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Introduction

Making development investible requires a two-pronged strategy: enlist the state into risk-proofing development assets and accelerate the structural transformation of local financial systems towards market-based finance that better accommodates portfolio investors. A de-risking state creates a safety net for investors in development assets and protects their profits from demand risks. Typical risks include political risks attached to (progressive) policies that would threaten cash flows, including nationalization, higher minimum wages and, critically, climate regulation, and from liquidity and currency risks. These risks are transferred to the balance sheet of the state. De-risking of projects is necessary to enable private sector participation in infrastructure projects. This paper gives a synopsis of the paper by Daniela Gabor, 2021. The paper gives some useful insight in creating a healthy project pipeline. It requires that the state takes an active role in de-risking projects and development Banks like IDBZ facilitates the creation of infrastructure Asset Class.

Infrastructure Gap

In 2017, the World Bank promised global investors US$ 12 trillion in market opportunities that include 'transportation, infrastructure, health, welfare, education', minted into bankable/investible projects via public–private partnerships (PPPs).

Development as De-risking

Development as de-risking starts with the question of how to construct investible development assets. Development Banks should be satisfied that people are willing to pay to use an asset for infrastructure project to become bankable. This is a common criterion for project to be bankable they should have demonstrable cashflow that are sustainable and there should be effective demand. However, this is not enough as institutional reforms are critical in de-risking projects.

Making development 'investible' requires a two-pronged strategy:

- reorient the fiscal and monetary arm of the state into de-risking development asset classes, to ensure steady cash flows for investors; and
- re-engineer local financial systems in the image of US market-based finance to allow portfolio investors easy entry into, and exit from, new asset classes.

The emerging WSC is a template, but not a straitjacket. It requires local political coalitions to consolidate around the de-risking state, to deliver on its demands and to diffuse political contestation.

The UN-supported Global Investors for Sustainable Development Alliance (2020) called for 'reinvigorating PPPs to a degree not experienced since WorldWar II—and a degree that has perhaps never been seen in peacetime'. Similarly, the private finance hub of the UN Climate Change conference (COP26) called for 'bespoke solutions' for developing countries that include 'PPPs, pipelines of bankable projects, and new market structures, to facilitate commercially viable opportunities for sustainable investment' (Carney, 2020).

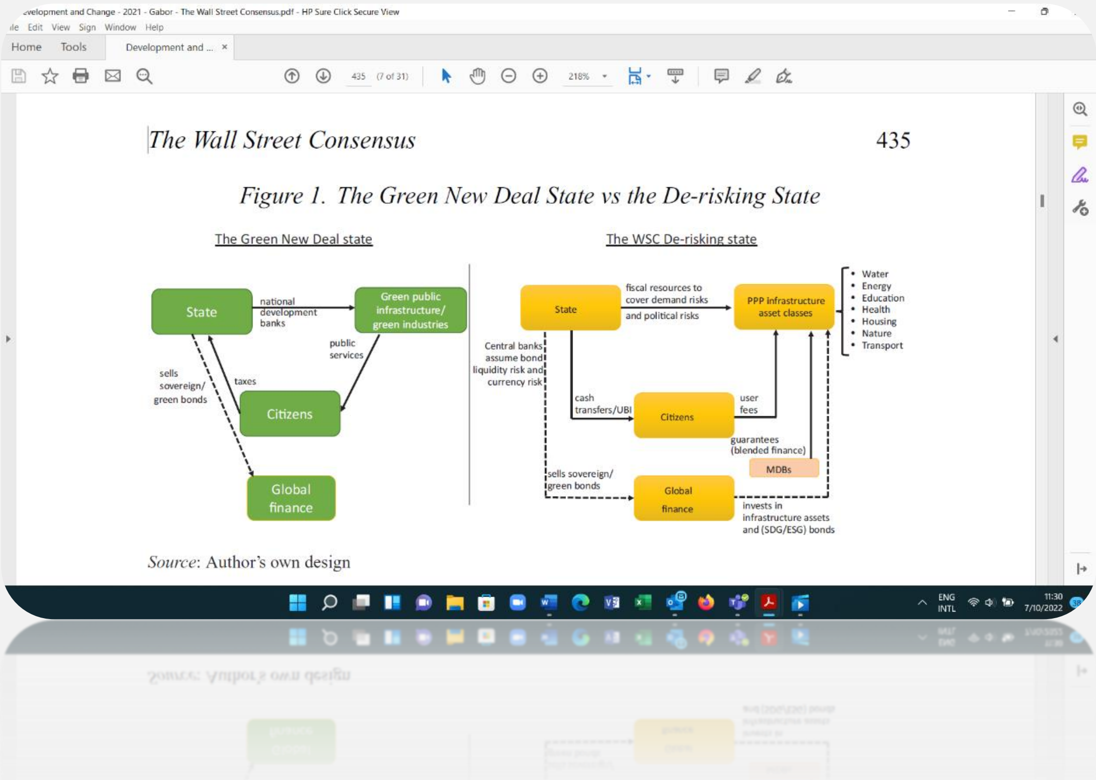
DEVELOPMENT AS DE-RISKING: A FRAMEWORK

The rhetoric of risk-sharing morphed into de-risking when Deutsche Bank, working with the UNDP, proposed an innovative de-risking partnership for renewable energy markets in the global South (Deutsche Bank,2011). It outlined two modalities for public de-risking: regulatory and financial. Regulatory de-risking targets regulatory barriers that obstruct private producers (dismantling vertically integrated, state-owned energy monopoly utilities, redirecting public subsidies from fossil fuel to renewable energy producers via feed-in tariffs, guaranteed grid access).

Financial de-risking captures a range of public subsidies and guarantees including direct grants, tax relief or debt-based instruments (preferential credit, loan guarantees, first-loss equity tranches in private equity funds, green bonds).

To attract such investors, the UNDP argued, countries with low sovereign ratings such as Mongolia or Kenya needed more than regulatory de-risking. The poorer the country, the more financial de-risking (that is, transfers of risks to the state) was required. Thus, the inclusion of institutional investors, from hedge and pension funds to insurance companies and sovereign wealth funds, and asset managers as critical stakeholders, upgraded the de-risking renewables strategy into a full-blown, ambitious 'development as de-risking' paradigm. ***Given the position of Zimbabwe, the Bank should pursue these de-risking techniques.***

Figure 1: The Green New Deal State vs the De-risking State



Institutional investors argue that more than half of infrastructure projects in emerging countries are not investible because their risk architecture does not create their preferred cash flow characteristics. *In short, most infrastructure are not bankable. This is a challenge the Bank has faced, for instance with water and sanitation projects and with some energy projects.*

The de-risking state can be understood as a project that seeks to extend the infrastructural dependence of the state on private finance. The list is ambitiously long: water, housing, energy, health, education, transport, and even nature can be transformed in asset classes, a code for creating de-risking partnerships. Infrastructural power is most obvious where asset managers are directly involved in organizing and running PPP projects. Take the French asset manager Meridiam. As of December 2020, its Meridiam Infrastructure Africa portfolio, with over EUR 500 million in PPP assets, included a hospital in Ivory Coast, toll highways in Kenya, and renewable energy projects in Senegal, Ethiopia, Nigeria and Ivory Coast. *This is quite interesting portfolio which points to the need to create a healthy multi-sectoral project pipeline of bankable projects to utilise this innovative project financing model.*

The key to its success, Meridiam argues, lies in its ability to strike de-risking partnerships with African governments that transfer a broad range of risks, including currency risks, to the public balance sheet (Gabor and Sylla, 2020). These partnerships go beyond de-risking, since asset managers' direct involvement in running PPP projects renders them important stakeholders in policy deliberations that relate to their infrastructure holdings.

Table 1, contrast the Washington Consensus principles to Wall Street principles.

Table 1: The Ten Commandments of the Washington Consensus and the Wallstreet Consensus[1]

Washington Consensus	*Wall Street Consensus*
1. Fiscal Discipline and Central Bank Independence	1. Fiscal Discipline and Central Bank Independence.
2. Public spending: primary education, primary health, public infrastructure.	2. Public spending: de-risk new asset class.
3. Tax reform: lower marginal rate, broader base.	3. Sustainability reform: articulate Environmental and Governance ratings with SDG priorities
4. Macro-finance policy: replace development banking with market-based interest rates.	4. Sustainable local currency bond finance: engineer market-based finance, priotise secrutisation, support bond prices (market maker of last resort.).
5. Exchange rate: either market determined or competitive according to equilibrium theories; capital account liberalisation.	5. Hedging facilities and swapper of last resort to de-risk currencies for (institutional) investors.
6. Trade liberalisation	6. Financial globalisation no capital controls.
7. Foreign Direct Investment Promotion	7. Portfolio flows promotion
8. Privatisation	8. Privatisation of pension funds for domestic resource mobilisation (Privatisation) PPPs for infrastructure as an asset class.
9. Competitiveness enhancement deregulation.	9. Policy de-risking – removal of regulation barriers to PPPs and market-based finance.
10. Property rights	10. Surveillance capitalism/ Screen New Deal.

The WSC preserves the formal institutional macro-architecture of the Washington Consensus: an independent central bank targeting inflation and a ministry of finance/treasury fiscally disciplined by bond markets. The PPP contracts specify the distribution of risks between the public and the private sector, while the state's de-risking commitments are recorded as contingent liabilities, and do not count as public debt.

Demand risks are a critical feature of PPP-based development asset classes. To de-risk such projects, to render them 'investible', the state assumes demand risk: it guarantees, via PPP contracts, a certain level of demand.

In the Vietnam InfraSAP, the World Bank applauds the PPP law that moves the following onto the public balance sheet: offtake risks for private energy producers, currency convertibility and inflation

[1] Source: ibid.

adjustment, and termination payment obligations, across ‘transportation; street lighting; water supply; waste treatment; power plants and transmission; commercial infrastructure; social infrastructure facilities for health care, culture, sports, industry, and agriculture’ (World Bank, 2018b: 23).

There are challenges of power off-take in energy projects. For instance, in Nigeria, the PPP contract committed state-owned Nigeria Bulk Electricity Trading to buy Azura’s output, although it quickly turned out that Azura’s installed capacity could not be absorbed by the dilapidated Nigerian grid energy infrastructure.

Currency de-risking is ubiquitous in PPP contracts, to ensure that the profits of private PPP operators can be converted into dollars or euros and repatriated at a pre-agreed exchange rate (Gabor and Sylla, 2020).

Conclusion

This paper provides some vital lessons for Bank in project development and resource mobilisation. It also emphasises the active involvement of the state in ensuring that PPPs are successful in attracting private players in infrastructure development. The Bank should reinforce its engagements with Government and seek its participation in de-risking projects. Urgent action is required in transport, water and sanitation and energy. The challenges faced in third world countries seems to be similar hence the paper offers some solutions which need to be aligned to the Zimbabwean context.