the World Bank Group, we do want to see a bigger participation of private sector in the development of the continent. This is a necessity because governments don't have the physical space to invest in everything that is needed in the government.

As Maher was saying, a lot of investments from China are publicly backed, or with public guarantees and so on, so having an impact on government's finances with a lot of debt and so on and that's an issue that needs to be managed very carefully. I think the second part that is very important for an institution like IFC, is that the projects that we finance and we support meet the best standards in terms of environment and social practice, and it's not always easy, and it is demanding. I think everybody is looking at how you can move the agenda further to just make sure that we are taking good care of our planet and that we're taking good care of the people in this planet.

I think it's important every investor coming in from wherever they come, from whatever part of the world, that they do follow the best practices possible.

Jennifer: Maher, was just saying, China is coming in with a China-centric outlook. How do you ensure that you as an operator are getting the best deal considering that?

Maher: I think the best deal you get is the one you can negotiate, and I think the Chinese are very strong in that sense, they negotiate their deals in a very powerful manner. I think bringing in all the financing that they bring, governments tend to compromise to ensure that they can bring them onboard. I think China is still catching up, because for the last 50 years, many other governments have been investing heavily in Africa. I think the African governments are much more used to European, American investment more than Asian investment that's coming in. There is maybe perhaps a resettlement of the amount of investment, a balance between East and West that's coming into the Africa continent.

Jennifer: You think so?

Maher: I do. I think so. I think they're still catching up, because a lot of the port developments, infrastructure, roads, China has just been coming at that in the last 10 to 15 years. Prior to that it's a lot of local governments and international investments that have developed those resources.

Jennifer: When we talking the short-term, Sergio, and this is just another question from our audience here. How does the IFC measure success? Considering all of these projects that are maybe in the pipeline, in development, being funded. How do you measure what is actually-- Like we're heading in the right trajectory?

Sergio: We are a development institution. We are a finance institution, we finance, but we are first and foremost a development institution. Our success, of course, we want to make sure our projects financially succeed so that companies manage to have a decent profit and do well. As a development institution, we measure what we call our impact. We have a pretty rigorous methodology, where before making any decision of investment, at the moment we make that decision, we look at what can be our potential impact of our project.

That has several dimensions. There's project dimension, so what is the project doing, but also there is a market dimension. We really like projects that can be replicated. We are first somewhere and then others will follow. We have a scoring mechanism, we have an independent team who does a lot of number crunching and gives us some very clear impact measurements. Then as the project unfolds, we monitor that and we compare versus what we thought exactly would happen. That allows to then measure, and say, this project has been highly successful, successful, unsuccessful, or highly unsuccessful.

We have to take risks and it's important that we be ready to take projects that maybe will not happen, but we go with our eyes wide open and do our best from the beginning to set the structure of the project so that it ends up being a success. By the way, if I may just add one thing, Jennifer, on this. Is that, that methodology that IFC has developed, being the leading development institution for private sector, I'm very glad that a lot of other DFIs, a lot of other multilateral and bilateral partners have adopted very similar methodologies based on ours. It's something that I think can have an impact on the market.

Jennifer: Considering the numbers that you and your team are looking at, where are the scales tipped? Are the projects right now in a highly successful camp right now, or are they still mixed? I mean, give us an outlook.

Sergio: Happily, our projects are overall successful, that's the good thing. We are, I think, also quite rigorous in our methodologies of developing projects. We have a very good number of success. We estimate that if we have about 70% to 80% of success in terms of impact, that's a success for us and for our partners, that's even more important. Happily, things are going very well. Actually Africa, I'm the VP for Africa so I should say this so that I can pay tribute to my teams, is that we have actually higher rate of success than in the other regions. I think it's a good practice to have.

Jennifer: Maher, just finally, what is it that you're measuring in the short term in terms of success of Nigerdock?

Maher: I think, a higher flow of projects and companies that come to register within our free zone, which is a big focus for our group. We are basically an enabler of trade. Our free zone and many other free zones that are set up in Nigeria. We're trying to create a better level of transparency, reliability too in terms of power and access to infrastructure. I think the more we focus on making sure that those very key enabling factors are in place, we'll increase the level of interest and investment and flow of funds into the continent. If we can help to improve the flow of trade into the African continent, then that gives us more purpose and that's a success factor for us.

Interviewer: Optimistic in the short term?

Maher: I am very optimistic, yes.

Interviewer: Maher, Sergio, thank you so much. Thanks, everyone.

Maher: Thank you.

Sergio: Thank you.

[00:27:16] [END OF AUDIO]