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Accelerating Securitization in Africa to Finance the SDGs: Future Flow Securitizations

ALISON HARWOOD

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INTRODUCTION

Securitization is a key instrument for mobilizing the estimated $2 trillion to $4 trillion of private capital needed annually to help finance the Sustainable Development Goals (SDGs), primarily because it can create large-sized investments with risks and returns that can appeal to institutional investors.[1] Africa and other emerging market countries (EMCs) are where SDG financing is most needed. Yet securitization markets are underdeveloped despite many attempts to grow them over the years.

Most attempts have involved loan-based securitizations, which are the most common securitizations in developed markets. Future flow securitizations (FFS), which securitize cash flows from a business rather than a loan to that business, may be a better place to start for some EMCs. They can be less complex, more transparent, and easier to do.[2]

The good news is that many SDGs—such as those for renewable energy, toll roads, and education—generate the types of future cash flows that can potentially be securitized and borrowed against. And focusing on FFS may mean faster demonstration transactions and faster market growth. That can potentially also lay important groundwork for developing more traditional loan-based securitizations over time.

Financing the SDGs is urgent. The institutional investor base interested in SDG investing is growing rapidly, and governments, including the European Union, are creating frameworks for how to grow securitization prudently. COVID-19 is highlighting inequalities throughout Africa, strengthening the case for new ways to finance the SDGs, and also showing that large-scale, creative, and collaborative change can happen when needed. That urgency and deliberation need to be applied to accelerating securitization's growth.

This paper reviews why FFS can be an important starting point, part of the initial and ongoing mix of securitization deals done as countries build their markets. It begins with an overview of securitization, then discusses the benefits of FFS, includes examples of their emerging use in Africa, and concludes with suggested policy priorities for creating conditions amenable to well-functioning securitization markets and for accelerating their development.

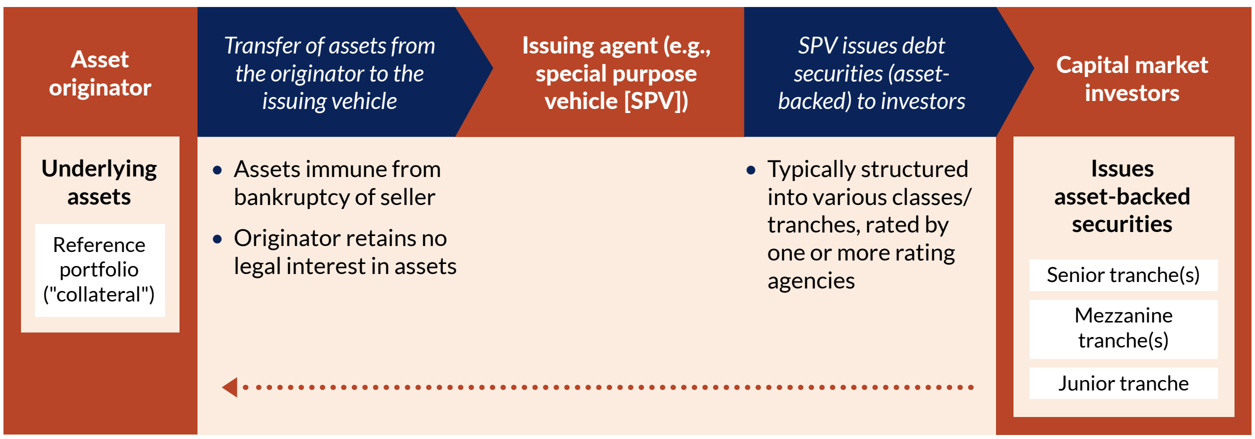
1. Vanessa Fajans-Turner, "Filling the Finance Gap," United Nations Association–UK, June 19, 2019, https://www.sustainablegoals.org.uk/filling-the-finance-gap/.
2. This paper discusses Future Flow Securitizations as part of the broader concept of securitizing flows related to a business' operations rather than loans to that business.

OVERVIEW OF SECURITIZATION

Securitization allows a company, a financial institution, or the government to use the revenue streams it receives from underlying assets to raise financing on better terms than it could otherwise achieve. With a securitization, an entity sells assets it owns—loans, future receivables, tax receipts—to a Special Purpose Vehicle (SPV) without recourse. The SPV then pools the assets and issues a bond collateralized by them to investors. The interest and principal on the bond are then paid for from the money generated by the assets (called the underlying collateral). By setting up the SPV, the assets are legally and solely dedicated to paying off the bond. The upfront proceeds from the sale are given to the original entity (called the originator because it originated the assets and the securitization), which can then use them as needed.

In this way, securitization allows borrowers to turn illiquid assets into ready cash today. This is especially important during times of rapid technological and other changes when borrowers need to raise finance to transition to new ways of operating. And for regulated entities like banks, securitization provides capital relief—assets are sold to the SPV and removed from the balance sheet, freeing up capital to make new loans. This relief was a major reason for its growth in the 1980s in the US.

Figure 1: How Securitization Works



Source: Adapted from International Monetary Fund (2008)

Main Parties to a Securitization

- **Originator:** Generates the assets and uses the bond proceeds
- **Special Purpose Vehicle:** Buys and packages the assets and issues a bond backed by those assets
- **Intermediary:** Structures the transaction and facilitates the sale of the bonds to investors
- **Investor:** Purchases the bonds backed by the assets

In many ways, securitization requires a new way of thinking about finance. Because the assets' cash flows are used to pay the bondholders, the credit quality of the bond is based on the quality of the underlying assets—that is, their ability to produce income to the bondholder—not on the originator's balance sheet or profitability. And the cash flows being securitized come from potentially thousands of payors, so the credit risk is very well diversified (think homeowners repaying mortgage loans, businesses making utility payments, or drivers paying tolls).

The bond's credit quality can also be improved with various types of internal and external credit enhancement. Tranches, for example, are a key internal credit enhancement. A typical securitization includes three tranches—a senior investment-grade tranche, which has the lowest risk and lowest return, a mezzanine tranche with middle risk and return, and a junior or first-loss tranche with the highest return but the greatest amount of risk. Cash inflows are first paid to senior investors and then down the line. Conversely, defaults are first assumed by junior tranche investors, and then on up, which credit enhances the more senior tranches. Other types of internal credit enhancement include over-collateralization of the pool, excess spreads, and cash reserve accounts. External credit enhancements, like third-party guarantees, are also often used.

The underlying premise—and the beauty—of securitization is that essentially any asset that produces a recurring cash flow and has a performance history can, in theory, be securitized. Focusing the credit decision on the strength of an asset's cash flows is especially important in emerging market countries where credit cultures are often underdeveloped, and only the largest, best-known companies typically can access capital markets.

Most securitizations involve bank loans, particularly mortgages (mortgage-backed securities or MBS) and consumer, auto, and business loans (traditional asset-backed securities or ABS), and most efforts to develop securitization have focused on these areas. This focus partly reflects securitization's history, which started in the US in the 1970s and 1980s, mainly to raise affordable financing to create affordable housing—a major US public policy objective. The tightening of bank capital adequacy requirements in the 1980s pushed banks to look for more flexibility to manage their balance sheets, gain new funding sources, and raise more fee income. Securitization provided banks access to institutional investors through capital markets and the ability to meet capital, loan concentration, and other regulatory requirements by moving loans off the balance sheet (as they were sold without recourse back to the banks).

FUTURE FLOW SECURITIZATION

FFSs are securitizations based on cash flows from an originator's operations (such as airline tickets, tolls from roads, utility payments, and tax receipts to a government) and where most of the flows are generated in the future. In an FFS, the cash flows that back the bond come from the normal course of a company's operations or receipts to the government.

The general process is similar to more traditional loan securitizations: The originator transfers the right to its cash flows to an SPV, the SPV issues a bond backed by those flows, investors buy the bond, and the proceeds are made available to the originator upfront. And again, just like in loan securitizations, the securitized cash flows are dedicated to paying off the bond, and the originator can make no claims on them once they are sold to the SPV.[3]

For example, a small company with a commensurately small balance sheet but with strong performing cash flows—like a leasing company with strong lease payments or a solar energy provider with strong utility payments—can access the capital markets by securitizing those flows, something it could not do on the strength of its small balance sheet. This access is particularly important for firms like renewable energy providers that can tie up their capital running their operations. Securitizing those revenues can give them the cash they need to expand, upgrade, and provide improved services.

Future flow securitizations are not new to emerging market countries. They were used actively in the 1970s and 1980s, particularly by Latin American governments, to raise hard currency, often at rates below the "sovereign ceiling" (the rate at which the government could borrow) because they were based on cash flows with strong, documented performance and structured in ways that did not create fiscal pressure. Later, several countries used them at the sovereign level to get access to global capital markets and hard currency during crises. Examples include Mexico in the 1994 crisis, East Asia in 1997, and Russia in 1998—all of whom securitized receivables from oil, exports, and other commodities that generated hard-currency revenues. Mexico did the first future flow securitization in 1987 by securitizing telephone receivables. It raised almost US$6 billion between 2001 and 2005.[4]

3. Future flow securitizations are technically asset-backed securities. In this paper, ABS is used to mean a securitization of mainly loans.

4. Many financial institutions continue to raise funds by securitizing Diversified Payment Receipts (DPRs), which involve cross-border payments from activities like remittances, trade receivables, and international calling cards. Remittances are reaching levels that rival foreign direct investment, according to the World Bank Migration Data Portal, www.migrationdataportal.org.

More recently, FFS has been used in EMCs to finance development, including to support the global "green agenda." Indonesia, for example, has used FFS to help fund its extensive infrastructure needs, which the government cannot afford to cover fully. It has securitized toll road receivables by a major toll road developer and operator, and in 2018, the Indonesian national airline securitized cash flows from one of its major routes. Brazil has securitized future payments from water and electric utilities. China has done numerous deals secured on receivables from wind turbines and other renewable energy equipment leasing, public transport, and water and waste management.[5]

FFS IMPORTANCE FOR THE SUSTAINABLE DEVELOPMENT GOALS

The unique characteristics of FFS discussed above not only make FFS a potentially important financing vehicle in itself for the SDGs, particularly in developing countries, but the development of the FFS market can help accelerate securitization's growth where it is not well developed, particularly in Africa.

First, FFS can be quicker and easier to put together and less costly in time and money for all parties to the transaction. Cost has been a factor turning issuers and investors away from securitization over the years. Institutional investors in Africa, who likely will finance much of securitization's early stages, are looking for new instruments to diversify their portfolios. But at the same time, many are conservative by nature and new to securitization; they prefer simple and transparent structures. In loan-based securitizations, building pools and creating waterfalls of different tranches can get more complicated than with FFS. Therefore, starting with FFS might be more natural.

Moreover, many investors still have some jitters from the 2008 global financial crisis, with concerns that originators might fill asset pools with unwanted assets. With FFS, as compared to loan securitizations, the ability to see through to an operating business behind a deal provides more tangibility about the assets backing the bond and can give these investors comfort.

In addition, while banks are clearly at the center of emerging market financial systems, there are some benefits to having transactions that are not based on bank loans. Some banks in Africa have concentrated lending portfolios, which can delay lending to new areas created by the SDGs and building portfolios that are large enough to securitize. In some cases, the best loans for a securitization may be ones the bank prefers to hold onto. Moreover, FFS are not subject to bank regulations and banking sector stresses that have constrained the growth of loan-based securitization in the past (such as new

5. "Green Securitisation: Unlocking Finance for Small-Scale Low Carbon Projects" (Climate Bonds Initiative, March 2018), https://www.climatebonds.net/files/reports/green_securitisation_cbi_conference_final.pdf.

capital adequacy requirements, directed lending policies, banking crises, and lack of clarity about bank regulation concerning securitization).[6]

As noted above, sovereigns have used cross-border FFS to access international capital markets. Sovereign FFS also can be a good starting point for domestic markets. They can offer sizable, low-risk transactions with important demonstration effects for the overall market.[7] Governments will have large flows, and many of those flows will have performance histories or involve an activity, like taxation, whose cash flows can be estimated with some certainty. They can be good candidates for promoting securitization.

Many SDGs cover activities with revenue streams that potentially could be securitized using FFS (see Table 1). There are, for example, tolls for financing road infrastructure, renewable energy utility payments for financing renewable energy, electric automobile leases to enhance the climate agenda, water utility payments to make water services more affordable and consistently available, tuition payments for making education more affordable and accessible, and metro and bus ticket receivables to make it more cost-effective to get to places of employment. These activities also contribute to the climate agenda if they use climate-friendly energy.

Table 1: SDGs and Potential FFS Revenue Streams

Sustainability Pillar	Main SDG	Activity	Assets to Securitize
Climate Change	6: Clean Water & Sanitation	Renewal energy, including solar, wind, and hydro power plants	Utility payments
	7: Affordable & Clean Energy		
	13: Climate Action		
Transportation	3: Good Health & Well-Being	Transportation, including hybrid, electric, and other clean technologies	Toll road receipts; bus, taxi, and metro ticket receipts; auto leases
	9: Industry, Innovation, Infrastructure		
	11: Sustainable Cities		
Health & Well-Being	4: Quality Education	Universities	Tuition payments

Source: Milken Institute (2020)

6. Commodity producers who typically relied on bank financing needed to look for new financing sources after the 2008 crisis, when bank lending constricted. Securitizing their receivables was one option. See Alice Birnbaum, "The Rise of Alternative Financing Strategies: Trade Receivables Securitization," Brown Brothers Harriman Commodity Markets Update, August 29, 2017, https://www.bbh.com/en-us/insights/the-rise-of-alternative-financing-strategies--trade-receivables-securitization-23516.

7. Having a sufficient performance history is a challenge for securitizations in new markets and activities. For FFS, some gaps in performance history can be covered through credit enhancement like over-collateralization, or the industry's history or the history of comparable firms in the industry might be used as a proxy. Some gaps will be too large and expensive to cover with credit enhancement. A securitization will have to wait until sufficient performance data can be compiled to make the transaction economically attractive.

Like other securitizations, FFS can create investments with risk and return characteristics that targeted institutional investors (like pension funds and insurance entities) are looking for by building pools based on diversified payers, subordination, and credit enhancement. Many of these investors are conservative by nature and experience and want low-risk assets, which securitization can provide with proper structuring. The ability to reduce risk is fundamental because financing the SDGs involves investing in new technologies and sectors. For foreign investors, financing the SDGs also involves new geographies and currencies, where the risks and returns are unknown and perceived to be high.

In addition, securitization's ability to create large-sized investments by aggregating assets and issuing large-sized bonds against them is important for financing the SDGs because many SDG borrowers are small and medium-sized enterprises (SMEs). Like any securitization, an FFS can be scaled by doing deals with large originators (including large-scale government flows like tax receipts, pooling across originators, and creating pooling vehicles). Pooling borrowings creates larger-sized offerings and more scaled financing. And by structuring and aggregating assets, securitization allows institutional investors to diversify into these kinds of borrowers and sectors that would otherwise be off-limits because the investment is too small or too risky on its own. Governments can use proceeds from securitized flows like taxes to finance SDG areas whether the flows come from SDG areas or not.

Finally, blended finance is critical for scaling SDG financing, and securitization is, by nature, a blended finance instrument. Blended finance happens when investors with different risk/return interests come together to finance a transaction. As described for a securitization transaction, investors willing to take a higher risk can invest in a more junior position of the capital stack, making it possible for the upper level(s) to achieve the risk/returns they need to participate.[8]

One drawback with some FFS is that the funding cost benefits can be lower than traditional securitizations because an FFS is tied to the business generating the receivables and dependent on its ability to produce cash flows in the future. As a result, FFS typically will increase an originator's rating by about two notches compared to three to four notches for an ABS. But this is not always the case. Nigeria's Primero BRT transaction (see Box 1) was structured in a way that created a five-notch rating increase.

Securitization has been slow to develop in most EMCs because it is often too complex, hard to understand, and expensive to do. Today's large and growing demand for

8. Investors can range from pure concessionary (focused on impact and accepting very low or no financial returns like from a foundation) to pure commercial (that seek market returns and increasingly some impact as well). These varied investors come together to finance a transaction. The concessionary investors can take more subordinated, lower tranche positions, allowing the commercial investors to get higher returns and lower risk to levels where they will invest.

sustainable finance creates an urgency to accelerate that growth. FFS might help countries speed up their development agendas because they can be less complex, more transparent, and easier to put together than loan-based securitizations. Focusing on FFS may lead to faster demonstration transactions and quicker market growth, including a wider range of structures over time. They should at least be a part of the initial and ongoing mix of deals countries do as they build their markets.

EMERGING USE OF FFS IN AFRICA

Africa is estimated to need an additional $500 billion to $1.2 trillion annually for sustainable finance[9] for a range of SDG areas, including agriculture, renewable energy, transportation, water, health, and education. Climate change financing is a major need. Many parts of Africa are already suffering from its negative effects. Securitization could help raise that financing.

FFS are certainly not the only type of securitization to use in Africa, nor are they the only one being used today. SME loans, for example, have been securitized in Cote d'Ivoire.[10] And there are clearly many advantages to securitizing loans. Banks are often the core of an EMC's financial system, well-known, regulated institutions that are seen as knowing local credits and doing strong due diligence on them. But with urgent demands for SDG financing, FFS might be an easier way to accelerate securitization's growth and contribution to SDG financing by more quickly creating demonstration transactions that increase visibility, educate stakeholders, and speed up the development of enabling environments.

To begin, they might focus on deals from well-known companies, state-owned enterprises (SOEs), and governments that have strong cash flows. In fact, because the originator's ability to be a "going concern" is key for most FFS, rating agencies consider the strongest candidates to be those with central importance to the economy, solid market position, and likely to continue under another entity if the originator defaults (like a national energy company).

Ideal originators in EMCs to start might be the national government, as with Ghana's Energy Sector Levy Act (ESLA) deal; a nationwide, well-established electricity company, as with the Cote d'Ivoire-arranged transaction; or a large-scale,

9. Belay Begashaw, "Africa and the Sustainable Development Goals: A Long Way to Go" (Brookings Institution, July 29, 2019), https://www.brookings.edu/blog/africa-in-focus/2019/07/29/africa-and-the-sustainable-development-goals-a-long-way-to-go/.

10. In 2018, COFINA, a West African regional financial services institution that lends to SMEs, securitized SME loans for CFA10 million (about US$20 million) to increase access to finance for SMEs. Many SMEs in West Africa face serious constraints raising funds from the formal financial system. This was the first such deal and was listed on the West African regional stock exchange. A second SME loan securitization, said to be prompted by the demonstration of the first, was done in 2020 with NSIA Bank, a major bank in Cote d'Ivoire, supported by the International Finance Corporation.

BOX 1: EMERGING USE OF FFS IN AFRICA

COTE D'IVOIRE

In 2018, a national electricity company securitized CFA35 million (approximately US$50 million) of receivables. The transaction was done to manage the company's cash flow and liquidity needs. A US$70 million equivalent replenishment was done in 2020. The company is a well-established electricity provider and considered one of the leaders in its sector on the African continent.

NIGERIA

The first future flow securitization was done in 2017. It securitized receivables from the sale of Expatriate Resident Permits and Alien Cards under the Combined Expatriate Residence Permit and Alien Card scheme—for a total of N25billion (US$65 million) through three series of five-year bonds. It benefitted from being an activity linked to the government and having 14 years of performance history. The CERPAC transaction helped set the stage for securitization of bus ticket receivables in 2019. In the Primero BRT transaction, the sponsor, PTSL, a bus company with a concession from the Lagos government to provide bus services, securitized receivables from its bus ticket sales to raise funds to expand its fleet and operations through two issues, as part of a Naira 10 billion (US$33 million equivalent) medium-term note program. PTSL operates the largest bus rapid transit route in the West African coast—35.5 kilometers, transporting more than 200,000 people daily. PTSL is using the funds to expand operations and keep up with growing customer demand. The transaction raised PTSL's rating from B+ to BBB/A, which reduced its funding costs. It was sold to domestic institutional investors and was oversubscribed. It was credit enhanced by over-collateralization, a cash reserve, a liquidity facility (as a standby letter of credit), and a guarantee from a local bank. It is listed on the Nigerian Stock Exchange and the FMDQ OTC market.

GHANA

Ghana illustrates an example of how tax-related flows can be used to raise large-scale funds for the government while protecting its fiscal position. The Energy Sector Levy Act (ESLA) transaction involves securitizing inflows from a petrol tax that the government levied to raise funds to pay off legacy debts in the energy sector. These debts arose when payments on energy imports became unaffordable because the Ghanaian currency depreciated. The resulting nonperforming loans were hindering bank lending to help finance economic growth in Ghana. Two bonds—one for 7 and one for 10 years—backed by the tax receivables were issued by ESLA PLC (the Energy Bond SPV) in 2017 to start off a multi-year, GHS10 billion bond program. Six bonds have been issued to date totaling almost GHS8 billion (over US$1.3 billion). Domestic institutional investors have largely financed the bonds. Credit enhancement includes over-collateralization and various types of cash reserves. The Government of Ghana, acting through the Ministry of Finance, is the deal's sponsor. The ESLA bonds are listed on the Fixed Income Market of the Ghana Stock Exchange.

KENYA

Kenya has not done a securitization, partly because of macroconditions and recent reversals in tax exemptions because of COVID-19. Several deals are being worked on, some related to SDG goals, under Kenya's Big 4 Agenda to improve manufacturing, food security, health care, and affordable housing. One transaction is looking to securitize payments from a pool of about eight water utilities to provide access to more and better cost financing so the utilities can provide quality water services around the country. Development Finance Institutes are expected to guarantee both the bond and the underlying utility payments, alongside the government.

government-backed infrastructure project like a national toll road where extensive analysis has been done on the road's use and revenues. In Nigeria, the first future flow securitization was the Combined Expatriate Residence Permit and Alien Card (CERPAC) transaction in 2018, which involved securitizing receivables from the sale of Expatriate Resident Permits and Alien Cards under the CERPAC scheme (N25 billion, or US$65 million) through three series of five-year bonds. In addition to the transaction being government-related, the flows had 14 years of performance history on which to base the securitization structure. The Primero BRT transaction that followed in 2019 was for a private company with a bus concession from the Lagos government.

In the private sector as well, there is strong interest in moving forward on securitization in Africa, and pockets of transactions are being done via a combination of innovative and dedicated arrangers working together with regulators in countries such as Nigeria, Cote d'Ivoire, Ghana, and Kenya, as well as South Africa, which already has an active securitization market. Several are FFS, including securitizing bus ticket receivables in Nigeria, government tax receipts in Ghana, and electricity receivables in the West Africa region, with discussions on securitizing water utility payments in Kenya.

These deals help set the groundwork, demonstrating the benefits and approaches of securitizing business-related receivables and securitization more broadly. While most do not target SDG areas, they help understand how FFS might be applied to financing the SDGs. All, with modifications, could support the SDGs, like focusing Primero BRT on hybrid and electric buses or the energy securitization on renewable energy receivables, and using funds raised through government tax securitizations to finance SDG activities.

MOVING THE AGENDA FORWARD

As with any securitization, countries will need to put basic building blocks in place to develop FFS (see Box 2). Most of the countries highlighted have the core legal and regulatory environment, with some working on additions and refinements. Capital market regulators are engaging with investment regulators, other government agencies, and the private sector, putting working groups together to help move the agenda forward and build workable regulatory frameworks, knowledge, and trust. More performance data, public awareness, and capacity are needed, particularly for investors to understand securitization's benefits and evaluate and manage its risks. (As noted, most investors in each country are domestic or regional institutional investors, often pension funds looking to diversify their portfolios and gain more return). Nigeria and Kenya have, at times, been constrained by unsupportive macro environments, particularly high risk-free government bond rates.

BOX 2: BUILDING BLOCKS FOR SECURITIZATION

Countries need to put basic building blocks in place to develop FFS similar to other securitizations, with the additional legal ability to securitize future flows:

- **The legal and regulatory infrastructure that protects the integrity of the assets supporting the bond.** The legal and regulatory structure needs to ensure that the assets backing the bond are completely available to back the bond and that no other claims can be made on those assets. For this, legal structures need three aspects: (1) the ability to create an SPV, which is typically a trust or corporate structure; (2) the ability to have a "true sale" of the assets to the SPV (this ensures that the originator has no access to the assets backing the bond even if it runs into financial trouble); and (3) ensuring that the SPV is "bankruptcy remote" (that the SPV does not have activities that can create financial claims on the assets). In addition, legal structures need to provide the ability to tranche securities. Regulations also typically define what securitization is, disclosure requirements, and include other fundamental elements. Countries should consider adopting policies that preference simple, transparent, and standardized structures as the EU did to steer transactions to less risky, more prudent structures (see Box 3).

- **The performance history of the assets.** Performance data on the assets/receivables being securitized are key. The strength of the transaction is based on how well this performance is known and how effectively that knowledge is used to structure the transaction and create the desired risk/return levels.

- **The capacity and knowledge to participate.** Securitization transactions are new and can be complex in structure and pricing. All stakeholders, including regulators, financial institutions, issuers, investors, and rating agencies need to understand the benefits, structures, risks and returns, new types of disclosure, and other aspects of securitization.

- **A supportive context so the transactions can be economically attractive.** As with any bond market, the ability to do a transaction will be affected by the broader context in which the transaction is happening. High risk-free government borrowing rates, preferential tax treatment for government bonds or bank products, and other actions that constrain development of local non-government bond markets will hurt securitization's growth. Preferential treatment for government securities often reflects the fiscal challenges many African countries face but will need to be addressed so that they do not constrain securitization's development. One tax problem that has arisen with securitization, though increasingly less so, is when the transfer of assets to the SPV is taxed. These flows should not be taxed as they are a pass-through from the originator to the investor. They do not generate income for the SPV. Only the end investor, which receives income from investing in the bonds, should be taxed. Most jurisdictions recognize and avoid this so-called "double taxation."

Given the urgency to raise SDG financing, countries might start by focusing on getting demonstration transactions into the market quickly while simultaneously building the foundation for broader market development. The actions needed are well-known, broad, and applicable to all securitizations, including:

- **Put the core laws and regulations in place** so transactions can be done.
- **Focus on easier transactions to accelerate demonstrations, visibility, capacity, and commitment.** These can be transactions with strong cash flows; simple, transparent structures; and a high probability of success. For some countries, this may mean starting with government flows or high-quality SOEs or top private companies, using the going concern evaluation to select the best place to start. For other countries, it will mean starting smaller to produce faster demonstrations and expanding to larger, more complex financings with time. While it is ideal to focus on transactions that finance the SDGs, and there should be many opportunities to do that, demonstrations could be done for non-SDG activities if they help accelerate market growth.

As demonstration transactions are being identified and worked on, the government, financial institutions, and other key stakeholders can take several actions to build the foundation for broader growth, including:

- **Publicize the government's commitment to developing securitization to help finance the SDGs.** This will provide focus, context, and seriousness to the work. It will help facilitate the cross-cutting agency buy-in needed to align agendas and send a strong positive signal to investors, especially foreign investors who are using the SDGs as a frame for their investment strategies.
- **Create a stakeholder working group.** Organizing key stakeholders around the table has been shown to produce better ideas and faster implementation. A group with capital market, investment, and sector regulators, capital market participants, and a strong government champion can address development obstacles, identify projects, build pipelines, and build capacity and regional and international partnerships in collaborative ways. As noted, many of the countries highlighted have these working groups.
- **Build capacity, performance data, and standards for targeted SDG areas.** Securitization is new and so are many SDG areas that need financing. Building capacity and performance data takes time and should be addressed from the start, focused on targeted SDG activities—along with setting standards for deal information and structures to accelerate understanding and aggregation.

- **Create a framework to provide clarity and commonality.** The industry-developed Green Bond Principles, which provide a framework for developing green bond markets, have played a key role in facilitating market growth, including in Africa.[11] The European Union's recently adopted securitization framework (see Box 3) will provide clarity in Europe for what qualifies as a securitization and how it is regulated and can grow in a prudential way. It can be a reference point for countries in Africa. These industry and government efforts can play similar roles in Africa to set frameworks that align with international standards where possible but fit with local conditions.
- **Offer incentives.** Getting a securitization market going involves sizable upfront costs in time and money to get legal and structuring advice, to obtain a rating, and to prepare new disclosure documents. First movers provide a public good by working out challenges that others benefit from. Absorbing these costs has been an obstacle to securitization's development for originators and arrangers. Given securitization's added importance today, governments can provide incentives such as grants to cover these costs or tax incentives. Many governments are providing similar benefits to promote their green bond markets. These incentives can be dropped over time as the market grows.
- **Create knowledge and deal-focused platforms.** The countries noted are leading examples that others in the region can learn from. A regional platform could share information on laws and regulations, transactions, disclosure documents, and capacity-building tools. A platform can also help accelerate financing by posting transactions looking for financing. And, importantly, especially for FFS and the SDGs that will involve SMEs, it can set standards to help aggregate small borrowings, giving credibility and size to the transaction, similar to what the UN's Climate Aggregation Platform is working to do.

11. The Green Bond Principles address four core areas: use of proceeds, process for project evaluation and selection, management of proceeds, and reporting. Use of third-party verifiers is also discussed.

BOX 3: THE EU'S REVISED SECURITIZATION FRAMEWORK TO HELP FINANCE A SUSTAINABLE FUTURE

The EU recognizes the valuable role securitization can play in achieving its goals to create a more sustainable future. It seeks to encourage securitization's use in responsible, prudent ways.

The EU adopted stringent regulations on securitization after the 2008 financial crisis related to disclosure, retention, due diligence, and risk capital weights. In January 2019, the EU adopted a comprehensive revision of those regulations as part of its Capital Market Union action plan.

The new securitization framework encourages and gives preferential treatment for doing **Simple, Transparent, and Standardized (STS)** securitizations. An STS regulatory framework was created to make it easier for investors to understand and evaluate transaction risk, which includes (1) a definition of STS deals (the European Securities and Markets Authority will list STS deals on its website), (2) improved and standardized reporting requirements to provide more information to investors, and (3) lower capital requirements for STS compared to non-STS securitizations.

The EU encourages authorized third parties to verify compliance with STS regulations and publishes a list of authorized verifiers. The new regulations ban resecuritizations (securitization of asset-backed securities), as these can obscure transaction risk.

CONCLUSION

The demands of sustainable finance create an urgency for Africa to make headway on developing its securitization capabilities. As is true for many emerging market countries around the world, the disconnect between the need for SDG financing and the availability of mechanisms to attract and invest that financing needs to be reduced. Securitization is an important investment product. The COVID-19 pandemic accentuates the need for sustainable finance, not just in the health sector but also other sectors that help reduce the inequalities that COVID-19 has so strongly highlighted, including climate.

Future flow securitizations should be an important part of the development agenda, not instead of traditional securitizations like loan-based ones but to help accelerate securitization's growth so more traditional securitizations can be done. Loan-based securitizations clearly are key to the development agenda for fundamental reasons, including the size and importance of the banking sector and the greater yield pick-up for securitization. But their use has often been slowed by challenges that some FFS might avoid in the early stages. If FFS can help securitization move forward and at a quicker speed, it will help all securitizations to grow.

There is action in Africa today to move securitization forward among a core of key stakeholders. Several transactions are demonstrating FFS' benefits and setting the base. For these to translate into large-scale change will require high-level government commitment and actions that support securitization's important financing role for sustainable development.

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ACKNOWLEDGEMENTS

The views expressed here are solely those of the author. The author would like to thank Staci Warden for her excellent comments and suggestions and the key contributors to the Milken Institute's broader work on accelerating securitization to finance the SDGs in Africa: Abdulkadir Babo Abbas, Sonnie Ayere, James Doree, Olivier Gui, Nicholas Gunning, Irene Gathiaka, Thato Khaole, Grace Kibuthu, James Nelson, Luke Ombara, and Michael Rose, as well as Yohan Assous, Marc Hearn, Paul Muthaura, and Richard Ruttmern.

ABOUT THE AUTHOR

Alison Harwood is a senior fellow in residence at the Milken Institute's Global Market Development practice focused on sustainable finance and mobilizing private capital to finance the SDGs. She has advised emerging markets around the world on building their local capital markets to finance sustainable development, including as the former global head of capital market advisory at the World Bank Group.

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