

Mapping of French stakeholders in finance for development



EDITORIAL

Financing the environmental and ecological transition in emerging countries is a topic receiving little attention, and yet it is a critical one because the issue is global, whereas most financial flows concern OECD countries only. Redirecting capital from the North to the South and further encouraging private investment are both priorities.

As the French government takes action through global initiatives like the One Planet Summit, the AFD IDFC 'Finance in Common' initiative and the Green Climate Fund, we have decided to position the Paris Financial Centre on these issues with a dedicated 'Taskforce on Finance for Development' led by Finance for Tomorrow. Producing this mapping of French actors in finance for development brought to light the many advantages of the Paris Financial Centre, which brings together a community of players active along the entire development chain of infrastructure projects. The diversity and complementary strengths of these players offer a significant opportunity to increase the growth and international reputation of the Paris Financial Centre.

For our first effort, we set ourselves the task of illustrating French expertise and promoting synergies among the various players active in project finance to accelerate energy transition in emerging economies. We also offer recommendations for eliminating friction that hamper participants in the ecosystem and increasing the Paris Financial Centre's momentum in anticipation of COP26!



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ABSTRACT

Finance for Tomorrow (hereafter 'F4T') strives to make green and sustainable finance a driving force behind the Paris Financial Centre's development and to position Paris as a hub of reference on these issues. It was as part of this ambition, and also to promote French expertise and foster synergies among those involved in financing sustainable infrastructure projects in developing countries that its 'Task Force on Finance for Development' commissioned this mapping of the players and tools of development finance.

This mapping presents 40 key French players operating in this ecosystem and their positioning across the life cycle of sustainable infrastructure projects in developing countries. A range of criteria were used to select the entities mentioned in this document. Our list was compiled primarily on the basis of a questionnaire, combined with a series of interviews. F4T encourages any entity that may have been omitted to reach out in order to be mentioned in future editions.

The financing of infrastructure projects is a key asset of the Paris Financial Centre, which boasts a community of experts and active players in this field, with a long list of major infrastructure projects successfully completed abroad. However, French expertise on the specific segment of development finance is often misconstrued or even unknown, and thus represents a significant opportunity for growth and influence for the Paris Financial Centre.

This mapping highlights **the geographical distribution of activities by French public/quasi-public actors as well as bi- or multilateral actors around the world. It is, furthermore, noted that sub-Saharan Africa has been a particular focus of private sector entities** at 83% of respondents, whereas only 43% of respondents operate in South Asia.

Regarding the Sustainable Development Goals (SDGs) targeted, **SDGs 1 (fight against poverty), 7 (using renewable energy), 13 (Climate action), 9 (Innovation) and 11 (Sustainable cities) are the most prominent** cited by more than 80% of respondents. Meanwhile, SDGs 15 (life on land), 14 (aquatic life), 2 (combating hunger) and 16 (Justice) receive less attention, with 25% or fewer respondents addressing them.

This already considerable success could be further amplified by eliminating the obstacles that still confront those operating in this landscape, namely problems coordinating initiatives, overlapping activities and issues of reputation or image. As such, three recommendations emerged from the mapping process:

- 1. Consolidating and coordinating initiatives to originate and structure projects;**
- 2. Refocusing the efforts of public and quasi-public entities on encouraging greater participation from private sector finance;**
- 3. Building a 'brand identity' that reflects the quality of projects developed within the Team France ecosystem.**

INTRODUCTION

Finance for Tomorrow (F4T) works to ensure that the Paris Financial Centre is recognised for the quality of its products and its expertise in green and sustainable finance, as well as to strengthen synergies and public-private cooperation and promote the European and international influence of Paris as a financial centre.

Among the various topics supported by F4T, the present work seeks to highlight the relationship between sustainable finance and development in emerging countries and to foster discussion around how to finance energy transition in relation to development issues. This overview was produced to address this question and to shed light on the actors and tools of finance for development. Its purpose is to identify potential links, clusters and synergies, as well as the gaps within the ecosystem.

In the context of this mapping, finance for development is defined as '*all investment flows enabling the development of infrastructure that contributes to achieving one or more of the Sustainable Development Goals (SDGs), without impeding the others, in a developing country*'.

THE 17 SUSTAINABLE DEVELOPMENT GOALS



More specifically, the terms of this definition are understood as follows:

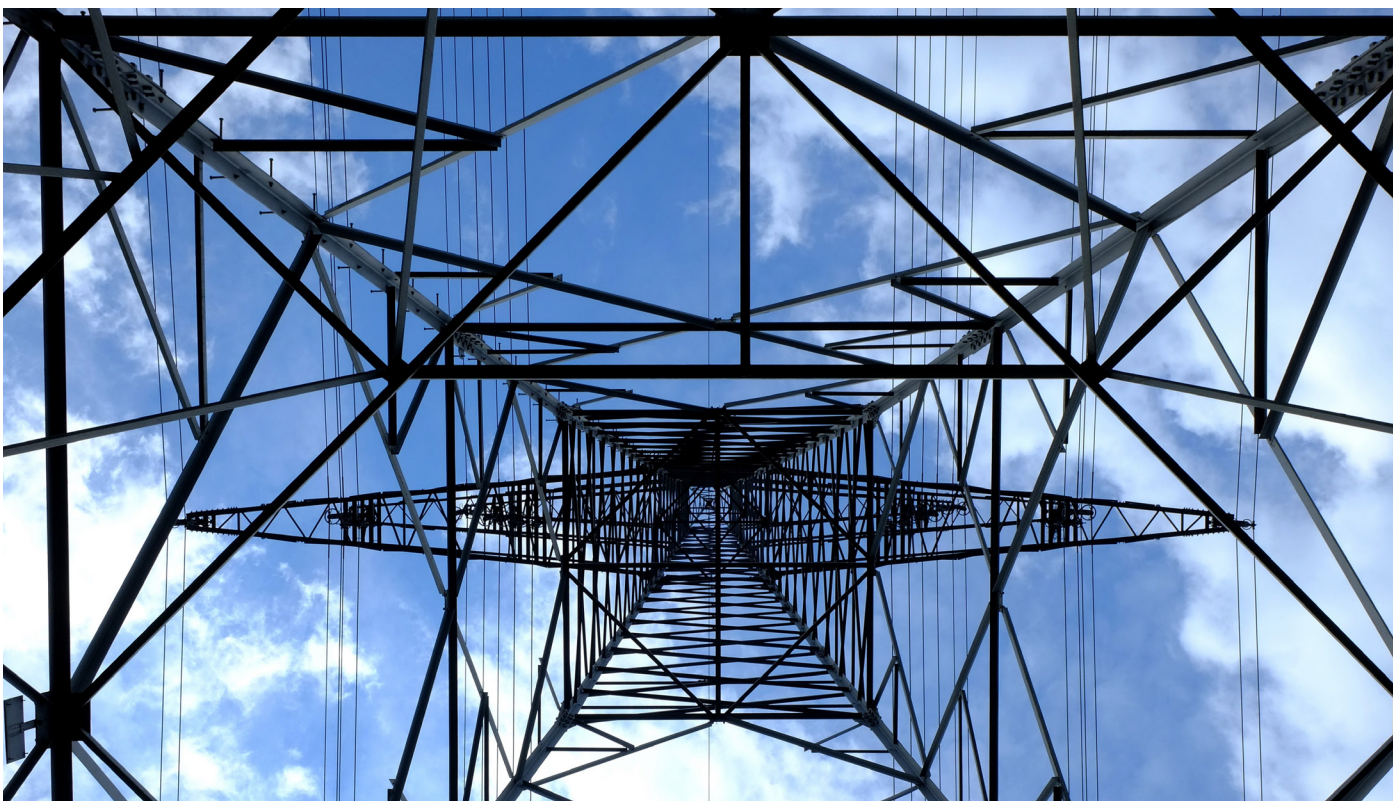
- **Investment flows:** financial flows (direct or indirect) and technology transfers.
- **Developing countries:** the 142 ODA recipient countries as listed by the OECD.
- **Non-impedance of the SDGs:** an approach in which potential negative impact on other SDGs has been duly identified and mitigated.

According to this definition, and bearing in mind the purpose of this mapping, relevant players were identified based on two cumulative sets of criteria:

- **Geographic criteria**
 - **French roots:** with the exception of bilateral and multilateral actors, the selected entities must have their centre of economic interests in France; in other words, only those with a representative office in France are included.
 - **International footprint:** only entities whose activities are substantially carried out in Developing countries are retained.
- **Sector-based criteria**
 - **Infrastructure development:** only entities whose activities contribute to the development of infrastructure may be included.
 - **Contribution to the SDGs:** only entities whose activities contribute to achieving one or more of the SDGs may be considered.

The present mapping makes no claim to be exhaustive but instead aims to provide all players with a synoptic view of the development finance ecosystem within the Paris Financial Centre in order to promote its attractiveness in this field.

This work will serve to guide the efforts of F4T and its members on this topic, and those of the Task Force on Finance for Development in particular, especially as regards the main international meetings scheduled for 2021 and 2022.



MAPPING METHODOLOGY APPLIED

This mapping was carried out on the basis of a questionnaire shared with 70 key players from the sector, to which 40 recipients responded. Information from the questionnaire was further supplemented by a series of interviews with 11 of these actors. The selection of entities was made on the basis of publicly available information, in accordance with the criteria described in the introduction above. The data solicited from stakeholders was arranged into four broad segments:

- **Identity** of the party responding
- **Category** of the responding entity
- **Activities** of the responding entity
- **Interactions** of the responding entity with other actors

To standardise the data collected, and in keeping with the strategic orientation established by the task force, the types of actors, as well as the activities entities engage in, were predefined as set out below.

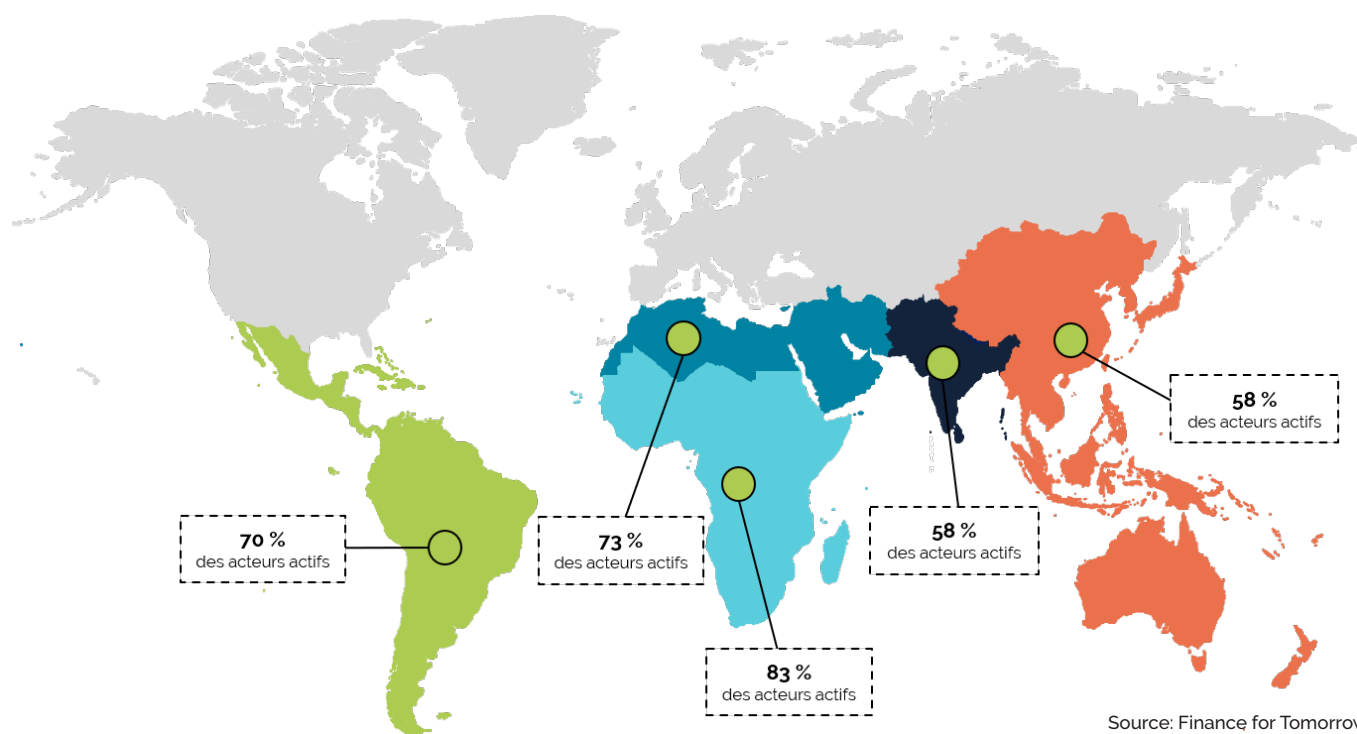
- **Typology of actors**
 - **Main type:** actors were invited to first identify themselves as financial or non-financial actors.
 - **Secondary type:** actors were invited to self-identify as public/quasi-public, bi/multilateral or private.
 - **Tertiary type:** the actors were invited to describe/define the nature of their institutions as precisely as possible, due to the diversity of their activities (banks, industrialists, research establishments...)
- **Typology of activities**
 - **Main type:** differing choices of activity were presented depending on whether actors were financial or non-financial institutions.
 - **Secondary type:** amongst the set of activities proposed (financial or non-financial), respondents were invited to select those in which they engage.

This intake of descriptive data on institutions and their activities is supplemented by a section dedicated to interactions amongst actors in the ecosystem, as well as their perception of the links, clusters, gaps and possible combinations within this ecosystem.

GEOGRAPHICAL COVERAGE

This map illustrates the footprint in developing countries of the actors interviewed, arranged into five predefined geographic areas: Sub-Saharan Africa; North Africa & Middle East; Latin America & the Caribbean; East Asia & Oceania and South Asia.

GEOGRAPHIC DISTRIBUTION OF ACTIVITY - ALL ACTORS



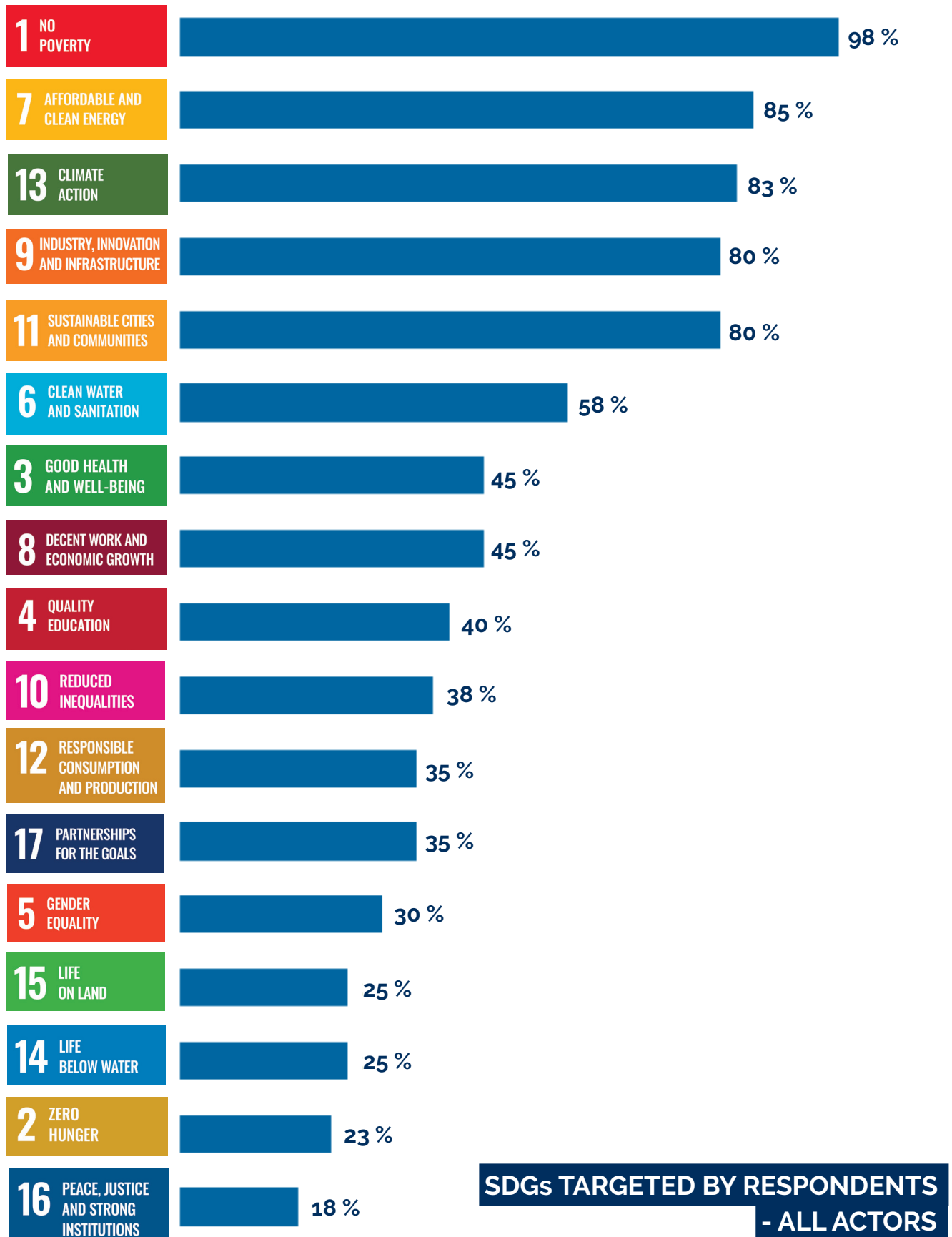
Detailed analysis of players' zones of activity highlights a **relatively balanced distribution of actions by public/quasi-public actors**: respondents in this category report a 75% presence on all continents with the exception of the Latin America & Caribbean zone, where 83% are active, and the East Asia & Oceania zone where only 67% participate.

Conversely, **private actors pay a particular attention to sub-Saharan Africa**, which 83% target, whereas only 70% take action in North Africa and the Middle East, 61% in Latin America and the Caribbean, 48% in the East Asia & Oceania zone, and only 43% in South Asia.

Finally, with regard to **bilateral and multilateral players, these are, unsurprisingly, active in a uniform manner across all areas, with the notable exception of the *Private Investment Development Group*** which focuses on East Asia & Oceania, Sub-Saharan Africa and South Asia.

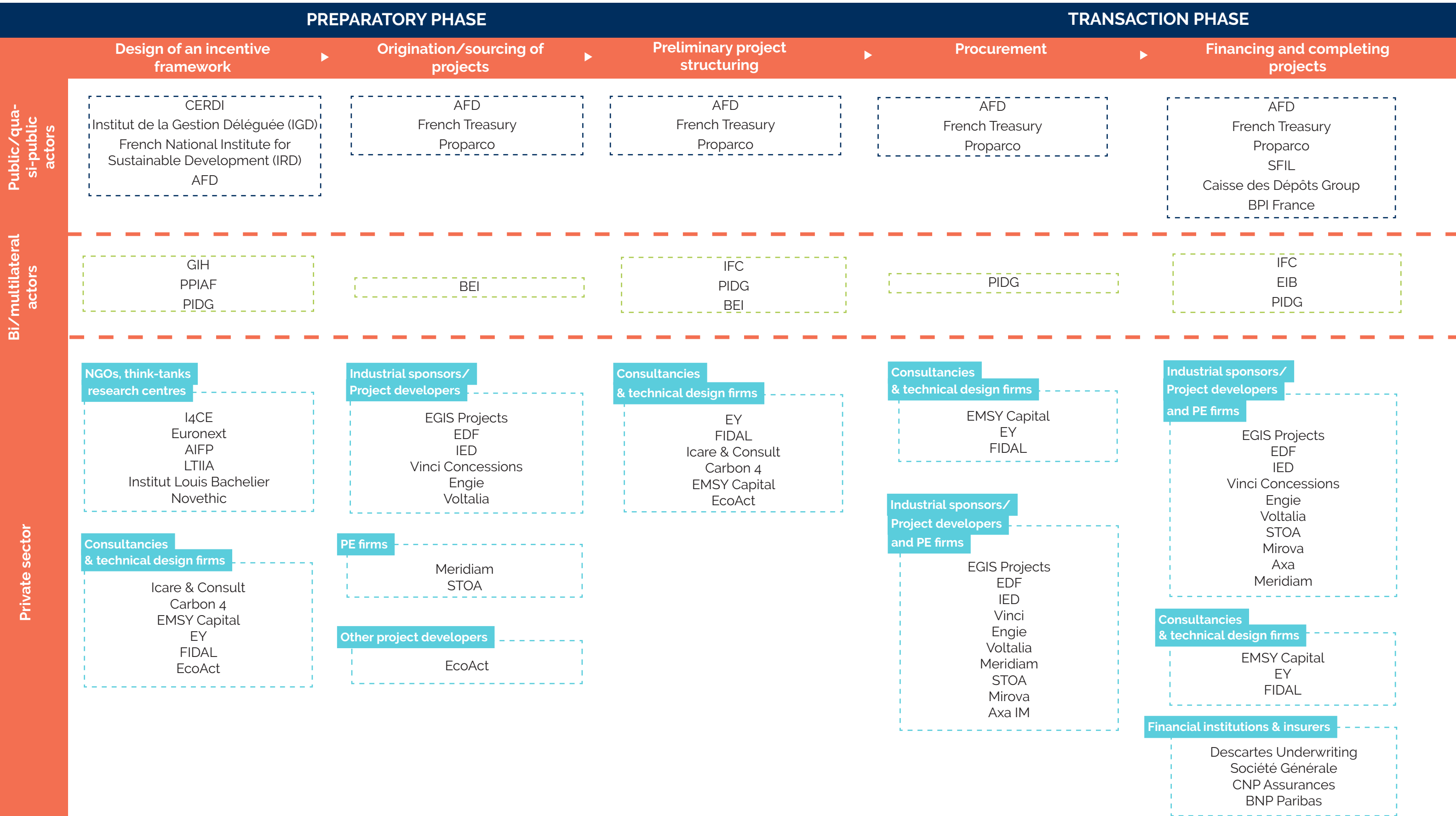
SUSTAINABLE DEVELOPMENT GOALS

This figure shows the degree of focus reported by the actors surveyed on each of the 17 Sustainable Development Goals, as established by the Sustainable Development Agenda adopted by the Members States of the United Nations in 2015.



GLOBAL OVERVIEW OF ACTORS

This diagram depicts the positioning of actors that participated in the present mapping; it aims to provide a synoptic illustration of the position each type of player occupies during the life cycle of a sustainable infrastructure project in a developing country.



F4T: FRENCH ROOTS, GLOBAL REACH

Finance for Tomorrow promotes the international influence of the Paris Financial Centre on green and sustainable finance. Its efforts align with the initiatives of key players working to increase stakeholder mobilisation and collaboration on behalf of a transition towards inclusive, resilient and low-carbon societies:

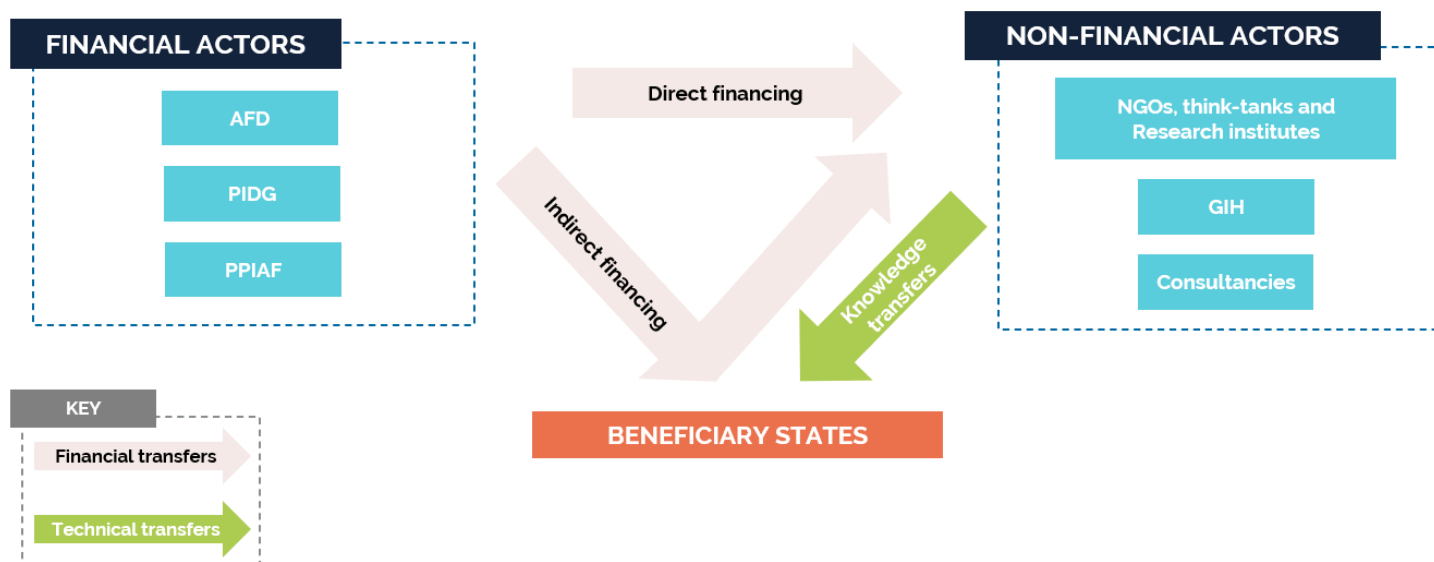
R20 - Regions of Climate Action, an advisory member of F4T, is an international non-profit organisation founded in 2011 by former California Governor Arnold Schwarzenegger in cooperation with a number of leading regions and NGOs, the United Nations, development banks, cleantech firms and universities to accelerate investments in low-carbon infrastructure investments at the sub-national level.

The **Finance in Common Summit** brings together public development banks as well as other key stakeholders, including heads of state, governments, supervisors and representatives from the private sector, civil society, think tanks and academia to substantively contribute to the success of the UN Secretary-General's 'Decade of Action'.

The **One Planet summit**, launched in 2017 by Emmanuel Macron with the UN and the World Bank, is an initiative bringing together decision-makers from around the world—both political leaders and economic actors—for the purpose of identifying and accelerating transformational initiatives and financing solutions that address climate, biodiversity and marine issues. Finance for Tomorrow plays an active role in these diplomatic events, most recently during the 4th edition in January 2021, dedicated to the protection of biodiversity. Major commitments have been made ahead of the IUCN World Conservation Congress (Marseille, September 2021) and COP15 in Kunming, China, reflecting the work of F4T's Biodiversity and Natural Capital workstream.

PREPARATORY PHASE: DESIGN OF AN INCENTIVE FRAMEWORK

STAKEHOLDER NETWORKS



DEVELOPMENT: CHALLENGES AND OPPORTUNITIES

Support for creating an environment that fosters infrastructure projects is particularly needed in developing countries. Making this possible involves establishing a legal framework suited to such projects and lobbying both public and private actors to raise awareness of issues and opportunities in the field; and lastly, further initiatives to strengthen capabilities are required, mainly those of public actors.

These various initiatives, whether coordinated or not, offer an occasion to highlight the considerable expertise of French players in the field for an international audience, and thus promote the subsequent emergence of projects in which the entire chain of actors find a place over the course of their structuring and roll-out.

This proactive approach stands to benefit from the vast network of French diplomatic ties, which can help identify potential beneficiaries and connect them with opportunities for action by non-financial players within the Paris Financial Centre. Furthermore, the academic partnerships developed by higher education and research institutions such as the IRD or CERDI with their counterparts in developing countries are also an excellent "entry point" for launching this type of action.

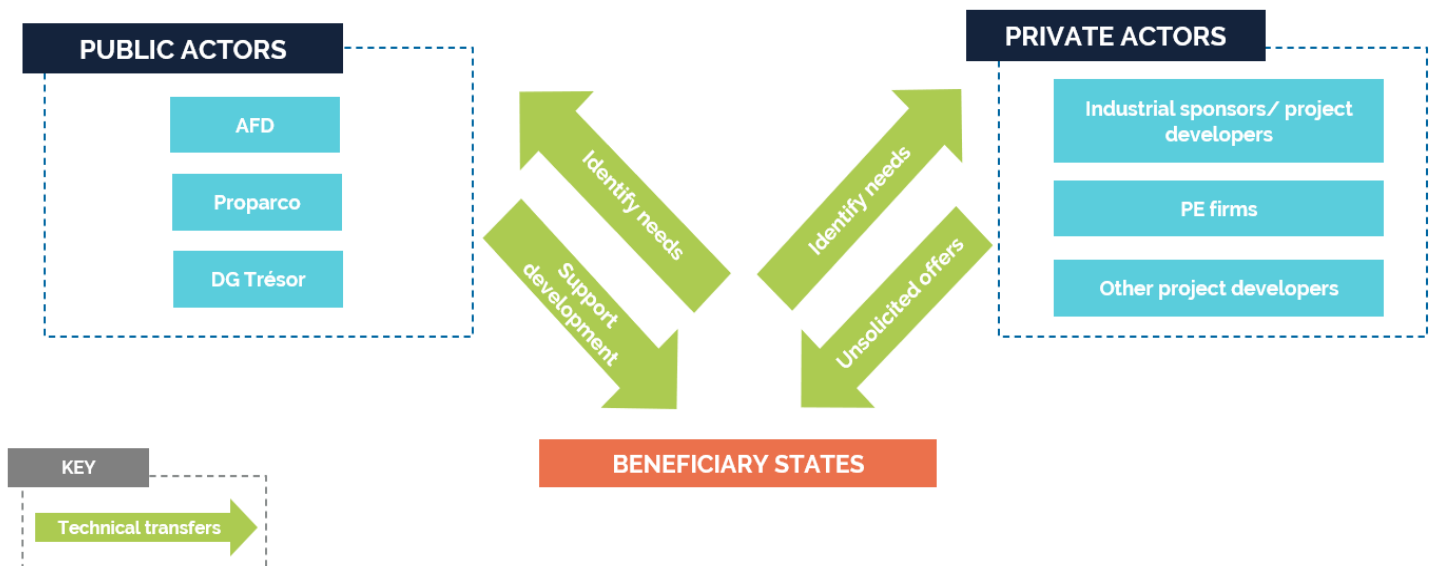
THE PPIAF

Housed within the World Bank's Infrastructure, PPP and Guarantees Group, the Public-Private Infra Advisory Fund (PPIAF) contributes to improving the functioning of the infrastructure market, which is currently deficient in both quantity and quality (the so-called 'infra gap') by compiling knowledge (databases, MOOCs & PPP Reference Guides, standard-type project agreements, best practices benchmarking,...) and providing technical assistance helping the public authorities of developing countries to reduce asymmetries of information and preparation with large private groups. PPIAF's goal is to create a favourable environment upstream of the transaction to serve as a catalyst for private participation via an appropriate regulatory and institutional framework (sectoral reforms, PPP units,...) and employment doctrine, helping public authorities to build consensus, strengthen their capacities & support pioneering transactions.



PREPARATORY PHASE: ORIGINATION/SOURCING OF PROJECTS

STAKEHOLDER NETWORKS



DEVELOPMENT: CHALLENGES AND OPPORTUNITIES

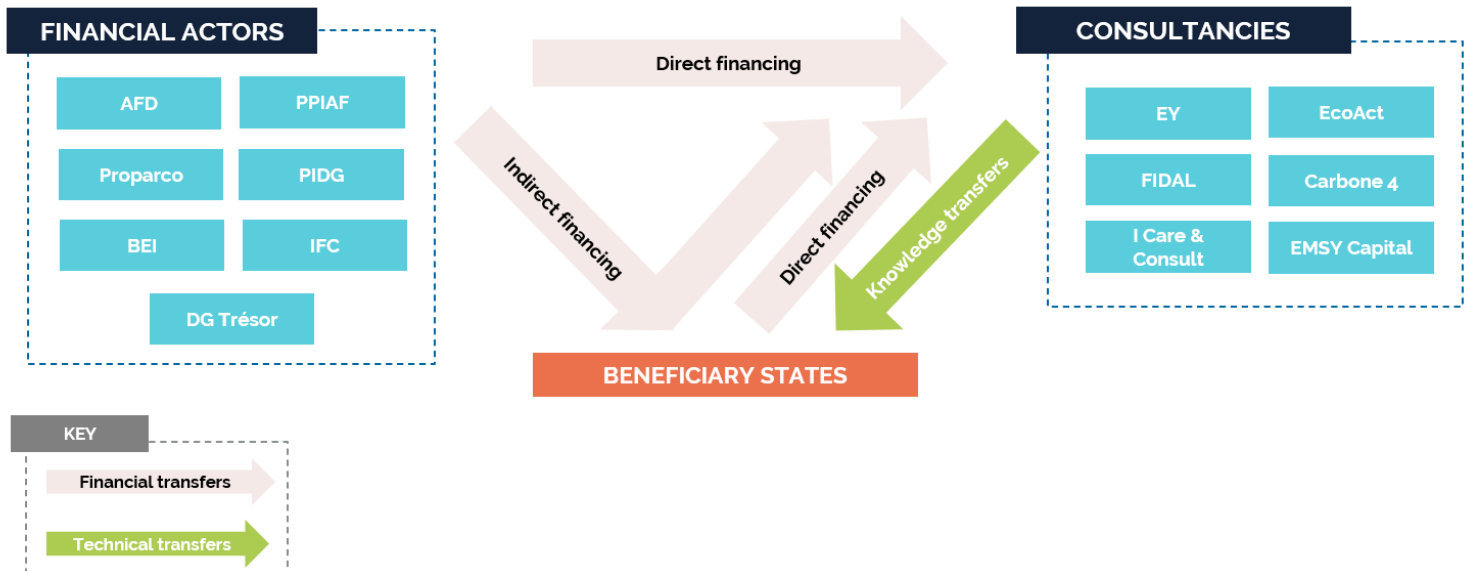
The marked infrastructure deficit seen in a majority of developing countries is fertile ground for a variety of projects in this field, whether initiated by public authorities or private-sector actors ('Unsolicited offers'). This multiplicity of subjects and actors complicates the process of rational analysis of projects by beneficiary states, which have to combine the offers of support from public/para-public actors as well as from private actors with their own resources and ambitions.

The interviews conducted in the framework of this mapping exercise revealed that the parallel interventions of private and public/para-public actors in beneficiary states are not coordinated. This observation should be qualified with regard to the activities of the French Treasury DG, the primary purpose of which is to open up market opportunities for private actors, whereas the interventions of AFD or Proparco mainly aim to create investment opportunities, without regard for the nationality of private actors associated with the Project.

Developing coordinated public/private approaches among Paris Financial Centre players for conceiving promising projects, and promoting a shared set of coherent technical and financial solutions backed by a 'France' label would greatly enhance the presence of the entire Centre's ecosystem in developing countries.

PREPARATORY PHASE: PRELIMINARY PROJECT STRUCTURING

STAKEHOLDER NETWORKS



DEVELOPMENT: CHALLENGES AND OPPORTUNITIES

Despite a field dominated by active competition, a limited number of projects go beyond the ideation phase and concretely arrive on the tender market: preliminary structuring constitutes the most fragile link in the project development cycle. Indeed, there is still a funding gap as regards the studies necessary to attract private partners. Completion of these studies currently relies primarily on funding from public/quasi-public and bilateral or multilateral actors—direct financing of these studies by beneficiary States remains sporadic.

The combination of intense international competition on the consultancy market for preliminary project structuring and insufficient funding in this area currently hampers the development opportunities for French players. However, structuring innovative financing models, jointly supported by private industrial and financial players alongside consulting firms and backed by the support of public/quasi-public risk coverage institutions, would significantly increase the volume of quality projects on the tender market. These additional projects would constitute further business opportunities for both industrial and financial players.

FINANCING THE STRUCTURING OF PROJECTS

The West African Development Bank (BOAD) conducted a study together with its partner consultancy firms from the Paris Financial Centre to identify the obstacles impeding the development of infrastructure projects within the UEMOA zone. It emerged that **the area does not suffer particularly from a lack of funding, but rather from a lack of adequate project preparation**. The consequences of this deficient groundwork are:

- A clear lack of private sector enthusiasm for the projects presented;
- The appearance of projects that are not very bankable due to insufficient preparation and therefore encounter refusals/reluctance, particularly on the part of long-term debt providers;
- The proliferation of private sector demands for direct agreements in exchange for pre-financing studies, which according to the logic of project finance, should have been funded and carried out by the public sector.

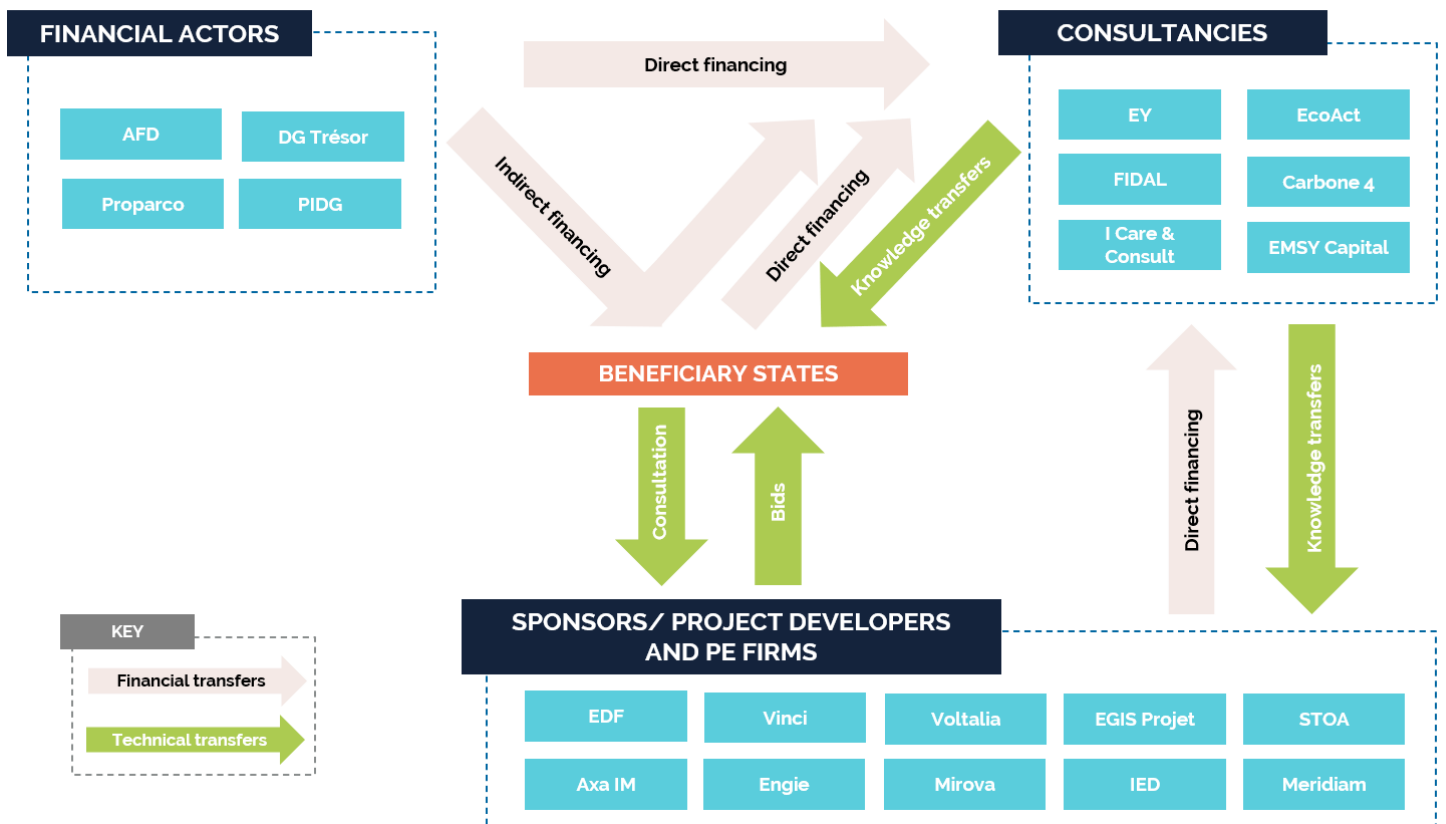
To address these challenges, BOAD and its partners have developed a financing mechanism that involves a cost-sharing arrangement amongst candidate private operators. Common Development Costs (CCD) can be defined as follows: any and all studies or analyses considered essential for a set of private companies to produce an optimal technical and financial offer that is not made available by the State. The objective of CCD funding by applicants is twofold: to increase the private-sector attractiveness of projects, and to ensure sufficient competition to maximise the added value of projects for States.

The underlying concept of the mechanism is as follows: **the sums contributed to CCD by each candidate will be reimbursed by the successful bidder thanks to an entry fee paid by the latter on the date the legal documentation of the project is signed.** The CCDs will therefore ultimately be financed by the financial flows generated by the project under consideration. If the State, for whatever reason, decides not to continue with the project, it will be required to reimburse all or part of the CCDs incurred by the candidates.

In order to ensure that each project attracts the greatest number of applicants, and to encourage them to pre-finance significant CCDs (thereby helping to de-risk projects and generate higher added value for States), **a guarantee mechanism has been established to enhance candidates' confidence that CCDs will be effectively reimbursed in the event of a unilateral termination of discussions by the State.**

TRANSACTION PHASE: TENDER PROCESS

STAKEHOLDER NETWORKS



DEVELOPMENT: CHALLENGES AND OPPORTUNITIES

The tender process consists of selecting the desired partner(s) for its implementation. This takes two main forms, the direct agreement and the competitive procedure. Contracts are awarded based on a delicate balance between technical, environmental and social standards and the financial competitiveness of the offers at hand. Here, consulting firms play a crucial role, supporting all parties to ensure the consistency, transparency and credibility of this phase.

At present, the selection procedures establish minimum technical, environmental and social standards, while the selection of a partner remains dictated primarily by financial criteria. As a result, French bids that boast cutting-edge French technical expertise as well as the highest environmental and social standards are often dismissed in favour of offers that are much less ambitious in this area but more financially competitive.

Raising the technical, social and environmental standards for selecting partners is a sine qua non condition for increasing the proportion of French industrial players and investment funds in sustainable international infrastructure projects. Financial players in particular, are in a position to lend weight to this approach by providing support to States in the context of these procedures.

AXA

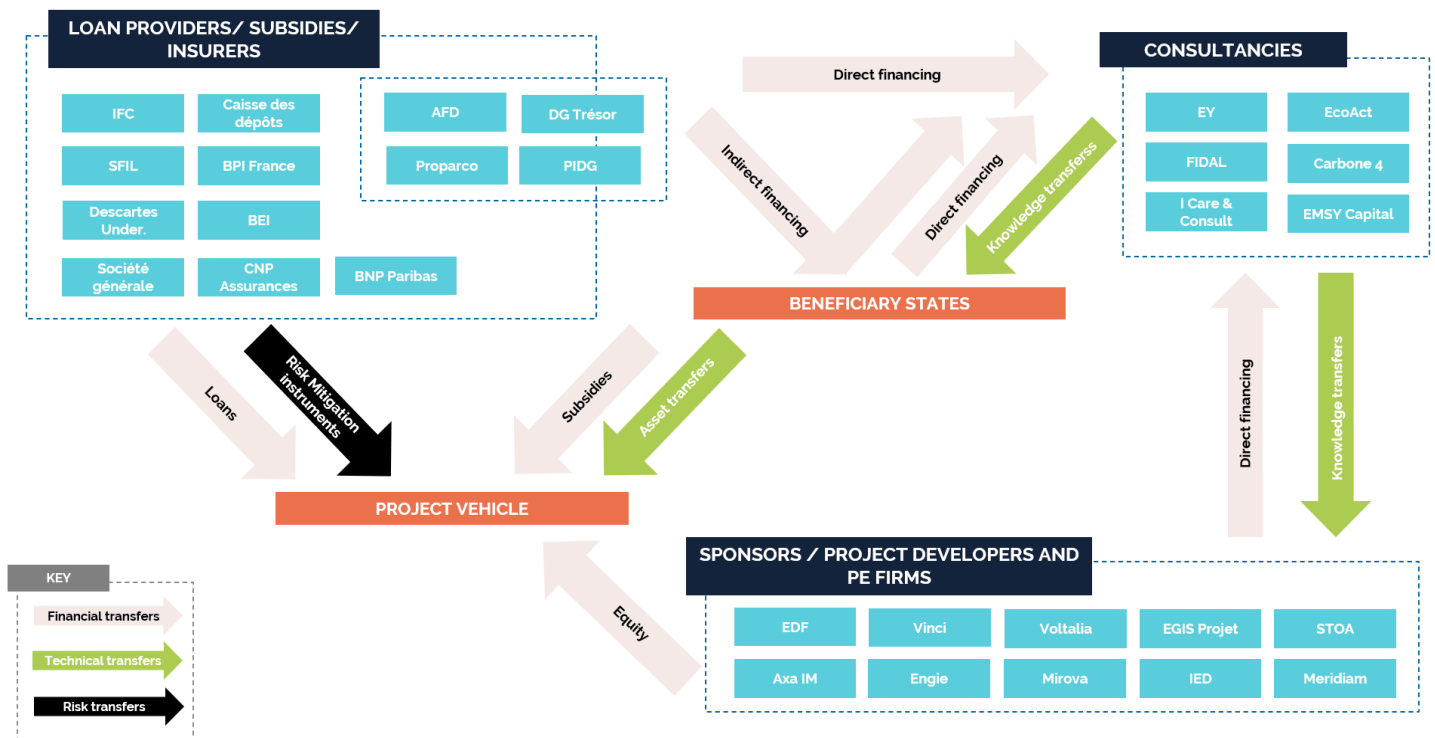
A major institutional investor in infrastructure projects worldwide, both as debt or equity, AXA finances projects located outside mature markets and more particularly in Africa through capital investment funds offered by third-party asset managers. AXA also participates in the private capital mobilisation program launched by the World Bank two years ago (MCP) aimed at financing essential infrastructure projects with debt. In both cases, AXA benefits from risk-protection mechanisms, such as MIGA-type guarantees, or credit enhancement provided by the World Bank in the form of a first-loss cover.

More specifically, Africa is not AXA's natural market due to the continent's geographic network, which forces AXA to delegate origination, follow-up and monitoring of investments to recognised players; these, however, remain too few in number for the financing of such projects to becoming a major funding channel.



TRANSACTION PHASE: FINANCING & COMPLETING PROJECTS

STAKEHOLDER NETWORKS



DEVELOPMENT: CHALLENGES AND OPPORTUNITIES

Mobilisation of the financing necessary to execute a project brings together a broad range of actors around the project company, each with complementary but sometimes competing offers in terms of the financing and risk coverage they provide. Finalisation of a project's financing structure entails, on the one hand, mobilisation of financing on the part of the tender winner, and also, in some cases, the beneficiary State, which must carry out public financial engineering.

One of the main competitive advantages of the Paris Financial Centre is the international expertise of its banking institutions and insurance-sector players, whether private or public/quasi-public. However, their ability to increase their financing activities for infrastructure projects in developing countries is currently limited by competition from public/quasi-public and bi-/multilateral development agencies and funds, which offer financial instruments addressing the same needs, but can do so under non-market conditions.

A coordinated approach focused on ensuring that long-term debt financing of projects by public/quasi-public and bi-multilateral actors is complementary—or even subsidiary—to that of private market players would allow the latter to significantly increase their presence in the field. Likewise, public/quasi-public and bi-multilateral actors could develop their efforts to ensure *viability gap funding* and *blended financing*, which are segments that do not compete with those addressed by private players, or only slightly.

CASE STUDY

BIOVÉA ENERGY

Signed in 2019, the BIOVEA 46 MW biomass power plant project jointly undertaken by MERIDIAM and EDF, in partnership with Biokala (a subsidiary of the SIFCA group), illustrates the ability of ecosystem players to join forces throughout the project's life cycle to increase their international footprint in the service of the SDGs.

PREPARATORY PHASE

- French institutions, both public and private, have been especially active in Côte d'Ivoire for many years, contributing to the development of a favourable environment as well as to the emergence of projects.

TRANSACTION PHASE

- The recognised international expertise of EDF and MERIDIAM, paired with Biokala's in-depth knowledge of local issues, enabled the trio to design a relevant and competitive offer, which the State then selected.
- Structured as a 25-year concession arrangement, this project contributes significantly to SDGs 7,8 and 9.
- By mobilising public (Proparco) and multilateral (Emerging Africa Infrastructure Fund) funding alongside private financing it was possible to cover the €200 million in investments this project required.

CONCLUSION

The Paris Financial Centre brings together actors from the entire value chain of infrastructure projects in emerging countries. This richness of the French ecosystem has an illustrious track record and continues to distinguish itself with the success of major international infrastructure projects.

However, the success of these actors could be further enhanced by eliminating the remaining obstacles confronting those operating in this landscape, namely the difficulty of coordinating initiatives, overlapping activities and issues of image and/or reputation. As such, three recommendations emerged from the mapping process:

- 1. Consolidating and coordinating initiatives to originate and structure projects;**
- 2. Refocusing the efforts of public and quasi-public entities on enabling greater participation from private sector finance;**
- 3. Building a 'brand identity' that reflects the quality of projects developed within the Team France ecosystem.**

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