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Zanbato and Sokoni, digital marketplaces for infrastructure

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Introduction

Infrastructure development is critical in creating economic growth and jobs. In a time of constrained public spending and growing financing needs, attracting and retaining private sector investment in the infrastructure sector is key. However, infrastructure investments may present specific aspects that discourage potential private investors. Fragmentation of the market, lack of transparency of investment opportunities and a shortage of information and quality data are among the factors that make it more complicated for investors to evaluate the financial risk of embarking in a new transaction. This is especially true for greenfield opportunities and new infrastructure assets, such as those related to renewable energy.[1] Public and private project sponsors have traditionally presented opportunities in an old-fashioned word-of-mouth format or through costly intermediaries (brokers and bankers), with investors having to spend considerable time and energy accessing information on potential bankable investment opportunities.

This case study focuses on two digital platforms, Zanbato[2] and Sokoni,[3] since they aim to respond to high market fragmentation and high information asymmetries in an innovative fashion. Both platforms are run by Zanbato Inc., a Silicon Valley–based independent software company founded in July 2010. Zanbato supports organizations in promoting their projects and connecting with new financiers. Additionally, investors have instant access to a global database of investment opportunities targeted to match their investment preferences.

Sokoni, which in Swahili means "marketplace," is also a Zanbato Group initiative, in partnership with the African Development Bank (AfDB). It specifically targets buyers and sellers of African infrastructure investment opportunities, as well as potential donors and global capital providers interested in investing in Africa. The African scenario is indeed very interesting: according to the recently concluded Programme for Infrastructure Development in Africa (PIDA) study,[4] the GDP of African countries is expected to multiply six-fold by the year 2040, assuming an average economic growth rate of 6% a year, along with increasing levels of education and technology absorption.

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[1] For more analysis, see P. Schwabe and M. Mendelsohn, National Renewable Energy Laboratory, Felix Mormann, Steyer-Taylor Center for Energy Policy and Finance, Stanford University and Douglas J. Arent, Joint Institute for Strategic Energy Analysis, 'Mobilizing Public Markets to Finance Renewable Energy Projects: Insights from Expert Stakeholders' (2012).
[2] https://zanbato.com
[3] https://sokoni.com
[4] PIDA, Africa's Infrastructure Outlooks 2040.

Similarly, several other institutions forecast a positive trend in Africa in the coming years.[5]

Nevertheless, the lack of effective infrastructure on the continent is one of the most severe bottlenecks for economic growth and social development. Infrastructure spending in Africa amounts to only $45 billion per annum, half the required amount. Efficiency gains could raise an additional $17 billion, but even then, an annual funding gap of $31 billion would remain.[6] This infrastructure deficit cuts per capita growth by 2% annually.[7] To bridge this financing gap, resources have to be sought beyond traditional sources, and Zanbato and Sokoni are looking to help institutional investors, private equity funds and infrastructure funds play a more active role on the continent.

Lack of access to data and knowledge about investment opportunities are considered to be particularly significant in the developing world and contribute to a misperception of risk when investing in infrastructure projects in Low Income Countries (LICs) and Medium Income Countries (MICs). Even if the risk perception of most LICs and lower MICs is improving, many investors still consider them unsafe places to invest: more accurate information, data and knowledge play a critical role in narrowing the gap between reality and misperception,[8] resulting in lower risk and therefore lower cost of capital for those countries.

The platform

The platform[9] provides investors with access to investment opportunities in greenfield or brownfield projects uploaded by members raising capital, syndicating, and seeking exits. Specifically, project sponsors can filter their search for capital providers by their self-stated geographic and sectoral preferences, target bite size, and preferred governance structures. Likewise, investors can filter along the same geographic and asset characteristics. And when investor and project-sponsor criteria align, a match is triggered in the system and the two parties are connected.

Zanbato responds to the exigency of privacy by allowing sellers to completely control the disclosure of sensitive information and give confidential information only after the approval of potential capital providers' additional access. Specification of the projects can be fully open, anonymous or restricted to targeted private distribution. It is for instance possible to post procurement notices/track procurement announcements, contact partners in projects, organize co-bidding. There is a tab specifically for Environmental, social, corporate governance and impact indicators. A data room allows members to create marketing material and post documents and data in view of due-diligence.

As of February 2013, 661 organizations, of which 298 were capital providers, were registered on the platform, resulting in approximately $12.5 trillion in Assets Under Management (AUM) across all members' pools of capital. Among all the organizations, 878 individuals received permission to post data - therefore most groups have one representative - out of 1688 requests. In the period since mid-2011, 64 deals have been posted, for a total value of $26.6 billion in investment opportunities. The

[5] See, for example, Deutsche Bank, 'Africa's frontier markets: growing up' (2011) or McKinsey Global Institute, 'Lions on the Move: the progress and potential of African economies' (2010).
[6] Africa Infrastructure Knowledge Program, 2011.
[7] World Bank, Infrastructure Strategy Update FY2012-2015.
[8] Roland Berger Strategy consultants 'Misperception of Risk and Return in Low Income Countries', G20, Los Cabos, Mexico (2012).
[9] From now on, the term platform will indistinctly refer to Zanbato or Sokoni given their technological similarities.

number and the value of deals closed thanks to the platform are confidential.

The investors on the platform are from different regions - mainly the US, China, Europe and Brazil - and range from banks, infrastructure and private equity funds to pension funds, insurance companies, sovereign wealth funds and hedge funds. Interestingly, many family offices, often not easily reachable, are signed up to the platform as well, providing governments looking to sponsor a project with a ready source of capital that they would not otherwise have access to. Many Asian and Middle Eastern investors are present in the form of sovereign wealth funds and family funds as well. Joining the platform costs nothing since the focus is on building up a valuable network. The business model for the future foresees a fee – ranging from 5 to 75 basis points – only in the event of a closed deal.

Sokoni's distinctive elements

While Zanbato has been running since 2011, Sokoni is still in demo phase and will probably launch in mid-2013. Once Sokoni is active, all Zanbato members will have access to Sokoni.[10] Sokoni emerged as a concept through various iterations between Zanbato Group and AfDB Senior Management. In contrast to Zanbato, Sokoni is a joint-venture of the two organizations: while Zanbato brings its technology background, the AfDB holds a high degree of expertise in African infrastructure financing and relations with the major players in the continent. Activities are budgeted at around $10 million to be funded through a Multi Donor Trust Fund for a first development period of three years. At the end of the third year a revenue model resembling the one used by Zanbato should be operative.

The technology and many features used by Sokoni are very similar to those used by Zanbato, at least in this first phase. Nevertheless, for Sokoni the customization will be different and new software will be released every week in response to client feedback. For example, the description of the projects will be supported by macroeconomic data and past deals in the country of reference. A team of business developers with expertise on the African market will support activities and client relations.

The establishment of Sokoni and the ownership of the project by AfDB has already brought forth two relevant results that may help African development. Firstly, all 51 PIDA projects will be posted on the platform. The "Study on Programme for Infrastructure Development in Africa" (PIDA)[11] constitutes a major initiative, on prioritized regional and continental infrastructure investment programmes over the short, medium, and long term, up to the year 2040. It is endorsed by African Heads of State and backed by key donors and the international community. Its action plan between 2012 and 2020 lists 51 infrastructure projects that are actionable and that promote sound regional integration. The cost is estimated at around US$68 billion through 2020, while funding sources identified so far only amount to around US$30 billion. The hope is that Sokoni could contribute to leverage the resource mobilization.

Secondly, on 4 November 2011 G-20 leaders in Cannes, France, supported the recommendations of the High-Level Panel on Infrastructure (HLP)[12] and the MDB Infrastructure Action Plan[13] to

[10] It is worth mentioning that Zanbato lists already projects based in Africa.
[11] http://www.pidafrica.org
[12] High Level Panel on Infrastructure recommendations to G20 – final report (2011).

"increase quality of information available to investors, through the establishment of online regional marketplace platforms to better link project sponsors and financiers, such as the Sokoni Africa Infrastructure Marketplace".[14] The recommendations of the two above-mentioned reports aim at ensuring a strong and sustainable supply of bankable projects, unlocking the project pipeline, contributing to building an enabling environment, increasing private sector involvement in infrastructure financing. The Sokoni initiative is aligned to these recommendations and has the potential to help to mobilize capital to narrow the African infrastructure-funding gap in the world.

Conclusions

It is not possible at this stage to predict whether Zanbato and Sokoni will have a significant impact on the infrastructure market. However, some considerations could be made. The platform differentiates itself from similar existing internet portal initiatives attempted in the past. It presents a lower risk since some of these initiatives were developed almost 10 years ago, much ahead of the time users felt confident to use and share information online. The cost of technology development in 2012 is radically lower than equivalent functionality in the recent past. Furthermore, the investment environment in most of the African markets has substantially improved in the last years.

Another significant difference is technological expertise. The Zanbato Group is mostly constituted of software engineers with backgrounds in Silicon Valley companies such as Facebook, Skype, LinkedIn and Apple. In addition, approximately one-third of the staff has a background in infrastructure financing and business development. Zanbato responds to several common problems of these types of platforms:

-Scalability: information is entered by users, similar to how this is done on Facebook and LinkedIn.
-Standardization: each project has a standard profile, but the templates are flexible to handle a variety of different infrastructure sectors and stages.
-Accuracy: projects must be updated every 4–6 months by the sponsors or else the projects get archived.
-Matchmaking: matchmaking happens based upon both the stated preferences of each capital provider and the similarity of each project to a capital provider's prior commitments.

Zanbato and Sokoni have a specific potential for greentech and, more broadly, for any new tech market. The framework for financing green investments is in its early phase; project developers and investors do not know each other as well as in other more traditional investments. The market tends to be very fragmented and characterized by a much larger number of companies than other GHG-emitting energy markets. In these circumstances, the platform indeed has a role to play in connecting players on both sides. At present there are ten greentech projects posted on Zanbato summing up to a value of $213 million dollars. One deal has been closed in an emerging market. The most common technologies are solar, wind and biofuel.[15]

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[13] Infrastructure Action Plan submitted to G20 by the MDB Working Group on Infrastructure which comprised the African Development Bank (AfDB), Asian Development Bank (AsDB), European Investment Bank (EIB), Inter-American Development Bank (IADB), Islamic Development Bank (IsDB), and World Bank Group (WBG); (2011).
[14] Cannes G-20 Summit final declaration, 04 November 2011
[15]Specifically for Sokoni, it is worth noticing that Rick Needham, Director of Green Business Operations at Google, said: "Over the last two years, Google has invested over $850 million in renewable energy projects, primarily in the United States. We view Africa as an

The attention given to Sokoni by the G20 and the development banks suggests that many key players support the belief that the platform can broaden the opportunities for the infrastructure market and provide more information and connectivity and therefore more transparency and competition. An online market could enable more secondary trading, alleviating the problem of the illiquidity of the market. As for transparency, the platform provides a clear audit trial of the transaction process concerning a project, making it easier for those with access to the data to double-check information and exercise pressure on countries and companies to be more transparent.

On the other hand, the platform faces several risks. Zanbato will have to be financially sustainable in the long term. Even if the value of AUM and of investment opportunities are impressive, organizations may like to be present on the platform but not necessarily to try to close deals through it. The vitality of Sokoni will also depend on the ownership of the project by the AfDB in the coming years and on the availability of funding - $10 million for the next three years. After that period, Sokoni will have to rely on its own commercial viability and achieve sufficient scale to sustain the model.

The success of the platform may be challenged by different elements. Individuals operating in consolidated investment frameworks could prefer to limit their exposure and contact their counterparts directly. Despite the privacy measures taken by the Zanbato group, investors and project sponsors may be extremely cautious and hesitant about uploading information that could be seen by other stakeholders such as competitors. Relationship and trust are key elements in the financing of infrastructure assets and may constitute a barrier to entry, particularly in certain cultures. Particularly in developing markets, infrastructure investments require an extensive network of advisors to ensure political, currency, inflation and credit risks are monitored.[16] The Zanbato group is certainly aware that finance and banking are a relational activity and designed the software to complement intermediaries and bankers' work. There will always be a role for consultants to carefully analyze whether a project is suitable for an investor and they will actually have an advantage by using the platform.

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important market and look forward to investing in its future. A digital platform that allows us to learn about infrastructure investment opportunities would be great for us and others as we try to more quickly and efficiently identify those opportunities".

[16] For further analysis, see R. Sharma, 'The Evolution of the Infrastructure Financial Product', chapter 3, DPhil Thesis, University of Oxford (2012).

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