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P R O C E E D I N G S

MS. RASTELLO: Hello, everyone. Welcome to this panel and thank you for coming. I'm Sandrine Rastello, I'm a reporter with Bloomberg, I cover global economics here in Washington and I'm soon moving to Mumbai, India. And I think infrastructure is a good thing that's relevant to both what international financial institutions as well as India which has a big need and is trying to boost up the volume.

Today we have a great panel, a very diverse panel to discuss this topic which couldn't be more timely. We have the IMF calling for more infrastructure financing, we have Larry Summers following up with the op-ed in the *Financial Times*, and tomorrow the World Bank is going to sign its global infrastructure facility and of course it's also going to be a discussion topic of the G20 meeting this week. So we've had this multiplication of interventions, of declarations about infrastructure financing, talks of huge numbers for the financing gap, yet for us journalists covering it and maybe for some of you it's not always very clear if there's cooperation, if there's coordination between all these announcements, what the private sector is expected to do, what the public sector is expected to do, and that's why today we have a great panel to discuss these topics.

So first I'm going to start to my right. We have Michel Wormser -- I'm doing American pronunciation. Michel is a veteran of the World Bank. Most recently until two weeks ago he worked at MIGA, the political risk agency, a branch of the World Bank and he's had a very long career focused on Africa at some point also. I think he can bring us a good perspective on what a multilateral can do and the guarantee that the investors may be looking for. Next to him we have a government official who is going to give us the perspective of the client so to speak, Cabinet Secretary of Kenya, the Finance Secretary, and Mr. Henry Rotich. And we hope to hear from you concrete example of how it's been like to deal with on the one hand maybe multilateral agencies such as the

World Bank, and perhaps you also have more experience with countries like China that we've heard a lot about, what are the pros and cons of each. Speaking of private sector, to your right we have Julia Prescot from Meridiam which is a company that goes from the conception to the management of infrastructure projects. What does the private sector want, what is looking for, what is it that countries are not providing? We hope to hear more from that. To her right that I can see there Erik Berglof, also representing a development bank, the European Bank for Reconstruction and Development. He's the Chief Economist and Special Advisor to the President. He's also a specialist of countries in transition and has a lot of experience working jointly with the private sector. So it will be interesting to hear what he has to say. Next to him Amadou Sy, here from Brookings from the Africa Growth Initiative. And maybe he can give us some Africa-wide perspective on this topic.

Each participant is expected to do a short, short seven minute or so presentation. And so I don't know if there is a special order, but did you want to give your perspective, Michel?

MS. WORMSER: Well, with pleasure and thank you very much for -- it's true that I'm brand new from the World Bank Group since I left two weeks ago. So I'm just getting used to the new vacation and it's very nice to interrupt this vacation to come here. But to tell you one thought I have about the multilaterals and about the developments at the end of my 36 year career. The time when organizations like the World Bank were financing infrastructure should really be over. It's not anymore about financing of infrastructure because in many ways the amounts that could be provided by overseas development assistance are very small compared to the needs. And because of the fiscal constraints that developed countries have you cannot expect that in the next 10 years there's going to be a huge increase in these amounts. So what the World Bank and other such agencies need to do is to help the private sector get into the space of infrastructure. There's huge amount which are there. The pension funds, the mirage of these big amounts and the difficulty to mobilize them into infrastructure, this is the biggest challenge that is faced by these international development agencies. And I would suggest that there are four avenues where the multilaterals can help. First, sector reforms. Unless we have sectors which are balanced and sustainable, unless we have policies which are predictable, unless we have institutions for maintenance of the assets nobody in their right mind are going to put private money in infrastructure in the countries which are not their own. So if we want to have more flows from capital markets into infrastructure the road that MDBs have to play is to use that global expertise really into the implementation of reform to help these countries move from dysfunctional sectors to sectors which can have a chance of attracting private finance.

Second is projects which can really be transformational. The example projects I was discussing just coming in the Kenya example where Kenya is actually a good case because there has been now a series of IPPs which have attracted private financing. And it shows that once you work with the government on first structure which is attractive to the private sector others will come. It takes a long time. In Nigeria we've taken close to three years to get to the closing of Azura project, but it is with that closing that then you unleash a whole sector.

Third is political risk mitigation. Agencies like the World Bank have a unique place because they have strong relations with governments. So organizations like the one I come from which is MIGA has a history of mobilizing $30 million of financing that was private projects. In the whole history of MIGA, whole history, 750 transactions, there were only 2 claims. Two claims for political risk, one in Indonesia, one in Argentina. It's not that they were not ever any problems, but because of the stature and the position of the World Bank we were able to diffuse the risk. So the partnership between organizations which mitigate the risk and the private pension funds and others can be a critical part in allowing them to go into places which are still reforming and are still risky.

And the final point I would point is the idea that the balance sheets of these organizations, and that's probably a theme for the G20, have to be used much more dynamically. The time when we used $1 of IDA to have $1 of fraud should really be exceptional. What we should do is go for tranching of risk, what we should go about is to finance the subsidy party and get the private sector to come in for the rest. And the PPP which we have done for example for the third bridge of Abijan in Côte d'Ivoire, these are the cases that we have to do. So it has to be all about leverage, about tranching of risk and about mobilization and the guarantees of these organizations instead of being the smallest part of these organizations have to become the biggest part. $1 of MIGA is leveraging $24 of investments. This is very different from $1 of IDA levering $1 of investment. So we have to put this organization in their head and make the leveraging of their capital to the maximum impact the key objective of where the G20 is going in terms of getting the capital market, pension funds, and others to go into the space where they so far they have done only reluctantly.

Thank you very much.

MS. RASTELLO: Thank you so much. In time. Now let's move to the experience of the governments. And, Secretary, that would be great to hear what it's been in your case in Kenya.

MR. ROTICH: Thank you. Let me start by saying that obviously the role of infrastructure comes very, very important. In Africa it is now estimated that the infrastructure deficit is over $100 billion of which about 82 percent of that is just financed through (inaudible) foreign sources. In Kenya our infrastructure deficit is of $2 billion annually and there's no doubt that improvement in infrastructure will help a lot in increasing growth and development. Now we have prioritized in Kenya infrastructure to be the main drivers for growth and also to unlock the weak competitiveness that we have in the country. At the moment we have many infrastructure programs that we are implementing and this runs from about 10 years ago the government put a lot of emphasis. Currently we are targeting energy to be the key sector and at the moment we've planned to put about 500 megawatts of power within a period of 3 years. This is a very tall order as you know. Financing that is quite a huge challenge. We also are thinking of -- actually we have already implemented a railway project which is a standard gauge rail running from Mombasa across the neighboring countries. Again it's a huge requirement. It is costing about $4 billion. We have a number of projects in the pot and also both the sea and the airports. A lot of again requiring huge resources. The road sector also requires huge resources. So all these we have prioritized, but obviously funding them has been the big challenge. And I believe the discussion today really is to look at what are the other alternative ways of funding.

So let me start with the usual traditional ways that we have been funding infrastructure. As all of you know we have been funding this through our revenue sources, the domestic revenues that you have mobilized. Obviously this is not enough. Also our country's enough (inaudible) raises around 16 to 18 percent of GDP from revenue. In Kenya we are raising almost 20 percent plus. But this is not enough given our all socioeconomic needs, but with the importance of infrastructure we've also gone ahead to borrow, to finance this infrastructure. Fortunately in Kenya we have a deep domestic market. Also reformed our pension which has actually provided a huge pool of resources. But again we cannot rely heavily from domestic source borrowing. We have also grown to an extent of issuing infrastructure bonds at the local market which has gone a long way to finance some of this infrastructure that I'm talking about. The development partners have also played a key role. The World Bank, African Development Bank, all these different world financial institutions have been a key player, but obviously also they are funding, the sources is diminishing. We know that the resources from that is no longer forthcoming than before. Of course we also asking them to see if they can open other windows. For example in the World Bank we have been relying on IDA, but we are also looking at accessing IBRD windows. I think some of the countries are eligible to access those other financing. But they are more of course commercial rates but at least they're still very reasonable. The African Development Bank is also opening up the ADB window which again we're trying to access to fill this infrastructure gap.

But bilateral loans has also been very important and of late China has come up as a key player. And the China Exim Bank has put a lot of resources in Africa. In the current round of financing they have committed about $20 billion for Africa. Kenya alone because of the standard (inaudible) that we have borrowed from Exim Bank is taking on nearly 20 percent and they still have about other 50 countries that are competing for that resource from China. So again it also become a constraint. So now we are thinking of other sources. The private sector is also coming on board. We have developed PPP framework in Kenya which has become a very important framework which we are engaging the private sector. We have a list of about 60 projects now which we have assessed and we think the private sector can actually invest in that in partnership with government. Let me also say that all of the MIGA which has just been mentioned here, MIGA has played a big role in guaranteeing some of the investments, particularly in the energy sector in Kenya. And they have played a big role by bringing direct investors, especially independent power producers in Kenya. So I think leveraging on the work of MIGA we expect to fill a lot of infrastructure gap by ensuring that the partial risk guarantees that are provided do see a number of private investment in the country.

We have also gone the extent of accessing the national capital markets. We in Kenya issued a sovereign bond about two-three months ago. This again is going a long way to fill the gaps that I have just mentioned. So quite innovative ways we are trying to of course really work with the private sector by all means. There is also -- I want to emphasize importance of really preparing the projects to attract private investment. I know an example of our projects in Kenya which we had a sort of a myriad of investors, particularly combining liquidity, debts, and other sources. And the project, the biggest wind power project in Africa, electric kind of wind power going to produce 300 megawatts. And it is the structuring of that project that really brought in a lot of private sector into it. So the very important thing really is to prepare these projects well to attract private investors into it.

So I think let me stop now for that.

MS. RASTELLO: Thank you. Thank you for this.

MR. ROTICH: Thank you.

MS. RASTELLO: It's a perfect transition since we're going to into Julia for the private sector. Maybe you'll let us know during your presentation if preparation is something you see as key and you see not enough of in where you invest.

MS. PRESCOT: Absolutely. And I can echo more the words that I've just heard on my left. I mean so to just clarify at the outset that we're not -- Meridiam is not a company, it's actually an investment fund. And we are in OECD a 25 year maturity investment fund that invests really from development, from the start of construction right the way through to the end of operations. So we are long-term private but also long-term patient capital. And we have just launched a similar fund for Africa with a 15 year maturity looking again at that whole sphere right the way through from development to operations.

So I suppose we're quite a good example of one of the points that's already been made which is that there's an awful lot of financing out there. I mean when we look at the marketplace at the moment there are -- it's a wash. I mean apart from the finance obviously you raised the projects in Kenya that are all over the world. If you come up with a good investable project the competition is intense. The margins are going down and to sort of pre great financial crisis levels, the structures are becoming more and more light. SO financing, great, it's wonderful. There's an awful lot of it out there. So why isn't it going into the whole of your 60 projects that you have got in Kenya and why isn't it going into that huge infrastructure gap that we see around the world? And I think it's a lot to do not so much with finance but with funding. And I think it's the structure of funding within governments that make projects investible that is the absolute critical linkage. And it's something that as the private sector, the private sector should be working hard to make sure that that linkage can come about.

There are various ways in which this can be done and I think it's both by way of sharing knowledge and experience with the public sector, having a very good dialogue. And for that reason I do welcome the new knowledge and collaboration center that's being proposed at the moment by the G20. I think that the actual details are a little unclear and goodness knows what it's finally going to look like, but the fact that it is out there in the market as a proposition is extremely good. And similar types of propositions are being proposed elsewhere. So it's very important to have that level of communication between the public and the private sector because we in the private sector must not forget this is our problem as much as it is government's problem in delivering infrastructure. Now for example, in New York there are $13 trillion of savings that have been collected by pension funds, by insurance companies. I mean how on earth unless good infrastructure can be realized are those returns going to be made to the pensioners of the future unless we have a greater circulation money? So communication is a very good start.

The second area which Michel referred to is the concept of how in the more fragile countries, and I'll put it like that, are we going to make sure there's a good linkage in between public and private. And I think that's where the development banks can actually come up with very effective responses. We talked about leverage and I think it's very important to focus on where that leverage can go. In certain countries, and not the case in Kenya, but in certain countries they're very limited local markets in terms of long-term financing, but if development banks could look at providing support of guarantee for both the currencies issues but also in the longer term as well, those maturity issues. So that you begin to get the reserve of local patient capital so that it doesn't have to all be imported and then countries fact to currency risks over time.

I think the other area that we've recently seen is co investment. And that's one of the issues that can also develop the whole knowledge in structuring arrangements. And there's another thing that I'd like to mention is innovation. We've heard of excellent innovations already today, but there are great innovations here in the U.S. in both the private activity bonds and also with TIFIA and making tax efficient approaches toward infrastructure that again are going to generate more projects going down the line.

I'll probably finish by saying that there are certain words by the new President of the European Commission that I like to paraphrase which is we know where the projects are, we just don't know how to develop them all yet.

MS. RASTELLO: Thank you. And now moving onto Erik. I know you have a presentation.

MR. BERGLOF: It's fine, it's fine. I can handle it without -- I was told that it would be a presentation. Anyhow.

MS. RASTELLO: No safety net. Okay.

MR. BERGLOF: Thank you very much. And thank you for inviting me and it's very nice to be back at Brookings where I've had many pleasant memories my time here.

So I come from the European Bank for Reconstruction and Development and we work primarily in emerging Europe and in North Africa. And we work primarily with exactly the issue of how to bring in the private sector into infrastructure investments and we do that, you know, both through debt and equity and we do it through indirect instrument using local banks. We work with Meridiam as well.

MS. PRESCOT: Joint fun together.

MR. BERGLOF: Exactly, having joint fun together. We do it using commercial pricing, but try to have longer tenors that more conform to asset life. We do a lot of technical assistance to help prepare and implement the project. And the point I want to make and it's sort of innate in different varieties so far is that finance is not really the issue. There is a lot of capital out there. The problem is elsewhere, but obviously there is also a need to mobilize that finance and I come back to a few initiatives that we have been involved in that we are very excited about. So the problems are at the project structuring and project implementation and very much policy risk associated with that. So it's both sort of governance issues but also policy risk. And this is not only in developing and emerging economies, also very much particularly in the energy sector now in advanced markets there's a lot of policy and certainly in Europe at the moment. The other problem is of course the funding problem. Where do you get the money, you know, how do you raise the money. Do you use it for user fees or do you use it for tax payers? And it sounds like, you know, Kenya is doing some good work trying to help develop that. Certainly something that we try to also think a lot about when we are part of investing.

So let me go for a little bit these different elements and see where I think one can do things. If you look at the planning and the sort of project implementation obviously it's about -- these are very complex projects; they require and we'll try to promote, you know, marketplace solutions. And, you know, that's not always feasible and particularly in where you start. It may not be possible. What we're trying to develop is sort of a trajectory towards more market based solutions and with, you know, private capital coming in. And of course in some dream world there are these PPPs which we know are very difficult to work and then, you know, we have been involved in quite a few of them and when we go back and look at them it's a very mixed record. It's very complex; it's very often very asymmetric relationships. They're frequently renegotiated, very complex structures to both structure from the beginning but then also to implement and dealing again with this issue of policy risk it's very real. And of course when you get into other areas of climate change adaption or climate change mitigation you have additional layers of complexity. Very difficult for local government and we work a lot with municipalities. They are very inexperienced often dealing with very sophisticated international operators. Although we see typically as being, you know, helping the local partner try to get more a sustainable arrangement and not creating structures that will then go through, you know, political turbulence and will eventually renegotiate. So it's really very much to try to balance these relationships we see as a very important role for us.

I'll say a few words about two things that we -- specific initiatives that we are involved in. One has to do with the preparation of projects. So we think that this is a very serious issue. Market failure is also a government failure. We are putting up now what we call an infrastructure project preparation facility where we'll put up 40 million Euros as a beginning for the initial operation. There are going to be two windows, one for public sector, one for private sector, window for PPPs. It's going to be about, you know, strong emphasis on getting the policy right, getting sustainable policy arrangements, property preparation, or to support the product implementation. We are now trying to raise donor funding for this but we'll also use some of our own funds for this. I think this is for us a very high priority.

The other thing we are doing which goes back to this issue is that there's a lot of long-term capital out there but it doesn't go to the right places. As you know the IFC has done -- it's stuck with this asset management company to co-invest with IFC on projects. We have chosen -- it's like a different route but with the same objective, bringing in long-term investors, pension funds, sovereign wealth funds. We are creating a structure that synthetically replicates our equity portfolios. On every future investment that we are making in the equity phase there are some restrictions, but we will allow these -- well, we'll bring in this institution. There's no cherry picking. They have to buy into our governance arrangements, our mandates and so on. We're right now in the middle of raising funds for this new what we call equity partnership facility and that is something that we are very excited about. It's also been a very interesting experience for us because it really forced us to raise our game in the equity space.

Maybe as a very last word coming back to this policy risk because I think it's important to say that this to me is the number one issue and again it's not only in developing and emerging markets. And there are a lot of things IFIs can do that I think are important to help to deal with this. We can and it was also already mentioned absorb maybe some more risk ourselves. My view with that is that it's actually quite limited what we can do and we've certainly seen in the crisis how, you know, rating agencies have been hovering over the IFIs and a number of IFIs have been downgraded and had to do things. We all got to cover increases to deal with those issues. I think that space there is quite limited. Something can be done but it's not that much. We can do a lot on project structure, project implementation. We can as they said use the fact that we have this multilateral governance structures where the recipient countries are shareholders that can help. We can also develop capacity for dealing with the project preparation and project implementation. We can also be part of shaping the sector conflicts because for example if you're dealing with infrastructure in the energy space, energy policies are actually critical, you can be part of shaping that. And then finally I think by immobilizing situational capital, by creating more sustainable financing arrangements we can also help incentivize local governments to have more consistent policies over time.

That's what I wanted to add. Thank you.

MS. RASTELLO: Amadou, some comments?

MR. SY: Yes, thank you. So there's a quote I like from a Scandinavian university that says we are as confused as ever. But on more important things and not at a higher level. (Laughter) So there's definitely a consensus that these days that low infrastructure is good for growth, is good for development, is even good for future generations. You know, we've all seen Larry Summers' op-ed and WEO chapter and so on. From an African perspective, you know, we've had for a long time a lot of efforts into this transformation narrative and the importance of infrastructure. And one angle we would like to take here is that there's a big focus on this supply and demand of finance, that there's a lot of long-term money out there but it's not trickling to these long-term projects. But sometimes we worry that, you know, this focus on the private sector can be problematic. In the worlds of my colleague, Jeff Goodman here, the question here is are we creating orphans. So if you look at data from the World Bank PPIAF in 2012, about $90 billion went into Africa including North Africa infrastructure. About 47 percent was financed by government raising their own revenues as the Cabinet Secretary said, and about 53 percent were external. Out of these 53 percent only 10 percent came from the private sector. So 10 percent, about like $9 billion, so out of $90 billion of infrastructure finance to Africa only $9 billion from the private sector. So of course there's a potential to increase the private sector. We've all seen the limits from the public sector, the limits from the government raising finance. So I think there's no problem there. But the problem is, you know, are we getting distracted about the domestic agenda to raise fiscal revenues. Are we getting distracted from the domestic agenda to develop capital markets? So Kenya is maybe an exception, has its pension fund and so on, but you take let's say the DRC, definitely we are a long way into developing the local capital markets and the long-term savings there.

And another one is that private money sometimes -- and it depends of course if you're long-term patient money, but sometimes facing this constraints of having quarterly returns to show private sector money just can take the path of least resistance. So where does private sector money go in to Africa? We've seen the success in the information technology and communication sector, mobile phone. It was all private sector money really led in Africa. The terminal concessions. That private sector money will go. But how about the other sectors where it's more difficult to ring fence the cash flows, right. Let's take agriculture for example, infrastructure in agriculture. That's going to be more difficult for the private sector to go there and even transportation sometimes. So interestingly China is filling in the gap there and, you know, if you look at the external money coming into Africa China is having a big, big, big push. We've heard the number for the railway project which is a regional project. But also going into this them of are we creating orphans how about urbanization and urban infrastructure? So Africa is urbanizing at a very, very rapid rate, maybe one of the fast rates in the world, but we know that our municipalities in Africa don't have much fiscal revenues, but yet the demand, the pressure is coming there. Very interesting. And is the private sector going to address that or should we really rethink about, you know, put everything in perspective and say, okay, let's also keep in mind that we need to finance urban infrastructure.

Just to come back to the theme I think it would be good at some point to take a step back, look at the whole portfolio of sources of financing that we are getting. Of course important to increase the private sector because that's really where the potential is, but not lose perspective of the other parts of this puzzle and the other parts of this agenda and bring it back again. You know, so for example, Dani Rodrik and Margaret McMillan have this paper about the African miracle and, you know, everybody is asking, okay, we've had this very, very high growth rate, is it sustainable? How can Africa sustain that? And then we'll see that we haven't followed the growth model that we've seen in Asia where labor has moved from agriculture to manufacturing and exporting, right. Our labor is moving more to a service sector, right. So in terms of prioritization how are we prioritizing so that we are financing the infrastructure that we need for our transformation that will help us have the sustainable long-term growth rates? For example, agriculture. Infrastructure in agriculture is not really coming from the private sector and it's needed.

That's just a bit -- idea.

MS. RASTELLO: Thank you. And we have time for both questions I'm going to ask the panel and then it will be time for questions in the room.

I'd like to go back to this notion of orphans or sectors that maybe the private sector is less interested in. And maybe I'd like to direct my question to Julia and to the Secretary. Julia, is there any sector you won't go into? Do you leave orphans? (Laughter)

MS. PRESCOT: Well, I hope we don't leave orphans anywhere. When I was listening to that I was thinking of really the spectrum of risk and investment that the private sector tends to look at when it's looking at the places to put its money. And clearly from the point of view of the telecom side of things this is a sector that is really inexpensive to create once you've done the first sort of set of masks and handsets, et cetera, you've got a ready set of income coming directly from it and it can all be done quite quickly. And then as you go down the development line once you're into I think energy, you know, some of the renewables projects can happen quite quickly, you know, gas will take slightly longer, hydro will take slightly longer, railways will take even longer. And therefore you need to look at where the private sector's most efficient in placing its funding. And I would argue that it is actually in those shorter term projects of realization because there most expensive and the most risky money from the point of view of the private sector is actually the development money because you're essentially putting money -- and the average project development period can be between five and seven years, so you can be putting private sector money at risk which is very expensive. And expensive not just in terms of us, but the people who fund us -- or provide support for us are pension funds and insurance companies and they need money that goes back to their pensioners. So I'm not saying it's money that we as the private sector are looking at solely as high risk, it's actually also the people behind us. And so when we look at investment through -- probably look at projects that are in a more realizable space than the ones that are longer term. And the projects that have the potential for having both private and public sector engagement going forward.

Getting back to what I was saying about funding, funding really comes from two places. It either comes from the user, like the picker up of the telephone or the driver down the road, or it comes from a tax base. And it is actually when we can see that there is the potential of a mixture of user and tax payers which is actually going to build in growth that is going to be realized in the longer stage, in the earlier stage, in a project that is a reasonably shorter development period, that that is the sector we're going to. But that doesn't necessarily mean that we exclude or include particular areas. It's more looking at a spectrum of risk.

So a rather long answer to your question. (Laughter)

MS. RASTELLO: Secretary, did you notice -- or what did you experience? Are there some sectors you've had more trouble finding investors for? And is that where bilateral countries like China step in or -- what's your experience?

MR. ROTICH: Yeah. I think I would agree out of our 60 projects for that one that we have I think it covers entirely almost every sector. We have projects today in Nigeria, we have projects in the railway, we have projects in -- even in the health sector where you might not imagine private sector would venture, but they are even in education so we have, you know, projects across all sectors. I think the important thing is to, you know, make those projects viable for private sector to come in. And I think where government can walk with private sector is to feel -- do some viability gap analysis where government can play role so that it can catalyze the private sector come in. For example in the Apsad project which is one of our corridors we want to open. We know it might be difficult for private sector to invest. This is a very huge project. But by government starting off by doing one or two (inaudible) in the pot draws in private sector to come in. Also in the health and housing sector which is an area where, you know, might not attract private sector, but where government can come in and fill the viability gap there by maybe putting in some money and then bringing in the private sector. I think it does work. So we've seen interest across the board, even in the urban areas the urban commuter rail where we have a lot of, you know, interest to develop, we've seen a lot of private sector. I think the point is really to structure these projects and prepare them very well so that, you know, funding can actually come. And I believe on the point of also, you know, tying this to sort of a dedicated levy. We've seen this work every well even in our standard (inaudible) where I had -- in Kenya we had to come up with a railway development levy which actually would fill the gap because the project alone may not actually generate revenue streams to pay for the investment by the private sector. But by dedicating some certain, you know, a levy or tax on that it does help bring in private sector. So I think I agree with, you know -- or even some things like offtake agreements which it does work in the energy sector where you guarantee that you will offtake the power and that effectively brought in the private sector. So it's possible to engage.

MS. RASTELLO: And I see that Erik had a point to make.

MR. BERGLOF: Yes, two points that relates to this discussion because I agree very much that there is a risk the private sector will leave certain parts out and that will cause some sensitivities in engaging the private sector in some parts of the space. But healthcare is one area and it was mentioned as a sensitive area. What we see is of course at the -- these health sectors in the countries where we operate have been privatized effectively even thought government is everywhere. The problem is that because of bad governance, because of corruption, you have effectively private systems that are working in a very, you know, inefficient and very distorted way. So but we don't do very much in healthcare but I think the fact that private sector -- the sensitivities there should be recognized, but we also have to see how the world really functions in reality.

I was going to make another point on -- so again the private sector is not everything, but what I think is important is to get even in for example municipal infrastructure, get private sector principals to, you know, separate the finances of utilities and local municipalities, and separate them from the, you know, ministry of finance and so on. Just to get transparency get more efficient ways. It does not necessarily require private sector finance. For example now we are recently gone into Egypt. Of course we are very far away I think from major private sector participation in utilities there, but we can still start preparing for example water utilities for more efficient ways of managing and making sure that these distortions that are there right now we can try to address and maybe sometime in the far future there is a way for them to also raise private money. But it's the principals of private sector that are important too and the management skills and ability to structure and implement projects that we want to bring.

MS. RASTELLO: I know you wanted to say something too, Michel, but I was wondering as an observer, as a journalist we see all these announcements and more in -- perhaps, Michel, or perhaps, Erik, you want to answer this -- are we just seeing a lot of announcements? How much cooperation is there between the BRICS bank which doesn't exist yet but -- (laughter).

MR. BERGLOF: There's not much cooperation with them.

MS. RASTELLO: The different initiatives that have been announced, the different windows. ADRE just announced its window. The World Bank has now this platform that we not what it's going to do, it's going to be more knowledge than money. And I understand that she said preparation is very important, you want to make the project bankable, but are we going too much towards preparation and not enough funding, or is do you think the appropriate direction that's being taken? If you want to answer this one.

MR. WORMSER: Well, first I think that the fact that there are so many initiatives at the same time are just evidence of how much frustration there is around the issue of trying to get a lot of funding go to the infrastructure because infrastructure is so important for growth and for the growth it delivers difference for the citizens. But I would -- the gift is a very interesting idea because the idea that it is better structuring which I think a number of people have said today we could get more private financing into places where otherwise it would hesitate to put capital because not everyone is that patient as Julia is. It's I think a very good idea and what I have found is that with very solid structuring you get projects done including in Africa where otherwise they would have been done in the public sector. And if you allowed me I would just say one -- I would say to Amadou that I disagree with him about the offerings. I think there are offerings but there are much less offerings than what we have today. And thinking oh well the private sector will come and but there is so much that can be done by the private sector why don't we concentrate in raising more public financing because the solution will be there I think is missing the point of the scope that the project would take in a number of places. And I just mentioned a couple of them. Every generation people say IPPs are possible, but the number of countries that I've seen, Africa for example, where by lack of planning they come to the point where they have to do an emergency project and where the emergency project has to be done in the public sector because otherwise it would take too long to prepare it. Look at Aggreko's numbers of projects that you see in Africa which are very expensive, how many of those could have been as IPPs if it had planned earlier at a cheaper cost?

Transmission lines, people say these are orphans, but they don't have to be orphans. Right now Mozambique is planning -- or at least had been thinking about doing a trading arrangement for some transmission lines. Transport, which previously was a sector where nobody was going because it was seen as a normal place for the public sector to go. Look at what's happening in Senegal right now and the highway between Dakar and Diamniadio which has been done in the project. Look at Abijan, doing the third bridge of Abijan in the private sector. Look at Nigeria doing its Niger bridge in the private sector. So there is no obligation to think of public sector fort transport

And the final point I would say that people say okay, the rural space has to be public and it doesn't have to be. I have seen a lot of (inaudible) concession that were in the private sector and I've seen more and more concession in the public sector, many concessions which were highly successful because consumers prefer to get connected to a service and are ready to pay for that service if they are only allowed to pay for that service rather than get the trucks of water or get their alternative fuels which is so much more expensive. So that to me is a revolution which is happening right now in Africa in particular, where the countries are much more pragmatic about attracting the private sector, where there is much less ideology around it, where you have your search for yields of pension funds, and where on the other hand you have consumers which are much more ready to pay for the services than they used to.

MS. RASTELLO: Maybe a question on China because it seems always like the big investor in Africa. Secretary, what has your experience been with China as an investor, as an infrastructure financier? I remember talking to an official in Sri Lanka a few years ago who said when it comes to road and stadiums we turn to China, when it comes to health we turn to the World Bank. But you seem to suggest that you're still trying to push for more financing from the World Bank. If you can share what's been your good and bad points in working with China. And then maybe, Amadou, then if you want to give us a broader perspective on China? And also I see that Erik has an opinion as well.

MR. ROTICH: Yeah. I just want to say that having China filled a huge gap that -- because obviously as I say development financial institutions would be about to fill that. Our experience working with China has been really I would say very successful. Some of the critical infrastructure that we have really wanted to do we could get financing from DFIs and I guess in point is railway. We discussed railway for a long time in Kenya and didn't see any interest from the DFI and the World Bank didn't want to touch it, the African Development Bank, actual donors. Private sector of course would like it. You know, it's a huge project. It needs sort of government also be involved. But when this was taken up by China we have seen all what we just needed is to structure in a manner it attracted the Exim Bank because also the Exim Bank of China is now presenting like any other commercial bank really. What they require is just typically what other banks require. So what they have taken much the risks to come in and now as they have come we have seen even other investments like GE, General Electric wanting also to participate, to work with China, particularly in the locomotive area. So it has played a sort of catalyst role to bring in, you know, other investors who obviously China needs. So I think we have seen that also in the road sector. There are some particular roads in Kenya for a long time it was difficult to attract financing. For example the Thika Road which his now three or four lane funded through African Development Bank. But it has really made a big difference in the lives of Nairobians. They go and used to be a huge jam and all that. But our experience that, you know, as they came in other donors actually came in and they (audio skips) for the African Development Bank and others also came into participate.

MS. RASTELLO: And were there lots of strings attached on the China side? Did you have to an exchange?

MR. ROTICH: Typically it sort of operates like a buyer's, you know, credit whereby (inaudible). Usually the project is undertaken by Chinese contractor and that is even the norm now what you see a lot of other countries are also taking the same approach where you provide the financing you also tie it with the support of exporting the service (audio skips) using the contractor from that country. So that is how it essentially started for China, but we have had also other projects now similarly structured the same way where it is sort of funded by an export credit for services and because it's just viewed as an export from China point of view.

MS. ROTICH: And was there anyone on the panel before open it to the floor? Anyone wanted to?

MS. PRESCOT: I was just going to make the point about China and the fact that one of the key benefits of China is actually the way that it has affected the geopolitical approach towards Africa. And I think from that point of view, you know, the whole Chinese interest is not just been money but it's also been profile. And the concerns and that there's been a whole series of initiatives going from not the Chinese -- I'll put it like that -- looking at potential in Africa which is I think extremely supportive towards African projects, but will also be supportive in terms of developing -- and I'm not saying Kenya, but there have been a number of reported incidents of problems with environmental and social governance right the way through Chinese invest in projects, some of the quality issues. But the fact that everybody is now keener to look at Africa because of some of these due political issues I think has been one of the -- as you said the catalyst of -- in many ways.

MS. RASTELLO: A side effect.

MR. BERGLOF: And I think is exactly one of the points I want to make is that I think China has really shaken up this place and, you know, you talk about all these initiatives, you know. Many of them are I think triggered, you know, by responses to what the Chinese have done. So I think that has been, you know, a very important role an d as you said brought much more attention to Africa. And I think a lot of players are rethinking how they're doing things in light of what the Chinese have done. The Chinese have had some issues as you've probably seen. They tried to do things inside the European Union that have been I think surprised there might be -- you know, you can understand why it's so surprising some of the way we deal with environmental challenges and so on. So I think there still is a lot of learning on the Chinese side as well. And I think that's still our issues about transparency. I was just yesterday actually at the presentation on the paper looking at investments in -- the Chinese projects in Africa and they find two things. One is that unlike some of the sort of popular perceptions Chinese investments are actually not very resource driven. So there's no -- what they have done -- they have geocoded Chinese projects in Africa and there's almost no correlation with resources. It's not driven by resources; much broader range of investment. There was one thing that stood out though that the birthplace of African leaders in different countries, it was significantly correlated to where these investments. It's not a major thing but they're just saying there's still maybe some issues maybe over governance and sort of the approach to how you allocate the capital. But that still has to be addressed.

MR. SY: So I mean just coming back I don't mean to say that the private sector has no role or has a negative role. And actually that's where the space is. If you look at 10 percent of the total financing it is only -- it's very -- there's a lot of room to grow, especially when you see the constraints that the other financiers are facing. And also there are -- Africa is changing. There's a lot of interesting things. Like my hometown, Dakar, has just issued the first municipal bond that is not guaranteed by the government thanks to technical assistance from USAID and the Gates Foundation. So that's very encouraging. But my point is that, you know, so far is the world delivering? We have a lot of announcement, a lot of project vacillating but where's the money? So it's taking time and while it's taking time let's not forget that we have work to do for our fiscal revenues, let's not forget that we have to work to do in some countries for the pension and insurance reform, let's not forget -- you know, basically that's my point.

And when it comes to China, when we talk to many investors and to China one of the comparative advantages that we hear the most is it's speed. That by the time the World Bank or others do their studies and assessment the impact, the Chinese are full steam going ahead and soon. And from the political economy that's very, very attractive. You know, especially with the election cycles and so on. But also we've looked at where does a Chinese investment go in Africa. But we look at just not infrastructure but the foreign direct investment and it's less concentrated than U.S. and EU. It goes all over, it goes to all sorts of countries from Zimbabwe to Angola, and it goes to all sectors from opening a manufacturing plant in Ethiopia all the way to a railway. So it's very diffused. Of course if you compute now a governance -- if you take that investment and you look at the governance wait China looks better because it's all over, it's you know. So, yes, I'll just stop there.

MS. RASTELLO: I'm going to frustrate -- Michel had a point but I'd like to give you the opportunity to ask questions and I see there are lots of hands raised. So we need a -- sir, in the back, you're first to.

MR. FREEMAN: Thank you very much. Lawrence Freeman from the Africa Desk of Executive Intelligence Review. I've been involved in development in Africa for the last quarter of a century. There's nothing more important for Africa than infrastructure. And we see this even today with the spread of Ebola. The spread itself is a fact of lack of infrastructure in West African countries, in basic infrastructure. And I think this is also crucial for the future of Africa which is going to have 100 million youth very quickly and if they don't have energy, water, and food Africa is going to be in very difficult shape. I don't think this can be left to the marketplace or to the private sector. National governments, public credit, we pioneered it in this country with Alexander Hamilton and Washington to Roosevelt and Kennedy. Public credit -- and this is what el-Sisi is doing in Egypt today. They have funded a new Suez Canal through their own people. $8 billion. They're building out cultural and new community projects. And you think even though the new development bank of the BRICS is not in place yet it's already changed the geometry of the world because there is the Asian investment in infrastructure bank and national banks in China, India, and Russia. Russia is going to finance 9600 megawatts of nuclear power in South Africa.

So my question to the representative from the National Bank or National Secretary of Treasure in Kenya, how much are you orienting to this new geometry that's developing around government infrastructure which these banks are doing and governments are doing away from the West which is shrinking and doesn't do infrastructure and their own financial troubles are going to overtake them very quickly? And I wanted t get your approach to that.

MR. ROTICH: Yeah. No, I fully agree with you on the -- even in Kenya for example we funded our own infrastructure with our own resources. I mention that later on the infrastructure bonds that we have issued in the domestic market because of our deep domestic financial markets. And of course there is a limit to that. We have also -- just even before that the one for example is the railway. We have actually dedicated a fund and then like getting a railway development levy which is our own resources. Currently even now before we received the money flowing from China we have already started the work using our own resources. So it is very important for us to take the lead as a country and we have done that by dedicating funds, we have seen where we have raised our resources and put them down for the LAPSSET Project. The LAPSSET is another corridor we are opening through Lamu and connecting Southern Sudan and Ethiopia. We are putting our own resources to create the first three parts and then draw in private sector to come in to fund. But without doing that you'll not even open up the pot even for any investor to think of coming in. So government playing the role of first coming in and then allowing the other private sector to -- so it's very important. But there is a limit to that. Our tax revenues are not sufficient to cover that. Our market -- if we borrow heavily we lose so, you know, crowd out the private sector also domestically. And we have also gone ahead to tap the international capital markets by way of issuing a sovereign bond. This is also completely debt from where we are taking from the international community. And use the same money to actually invest in those infrastructure projects and then structure in a manner that we can blend. I think they key thing now is really to blend resources in a manner that you can actually attract so many funders into one project because it's a very huge project, very expensive. Where government can spare it can pay a little bit. You can also draw in equity, you can draw in debts from banks and all that. So a whole blending of resources is very, very important.

MS. RASTELLO: Julia had a point? What were you?

MS. PRESCOT: Just a very quick addition to that. I mean I think there's a bit of a sort of stigma when we talk about private sector and private sector doing this and private sector doing that. It is the case when we are investing, and really around the world, that the majority of investments are made on a public-private partnership basis and it is that partnership which is additional and over and above what we can do either in the public sector or the private sector alone. And it's actually getting the strength of the two parties together which is going to be really most efficient in terms of creating delivery infrastructure. And we see that the whole time. Because when you're talking about the --

who are you talking about? What we do is we actually are mobilizing the savings of millions of individuals. It's not as though it's this sort of magic pot in the sky that's completely divorced from public sector and people buy it paying taxes. So I would talk about partnership as being the way forward rather than -- and that's actually a very -- in this country I think it's becoming increasingly active, the whole partnership concept in delivering infrastructure. That I think is the way forward rather than looking at it as being --

MR. BERGLOF: We shouldn't forget either that, you know, the projects that were mentioned, in particular the whole fundamental infrastructure in this country was actually to a large extent funded by foreign creditors that actually were then defaulted upon several times. But in any case (laughter) --

SPEAKER: (off mic). (Laughter)

MS. RASTELLO: Can we take another question; over there.

MR. LOWERY: Thanks. My name is Clay Lowery from Rock Creek Global Advisors. Great panel. I think this is a question for Julia but others may want to weigh in. I keep hearing about a disconnect which is on one hand the IMF, the World Bank, all the different development banks are saying we've got to have more infrastructure, and on the other hand the same group of people are basically saying we must crack down on banks and through basel capital standards, or insurance companies, or pension funds through their asset managers. Is there a -- and maybe this is just the private sector talking its book, but is there a disconnect that we're actually harming the funding or the financing of infrastructure by cracking down on those that are actually some of the suppliers of that funding?

MS. PRESCOT: I couldn't agree with you. I mean I will talk with particular reference in Europe to the European Commission where one silo of activity has been about greater regulation and the other silo of activity has been promoting infrastructure in order to stimulate economies. And you look at these two organizations and you think do these people ever talk to one another. And I think that one of the actions the actual private sector is taking and in fact we've been engaged in setting up something with the Long-Term Infrastructure Investors Association which is actually looking at addressing those very points in order to get over some of these huge hurdles that are in place. And the hurdles are largely because of lack of communication.

MR. BERGLOF: I would say that -- my view is slightly different. I think, you know, we will have to get used to the fact that banks will not be able to do what they did in the past; it's just a reality. And then we have to try to work around that, you know, and, you know, what Meridiam is doing is I think it's highly complementary to that effort. So I think it's -- of course our examples were they don't talk to each other but I think we just have to get used to that there's a different reality out there. Banks are not going to be doing what they did in the past. And we will have to look at what can capital markets do, you know, what can -- you know, what other innovative ways are there for getting money for infrastructure. And that's for example the reason why we're looking at this equity partnership is to bring in these long-term investors that have same kind of tenors and that infrastructure projects need to have and I think that's I think more of a solution than trying to fight this financial regulations.

MS. PRESCOT: We're not trying to fight the financial regulations.

(Laughter)

MR. BERGLOF: No, no. I --

MS. PRESCOT: I don't believe that we believe there is any exit that goes to the past. But what we're trying to do is to just bring together the different thoughts so that we can actually move forward as opposed to being stuck in this --

MS. SY: Just very quickly, one interesting trend also is what sovereign wealth funds are doing in many countries. Like in the Middle East for example and how sovereign funds are thinking of investing domestically and for their own infrastructure, which as pros and cons. No way we'll not do it but some Middle Eastern sovereign wealth funds will do it.

MS. RASTELLO: Let's take a couple of questions together. So since we have about 10 minutes left let's take three or we have I see -- sir, here in the middle, then in the back.

MR. RYBECK: Hi. My name is Rick Rybeck with Just Economics. I want to thank Brookings and the panel. Very informative, very helpful. I learned a lot today. I wanted to piggy back on comments by a number of panelists about the issue of the real problem being more related to funding than financing. If an infrastructure project doesn't generate revenue that will pay back the loans it's hard to come up with a way of making those loans. And when I am anxious to look at innovative ideas a lot of times I look back into history. And Washington, D.C. in the 1890s, our streets here were mostly unpaved. So they were very dusty when it was dry and when it was wet travel was very difficult and very unpleasant. So paving the streets would have been very beneficial for everybody and Congress decided to do that. And they could have taxed everybody to pay for the infrastructure but they didn't. They decided that 50 percent of the cost of paving the streets should be paid by land owners whose property fronted a paved street. Now a land owner might live in Philadelphia or New York, might never walk or ride on the street that was being paved, but that street by paving it was going to create a financial benefit for that land owner because no longer would people be tracking dust, mud, and manure into their residential or business location and thus the value of their property went up dramatically.

So there are a number of places around the world, places that -- this technique is now generally referred to as value capture. There are places like Hong Kong, Singapore, Japan, Taiwan, to name a few that have employed value capture techniques and after doing so seen their economies become very productive. And I'm just wondering if the panel is familiar with the value capture concept and what they think about that as a way forward.

MS. RASTELLO: You can decide who wants to take it. Who had a question we can -- and we haven't had a lady yet.

MS. SIMMONS: Good morning. I'm Barbara Simmons; I'm Dean of International Education as William V.S. Tubman University in Liberia. Before I get to my question there is a dormitory that was built for one of the universities in Liberia by the Chinese that the students are refusing to utilize because they built it with all of the toilets outside, so not everything that gets built by the Chinese is acceptable.

My question is to Mr. Wormser. You said that there were four points that needed to be met in order to -- is that help private sector get involved? Is that the role? Do you see it as just the role of the World Bank or whose role is it to get those things done?

MS. RASTELLO: And I think we had a -- question, sir, over there.

MR. JONES: Yeah, hi. Creighton Jones with 21st Century Science and Technology. I just had a question regarding also China's role in Africa. At the last World Economic Forum in Africa Premier Li said that they had the intention to connect all of the capitals of Africa with high speed rail and they wanted to build 80,000 kilometers of high speed rail by 2020. So this really seems to be breaking the neocolonial paradigm which had dominated Africa of using different gauge rail for resource extraction, not allowing for, you know, countries to link up through rail. So do you think the fact that we're seeing the end of potentially the neocolonial system in Africa does that change you think the way that private investment is going to view Africa as no longer a place for diluting of resources, but now have to think in terms of long-term real physical investment?

MS. RASTELLO: Okay. So maybe who wants to -- who's starting here with the value capture?

MS. PRESCOT: I mean I can --

SPEAKER: No, go ahead. No, no, go ahead.

MS. PRESCOT: Value capture has always been a wonderful solution because fantastic, all the buildings are going up, everybody's good. And you mentioned various places, I can also mention cross rail in the UK where the rates have been increased for the earlier payment. And I think it is great as long as you have the value. Because the one area -- and, you know, in a number of the -- you know, we've obviously seen growth and we've seen development and the rest of it. If there was an issue for example in -- I can think of a country like Spain that has really suffered in the great financial crisis and, you know, the value there has been ripped out of a lot of property developments and a lot of transport things. And if those rate pairs were having to pay higher rates as they saw the rates of their properties decrease then I think there's an underlying issue. So as part of an overarching financing I think it has a very strong place. In and of itself as a sole solution I think there could be certain issues.

MS. RASTELLO: Michel, there was a question directed at you.

MR. WORMSER: No, it's not about the World Bank alone. I was taking the examples of the World Bank where I come from. But I would think that when you look at the four elements that I talked about, the sector reforms where the governments are going to be the ones driving the agenda. When you look at transformation projects where regional (inaudible), development agencies, better so regional agencies can have a major role in pushing some of these big projects. When you look at risk mitigation obviously there are a number of players. If you look at the political risk insurance market it has increased by 10 percent a year over the last 7 years which shows that there is both an appetite to go to some distance market because so much more awareness of the political risk and need to mitigate those. And when you look at the balance sheet I was not talking only about the World Bank I was talking about anyone who has a balance sheet.

But I would also add one point which I think is behind your question and also another question which was raised earlier which is the need for these partnerships, the need for much more cohesion in between what the BRICS are doing, what the World Bank is doing, what regional organizations are doing. And here China in particular I have seen its role maturing quite a lot over the last 3 years, quite different from what it used to be 10 years ago, or 5 to 10 years ago. I can see both the countries become much more demanding in terms of what they want in terms of the relation with China and also wanting that relation to China to be much more integrated with what the others are doing. And I can see also China wanting to think of itself not as a cowboy into Africa but much more as a partner of some of the others to get impact and much more sensitive about the criticism that it has had so far on both the environmental issues and the labor issues.

So I'm just saying that China is in some ways a reflection of how this agenda should be moved because it should not be moved by agencies or countries on their own, but much more as a global partnership in an agenda which is going to make the biggest difference for example in Africa.

MS. RASTELLO: Anyone want to take the neocolonialism or end of it question? It was the private sector they mentioned.

MR. BERGLOF: Here is where I think infrastructure links into, you know, many other aspects of development. So I think the key to getting infrastructure going and think of it as municipal infrastructure, health, water, and sewage, and so on. What I think is key there is to get the consumers and users involved in shaping these infrastructure investments. You know, when you -- what you described was that this was pretty much determined by the resource extraction and those who control that were typically, you know, living outside the country. And today also it's not -- the problem is not to finance that kind of infrastructure. I think that most it's possible but the real challenge is to get infrastructure in place that really meets the needs of people. And I think that's where, you know, the real challenge is. How do you build this structure, how do you get a willingness to pay because that also has to be part of sustainability of the kind of services that this local infrastructure offers and then involving these end users in the running and shaping of these infrastructure facilities over time. So I think that's where the real development challenge is and I think it's, you know, quite different from the neocolonial approach. And it's really about working with local population, the local political structures, and trying to get people to get a sense that they're actually benefitting from these, are willing to pay. I think that's what the key challenge is.

MS. RASTELLO: Amadou, a word of the end?

MR. SY: Yeah, I would just agree with Erik. And actually last time we stumbled across a paper that came of this term, "the governance of infrastructure". I think that governance is a catchall phrase but we should think about what governance really means when it comes to infrastructure. It included elements like, you know, what was the role of the end users in the society, civil society.

MS. RASTELLO: Thank you. I think we've run out of time for this panel. So I wanted to thank all of our panelists for their very good insights, and thank you all for coming. (Applause)

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