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Thematic Focus: Financing Infrastructure

Infrastructure is key for development. Yet, most developing countries face a chronic deficit of infrastructure facilities (in transport, energy, water, etc.). One billion people in developing countries have no access to all-weather roads, including two-thirds of the rural population in Africa. Over 1.5 billion people have no access to electricity, including over 60% of the African population. With the high economic growth rates over the last decade, the need to improve infrastructure frameworks has become even more pressing, not only to address poverty and equity, but also to enable productive activities. How to take advantage of natural resources endowments, foster production and climb up the value added chain in the absence of proper infrastructure? Infrastructure development is also a critical condition for reaping the benefits of regional integration and potential cross-border network externalities.

Over US$800 billion is invested in infrastructure in developing countries every year. But the needs are estimated to be more than twice that amount, with the infrastructure financing gap estimated to amount to about US$57 trillion until 2030. In Africa alone, the financing needs for infrastructure are estimated at close to US$100 billion per year, mainly in electricity and transport. Currently, however, infrastructure investment amounts to less that half this amount. Funding the infrastructure gap is thus a major challenge.

The bulk of the financing comes from domestic resources. Official development finance, as reported by the OECD, amounted to over US$10 billion in 2010 for African infrastructure alone, 80% of which qualified as official development assistance (ODA). Given the infrastructure needs and the current fiscal constraints in many donors' countries, it is illusory to expect aid to meet the gap.

The emphasis is thus on increasingly relying on other sources of financing for infrastructure development. Whether such alternative financial mechanisms (such as blending loans and grants, public-private partnership, bonds, etc.) are truly innovative, or simply newly discovered by the development community, is a debatable matter. The relevant point is to mobilize new energy and funding mechanisms to meet pending infrastructure needs.

Combating current inefficiencies and creating new synergies, notably at the regional level, is a required starting point. Most significantly, Africa must take leadership of its own infrastructure development, in terms of planning, financing and implementation.

To this end, the Programme for Infrastructure Development in Africa (PIDA) has become a strategic rallying anchor for policy makers and financiers at the continental level, centred on a regional agenda. It cannot become a planning instrument for the US$68 billion needs for regional infrastructure projects identified. But it can help prioritize key regional projects and focus the attention on a number of potential financing mechanisms and opportunities. Following a bottom-up approach, building on national and regional initiatives, it can also help harness energies to promote sub-regional dynamics and enhance the focus on project preparation at country and regional.

Domestic sources of financing, through public and private funding (including sovereign wealth funds and other innovative channels), should be further developed. External financing can also play a useful role, mainly in terms of leveraging capacities. The decision by the African Development Bank at its annual meeting at the end of May 2013 to create a dedicated African fund to finance infrastructure is a welcome move. So is the decision earlier this year to create a BRICS Bank to finance infrastructure in particular. Development finance institutions have a useful role to play in leveraging financing for infrastructure.

It is in a contribution to this end that the collection of articles in this issue of *GREAT Insights* attempts to draw on some of the current experiences and approaches to financing infrastructure development - an issue that will continue to dominate the development agenda for the coming years.

San Bilal

Financing Infrastructure through Innovative Strategies in Africa

Mark Pearson

If Africa is to effectively participate in the global trading environment and reach its true economic potential it will require a level of investment in infrastructure that goes well beyond the capacity of governments. The private sector will need to be involved and if this is to happen then instruments to reduce risk levels and increase returns will need to be developed.[1]

Africa's infrastructure needs are substantial and go well beyond what donors and continental, regional and multilateral development banks can provide. The Africa Infrastructure Country Diagnostic (AICD) estimates Africa's current infrastructure financing requirements at US$93 billion or about 15 per cent of Africa's GDP. Two thirds of this US$93 billion is needed in investment and one-third in maintenance. African governments, infrastructure users, the private sector, and external sources together already contribute about US$45 billion. About two-thirds of the existing spending is domestically sourced, from taxes or user charges, and channelled through public institutions, making the public sector (these being governments and non-financial public enterprises) the most important financier of capital investment.

Evidence suggests that a lot more can be done within Africa's existing resource envelope if inefficiencies totalling about $17 billion a year could be eliminated. However, even without these inefficiencies, the AICD estimated a minimum funding gap of about US$31 billion per year for Africa.

In the past, governments in Africa have been almost wholly responsible for the provision of infrastructure, which has traditionally been regarded as a public good. Government provision of infrastructure has been justified on grounds of infrastructure being a prerequisite for economic development, but that users would not be able to bear the full costs for provision and maintenance; practical difficulties in charging users; and that infrastructure provides benefits to groups other than the direct users[2] so that benefits of the investment may exceed the potential revenue from user charges.

In the developing world, the involvement of the private sector in infrastructure financing has been slow to take place except in the areas of ICT and energy generation. This is because of the low level of users of transport infrastructure facilities especially, which has resulted in infrastructure not having a positive financial rate of return, and because of the difficulties of charging all the beneficiaries of the infrastructure.

Private sector investment in African infrastructure is constrained by:

- Limited locally denominated long term financing;
- Poor local business environment;
- Corruption;
- Low average per capita incomes and Gross National Income;
- A lack of institutional capacity;
- A lack of an educated and/or skilled workforce;
- Perceived and real risk; and
- Lack of well-structured and prepared projects to sustain deal flow.

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Private sector funding of infrastructure can be facilitated by measures such as:

- Providing political risk cover on a programme basis;
- Making project preparation assistance more effective;
- Focusing on the areas where returns are sufficient to attract the private sector;
- Blending and leveraging public funding (including Official Development Aid) to secure additional private funding;
- Using viability gap funding i.e. increasing returns by using grant funding and subsidies;
- Using ring-fenced structures to fund projects, such as Special Purpose Vehicles; and
- Exploring additional innovative solutions.

All of these potential measures require closer analysis in the quest for mobilising additional resources from the private sector as no single measure provides a panacea for closing the gap. The funding of regional infrastructure presents a particularly complex challenge, and instruments such as regional bonds (possibly issued by using an intermediary) and a regional road levy could be investigated, the latter to promote a more equitable arrangement between the beneficiaries and the funders of regional roads.

Project risk can be reduced by good management. The financing vehicle may better align incentives for managing a range of project risks with responsibility for risk management. For example, Public-Private Partnerships (PPPs) may assist in transferring construction and operational risks to private partners, while government retains regulatory and demand risk with a commitment to underwrite minimum revenue from user charges.

The following would appear to be the main feasible instruments or potential sources of finance.

Use of Public Sector Financing

The use of the Government Budget remains the primary source of financing for the region's transport infrastructure although, over the last 10-20 years, significant changes have been introduced in the way public sector funding takes place. There is an increasing acceptance enter into PPPs and concessioning arrangements on transport infrastructure financing, even when it is clear that, in the short-term anyway, the user-pays principle will not cover all costs. Some governments enter into concessioning arrangements (such as build-operate-transfer arrangements) and then subsidise the concessionaire until the tolls or taxes from users cover the costs of construction, maintenance, overheads and profit and when these costs are met, revenue flows are reversed, with the concessionaire paying the government a dividend.

Financing on a pay-as-you-go basis avoids transaction costs of raising finance. Moreover, infrastructure investment can be presented as fiscally responsible and financially prudent if governments spend only what they can currently 'afford'. This approach avoids a direct liability on future revenues, which may be important to keep credit ratings intact and preserve borrowing capacity for other circumstances.

Public-Private Partnerships

PPPs bring in private sector management skills and can lead to efficiency gains by using one entity to do the design, construction and operation and provide finance. There is evidence that private sector partners are more realistic in their estimates of construction time and costs than public agencies. Private partners have an incentive to develop a realistic financial model that takes into account all costs and revenue flows. PPPs work best where government has the necessary and detailed skills in contract negotiation and management, and where there is adequate competition for the projects.

The main advantage of PPPs comes from lowering the total cost of the project through improving project risk management. Contract negotiation can be lengthy but PPPs provide a more flexible, and potentially, more timely source of finance for important infrastructure investments that might otherwise be constrained by public debt pressures.

The risks of PPPs lie in the amount of rent governments expect to obtain. If the rent is too low then a valuable source of revenue is wasted. If the rent is set too high the probability of failure increases and the risk of contingent liabilities for government increase.

Franchise Arrangements

Government franchising involves a government or public-sector agency (the franchisor) granting an exclusive right to a private or other independent entity (the franchisee) to occupy, operate and maintain publicly owned infrastructure facilities to deliver services over a predetermined period of time. This approach differs from licensing arrangements whereby businesses are granted permission to supply infrastructure services with their own assets.

Franchising schemes should assign risk to the parties best able to manage and control them. Infrastructure franchises have usually been awarded on a fixed-term basis, often exposing franchise holders to considerable demand risk, which investors are often unwilling to assume without government guarantees. These contracts are also inflexible, since it is difficult to determine a fair level of compensation to the franchise holder if the contract is terminated early or modified. Under an alternative mechanism, the franchise is awarded to the firm that asks for the least present value of user fee revenue for a given tariff structure, and the franchise ends when the present value of user fee revenues is equal to the franchise holder's bid.

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Parastatal Financing

Where there are parastatals in operation, such as the railway sector or in the ports sector, it may be possible for the parastatal to increase its debt-to-equity ratios and so increase their levels of leveraging. However, in Africa, many parastatals have high debt-equity ratios and it it is neither feasible nor practical to advocate this type of instrument to be used to finance infrastructure.

Infrastructure Bonds

Infrastructure bonds are debt instruments such as bonds, debentures and stocks issued for the purpose of financing specific infrastructure by the public sector. These borrowings are usually secured on the asset, or against the revenue stream arising from the asset. They do have a number of risks in that the issuing governments are not able to avoid contingent liability.[3]

Financial Transaction Taxes

Transaction taxes[4] can be raised on the sale of specific financial assets (such as stock, bonds or futures); can be applied to currency exchange transactions; or can be general taxes levied against a mix of different transactions. With the rise in the number of stock exchanges in Africa, transaction taxes may become a viable way of raising funds as trading in stocks and shares grows. Equally, as most countries in the Tripartite region have liberalised their current and capital accounts, there are now large numbers of currency transactions taking place in the region which also adds to the practicality and feasibility of using transaction taxes to raise finances to pay for regional integration programmes. An in-depth analysis on the efficacy of financial transaction taxes would need to be done.[5]

None of the above instruments are without complication. However, only by considering the concrete implications of combining different sources of finance and instruments can we then hope to put in place the infrastructure required in Africa to promote broader-based development.

Notes

1. These issues are discussed in depth in a forthcoming TMSA paper on *Infrastructure Funding and Delivery in the COMESA-EAC-SADC Tripartite Region – Potential Role of the Private Sector* by Johan Kruger and Lolette Kritzinger-van Niekerk.
2. Modern day examples would include the effect of public transport on road congestion and green-house gas emissions.
3. Contingent liabilities are possible future liabilities that will only become certain on the occurrence of some future event.
4. Examples include: Keynes Financial Transaction Tax; Currency Transaction Tax (such as the Tobin Tax and the Spahn Tax); Stamp Duty Swedish tax on equity securities, fixed income securities and financial derivatives (1984 – 1991; Brazilian "bank transaction tax"; Peruvian government general financial transaction tax (domestic)
5. Honohan and Yoder (2010) concluded that attempts to raise a significant percentage of GDP in revenue from a broad-based financial transactions tax are likely to raise much less revenue than expected, while also generating far-reaching changes in economic behaviour.

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Development Finance Institutions and Infrastructure:

Findings from a Systematic Review of Evidence for Development Additionality

Lily Ryan-Collins and Stephen Spratt

By leveraging private investment, Development Finance Institutions (DFIs) aim to reduce the infrastructure financing gap in the developing world. This article summarises the findings of a Systematic Review of the evidence on the development impact of DFI support for private participation in infrastructure.

Infrastructure is vital for development but is seriously underprovided in much of the developing world. The financing shortfall is estimated at $48 billion per year in Africa alone.[1] With public finance insufficient to fill this gap, recent decades have seen an increasing focus on mobilising private investment. The volume of private finance flowing to infrastructure in developing countries, however, has been well below that anticipated by many following deregulation in the 1990s.[2] There has been progress, but not enough: if this situation is to be resolved, new combinations of public and private initiatives will be required.

Development Finance Institutions (DFIs) aim to leverage private investment for projects that are close to commercial viability, have large potential developmental impacts, but are in sectors or countries where commercial banks are reluctant to invest due to perceptions of excessive risk. By investing their own resources in projects, DFIs seek to mitigate these risks and so give private investors the confidence to invest. A number of instruments are employed to achieve this: investment (loans and equity), risk mitigation (for example loan guarantees), advisory services (to governments), and project preparation and development services.

As well as the *quantity* of investment, however, *quality* also matters. New facilities that provide low quality services, or which poorer sections of society cannot access or afford, may tick boxes with respect to quantity, but do badly in terms of quality. Accordingly, Development Finance Institutions (DFIs) seek to use their resources to improve outcomes in both areas: to attract more private investment, but also to enhance the development impact that this finance can achieve.

It is within this context that the systematic review upon which this article is based addressed the following questions: *What is the evidence of the impact of DFI support for private-participation-in infrastructure (PPI), on economic growth and poverty reduction? What conclusions can be drawn from this evidence to help DFIs better target their investment to maximise their impact on economic growth and poverty reduction?*

In approaching these questions we focused on the 'additionality' that DFIs might create with respect to growth and poverty. Additionality is defined as impact beyond that which would have occurred without DFI participation. For example:

I. *Financial additionality*, raises the total *quantity* of investment, both in terms of DFI resources and the private investment they can leverage as co-investors.
II. *Demonstration effects* increase the *quantity* of investment by demonstrating to private investors that the risks are lower than they had perceived, resulting in a significant increase in private investment that is independent of DFI activity.
III. *Policy additionality* may increase both the *quantity* and *quality* of investment by creating an 'enabling environment' that is attractive to investors, and influencing the nature of this investment to boost development impacts
IV. *Design additionality* increases the *quality* of investment by amplifying the development impacts of a project through the use of particular design features.

The review proceeded in two phases. Phase 1 examined publicly available evidence in the literature, including DFIs' own material. Much relevant evidence, however, is to be found in DFIs' internal evaluations, which are usually not publicly available due to issues of commercial confidentiality. To address this, Phase 2 reviewed internal evaluations for a group of 5 major DFIs.[3] In total, more than 400 documents were reviewed, roughly half in each phase of the review. Throughout, evidence that DFIs do (or do not) create these different forms of additionality was gathered and assessed.

Overall, the evidence gathered in the review suggests that DFIs have positive development impacts. However, the review also identified ways in which they could enhance the developmental outcomes of their investments, and thus increase the impact of donor resources. Our main findings are as follows:

First, the evidence suggested that DFIs do create financial additionality, particularly in less commercially viable sectors. Specifically, we found support for the propositions that DFIs are able to: a) supply long-term finance, which is often essential for infrastructure but frequently unavailable in low-income countries; b) mitigate early-stage project risk, thus leveraging additional finance by improving the attractiveness of deals; and c) provide and leverage finance counter-cyclically.

Second, we found support for the view that DFIs influence project design and the policy context to boost growth. Both in terms of project selection (e.g. projects that remove 'bottlenecks' to growth), and during the project design phase, DFIs seek to enhance growth effects. Similarly – though to a lesser extent – some DFIs seek to influence regulatory frameworks with the aim of enhancing growth (e.g. through liberalisation) or by building public sector capacity to pursue private sector development.

Third, we found little to suggest that DFIs influence project design and policy to improve direct poverty impacts. As well as its indirect effects via growth, infrastructure can have direct effects on poverty by,for example, providing affordable access to services that were previously not available, or access to new markets, will have direct poverty impacts. Certain aspects of project design will greatly influence the extent of these direct effects, such as the ability of the poor to physically access services, or their ability to afford fees. We found very little evidence that DFIs actively seek to influence these design features to increase direct poverty effects. There was also limited evidence that DFIs proactively seek to create local employment and stimulate broader economic development through, for example, forging linkages with local suppliers including SMEs. Importantly, we found a small number of examples of this type of activity, demonstrating that it would be feasible to do more. Indeed, in many of these areas, it was not clear why greater efforts are not habitually made by the DFI sector, as they appear to have scope to do so.

Fourth, it is clear that more emphasis should be placed on project selection. If the goal of DFI activity is to maximise the impact of scarce donor funds, they should select those projects with the potential to create the greatest impacts. While this may seem obvious, it is not generally reflected in current practice. DFIs often appear to accept the projects that come their way and clear a certain hurdle, rather than choosing projects on the basis of a comparison of alternatives and their likely development impact. While this may be justified because of a lack of investable options a better approach might be to devote more efforts to identifying and preparing projects with the greatest potential impacts. In our view, the drawbacks in terms of additional cost and time are outweighed by the greater impacts that could be achieved.

Given that the funds available to DFIs cannot fill the infrastructure financing gap, the demonstration effect they create that increases private financing is, in some ways, their core task. This needs to be put in perspective, however. Our fifth finding is that the ability to achieve such demonstration effects may have real limits. In part, DFIs are able to do what they do because they are DFIs. Political backing allows them to borrow on favourable terms as there is no default risk. Further, DFI-backed loans are less risky than pure commercial loans: borrowers are reluctant to default due the harm this could do to their relationship with the donor government (or institution in the case of the World Bank and Regional Development Banks). Given these factors, DFIs can lend on better terms (e.g. for longer maturities) and hold riskier portfolios than is possible for private actors. It is therefore not always possible for private actors to follow DFIs' example and make the same investments.

While we found very few projects where DFIs appeared to have had direct poverty effects, it was striking that all projects for which this was the case were part-funded by concessional finance. This suggests that achieving some forms of impact may not be compatible with a purely commercial model. To maximise development impacts, therefore, public agencies will have to perform different roles in different projects. In many cases, this will be to demonstrate commercial attractiveness, thereby mobilising a future increase in private investment. In other projects, however, maximising impacts may require concessional finance to be deployed, implying that public actors will need to be engaged in the sector for the longer term.

Our sixth finding, therefore, is that projects should be assessed and categorised more systematically. This will enable support from public agencies to be structured in the most appropriate and effective way.

As a first step on this road, we developed the following framework for categorising projects:

I. Fully commercially viable, could go ahead without DFI involvement[4]
II. Commercially viable but DFI 'political insurance' essential to mitigate risks sufficiently to assure investors.
III. Project commercially viable but only if finance is structured in ways that only DFIs will or can do.
IV. Only commercially viable if 'blended' model of concessional and commercial finance is used.
V. Not commercially viable, should be publicly funded.

In our view, DFIs should not be engaged in categories (i) and (v) (although we found some cases where they were). For categories (ii) and (iii), financial additionality is a result of the particular qualities of DFIs, particularly their ability to offer 'political insurance' and favourable forms of finance. In these circumstances, we suggest that the 'premium' paid for this insurance should be a greater commitment to social and environmental standards by the private investor, as well as commitments on local employment and supply chain linkages. Projects in category (iv) are those where, to ensure access and affordability of the poor, the project is only commercially viable if concessional finance is used in conjunction with private investment. Category (iv) projects are therefore fundamentally different from categories (ii) and (iii).

One option would be for DFIs to undertake category (iv) projects using concessional finance to realise development impacts. They may feel, however, that their primary purpose is to create demonstration effects, which would mean they should restrict themselves to categories (ii) and (iii).[5] In this case, other public agencies would need to step in to fill this gap.

In sum, the evidence studied led us to conclude that there is a set of projects that are neither fully commercially viable nor suited to full public funding. Attempting to 'shoehorn' these into either camp is likely to lead to sub-optimal development outcomes, which fail to achieve the commercial success needed to create a positive demonstration effect, or to realise the full set of potential development impacts. There is a real opportunity here for public agencies (DFIs or other) to both mobilise private finance and create developmental impacts through the use of blended finance. However, crucially, the projects in this category must be recognised so that support from public agencies can be structured appropriately. Where this does not happen, scarce public funding will not be put to best use.

The full review is available here: http://www.ids.ac.uk/publication/development-finance-institutions-and-infrastructure-a-systematic-review-of-evidence-for-development-additionality

Notes

1. Foster, V. and Briceño-Garcia, C. (Eds.) (2010) Africa's Infrastructure: A Time for Transformation, Washington D.C.: World Bank
2. Estache, A. & Fay, M. (2007) Current Debates on Infrastructure Policy. World Bank Policy Research Working Paper No. 4410. Washington D.C.: World Bank
3. IFC, KFW, CDC, AsDB and FMO. 12 DFIs were approached to participate. Those not named were not prepared to release their internal documents.
4. In the case of category, (i) projects DFI advisory services can still play a valuable role in mobilising finance for projects that are commercially viable without DFI investment.
5. As well as advisory services in the case of category (i).

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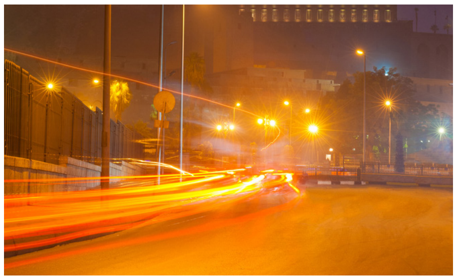
The views expressed in this paper are those of the authors alone, and do not necessarily reflect the UK Government's position.

CAF Development Bank of Latin America's Approach for Infrastructure Financing

Germán Ríos

CAF's approach to infrastructure is integral. In every stage of a project the economic, social and institutional issues are taken into account. Financial and environmental sustainability issues must be considered during the evaluation process.



CAF Development Bank of Latin America is a multilateral bank created in 1970 that started with five Andean countries: Bolivia, Colombia, Ecuador, Peru, and Venezuela. Today, CAF has eighteen shareholder countries from Latin America, the Caribbean and Europe, as well as fourteen private banks. CAF obtains most of its funding from global financial markets. The institution promotes sustainable development and regional integration through credit operations, grants and technical support, and offers financial structuring to public and private sector projects in its member countries. With headquarters in Caracas, Venezuela, it has offices in Asunción, Buenos Aires, La Paz, Brasilia, Bogota, Quito, Madrid, Panama City, Lima and Montevideo.

The four fundamentals of CAF´s comprehensive development agenda to promote sustained and quality growth are: macroeconomic stability, microeconomic efficiency, social equity and inclusion, and environmental sustainability. To achieve these, CAF works closely with its member countries investing in all forms of capital (physical, human, natural), as well as working on the design of projects and programs to support the productive transformation of the region and a competitive insertion in the global economy, to improve the quality of institutions, and to promote environmental conservation.

CAF borrows in international capital markets through a funding strategy that aims to diversify sources of financing, mitigate interest rate and currency risks, while matching the average maturity of its assets and liabilities to maintain sufficient liquidity in its portfolio. CAF obtained its first credit ratings in 1993 from the three main rating agencies, and these have steadily increased, even during several economic crises that hit the region. Currently, CAF is the highest rated frequent bond issuer in Latin America. Prudent financial policies have made CAF a profitable institution that reinvests, through grants and technical cooperation, in programs and projects to support its member countries. Today, CAF has become the main source of multilateral financing for infrastructure and energy in the region, with approvals of close to USD10 billion at the end of 2012, which represents around 30% of the total multilateral lending for Latin America.

CAF considers infrastructure a powerful tool for development. Infrastructure contributes to articulating Latin America´s important natural resource endowment with production and consumption centers. It also helps in the fight against poverty and improves quality of life by providing opportunities and public service access to the population. A key Latin American challenge is to increase its interregional trade, and given the complex geography of the region, investments in infrastructure are crucial for connecting neighborhoods, cities, regions and nations, and increasing the possibilities of expanding trade among them.

More than 60% of CAF´s portfolio is comprised of infrastructure projects. This reflects the priority the institution gives to physical integration in Latin America, and responds to the shortcomings this sector is currently facing in the region. According to several international indexes that measure both coverage and quality of infrastructure, Latin America is lagging behind OECD countries and even some emerging areas such as Southeastern Asia, Middle East and North Africa. However, the situation is very heterogeneous by sector. In terms of electricity and telecommunications, the region has adequate coverage and quality of service, while ports and airports require more investment and efficiency in their operations. The greatest challenges are in water and sewerage, roads, urban transport and railroads.

Considering the prospects of fast growth for Latin America in the next years, and the steady expansion of its middle-class, the challenges to catch-up in infrastructure investment, and keep-up with economic and population growth are enormous. To overcome the current deficit on infrastructure and to accompany the development process in the region, investments of around 5% of GDP per year are required. This does not take into account maintenance expenditures, which should be included in national budgets as current expenditures. This means annual investment in the range of USD 200.000-250.000 million. To obtain and invest these funds, the joint efforts of the private and public sectors, and the International Financial Institutions (IFISs) are needed.

CAF's approach to infrastructure is integral. In every stage of a project the economic, social and institutional issues are taken into account. Moreover, financial and environmental sustainability issues must be considered during the evaluation process. The environmental impact of a project is analyzed from the beginning of its design, to prevent future problems. Each project CAF undertakes is seen as a source of knowledge that can provide feedback and learning opportunities for similar projects. CAF has a special unit that uses this knowledge to provide policy advice and best practices to member countries, and also produces studies and publications on infrastructure.

CAF´s main areas of interventions in infrastructure in Latin America are: transport and logistics, energy, water and sewerage, telecommunications and ICT. To satisfy the demand for projects, CAF provides the following products: direct loans to central governments, with and without sovereign guaranteed, direct loans to sub-national entities, structuring of PPPs, co-financing with other IFIs and co-financing with other regional and national development banks and agencies.

As Latin America continues to grow and develop, the challenges of increasing trade and urbanization will demand more and better infrastructure. Obtaining financing will be an important issue, and institutions such as CAF must innovate in products and services to attend the growing demand for funding. In this regard, it is essential to form alliances with other financial institutions and public and private actors.

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Unlocking Infrastructure Development in Africa through Infrastructure Bonds

Cedric Achille Mbeng Mezui

This article focuses on international experiences gained in financing infrastructure through local currency revenue bonds and the applicability of such methods to Africa.

Financing the much needed investment in Africa's infrastructure is one of the crucial challenges facing the continent. The African Development Bank and the World Bank estimate the financing needs to be in excess of $93 billion per year.[1] A Program for Infrastructure Development in Africa (PIDA) study on key regional projects estimates investment needs of $68 billion per annum until 2020 for regional projects alone. These numbers are daunting, but the challenge – to build sustainable infrastructure in Africa – has to be met. And one of the ways this can be done is by the continent taking ownership of this challenge, rethinking infrastructure financing, and mobilizing resources already available on the continent – to promote inclusive growth.

> (..) to build sustainable infrastructure in Africa – by the continent taking ownership of this challenge, rethinking infrastructure financing, and mobilizing resources already available on the continent – to promote inclusive growth.

As Africa has been growing, so have its financial resources. African countries have been growing at rates in excess of 5 percent. Indeed seven of the ten fastest growing countries in the last few years are in Africa. This has created a growing middle class and a flourishing financial sector. Savings are accumulating with institutional investors such as pension funds and insurance companies, and the capital markets in several countries are doing very well. The current state of the market is such that it is sure to welcome an opportunity for further innovation in the financial sector.

Understanding Infrastructure Bonds

The interest in financing African infrastructure projects with infrastructure bonds has recently increased; prompted in part by certain unique features of the bonds.

An infrastructure bond is a debt instrument issued by governments or private companies to raise funds from the capital markets for infrastructure projects. The interest payments associated with infrastructure bonds (and repayment of the principal) are typically funded with a direct linkage to the cash flow revenue generated from the underlying infrastructure project – such as a toll road. Infrastructure bonds can be issued by private companies without a need for government assistance.

Bonds such as these can also benefit from credit enhancements such as viability gap funding, or partial guaranteed to make projects more bankable. Credit enhancements can be especially useful where there is a project with strong revenue potential and good management structure but where the issuing entity may have institutional or credit weaknesses. The underlying project itself can therefore be structured to assume its own standalone risk profile which is distinct from that of its sponsors.

Thus, infrastructure bonds in their broadest sense can mean any structured debt raised through local or international capital markets secured by or serviced from the cash-flows of a specific project or a portfolio of projects, without recourse to the sponsors. Fully non-recourse project bonds for infrastructure are much less common however.

As infrastructure projects involve a capital-intensive construction phase that must be financed, loan structures are more common in infrastructure project finance than bonds as they are more flexible. Loans can be drawn down gradually during construction (avoiding so-called "negative carry"). For syndicated loans, borrowers are generally given a call option for free, whereas bonds are difficult to refinance. Loans are therefore more efficient for smaller financings, since bond issuance involves greater overheads associated with getting a credit rating, documentation and governance.

Nonetheless, there are benefits to bonds over loans: (i) it is cheaper to finance with bonds, (ii) bonds are available for incremental funding, (iii) they normally have longer maturity dates and (iv) they are sometimes available in different currencies.

The state of the infrastructure bonds market in Africa

If we consider the definition of an infrastructure bond per se, those from African countries such as Kenya, Cameroon, Chad and a large part of the transactions in South Africa are strictly speaking not infrastructure bonds. They are general government bonds with some promise to spend the money in infrastructure investment. They have no income stream associated with the underlying asset, and cash flows for the bonds are paid directly out of government tax revenues. There is also no guarantee that the money raised goes into the project as promised, and neither is there a dedicated Fund Manager, raising concerns about the ability of central government to channel the funds to actual development of infrastructure projects. In such situations, government credibility becomes critical to ensuring investor confidence, particularly in the issuance of future bonds and in creating a viable infrastructure bond market.

> Thus, infrastructure bonds in their broadest sense can mean any structured debt raised through local or international capital markets secured by or serviced from the cash-flows of a specific project or a portfolio of projects, without recourse to the sponsors.

South Africa, with a large and sophisticated investor base totaling $600bn (more than the other countries combined), stands out on the continent in terms of local market liquidity, capital market development and experience with project finance. However, local currency infrastructure bonds have not been considered to date as the government feels that such bonds are too far removed from projects, preferring that parastatals issue bonds and the government provide guarantees for certain projects.

For example, Eskom is an integrated power utility wholly owned by the government and with a track record of issuing bonds locally in Rand as well as internationally in Euro and Dollars. It currently has ZAR 105bn outstanding in the market, with 2033 as the current longest maturity. Similarly, the South African National Roads Agency (SANRAL) has a domestic capital markets program totaling ZAR 44bn. In 2008 it issued four bonds totaling ZAR 2bn to fund new tolled highways in Gauteng as well as other road upgrades. This included inflation-linked floating-rate bonds and three fixed rate bonds with maturities up to 20 years. It was the first time SANRAL issued without a guarantee from the National Treasury. Also, the Airport Company of South Africa (ASCA) rolled out a ZAR 1bn three month commercial paper program in 2008-09, which it subsequently refinanced using long-term bonds.

Beyond Africa, other emerging countries such as Chile, Brazil and Malaysia are using project finance bonds as a way to catalyze investor interest in infrastructure project. Such examples can serve as a template for African countries on how to develop their own markets.

> Africa has the potential to meet a significant part of its infrastructure investment needs from domestic sources.

But it is important to understand all the different policy measures and government actions that went towards the creation of the market for these project bonds. In particular government policy has been supportive in pension regulation to build the investor base and in building an enabling environment for infrastructure which allowed financeable projects to be structured.

These are important case studies and templates for informing the future actions of African governments and how their policies can shape the market in the future.

Things that need to be done

International experiences offer lessons for African countries in terms of institutional, financial and regulatory prerequisites that can stimulate the successful issuance of infrastructure bonds. Specifically, for the issuance of infrastructure bonds to be successful, the following reforms need to be undertaken:

- Macro fundamentals: Fiscal and monetary policies need to be stabilized; inflation needs to be tackled very strongly; there needs to be a level of stability in interest rates; and domestic savings rate need to significantly improve;
- Capital Market: Public securities market should be put in place; effective independent regulation should be crafted; and bond listing rules and procedures need to be well established;
- Pension Sector: There is a need to incentivise citizens to contribute into pension schemes; the use of professional asset management needs to be encouraged; effective independent regulation needs to be established, and there should be flexible sector allocation of portfolio;
- Issuers: The forms of bonds in the market should include long-term government bonds; parastatals and municipal bonds; corporate bonds in different sectors; and innovative structures such as Asset Backed Securities (ABS);
- Infrastructure: Infrastructure needs to become a policy priority; regulation and tariff reform need to be implemented; Independent Power Producers (IPPs) need to be encouraged; enabling law for concession/PPP need to be enacted.

Conclusion

Africa has the potential to meet a significant part of its infrastructure investment needs from domestic sources. Specifically, some African capital markets across the continent already have the capacity to provide part of the financing that is needed to help tackle the infrastructure needs across the continent.

One area where more progress is required in all markets is in providing an enabling environment for infrastructure development. This includes establishing independent and professionally managed utilities and providing a regulatory framework for private-sector participation. Experience with private-sector participation in road, rail and ports is mixed. Only South Africa and Kenya have a consistent deal-flow of IPPs, although Nigeria is undertaking promising reforms. Capacity to develop PPPs and the process for approving and regulating projects must be improved in most markets. Too often, key projects remain at the drawing board because they are perceived to be too risky or they lack funds for the development phase.

> Experience with private-sector participation in road, rail and ports is mixed.... Capacity to develop PPPs and the process for approving and regulating projects must be improved in most markets.

These reforms are needed to increase private sector participation in infrastructure development in Africa but also for the issuance of locally denominated infrastructure bonds. As shown above, the process has begun in a few markets, but across the continent there is still a long way to go. It takes time to build a strong capital market, but the broad rules for doing this are available from other countries. African countries need to learn from them.

Further reading on infrastructure bonds

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2. Clifford Chance. 1991. *Project Finance.* London: IFR Publishing

Note

1. AICD 2009.

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Support to Enhance Private Investment for Developing Country Infrastructure

Kaori Miyamoto

Private investment is critical in financing the significant infrastructure needs of developing countries. This requires a sound financial sector, enabling environment, and risk mitigation instruments. These can be supported by multilateral and bilateral donors.

The Need for Private Investment in Infrastructure

Infrastructure is critical for the delivery of public services and economic development. Road networks, energy, and ICT ease constraints to doing business by reducing transport costs and linking local and global markets, particularly when combined with appropriate trade policies. Infrastructure supports the development of the private sector, which provides the majority of jobs in developing countries. Improving infrastructure is also key in addressing the needs of the poor by enabling better access to safe water, electricity as well as health and education services. The Millennium Development Goals (MDGs) include targets to improve water and sanitation infrastructures as well as ICT, recognising their importance for human development.

As developing countries see infrastructure as key in achieving development, their governments have been allocating their own public funds to build, operate and maintain it. In sub-Saharan Africa for instance, between 2002 and 2006, more than half of the amount spent for infrastructure came from the developing countries' public sector. At the same time, many developing countries, particularly low-income countries (LICs), also rely on aid for their infrastructure financing. In this respect, traditional bilateral and multilateral donors have been increasingly supporting developing country infrastructure, amounting to roughly US$44 billion in 2011.

However, developing countries still face a large financing gap for infrastructure. For instance, 1.3 billion people still lived without electricity in 2011. In the target year for the MDGs of 2015, 605 million and 2.4 billion people will still not have access to safe water and sanitation facilities, respectively. The private sector will also need reliable sources of energy in order to thrive. Thus more funds are needed: in sub-Saharan Africa, an additional US$50 billion a year is required to meet all the infrastructure needs. In order to minimise environmental damage, build resilience and avoid costly renovation at a later date, massive investment is also required to establish low-carbon, climate-resilient green infrastructure. While the BRICS have recently agreed to create a development bank to provide funding for infrastructure project initially worth US$4.5 trillion, the actual establishment of this bank may take a few more years.

Therefore, as developing country governments and donor countries are struggling to mobilise further public resources, increased private sector participation and investment will be indispensible to meet the infrastructure financing gap. This approach is in line with the Monterrey Consensus on Financing for Development, the G20 High Level Panel on Infrastructure, and the more recent agreements at the High Level Forum on Aid Effectiveness in Busan. At the same time, both developing country governments and donors need to ensure that the profit incentive of the private sector do not undermine governments' pro-poor and other development objectives. As the ultimate objective is sustainable development, private investment for infrastructure should be pursued when it is deemed to contribute to the former.

Private sector participation in infrastructure includes: management and lease contracts; concessions; greenfield projects; and divestitures. Through these modalities, private investment in infrastructure projects in developing countries increased from US$18 billion in 1990 to US$114 billion in 2006. Between 1990 and 2011, Latin America received almost 40% of private investment for infrastructure, followed by East/South Asia and Europe/Central Asia, which received between 15% and 20% respectively. The Middle East and North Africa (MENA) and sub-Saharan Africa accounted for a little more than 10% of total investment. Here, while large multinational investors from OECD countries used to be dominant, emerging market firms are increasingly becoming prominent.

> Increased private sector participation and investment will be indispensible to meet the infrastructure financing gap.

Challenges in the Financial Sector and Enabling Environment

At the same time, many developing countries still face challenges in accessing international and local finance, which depends on a sound financial sector that provides adequate banking services, mobilises savings, and allocates financing to firms wanting to invest. In particular, local commercial banks are often too small to provide funding for large infrastructure projects. They are also often risk-averse with excessive collateral requirements, making loan tenures too short for long-term projects. In turn, this limits them in building relevant experience and skills to undertake project financing or to participate in project identification, design, negotiation with capabilities equal to the investors. In addition, non-bank financial services such as bonds and guarantees are also limited in LICs.

On the other hand, there is growing interest in tapping into local and regional sources to overcome the dearth of financing with maturity terms that are commensurate with long term horizons of infrastructure projects. While not suitable for all countries, substantial sums could be available for investment if successful pension reforms were undertaken, as they could spur the development of capital markets. Furthermore, foreign institutional investment in infrastructure, although still very limited, is rapidly growing in some developing countries.

In order to have a modern financial sector, it is essential to have a sound and enabling environment that ensures fair competition, information transparency, and security for the rights of borrowers, creditors, and shareholders. This enabling environment includes high standards of public and corporate governance and the rule of law. As underlined in the Organisation for Economic Co-operation and Development (OECD)'s *Principles for Private Sector Participation in Infrastructure*, fiscal discipline and transparency must always be safeguarded when engaging with private partners.

These elements are still challenges especially in Sub-Saharan Africa. Many African countries have limited resources for public audits, deficiencies in oversight functions by parliament and lack of co-operation by the executive branch which together compromise budgetary and fiscal monitoring. More generally, civil servants lack administrative capacities to deal with project identification, project preparation and the awarding process when engaging with the private sector. Furthermore, policies, regulatory bodies and laws to prevent anti-competition and anti-corruption practices are often in their preliminary stages.

Development Partners' Support to Infrastructure

As many developing countries face challenges in mobilising private investment to finance their infrastructure needs, bilateral and multilateral institutions are providing financial instruments such as investment funds, blending, risk mitigation instruments (guarantees and insurance), and Output-Based Aid, with the objective of attracting private investors who might otherwise be deterred from entering risky markets. Furthermore, they give support to help improve the enabling environment, especially for public private partnerships (PPPs), when suitable. In Africa, for example, donors disbursed in 2008-10 roughly 22% of official aid for infrastructure to support the enabling environment, with the rest going to the hardware.

Emerging economies also contribute to infrastructure development in developing countries. China is now one of sub-Saharan Africa's biggest partners for infrastructure, outpacing the World Bank: between 2003 and 2007, it allocated a total of US$16 billion compared to the US$8 billion by the World Bank, although 70% of its activities were concentrated in Nigeria, Angola, Sudan, and Ethiopia. China provides many types of financial instruments going beyond aid to enhance Chinese private investment in the continent. Its Development Bank provides non-concessional loans to partner governments who are then bound to contract Chinese companies to build infrastructure and to extend rights to extract natural resources. The Chinese Eximbank provides export credits and concessional loans to developing country governments or Chinese firms for their investments as well as export guarantees to sellers and buyers.

Other emerging economies also contributed to a large share of infrastructure financing in Africa. Seven Arab Funds committed a total amount of US$3.3 billion to Africa's infrastructure in 2010. Other actors included India in power projects and telecoms and Brazil in Lusophone countries. In Africa, stakeholders perceive emerging donors as more effective than traditional donors, for example, by being less bureaucratic and interested in setting policy conditions. On the other hand, traditional donors are seen as having a comparative advantage in helping improve governance and human capital, thereby being potentially complementary with emerging partners that provide more support towards hard aspects of infrastructure.

> (..) many developing countries still face challenges in accessing international and local finance.

Development Assistance Committee (DAC)'s Contribution

Development co-operation to support conventional procurement for infrastructure will continue to play an important role in fragile states or some least developed countries where conditions for private investment may still remain unfavourable in the medium term. At the same time, the DAC is considering ways to use development co-operation more effectively in leveraging private investment, support partner government efforts to create the appropriate enabling environment, as well as engage with the emerging economies that provide significant infrastructure financing in developing countries. The DAC and the Investment Committee are also jointly trying to dialogue better with the private sector to learn how development co-operation could support their investment

With this objective, the DAC is currently gathering information on what key bilateral and multilateral agencies, as well as possibly some emerging economies, are doing to encourage private investment for developing country infrastructure. This will cover, by each agency: data such as the share of ODA infrastructure projects that involve private

> In order to have a modern financial sector, it is essential to have a sound and enabling environment that ensures fair competition, information transparency, and security for the rights of borrowers, creditors and shareholders.

investment among total ODA infrastructure projects; views and approaches towards private investment for infrastructure; and institutional co-ordination among the development co-operation agency, development finance institution (DFI), export credit agency, and other relevant ministries. Once this compendium is put together, two or three case studies of specific infrastructure projects will be carried out in order to document good practices in leveraging private investment.

The DAC is also implementing, *inter alia*, a new work stream to improve the quality and analytical value of its statistics on resource flows to developing countries beyond aid, including in the infrastructure sector, such as foreign direct investment, export credits, national and international DFIs' operations. For example, in this context, a special survey on guarantee schemes for development has been recently launched to estimate the scale of these mechanisms in DFIs' portfolios and the amount of private investment mobilised through them.

Based on this information, guidance will be developed on how donors can become more effective in supporting private investment for developing country infrastructure.

This article is largely based on: K.Biousse and K. Miyamoto (2013).*Support to Enhance Private Investment for Infrastructure in Developing Countries*. Issues Paper OECD.

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ADB Assistance for Public-Private Partnership in Infrastructure Development (1998–2010):

Charting a Way Forward

Aura Abon and Anand Chiplunkar

The Asian Development Bank's (ADB) long-term strategic framework, 2008–2020 (Strategy 2020), emphasizes public-private partnerships[1] (PPPs) and private sector engagement for ADB infrastructure operations[2] to help developing member countries (DMCs) achieve greater economic growth.

Background

Asian infrastructure investment needs up to 2020 were estimated[3] at $8 trillion, or $750 billion per annum over the period 2010-2020. Available funding for infrastructure from traditional sources falls far short of the investment needs. ADB's sovereign and non-sovereign lending portfolio for infrastructure of $11.02 billion (ADB Annual Report 2009) and the World Bank's $23 billion (World Bank Annual Report 2009) can only make modest contributions to the region's growing demand for infrastructure investment.

Leveraging resources is therefore a key priority in ADB's development agenda of Finance++.[4] By leveraging ADB's financial resources and institutional strengths, additional resources and finance from other sources, particularly from commercial sources, are proposed to be mobilized to make more PPP projects happen on the ground.

Nonetheless, in addition to finance, investment in preparation and pre-development of PPP projects – ahead of bidding and backed by ADB technical guidance/support – is the key to achieving the maximum leverage for ADB DMC governments – and ADB itself.

ADB approved the PPP Operational Plan[5] in 2012. It has four pillars as depicted in Figure 1. Each pillar includes illustrative activities that ADB can undertake to support PPP in the DMCs.

Assessment of ADB PPP financing from 1998-2010

Public Sector Projects with PPPs

ADB's public sector PPP portfolio comprised 137 projects with actual and indicative PPP components. Of the 137 public sector projects with PPPs, Pillar 2 (enabling environment) had the highest funding amount, followed by Pillar 1 (advocacy and capacity development), illustrating the importance of "soft" investments in support mechanisms for infrastructure development as well as the investments in infrastructures themselves (see table 1).

Under Pillar 1, the majority of projects dealt with providing assistance in designing, piloting and/or implementing model PPP arrangements such as performance-based maintenance contracts, concessions, and build–operate–transfer. The rest sought to explore PPP and/or private sector participation options in subprojects or sector plans, provide training on PPPs and/or private sector participation, and facilitate knowledge transfer to promote PPP. One project worth $400 million presented options to finance Powergrid's (a state-owned firm in India) equity investment at its request for joint venture transmission projects with private sector investors and financial institutions.

The 63 projects under Pillar 2, mostly helped develop policy, legal, and regulatory frameworks for PPPs, as well as private sector development strategies. Several of these projects also involved components on encouraging institutional framework for PPPs particularly through tariff reforms, and developing guidelines for promoting PPPs.

One of the 26 projects under Pillar 3, the Infrastructure Reform Sector Development Program in Indonesia, supports the establishment of a project development facility for PPPs. This is expected to help prepare feasibility studies and provide transaction execution support, including tendering and procurement, to at least 10 national and about 40 decentralized PPP projects.

Of the 16 projects under the Pillar 4, six projects worth $1,325 million supported infrastructure financing facilities. These facilities support on-lending activities to PPP projects. Two of the facilities have already identified PPP projects, mostly in the road sector. Five projects are supporting a joint venture, two concession arrangements, performance-based deferred payment structure procurement and/or performance management contracts, and onlending activities to health service providers.

Figure 1: The Four Pillars of ADB's PPP Operational Framework

Pillar 1	Pillar 2	Pillar 3	Pillar 4
Advocacy and capacity	Enabling environment	Project development	Enabling environment
• Create awareness • Invoke leadership • Identify PPP potential in sector planning and the private sector development agenda • Development capacity of government and ADB staff • Enhance external knowledge management links	• Develop policy, legal, regulatory, and institutional framework to facilitate, guide, and manage the development of PPPs (country- or sector-specific)	• Align ADB project cycle to the PPP development process • Assist in the development of pathfinder projects • Provide support (including advisory support) throughout the process up to contract award and/or financial close that can come as expert support, tool kits, funding costs of transaction advisors, or procurement support	• Provide credit enhancement products, e.g., equity, long-term debt, refinancing subordinate debt, cofinancing, and guarantees • Establish credit guarantee facility • Provide public sector financial support through schemes such as viability gap funding
Regional Department (RD) Responsibility			**Private Sector Operations Department(PSOD/RD)**

Source: Asian Development Bank.

Table 1: Classification of Public Sector Projects with PPPs

Particulars	Pillar 1	Pillar 2	Pillar 3	Pillar 4
No. of projects[7]	52	63	26	16
Amount ($ million)	3,115.0	6,770.6	2,628.4	2,073.6

Source: ADB

Private Sector Projects with PPPs

Under Pillar 4, loan and equity financing of $5,324.24 million was provided to 49 ADB's private sector projects structured as PPPs. This included financing equity investments of governments in private organizations or special purpose vehicles created to implement specific projects. One project was under Pillar 3.

Financing instruments used by ADB to support these private sector projects with PPPs include private sector loans, political risk guarantees, partial credit guarantees, complementary financing schemes, and equity investments. PPP modalities supported by these projects range from build–operate–transfer, build–own–operate–transfer, concession, private independent power producers, joint ventures, service contracts, build–own–operate, design–build–finance–operate, financing facility, and purely private sector investments such as direct loans to and equity investments in private organizations.

Technical Assistance with PPPs

Technical Assistance (TA) projects supporting PPPs were primarily used to develop government capacity to manage PPPs, as well as to foster an enabling environment for PPPs. The TA projects with PPPs numbered 219, amounting to $226.04 million. It must be noted that 58 TA projects were simultaneously classified under two or more pillars.

Under the Pillar 1, TA projects on improving government capacity in designing and implementing model PPP contracts are the most numerous and have the highest value. Of these TA projects, several were project preparatory TAs (see table 2).

Under Pillar 2, TA projects sought to develop regulatory and institutional framework for PPPs and private sector participation, as well as to prepare PPP policies, guidelines, and manuals. They also focused on policy and legislative reforms aimed at bolstering legal and business environment for PPPs.

There were 28 TA projects counted under Pillar 3. One of these is the project preparatory TA for the PPP Pilot Project Initiative (Mainstreaming PPP) in India. This supports project development collaboration between ADB and the Government of India-funded Infrastructure Project Development Fund. It will help conduct project feasibility reviews and PPP options development, structure the PPP model in detail, and assist in the PPP bid process management and transaction and contractual documentation. The project preparatory TA will share the development cost with the fund on a project-by-project basis, with ADB shouldering 25% of the costs.

Several TA projects under Pillar 3 were also used to structure or establish project development facilities, including those on Mainstreaming Public-Private Partnerships and Public-Private Partnership Development in the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area and Indonesia-Malaysia-Thailand. Others were used to help prepare or implement projects that were structured as PPPs such as those on Solicitation of Private Sector Implementation of the Meghnaghat Power - Supplementary and Tendering Process for Independent Power Producer Plants.

Way forward

The ADB PPP Operational Plan approved in 2012 provides a consistent analytical and operational framework for PPP assistance. ADB strives to include PPP needs into each of its country partnership strategies (CPSs) and country operations business plans (COBPs) with its DMCs.

The need to develop the project to a transaction or bankable level requires investment in Pillars 1 and 2. ADB will continue to provide holistic support to enhance the capacity of DMCs and strengthen the enabling frameworks for PPPs such as the ADB PPP initiative in India[8] and the Philippines.[9] In order to get a macro perspective, ADB had also commissioned The Economist Intelligence Unit for evaluating the environment for PPPs in 11 Asia-Pacific countries that were benchmarked with mature PPP countries like Australia and UK.[10] These preparatory activities will ultimately help in identifying candidate PPP projects that would be developed under Pillar 3 to feed into a pipeline of bankable PPP projects.

Table 2: Classification of Technical Assistance Projects with PPPs

	Pillar 1	Pillar 2	Pillar 3
No. of TA projects	165	102	28
Amount ($ million)	131.42	58.55	36.07

Source: ADB

Notes

1. For more details see www.adb.org/publications/classification-adb-assistance-public-private-partnerships-infrastructure-development-1998-2010
2. ADB. 2008. Strategy 2020: *The Long-Term Strategic Framework of the Asian Development Bank*, 2008–2020. Manila
3. ADB and ADBI. 2009. *Infrastructure for a Seamless Asia.* Manila.
4. ADB aims to provide DMCs value addition beyond finance, hence the first + is for knowledge enhancement of DMC through ADB involvement and second + is for leveraging ADB financial resources.
5. See www.adb.org/documents/public-private-partnership-operational-plan-2012-2020.
6. "Indicative PPP components" refer to envisaged PPP elements in projects that are still in the early stage of implementation, particularly project approvals during 2009–2010. Other projects with indicative PPP components include those that envisage PPP arrangements upon completion of the construction of project facilities.
7. The number of projects would not equal to 137 since some projects were classified under two or more pillars.
8. PPP Cells set up in 23 States and 7 Ministries over 5 years with $15.3 million of ADB technical assistance. The TA focused in addressing the constraints and challenges to PPP development by providing capacity development and support to strengthening of the policy and institutional framework. Pipeline development and support for pilot projects as well as financing support for bankable projects is also provided under the initiative.
9. Technical Assistance in Strengthening PPPs in the Philippines. The TA's outcome is an improved government capacity to promote, develop, and implement PPP projects. The TA will achieve its outcome through (i) capacity building to improve the government's PPP systems and capacity; and (ii) funding for the PDMF for preparation, competitive bidding, negotiation, and monitoring of environmentally friendly PPP projects.
10. ADB and Economist Intelligence Unit. March 2012. *Evaluating the environment for public-private partnerships in Asia-Pacific – The 2011 Infrascope*. www.adb.org/publications/evaluating-environment-public-private-partnerships-asia-pacific-2011-infrascope>.

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Closing the Infrastructure Gap:

A Three-Pronged Approach

Andrea Engel and Lorenzo Nelli Feroci

Even as crews put the finishing touches on newly built roads, ports, and power stations across Africa, the continent's people and its growing economies are demanding more. Africa's recent rise is highlighting -- even deepening -- long-standing structural problems, with infrastructure growth failing to keep pace.

The reality in many African cities is congested roads, a lack of clean water, and frequent power outages. Most of Africa's population has no access to electricity at all. Overcoming the obstacles is also one of the keys to helping the private sector reach its potential in creating jobs, raising incomes, and improving lives. The World Bank estimates that $93 billion in annual investment in infrastructure is needed -- an amount that is more than double the current rate of spending.

While often primarily the domain of government, infrastructure is also an area where the private sector can have a vital impact, providing essential services to large numbers of users, efficiently, affordably, and profitably. Private investors have brought in the capital, technology, and management expertise needed to improve the performance of high-priority infrastructure assets -- giving large numbers of people their first access to electrical power, clean water, or improved transportation and communication. When incorporating high standards of environmental and social sustainability, such projects can have a great impact without depleting the fragile ecosystems on which we all depend.

The demand for such projects, and the financing needed to make them a reality, is enormous. No one institution can begin to meet it alone. Partnerships are essential as is a multi-pronged approach that tackles the many challenges involved. IFC works with its partners on every stage of the process, advising governments on structuring public-private partnerships (PPPs), supporting its clients in the preparation of new ventures, and financing projects and mobilizing resources from a wide variety of sources. In the fiscal year 2012, IFC funding for infrastructure and natural resources projects in Africa surpassed $1 billion for the first time.

Paving the way

Much of our emphasis is on structuring and introducing PPPs to improve the delivery of basic services. Developing projects requires time, effort, experience, and the ability to get the right balance between private and public interests. IFC has successfully counseled African governments, including local municipalities, on ways to engage the private sector in essential public services, and on how to restructure state-owned enterprises.

We supported Africa's first successful airline privatization, improving transportation across the continent since the Kenyan government sold a controlling stake of its airline to KLM, and received more than $70 million. We advised the Kenyan government throughout the privatization process. IFC approached a total of 154 airlines, resulting in four major international carriers showing serious interest. The success of this joint venture led to the doubling of passenger traffic and cargo between 1995 and 2003 and a boost to tourism in the country.

Removing early stage obstacles

One of the major constraints private investors face in infrastructure projects in the world's poorest countries is the limited availability of funds and experienced professionals dedicated to project development. To tackle this issue, in 2008 we established the InfraVentures $100 million fund to provide risk capital to finance the early stages of the development of infrastructure projects, as well as expertise in critical areas of project development. The fund therefore allows us to successfully bring both private and PPP infrastructure projects to the financing stage. Half of IFC InfraVentures' resources are expected to be devoted to Sub-Saharan Africa.

In Mali, IFC and Scatec Solar are looking to develop 60 MW of solar power of which Mopti (10MW) is the first step. InfraVentures supports the company in the preparation of project documents, including the Concession Agreement and the Purchasing Power Agreement. Additionally, it will finance the Environmental and Social Impact Assessment in compliance with IFC's Performance Standards. IFC co-development will result in a lower power sale price compared to the price of the current diesel-generated power in the off-grid location where the solar plant will be located and in the relief of pollution currently caused by the plant.

Financing the most difficult ones

Even once the regulatory aspect and the structuring of infrastructure projects are dealt with, some investments have difficulty in attracting financing. IFIs and donors can play a critical role in facilitating investment for those projects, in particular when they promise a positive social impact. Blended finance plays a key role in this context.

In 2012 in South Africa for example, IFC supported Abengoa's 50MW concentrated solar power project by providing $72 million in financing and by coordinating $229 million in parallel loans from five Development Finance Institutions. Additionally, it blended $15 million in concessional financing from the Clean Technology Fund, which provided lower interest rate financing to enable climate related projects to proceed. The investment created over 300 jobs and 174,000 metric tons per year of GHG emissions are expected to be avoided, the equivalent of taking 35,000 cars off the road each year.

Infrastructure can be a vector of change in addressing some of the most systemic development challenges of today's world. There is an urgency to work hard to close the infrastructure gap. Governments and the private sector need to work hand in hand to improve the delivery of services for their citizens; IFIs and donors can facilitate this task by supporting the different stages of the process.

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EPA Update

This section covers recent EPA developments to all ACP and EAC regions.
Stay tuned for coverage of negotiations in other regions.

Quentin de Roquefeuil

Economic Community of West African States (ECOWAS)

West Africa revises its Market Access offer, puts final touches on its common trade policy

Several important trade-related meetings have taken place in the West African region in the past months. As we reported back in February, information coming from the ECOWAS Ministerial Monitoring Committee (MMC) hinted towards a possible upwards revision of the region's EPA market access offer. The level of market opening on the West African side has been one of the major sticking points in the EPA negotiations with the European Union, with ECOWAS – up until now – refusing to consider a percentage of market access opening above 70%.

According to sources close to the negotiations, a new draft market access offer was presented by the ECOWAS and UEMOA commissions to the MMC in the capital of Cape Verde, Praia, back in late March. The level of market access opening in the new draft offer stood at 74.19%, inching closer to the EU's position, asking for 80% market access opening. However, no conclusion was reached at the Praia MCC meeting, as ECOWAS Member States requested more time to study the implications of the revised market access offer on their economies.

Shortly thereafter, an expert meeting was convened in Banjul, Gambia, on May 6th in order for Member States to report back on the revised market access offer and voice their concerns. A few hundred tariff lines were reportedly shifted in the liberalization offer's schedule, but leaving the general level of market opening roughly untouched. The new Market Access offer should by submitted to the ECOWAS Council of Ministers shortly. It can be expected that a negotiating session with the EU will be convened shortly after should the ministers adopt the expert's work.

Expert and civil servants in West Africa have also been working on another major point of contention in the negations, namely the development finance component of the agreement. It seems that the region is putting significant work into actualizing the "Programme de l'APE pour le Développement (PAPED)", last updated in 2010. The PAPED is the main programme for the financing of EPA related needs and challenges. ECOWAS has always held the position that the signing of the EPA is tied to an "appropriate" financing of the PAPED from the EU, given the fiscal, competitive, and other trade related needs that the region will face if an EPA is signed. The fund meant to operationalize the plan "Fond Régional pour l'APE" (FRAPE), is also progressing.

On a related topic, the region's Finance Ministers have put the final seal of approval on the region's Common External Tariff (CET) on March 20th during the aforementioned Praia meeting.[1] The regional CET is the fruit of ten years of negotiations amongst ECOWAS member states. Notable features of the CET include, among others, the so-called "fifth band" and the "Community Integration Levy". The fifth band regroups "strategic" products deemed essential for economic development, at a rate of 35%. The fifth band was incorporated at the explicit request of Nigeria and various other actors, who feared that without it the region's most promising sectors would not be granted appropriate protection from outside competition. The band now groups together 130 different tariff lines, out of a total of 5899.

The two regional "community levies", financing the activities of the two regional commissions (UEMOA and ECOWAS), will also be merged into a single "Community Integration Levy" of 1.5%. Up until now, two different community levies coexist in the region – one for the UEMOA commission, the other for the ECOWAS commission. This single community levy should harmonize them in a single instrument.

The region is now working its trade defence instruments, whose implementation and design is meant to allay some fears amongst ECOWAS member states and productive sectors of increased competition from extra-regional imports. The first drafts have been presented in Dakar, on the 19th of April, during the 13th meeting of the joint CET management committee and further discussed during the 52nd session of the ECOWAS technical committee on trade, customs and free movement. The main points of discussions seem to revolve around the institutional setup of the instruments – clear task divisions and process being key to avoid abuse of protective measures.

East African Community

EAC and EU work towards finalizing technical details, political issues remain on the table

EAC and EU technical level officials met for two days in Brussels, Belgium, from May 2nd to May 3rd to discuss rules of origin and institutional provisions of the agreement. As we reported in our last update, this meeting was seen as a chance to iron out last technical details before a higher level political decision could be taken on the remaining "political" bottlenecks, e.g. the MFN clause and cumultaion with South Africa.. It should be followed by yet another round of technical level officials and senior officials after which, it is hoped, a ministerial package can be put together.

On rules of origin, the fisheries chapter has reportedly been finalized and closed after the EAC reviewed the wording submitted by the EC last round. The question of cumulation with "other ACP states" remains unsettled, with the EC arguing that only ACP states having signed an EPA are eligible for cumulation. This has been forwarded to Senior Officials for discussions. Further, the previous round had seen parties agree to work on a "package" of product specific rules still outstanding. It seems that the EAC proposal was deemed insufficient by the EC, who remarked that very few changes had been made compared to the EAC's initial position.

On institutional matter and dispute settlement, developments of interest include the possible establishment of an SPS working group as a specialized committee in the agreement's institutional structure, an apparent disagreement over the value of including interim measures in the text on dispute settlement, and finally disagreement on compensation resulting from dispute settlement. These have been singled out for further discussion.

Southern African Development Community

Further progress on agricultural market access and rules of origin, but trade related matters remain pending

A negotiating round of the EU-SADC EPA took place in Johannesburg, from March 19th to 22nd at Senior Officials level. As we reported back in December, the focus of negotiations at the moment seems to revolve around issues of Market Access in agricultural products – a sector where both sides have offensive and defensive interests.

Reportedly, on agriculture, SADC and the EU agreed on the principles of establishing a specific agricultural safeguard in the text of the agreement. This should be seen in conjunction with SACU's agreement to revise its market access offer in agricultural goods upwards by the next round. The round also made good progress by all accounts on Rules of Origin – the question of cumulation appearing to have been largely solved, at least regarding to which countries can cumulate on what products.

Progress on trade-related issues such as services, investment, competition, etc. is slower, but there are indications that the EU wants to put the issues more firmly on the agenda relatively soon. SADC member states' appetites towards service liberalization vary, but the EU retains that it will be difficult to submit an agreement to the parliament that does not cover the issue.

On another note, South Africa's recent request for protection of three types of South African agricultural products names in Europe (Rooibos tea, Honeybush and Karoo Lamb), have sent positive signals to EU officials seeking to formally incorporate GIs in the SADC EPA, an option the region is reflecting upon.

Note

1. See ECOWAS press release "ECOWAS ministers of finance adopt regional common external tariff".

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Monthly highlights from ECDPM's Talking Points

www.ecdpm-talkingpoints.org

The impact of European Commission support to private sector development (PSD)? We're still none the wiser, Talking Points, Bruce Byiers, 3 May 2013

Bruce Byiers blogs about an evaluation that is heavy in terms of pages, but light on recommendations. With ever-increasing pressure for donors to "show impact" for their aid programmes, there was a lot of interest in last week's presentation of the Evaluation of EC Support to Private Sector Development in Third Countries from 2004 to 2010. But what can the European Commission (EC) actually take from this evaluation? The report estimates that the EC spent € 2.4bn directly on PSD over the period (plus € 4.5bn if you count indirect support through general budget support and the (...)

Africa, Europe and its rivals in love, Talking Points, Sahra El Fassi, 8 May 2013

On May 25 this year, the African Union celebrates its golden jubilee anniversary in Addis Ababa. The event will be marked by numerous milestones, and is under the theme of Pan Africanism and African Renaissance. Beyond the confetti, however, there is a desire for the next 50 years to be sung to a better tune: one that is based on improved socio-economic opportunities, peace and political stability on the continent. One that builds upon constructive and strategic partnerships with old partners and newcomers that match the interests and the needs of the continent. The African Union (...)

Doing better on EU visibility – lessons for the EEAS Review, Talking Points, Andrew Sherriff, 15 May 2013

Visibility, everyone wants it, but how well are they achieving it? The EU is consistently criticised for low visibility on its external action, and now the European Parliament is calling for the issue to be dealt with in the on-going Review of the European External Action Service. This blog asks: what has actually been learned from efforts to promote EU visibility in external action? Surprisingly in 2010 the European Commission tasked what was formerly the Joint Evaluation Unit for External Relations to provide an answer to this very question. ECDPM, along with DRN, led the (...)

Mali donors' conference: towards low cost solutions?, Talking Points, Damien Helly, 16 May 2013

Yesterday's donors' conference on Mali organised in Brussels by the EU and France "in close coordination with Mali" pledged over 3 billion euros. It gathered several hundreds representatives from all over the Sahel region, Western Africa, and the world, but was it just another donor-recipient show? The statements made today following the conference will inevitably be equally frustrating, but will the glass be half full or half empty? An electoral renaissance? In many respects, the glass is half full because the country is said to be half way to its next presidential elections, which are (...)

Monthly highlights from ECDPM's Weekly Compass Update

www.ecdpm.org/weeklycompass

Lessons learnt and recommendations in mediation and dialogue, Weekly Compass, No 147, 17 May 2013

The European Union has a long history and rich experience as an actor in mediation and dialogue from its recent high-level work regarding Kosovo-Serbia to supporting grassroots work in the Philippines. In two reports for the European External Action Service, ECDPM addresses lessons in EU mediation and dialogue and reviews the one-year pilot project by the EEAS Conflict Prevention, Peacebuilding and Mediation Instruments Division, to follow up on the Concept on Strengthening EU Mediation and Dialogue Capacities. The reports address the EU experience of a 'glass half full' and outline recommendations to take the work of EEAS Mediation further by making the most of partnerships and moving from ad hoc approaches to international best practice.

The dilemmas of Policy Coherence for Development, Weekly Compass, No 146, 26 April 2013

It has long been recognised that developing countries are affected by a mixture of aid, development policies and non-development policies. The promise to "development proof" these non-development areas by promoting Policy Coherence for Development (PCD), remains undiminished. Yet, a new ECDPM Discussion Paper comparing 6 EU Member States' PCD systems makes for sobering reading. The paper, originally commissioned by the Danish Ministry for Foreign Affairs, notes that political leadership is often lacking and that too little investment is made to bring PCD into the day-to-day business of government – particularly where it concerns research on the impact of other donor policies on developing countries.

How can developing countries deliver better services?, Weekly Compass, No 145, 19 April 2013

Many developing countries are failing to provide adequate delivery of services in areas such as health, transport and sanitation. ODI believes the problem is that practitioners do not have clear guidelines on how to improve in these areas. Their new report on "the politics of delivery" suggests there is too much focus on 'macropolicy' rather than 'downstream' delivery issues. Sectoral aid and programmes don't address the incentives faced by frontline service providers who have control over the provision of goods and services, says ODI. The way forward is to create a toolbox using diagnostic tools, conceptual frameworks and empirical research.

EU support to private sector in developing countries could be improved, Weekly Compass, No. 144, 12 April 2013

Over the period 2004-2010, the European Commission contracted, on behalf of the EU, €2.4bn of support to private sector development (PSD) in developing countries. The EU has developed a set of instruments for its PSD support that allow it to address comprehensively the range of PSD needs in different regions. There were however some weaknesses in terms of complementarities and synergies between different mechanisms and little coordination between bilateral programmes and regional programmes and investment facilities according to an evaluation published by the European Commission's Development Directorate this week.

ACP-EU Trade Calendar

June 2013

EU - SADC - EPA Senior Officials Meeting, Brussels (date, tbc)

Resources

Glass Half Full: Study on EU Lessons Learnt in Mediation and Dialogue, Andrew Sherriff, Volker Hauck, ECDPM study undertaken for the European External Action Service, May 2013

The Post-2015 Development Framework: Issues, Challenges, Opportunities, Anna Knoll, Background note for the high level session of the Stakeholders meeting of the Belgian Development Cooperation, May 2013

ACP-EU Relations beyond 2020: Exploring European Perceptions, Niels Keijzer, Brecht Lein, Mario Negre, Nicola Tissi, German Development Institute - Briefing Paper, April 2013

Insights from Developments in National Policy Coherence for Development Systems: Key Cross Cutting Issues and Dilemmas, Greta Galeazzi, Anna Knoll, Florian Krätke, Brecht Lein, Anna Rosengrean and Andrew Sherriff. ECPDM Discussion Paper 144, April 2013

European Report on Development (2013) Post 2015: Global Action for an Inclusive and Sustainable Future, Overseas Development Institute (ODI), German Development Institute/Deutsches Institut für Entwicklungspolitik (DIE), European Centre for Development Policy Management (ECDPM), April 2013

European Union Development Cooperation in a Changing Global Context, Adam Moe Fejerskov, DIIS Report 2013:2, April 2013

What future for EU development cooperation in middle-income countries? The state of play of negotiations between EU institutions, Sian Herbert, ODI and Bond, April 2013

Building or Bypassing Recipient Country Systems – Are Donors Defying the Paris Declaration, Stephen Knack, The World Bank, Policy Research Working Paper 6423, April 2013

The Montpellier Panel 2013, Sustainable Intensification: A New Paradigm for African Agriculture, Agriculture for Impact, April 2013

Africa Competitiveness Report 2013, World Economic Forum, The World Bank, African Development Bank, and Ministry of Foreign Affairs of Denmark, 2013

Revenue Reform and Statebuilding in Anglophone Africa, Mick Moore, ICTD Working Paper 10, May 2013

Africa Progress Report 2013: Equity in Extractives: Stewarding Africa's natural resources for all, Africa Progress Panel, 2013

Perspectives on Global Development 2013 - Industrial Policies in a changing world, OECD, May 2013

The Future of Aid for Trade: Challenges and Options, Jean-Jacques Hallaert, Groupe d'Economie Mondiale (GEM); International Monetary Fund (IMF), 16 April 2013

Annual Report 2011 on EIB in Africa, the Caribbean and Pacific and the overseas territories, EU Bank and European Investment Bank, May 2012

Making sense of the Politics of Delivery, our findings so far, Marta Foresti, Leni Wild and Tam O'Neil, ODI, April 2013

Budget support in fragile states: feeding the beast or building resilience? Juana de Catheu, European University Institute, EUI Working Papers, March 2013

Trade Costs: What have we learned? A synthesis report, OECD Trade Policy Paper No. 150, Evdokia Moïse and Florian Le Bris

Governance, trade and statehood in Africa, Gerhard Erasmus, tralac, Working Paper No.S13WP04/2013, 2013

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