Philanthropy, Development Partners & PPPs: Working Together for Sustainable Growth & Development

PRESENTATION AT THE 42ND CVL LWT LEADERSHIP TRIBUTE COLLOQUIUM IN HONOUR OF GENERAL TY DANJUMA @ 80.-28TH FEB 2018

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Happy Birthday Gen. T Y Danjuma

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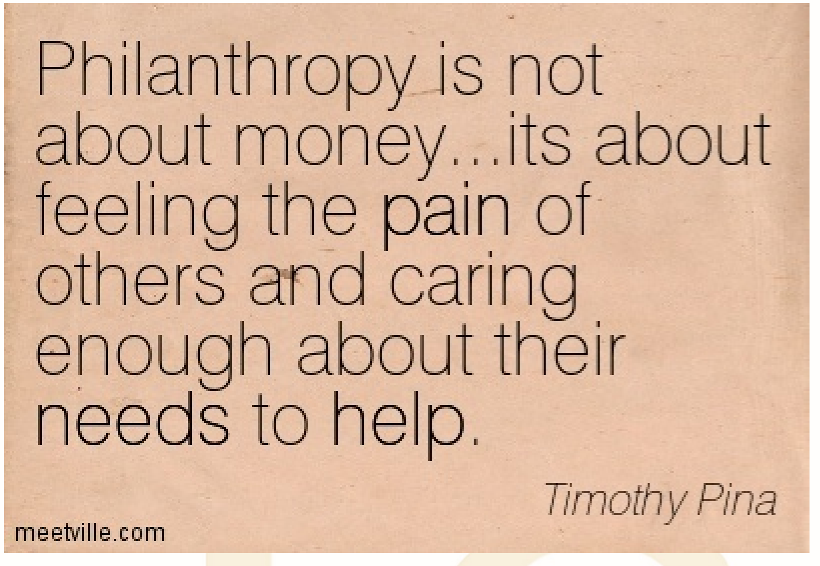
Presentation Outline

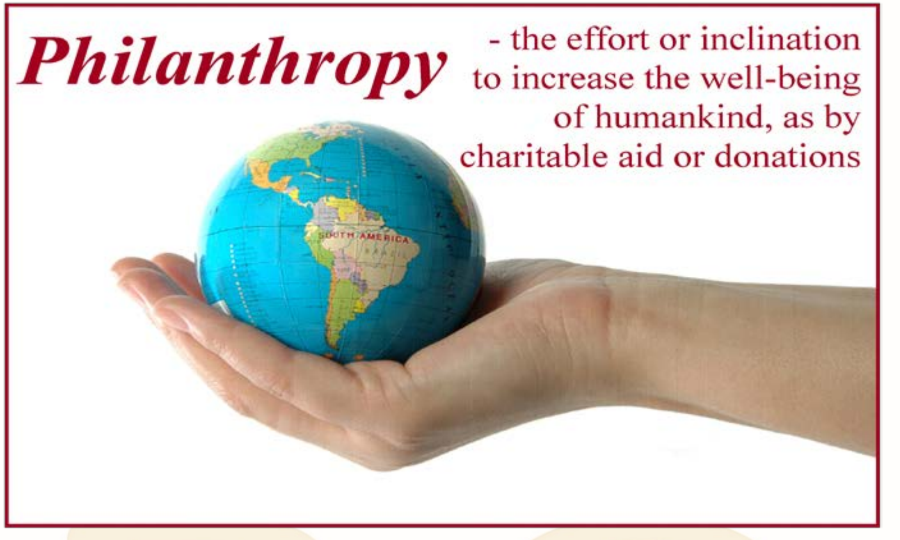
- Philanthropy
- SDGs
- Blended Finance
- Nigeria's Infrastructure Finance Gap
- Public Private Partnerships
- PPP Experiences from Nigeria
- Global Blended Finance Case Studies
- Recommendations
- My Contribution

Philanthropy

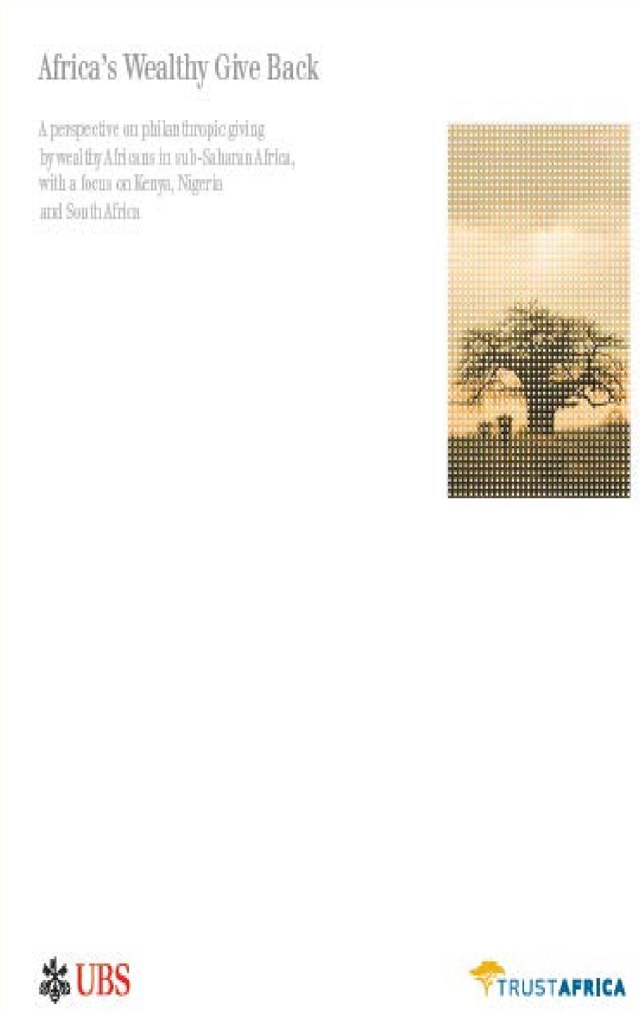
Philanthropy

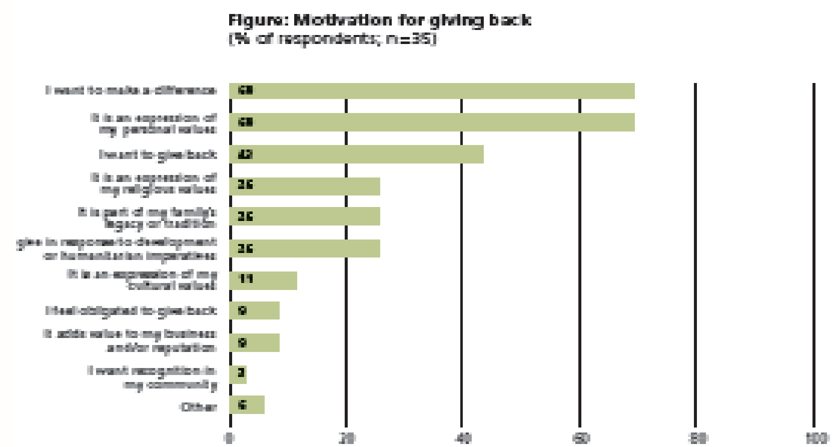
The desire to promote the welfare of others, expressed especially by the generous donation of money to good causes

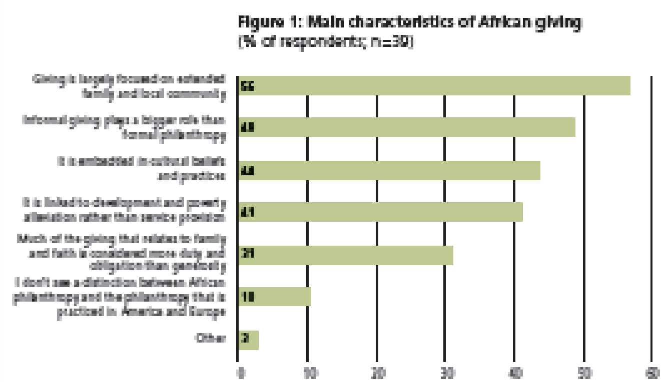




UBS Africa Philanthropy Report







Philanthropy Scope in Nigeria

- 2013 Nigeria Wealth Book – 16,000 HNWIs holding USD 90 Billion
- HNWIs forecast to grow by 7% to 18,000 in 2018 holding expected to grow by 27% to USD 123 Billion
- 2014 New World Wealth Report reflects Nigeria as having 200 Ultra High Networth Individuals 50 Centa millionaires and four Billionaires
- Forbes Africa's Richest People
- There are really no structured legal or fiscal incentives for giving – recent tax breaks for donations and trust funds for infrastructure
- No real support infrastructure for philanthropy – Private Sector Health Alliance probably the only one

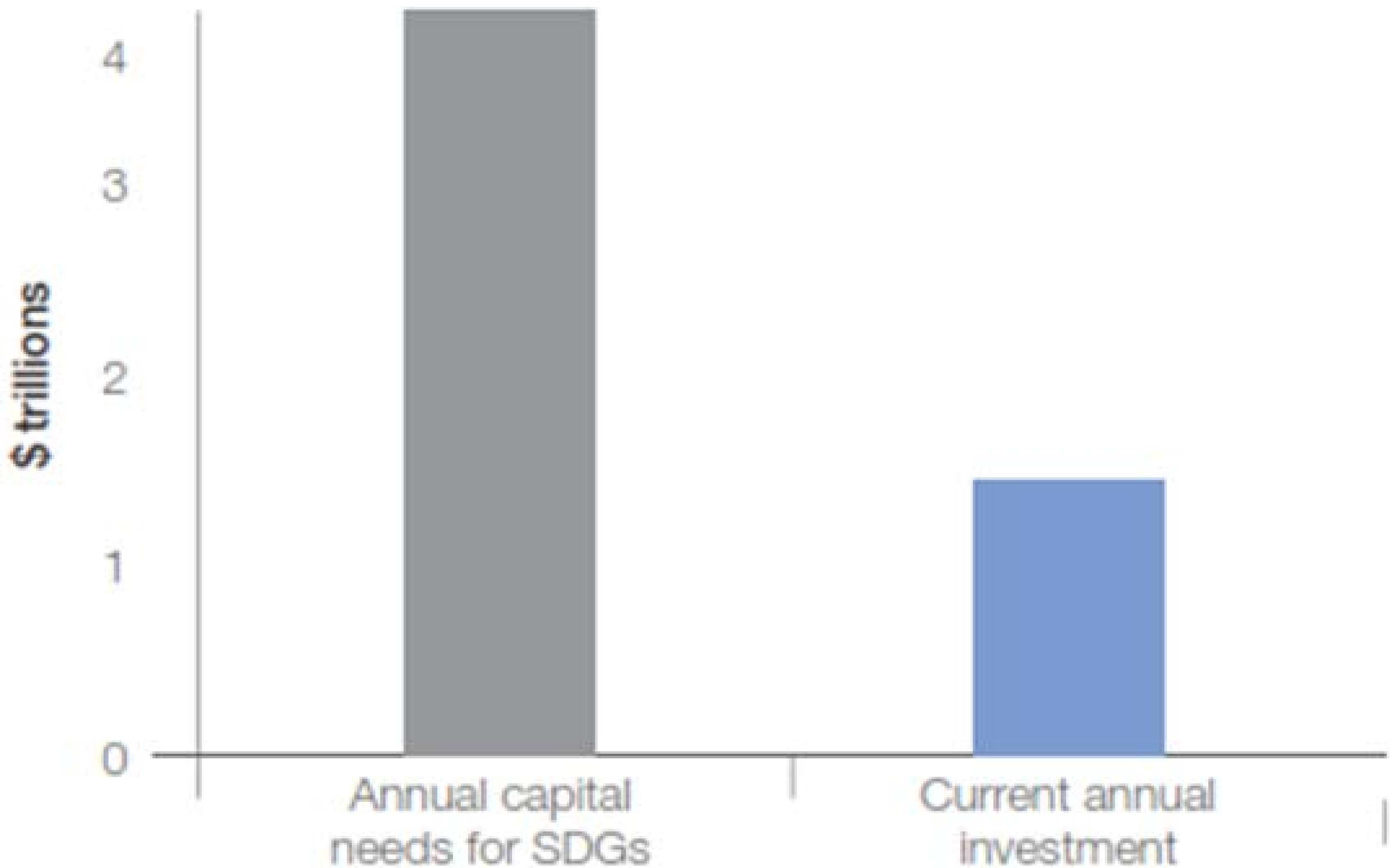
SDG for Sustainable Growth & Development

- The Sustainable Development Goals (SDGs) is a global effort to create a world where poverty is eradicated, economics transformed and development takes place within planetary boundaries.
- ..and there is a clear universal commitment by all countries **(Nigeria Inclusive)** to develop quality, sustainable & resilient infrastructure, including regional & trans border infrastructure, to support economic development and human well-being with a focus on affordable & equitable access for all.

SDG Financing Needs & Gaps (Global)

- Up to **$4.5 trillion per year** in investment will be required in developing countries between 2015 and 2030,
- …..compared with current investment levels leaves an annual investment gap in sectors critical to the SDGs of around **$3.1 trillion**.
- Though this gap is far greater than available ODA funding, which reached an all-time high of **$135 billion in 2013**, filling this investment gap is not impossible.
- The financing gap constitutes approximately **3% of global GDP, 14% of global annual savings**, or **1.1% of the value of global capital markets, estimated at $218 trillion**.

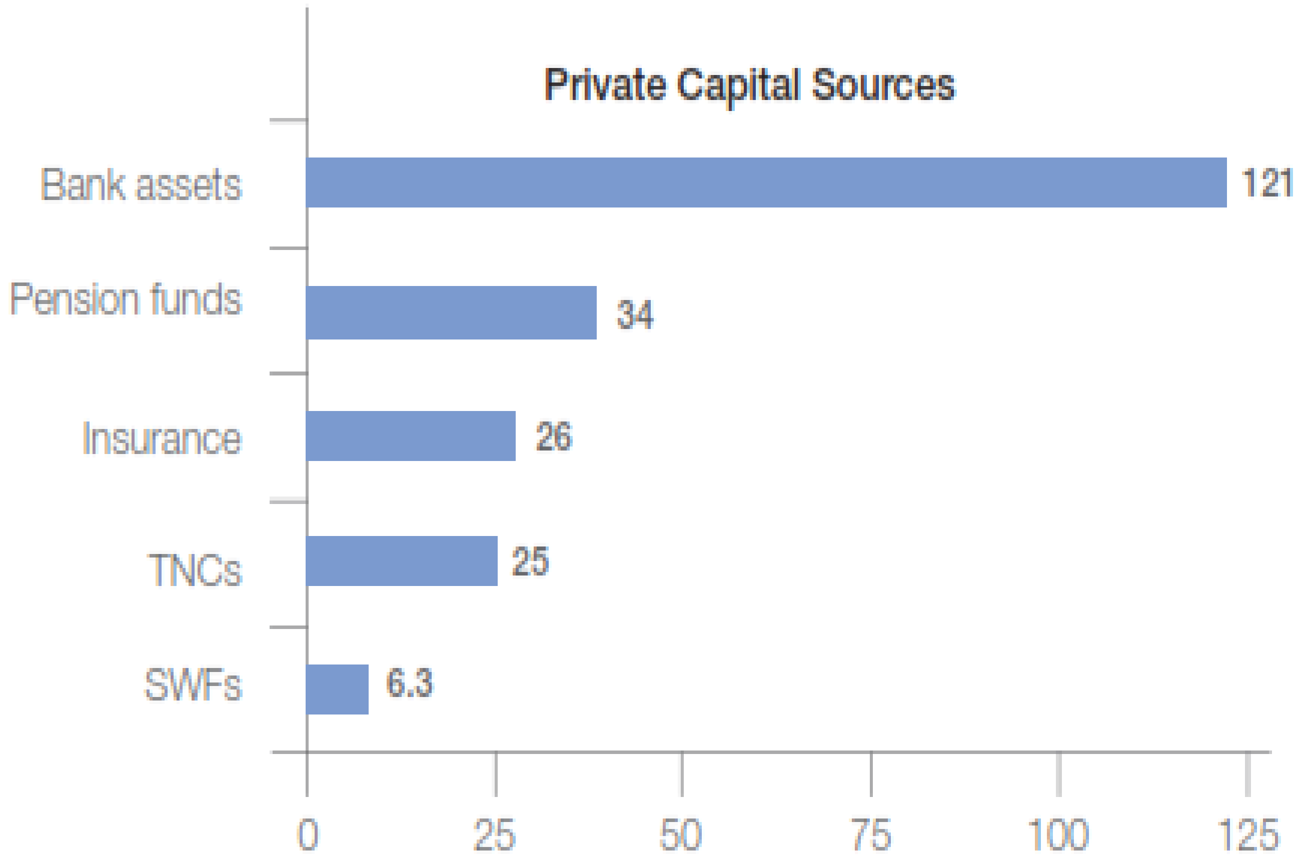
A significant financing gap exists for the SDGs[17] ...



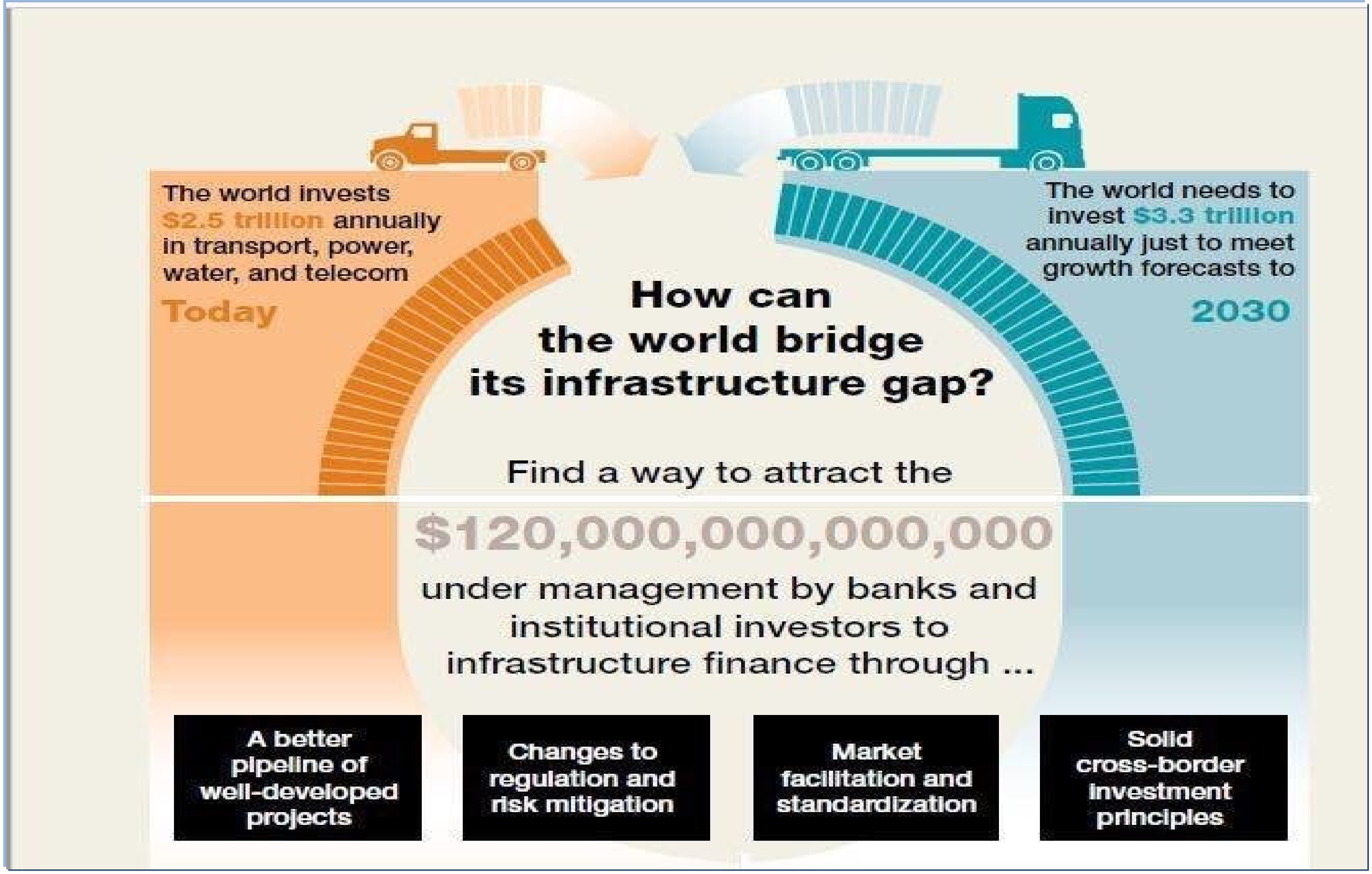
Source: UNCTAD, 2014

The Financing Can Be Sourced

Filling the gap is not impossible, as there are a number of potential sources of investment...



Money is not the problem - MGI



Challenges Preventing Private Capital Flow to Frontier and Emerging Markets

- Returns are seen as too low for the level of real or perceived risks.
- Markets do not function efficiently, with local financial markets in developing economies particularly weak.
- Private investors have knowledge and capability gaps, which impede their understanding of the investment opportunities in often unfamiliar territories.
- Investors have limited mandates and incentives to invest in sectors or markets with high development impact .
- Local and global investment climates are challenging, including poor regulatory and legal frameworks.

Wise Words

Poverty is not an accident. Like slavery and apartheid, it is man-made and can be removed by the actions of human beings.

- Nelson Mandela

Blended Finance

What to Do

- The idea is to get **governments**, **aid organisations, philanthropy foundations** and **NGOs** on the same page about what global problems most urgently need to be solved and how to measure progress & solutions.

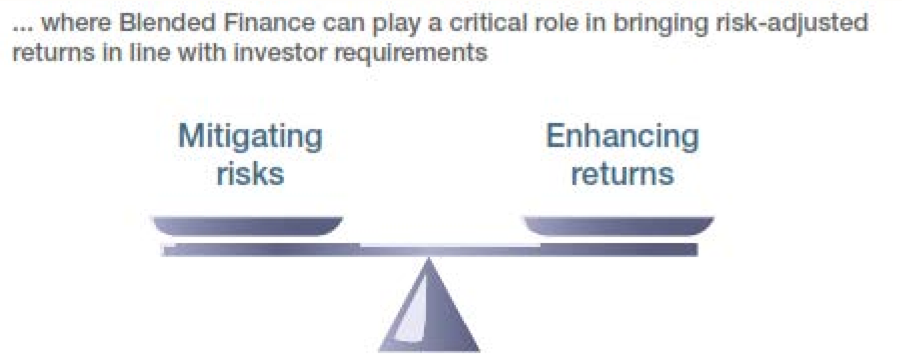
- …..leading to the combined effort of all stakeholders in providing **blended financing** for the achievement of the 17 SDGs globally.

What is Blended Finance

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

- Blended Finance represents and opportunity to drive significant new capital flows into high impact sectors while effectively leveraging private sector expertise in identifying and executing development investment strategies.

Blended Financing



Blended Finance is **mixing grants or subsidies with market-based funding(debt or equity).**

Its also an approach to structured finance that enables development & philanthropic funding to mobilize private capital into a project or company that promotes development outcomes, by mitigating risk and/or ensuring commercial risk adjusted returns.

PPPs often (implicitly) take a blended funding approach, because both public and private partners are involved and bring in human and financial capital.

Blended Finance Actors

Private Sector Capital Providers/Investors.

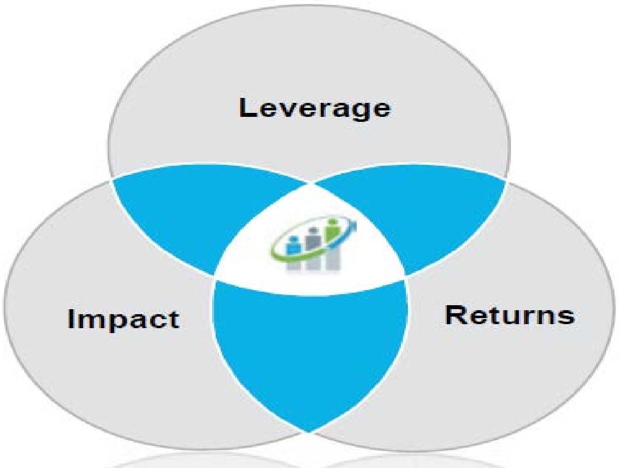
Diversified financial institutions and intermediaries, institutional investors (such as pension funds, insurance companies, sovereign wealth funds) and high net worth individuals.

Development & Philanthropic Funders. Development and philanthropic funders include donor agencies, development finance institutions and public and private philanthropic foundations.

Financial Intermediaries. An institution that facilitates the channelling of funds between investor and investee company or project and between lenders and borrowers.

Blended Finance – Characteristics

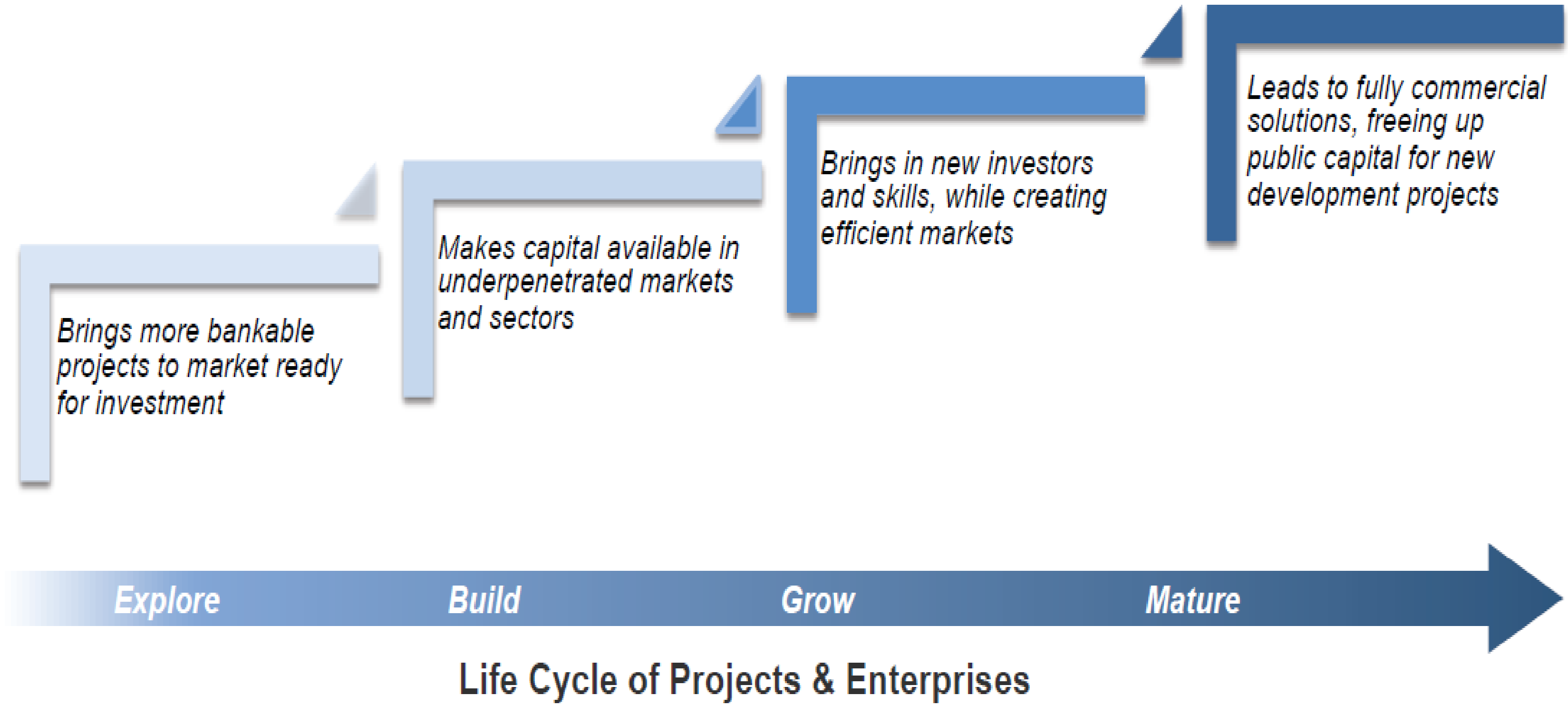
Figure 2: Pillars of Blended Finance



- **Leverage:** Use of development finance and philanthropic funds to attract private capital.
- **Impact:** Investments that drive social, environmental and economic progress.
- **Returns:** Returns for private investors in line with market expectations based on perceived risk.

Blended Finance Benefits

Figure 3: Blended Finance Benefits by Stage



Blended Finance – How it Works

	Preparing	Pioneering	Facilitating	Anchoring	Transitioning
Market Segment	High upfront costs; binary risk that a project will not happen	Early-stage projects with high business model risk; high transaction costs	Sectorial or project risks; returns below commercial rates	Macro or sectorial risks; liquidity, refinancing and exit risks	Lack of local markets knowledge and deal pipeline; inefficient markets
Public Sector Role	Funds upfront costs and activities reducing uncertainty, creating transparency, and building a pipeline of bankable projects	Little to no return expectations and absorbs costs, reduces business model risk and provides advisory services; can defer rights or enhance private returns	Takes a subordinate position with higher risk or provides low cost leverage to enable private capital to meet their risk-return thresholds	Signaling effect and 'stamp of approval' by achieving 'first-close' or demonstrating viability to 'crowd-in' private funds	Exit mature and sizeable investments that provide a pipeline for commercial actors
Direct Funding	Grants, Repayable Grants, Highly Flexible debt	Grants, Repayable Grants, Junior Equity, Flexible Debt	Equity, Flexible Debt	Market Rate Debt, Equity	Market Rate Debt, Equity

Supporting Mechanisms

Technical Assistance (Technical/Operational Expertise) – Advisory or preparatory services, assistance, and training to facilitate private investment in high-impact projects and enterprises in order to supplement the capacity of investees and more generally lower the transaction costs

Risk Underwriting (Capital Preservation) – Risk reduction tools that fully or partially protect the investor against various forms of risk, effectively reducing their risk of capital losses

Market Incentives (Results-based Financing/Price Guarantees) – Guarantees of future payments contingent on performance in exchange for upfront investment in new or distressed markets, or to stimulate innovation around new products and services

Explore → *Build* → *Grow* → *Mature*

Life Cycle of Projects & Enterprises

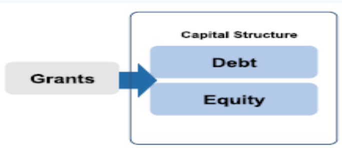
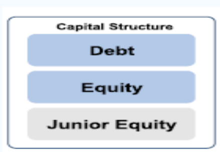
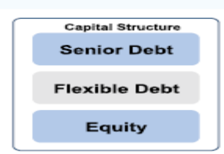
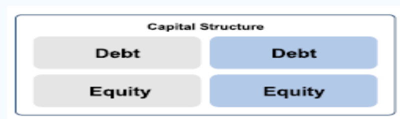
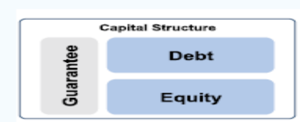
Blended Finance ~ Building Blocks

Table 4: Blended Finance Instruments

Instrument	Description
Grants	A financial award with no expected repayment or compensation over a fixed period of time
Guarantees	Protection from various forms of risk intended against capital losses for investors
Debt	Money lent for repayment at a later date, usually with interest. – *Market Rate Debt,* when rates and terms are determined based on capital markets prices and tenors, but can be subordinate to senior debt (i.e. mezzanine) – *Flexible (Concessional) Debt,* with favorable terms or rates for the borrower relative to market pricing
Equity	Ownership in a company - value determined at time of investment – *Junior Equity,* accepts higher risk for lower financial returns in exchange for social, environmental and economic impact, typically in a position to take the first losses

Development and philanthropic actors typically apply these financial instruments in five different ways to encourage private capital flows into emerging and frontier markets:

Table 5: Common Uses of Financial Instruments in Blended Finance

Grants	Junior Equity	Flexible Debt	Market Rate Debt or Equity	Guarantees
Funds costs and activities that lead to investment	Subordinate position absorbs highest risk	Favorable terms shift risk-return profile	Investment on same terms demonstrates viability and provides investor comfort	Risk reduction tools that protect investors against capital losses or provide credit enhancement
				

Blended Finance Financial Instruments

Flexible (Concessional) Debt. Debt with favourable terms for the borrower relative to market rates and risks (e.g. longer tenor, lower interest rate)

Market Rate Debt. Borrowed money to be repaid, typically with interest.

Subordinated/Junior/Mezzanine Debt. In the event of default, subordinated debt will only be repaid after all senior obligations have been satisfied.

Senior Equity. Ownership in a company where value is determined at time of investment.

Junior Equity. Equity investments accepting lower financial returns in exchange for positive development impact. Junior equity has the lowest priority claim on a company's dividends and, in case of bankruptcy or liquidation, on a company's assets.

Grants. A financial award with no expected repayment or compensation over a fixed period of time.

Blended Finance Tools

- **Supporting Mechanisms.** A set of indirect mechanisms that attract private capital by mitigating risk to address investor barriers across the entire life cycle of the project or enterprise. These include (1) Technical Assistance, (2) Risk Underwriting and (3) Market Incentives.
  - **Technical Assistance** – Advisory or preparatory services, assistance, and training to facilitate private investment in high-impact projects and enterprises in order to supplement the capacity of investees and more generally lower the transaction costs.
  - **Risk Underwriting** – Risk reduction tools that fully or partially protect the investor against various forms of risk, effectively reducing their risk of capital losses
  - **Market Incentives** – Guarantees of future payments contingent on performance in exchange for upfront investment in new or distressed markets, or to stimulate innovation around new products and services
- **Direct Funding**. Provision of debt equity or grants to a project or company at various stages of a Market Segment.

Blended Finance Segments

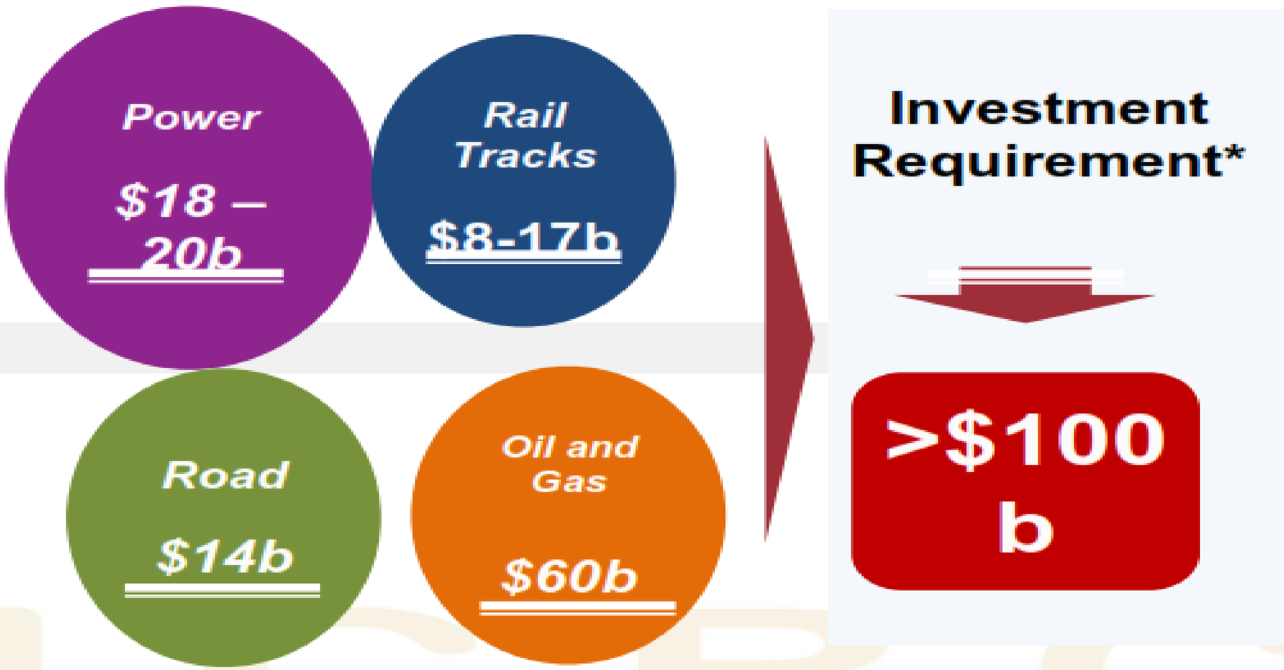
- **Market Segment.** The stage of a project or company in the investment life cycle when specific barriers are encountered in raising private capital across five stages: (1) Preparing, (2) Pioneering, (3) Facilitating, (4) Anchoring, and (5) Transitioning.
  - **Preparing**. Significant initial costs, coupled with uncertain viability and visibility into whether a project will be approved for construction/operations or a company will launch, can cause investors to restrict their capital exposure.
  - **Pioneering**. In very early stage investments where entrepreneurs are experimenting with new ideas, products and business models, it can be difficult for private investors to justify the time and funds to support innovation
  - **Facilitating**. Projects and enterprises seeking growth require capital to fund expansion and/or ongoing operations. While they may offer strong development returns at this stage, the risk-adjusted returns for private investors may be below commercial thresholds.

Blended Finance Segments (continued)

- **Anchoring.** As mature or credible enterprises/projects are seeking capital for scaling or replicating in critical areas of development, capital providers may be hesitant to invest due to real and perceived macro risks, such as political, sectoral, and currency risks and uncertainty around exits.
- **Transitioning.** Projects and enterprises at a very mature stage are well suited for commercial viability and access to commercial markets. However, many private investors lack access to a pipeline of deals that are sufficiently sizeable and scalable to fit within investor mandates

Nigeria's Infrastructure Financing Gap

Financing Needs & Gaps (Local)



•Required investment is beyond Public sector Resources

•Catalysing Private Sector financing is Inevitable

•Concessions (and other forms of PPP) are unavoidable

Financing Needs & Gaps (Local)

Based on our 30-year NIIMP:

- Nigeria requires an expenditure of **US$ 3.10 trillion over 30 years.**
- The sectors covered are energy, transport, agriculture & water resources, social infrastructure and security.
- **48%** of planned investment of US$ 3.10 trillion is expected from the private sector by way of **PPP arrangements**
- The expenditure requirement for the first five years of the plan comprises Energy (US$13bn), Transport (US$11bn), Agric. (US$3.2bn) and ICT (US$3.7bn). Others are Housing (US$1.4bn), Social Information (US$2.1bn) and Vital Registration & Security (US$ 0.6bn).

Source: MBNP

Public Private Partnerships

PPP Definition

A Public-Private Partnership is a <u>contractual agreement</u> between a <u>public agency</u> (federal, state or local) and a <u>private sector entity</u>. Through this agreement, the <u>skills and assets</u> of each sector (public and private) <u>are shared</u> in delivering a service or facility for the use of the general public. In addition to the sharing of resources, <u>each party shares in the risks and rewards</u> potential in the delivery of the service and/or facility (Nat. Council on PPP USA)

- **Wide Infrastructure Gap**
- **Growing demand for private sector participation in infrastructure**
- **Small and depleting Government resources**
- **Urgent need for alternative funding of Infrastructure**

The goal is to combine the best capabilities of the public and private sectors for mutual benefit

Key Parties in a PPP Procurement

- Private Partner: The private sector partner selected through a competitive procurement process to provide the contractual service to the Public Partner. The Private Partner might be known as Project Company, Consortium, Special Purpose Vehicle, Concessionaire or Contractor.

- Public Partner: The public sector entity which enters into the Project Contract. This may be a federal, state or local government, ministry, department or agency, or an end user such as a hospital or school board.

PPP Lifecycle – Blended Finance Catalytic to Development and Proc

Development Phase → **Procurement Phase** → **Implementation Phase**

Development Phase

TRANSACTION ADVISER
NEEDS ANALYSIS
PPP OPTIONS APPRAISAL
VALUE FOR MONEY
AFFORDABILITY
SUSTAINABILITY
PRELIM RISK MATRIX
VIABILITY/BANKABILITY
VGF
OBC
OBC APPROVAL BY FEC

Procurement Phase

TRANSACTION ADVISER
EoI/RFQ Phase AND RFP BIDDING
BIDDERS CONFERENCE
BID EVALUATION
VALUE FOR MONEY TEST
PREFERRED BIDDER
FULL BUSINESS CASE BY FEC

Implementation Phase

INDEPENDENT ENGINEER
MONITOR DESIGN AND CONSTRUCTION
COMMISSIONING TEST
VERIFY OUTPUT REQUIREMENTS
CONTRACT MANAGEMENT

PREPARING AND IMPLEMENTING EFFICIENT AND EFFECTIVE PPP TRANSACTIONS

Advantages of PPPs

- Maximizes the use of each sector's strength
- Reduces development risk
- Reduces public capital investment
- Mobilizes excess or underutilized assets
- Improves efficiencies/quicker completion
- Improves service to the community
- Improves cost effectiveness
- Shares resources
- Shares/allocates risks
- Mutual rewards

Some PPP Experience From Nigeria

MMA2 Airport Concession

- BOT contract agreement between the Federal Airports Authority of Nigeria (FAAN) and Bi-Courtney Limited (BCL)
- Original agreement signed in April 2003 (mainly granting concession to BCL)
- A supplementary agreement signed in June 2004 (mainly increasing construction period from 18months to 33months)
- An addendum Agreement signed in February 2007 (mainly extending concession period from 12 to 36 years)
- Main areas of Dispute:
  - Operation of the GAT by FAAN
  - The Tenure of the Concession (36 Years)
  - The Exclusivity Clause in the agreement

Lessons

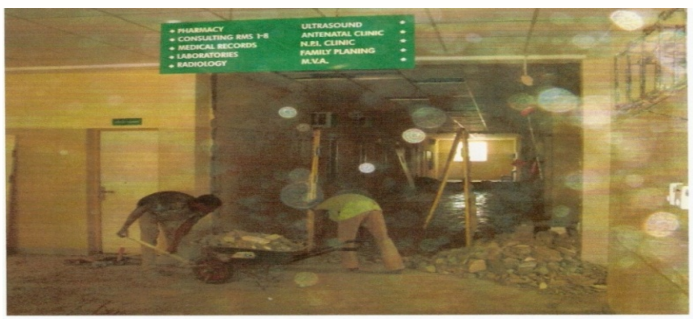
- Inadequate Experience in Public and Private sectors
- Political Involvement at the implementation level.
- Asymmetry of knowledge between concessionaire and Government; No financial model and traffic risks not properly evaluated
- Not enough due diligence by contracting authority
- Project Development not thorough

Garki Hospital Abuja

- **Client: FCT Health and Human Services**
- **Sector**: Social Infrastructure~ Health Sector
- **Year the project was signed**: 2007
- This was concession to NISA Premier Hospital Ltd in 2007 for a period of fifteen years (15yrs).
- The introduction of a public private partnership (PPP) arrangement in the hospital has been very effective in the delivery of services. The hospital performed its first successful heart surgery in July 2013 and also performed three (3) successful kidney transplants on the same day in November 2013. The hospital ranks in the top 50 of all evaluated hospitals in Nigeria.

(Cont...)

AFTER



BEFORE

Small Pro Poor PPP Procurement

Public Conveniences

(Cont...)

Global Blended Finance Case Studies

Case Study I:
Technical Assistance (Technical/Operational Expertise)

- **WB–IFC Micro, Small and Medium Enterprise Facility for MENA** ("MSME Facility" or "Facility")
- **Investment Manager**: WB-IFC
- **Development Funders:** UKaid, SECO, DFATD, DANIDA and the Government of Japan Launch Year: 2011 | Size: $29 million | Sector: Financial services | Region: Middle East & North Africa (MENA)
- **Market Opportunity**: Micro, small and medium enterprises ("MSMEs") in emerging and frontier markets can present an attractive investment opportunity due to high growth rates in underdeveloped markets. Yet, in MENA, only 26% of SMEs have a loan or a line of credit - this is lower than all other regions except Sub-Saharan Africa (23%) - resulting in a significant gap in access to finance for SMEs that needs to be filled to attract further private sector investment

Case Study I:

- **Model:** The MSMEs Facility is a multi-donor technical assistance facility that supports access to finance for MSMEs in the MENA region by 1) providing advisory services to financial institutions that serve MSMEs, creating a more inclusive financial system with a focus on helping youth and women; 2) building the capacity of MSMEs through analytical work and technical assistance; and 3) supporting policy, legal, and regulatory reforms to ease access to finance. In addition to the above services, the Facility provides a line of credit from WB-IFC that can also be accessed by investees to ensure greater liquidity for the MSME sector in MENA.

- **Rationale for Blended Finance:** The Facility promotes MSME finance as a viable asset class by supporting the growth of projects and enterprises and creating enabling regulatory and legal environment. This mitigates macro and operational risks and improves investor perception of the MENA markets, allowing for private capital to come in.

- **Impact**: The Facility ensures local financial institutions have the capacity to provide financing to SMEs, which increases the efficiency of local markets and enhances SME financial viability, improving risk-return profile for investors. The improved access to capital for MSMEs is expected to promote sustainable job creation, and encourage private sector led growth.

- Source:http://www.ifc.org/wps/wcm/connect/REGION__EXT_Content/Regions/Europe+Midde+East+and+North+Africa/IFC+Middle+East+North+Africa+and+Southern+Europe/MSME+TAF/

Case Study II:
Direct Funding-Preparing

- **Infrastructure Fund ("InfraFund" or "Fund")**
- **Investment Manager: IDB**
- **Development Funder: IDB**
- Launch Year: 2006 | Size: $94 million | Sector: Infrastructure | Region: Latin America & the Caribbean
- **Market Opportunity**: Latin America's robust economic growth has highlighted a growing need for infrastructure investment. IDB estimates that the region needs an additional $200 billion a year in investment for infrastructure sector, which presents a tremendous opportunity for long term institutional investors to fill this financing gap.
- **Model:** InfraFund is an infrastructure project preparation facility. A key goal of InfraFund is to mobilize private financing for infrastructure projects in Latin America and the Caribbean and to develop and structure sustainable public-private partnerships in the region. The InfraFund provides grant funding to assist public, private and mixed-capital entities in Latin America and the Caribbean in the identification, development and preparation of "bankable" and sustainable infrastructure projects that have the potential of reaching financial closure. Specifically, the Fund finances the following activities: 1) feasibility studies, project design, stakeholder consultation, viability studies and 2) targeted business climate enhancement measures and public sector capacity building.

Case Study II

- **Rationale for Blended Finance:** IDB's ability to effectively source investment opportunities due to strong local networks and knowledge of the region coupled with financing to offset high upfront costs improves the financial viability of infrastructure projects in the region. This helps to reduce overall project costs and increase efficiencies for investors, making investments in infrastructure projects in Latin America & the Caribbean more attractive to long-term private investors. Funds for specific project preparation activities are reimbursed to IDB when projects formalize their external financing.

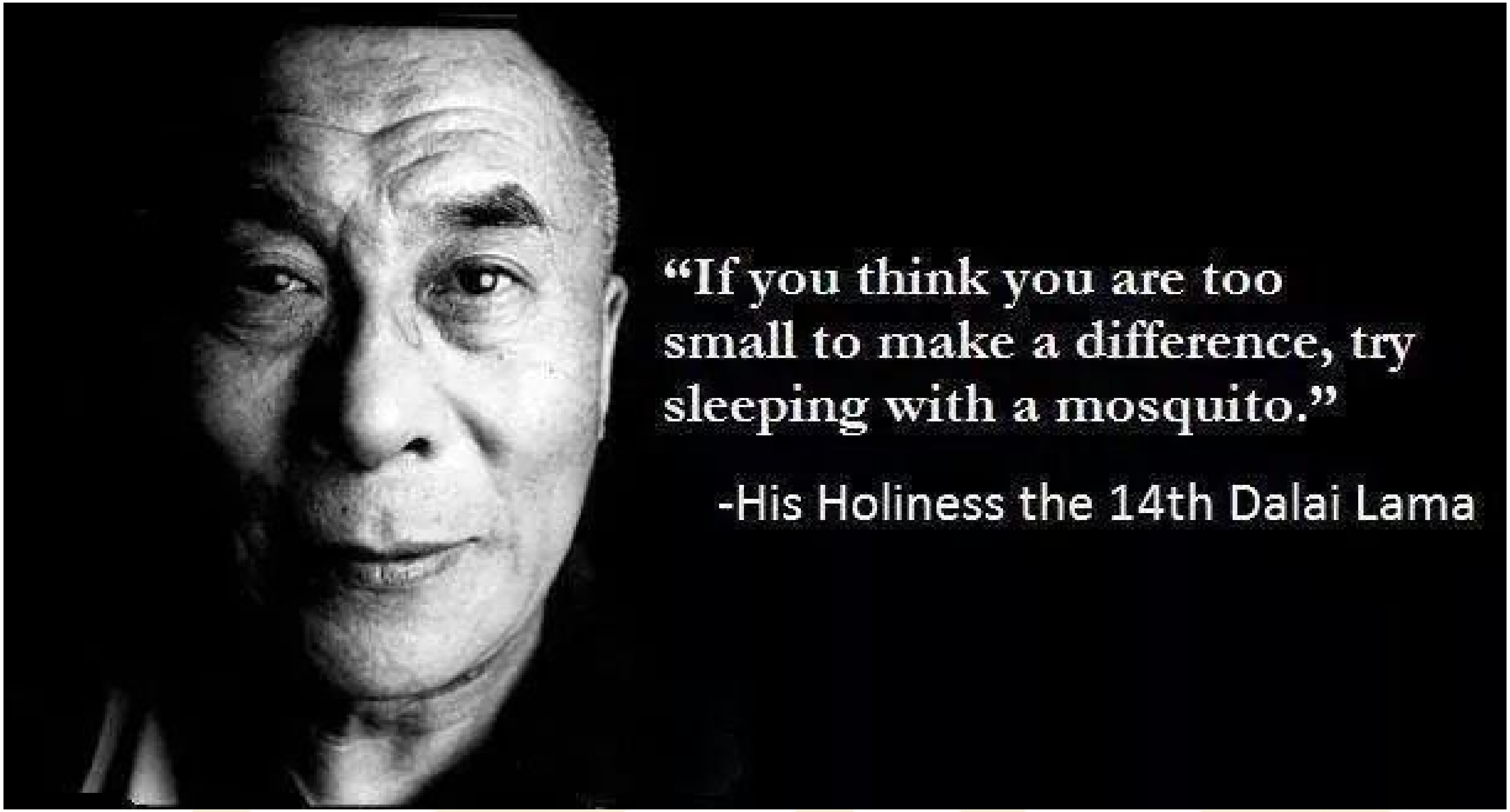
- **Impact:** Since inception, 158 projects have been approved for a total amount of $88 million across a range of sectors with a focus on the transport and energy sector.

Source: http://www.iadb.org/biz/ppt/0407basanes.pdf

Recommendations

- Need for legal, fiscal and institutional framework to incentivize philanthropy and use of blended finance
- Philanthropy Infrastructure
- Nigeria Philanthropy Forum
- CVL Annual Philanthropy Conference
- Apapa Road Reconstruction – Dangote, Flour Mills and NPA good example of catalytic blended finance

Wise Words


"If you think you are too small to make a difference, try sleeping with a mosquito."
-His Holiness the 14th Dalai Lama

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