

UK Blended Finance Options for Infrastructure Development: Outline Strategic Approach

1. Issue

The Government of Kenya (GoK) has highlighted that they perceive UK financing offered for infrastructure projects to be less transparent, complicated and difficult to evaluate and compare with competitors' offers.

2. Impact

Anecdotal evidence suggests this results in:

- The GoK selecting alternative project finance packages on the basis that they appear uncomplicated and fit the concessionally and other criteria; but may in fact, over the lifetime of the project, be more expensive or carry greater risk/liabilities than the more complex UK offer.
- High UK-content projects are likely to be discounted when these may, if evaluated for their overall value for money/return on investment, represent a more competitive offer for Kenya.
- UK companies, financing institutions and other investors miss out on valuable commercial opportunities. There is also an implied negative impact on Kenya's debt sustainability and increased risks to the project delivery and long-term interests of GoK and the Kenyan people.

Examples of this include financing for the Nairobi Mombasa Standard Gauge Railway, which is ultimately secured on Mombasa Port. This debt may prove to be either very expensive for Kenya to service or result in ceding a measure of control over the principal port for East Africa to the Chinese.

3. Objectives for roundtable discussion

UK government interests (UK Export Finance, Department for International Trade, Department for International Development, CDC, Private Infrastructure Development Group; Financial Sector Deepening Africa) **Commercial banks** (Standard Chartered, Barclays etc) and **UK private sector companies** discuss the above issue, constraints and share case studies of what has worked to develop:

- A coherent narrative on UK supported blended financing instruments available for infrastructure development in Kenya.
- Tangible examples of infrastructure project finance packages that highlight the UK offer.
- Viable options to develop a strong and integrated UK government blended finance offer that will be easily and directly comparable with leading competitor nations e.g. China, Japan, France, USA etc. Consideration should be given to a number of 'off-the-shelf' finance packages developed to meet the test of simplicity and comparability, but that take in to account the size, timescale and risk profile of projects to be financed.
- For example:
 1. Major project over £50m in value with a timescale of more than 5 years and a tangible asset (e.g. infrastructure, construction etc.). Would use package offer 1 with interest rate X, term of Y, and concessionality (calculated by the GoK method) of Z.
 2. Smaller scale projects with short timescales and/or higher risks would get package 2 with interest, term, and concessionality adjusted to reflect those difference.
- There should be a sufficient number of packages to reflect the realities of projects in the Kenya market (but still limited to say around 5 in total). Importantly, only the headline comparators would be presented. How those were achieved and what agreements and trade-offs lay behind them would be agreed separately between the parties before formal presentation to to GoK, to simplify the offering.