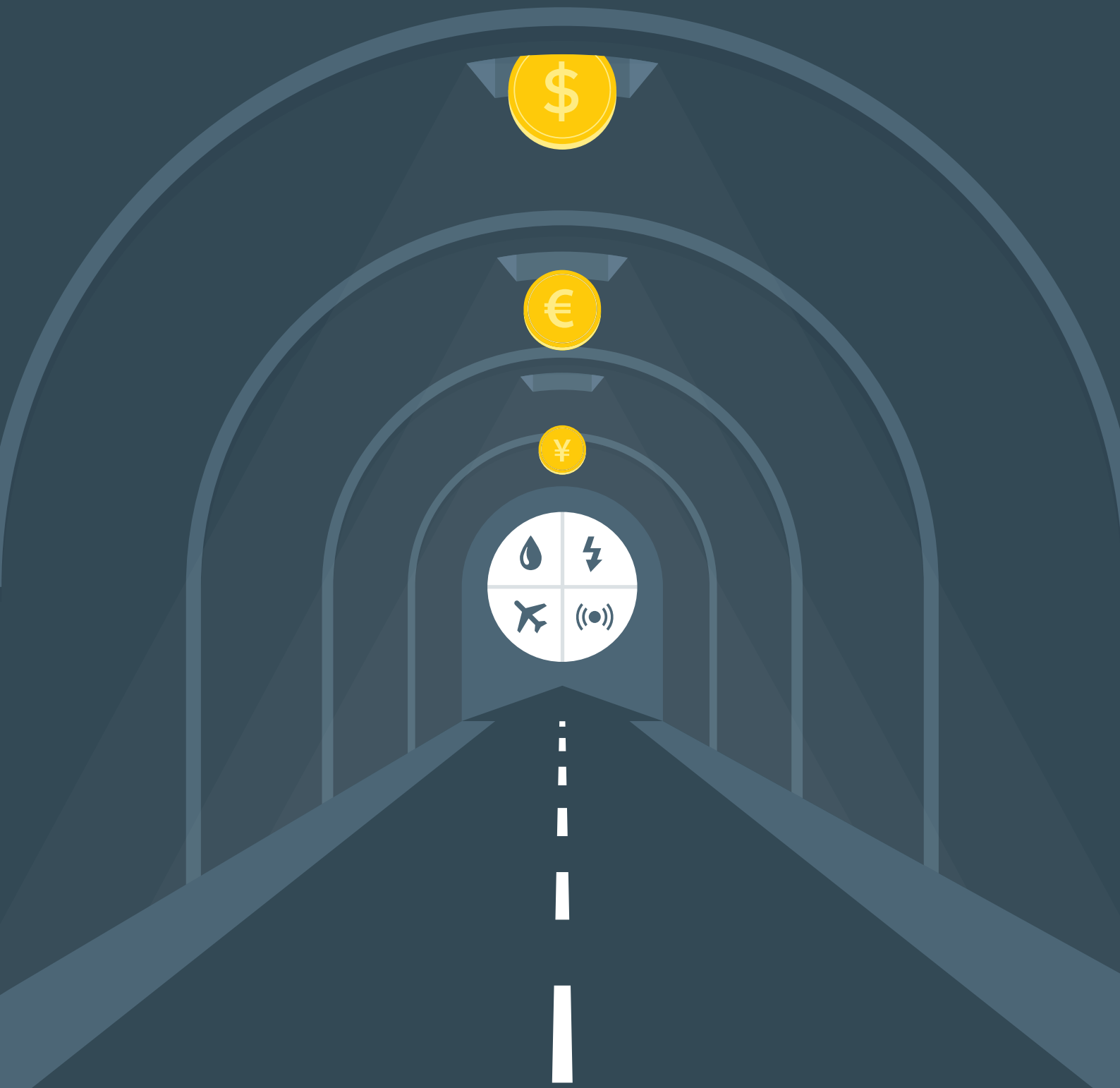

Assessment of Project Preparation Facilities for Africa

Volume A: Diagnostic & Recommendations

The Infrastructure Consortium for Africa
Le Consortium pour les infrastructures en Afrique

November 2012

Submitted by
Cambridge Economic Policy Associates Ltd

in association with
Nodalis Conseil

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Sponsors of the Assessment

The Infrastructure Consortium for Africa helps improve the lives and economic well-being of Africa's people through encouraging, supporting and promoting increased investment in infrastructure in Africa, from both public and private sources. This Assessment of Project Preparation Facilities for Africa was commissioned by the Secretariat of the Infrastructure Consortium for Africa (ICA) and funded by a grant from the ICA Trust Fund.

This assessment forms part of the Infrastructure Action Plan prepared by the Multilateral Development Bank Working Group on Infrastructure for the G20. It also responds directly to the G20 High Level Panel on Infrastructure (October 2011), which recommended that "the size and range of project preparation facilities should be reviewed, with the view to restructuring them on a more sustainable basis including the provision of additional resources if needed. Greater emphasis should also be placed on the ability to recover the costs of project preparation. This would allow grants and public funding to be used more selectively and effectively."

Data

The assessment was prepared from April to November 2012 and reflects the data available at the time of the work.

Authors

This is an independent assessment prepared and led by Cambridge Economic Policy Associates (CEPA), a London-based economic and finance advisory firm (www.cepa.co.uk), in association with Nodalis Conseil, a French consultancy firm specialising in the development and management of infrastructure, utilities and public services (www.nodalis.fr).

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Executive Summary

The lack of adequate project preparation funding for infrastructure has been recognised by both the G20 through its High Level Panel (HLP) on Infrastructure and the multilateral development banks (MDBs) in their Action Plan, as a key constraint to infrastructure development in Africa. Their reports[1] specifically state a concern that support provided by project preparation facilities (PPFs) is highly fragmented due to the apparent large number of such facilities.

In response to this, the Development Working Group (DWG) of the G20 has asked Infrastructure Consortium for Africa (ICA) to investigate this issue further. In turn, ICA has commissioned CEPA to undertake an assessment of PPFs in Africa, both collectively and individually, to establish, where possible, ways of co-ordinating, rationalising and consolidating PPF activities to improve overall performance.

The initial focus of this report is a testing of this hypothesis. In addition to recommendations on project preparation, the reports of the HLP and MDBs also made a series of recommendations regarding the wider environment for infrastructure project preparation, not least the need for MDBs hosting PPFs to streamline their procurement policies and to increase their support to sole-sourced projects. Moreover, some donors, such as the World Bank, have suggested that the increase in preparation funding would be best addressed by allowing the regional IDA allocation to be used for project preparation purposes and / or through the creation of a new 'revolving fund'.[2] These wider strategic issues form an important context to the study, beyond that of assessing individual PPFs, and are picked up in the report's conclusions and recommendations.

Selecting and assessing infrastructure PPFs

Initially, building on work previously undertaken by the ICA, CEPA identified up to 67 potential sources of funding for project preparation, including national public-private partnership (PPP) units. Excluding the latter, a more detailed analysis undertaken over the course of the project has, however, revealed a core group of 17 facilities, of which 12 are currently operational (although in varying need of replenishing). The other five are yet to either achieve minimum funding levels or else commit to any projects.

The other identified potential sources of infrastructure project preparation funding typically comprised more generic donor programmes, or their technical assistance components, as well as credit advance facilities and bilateral trust funds held at MDBs. While these are indeed potential sources of project preparation resources, for the most part this would be incidental to the much wider and varied missions of the entities identified, rather than being an integral part.

CEPA's Terms of Reference (ToRs) initially called for a review of individual facilities and ranking of performance. It became rapidly apparent that this would be more than challenging for a number of practical and other reasons. First, the identified facilities were far from homogenous, making evaluations difficult on a like for like basis. Second, any such performance assessment would need a reasonable degree of engagement by the PPFs themselves; such a potentially threatening approach would have likely been counterproductive. Even after amending the approach to help address these challenges, the engagement and data collection exercise has proved extremely difficult.

To address the second point, the approach was widened to include an assessment of the infrastructure project preparation landscape in Africa and the role of PPFs within this. Although the information collected was far from comprehensive, individual PPFs have been assessed against a range of parameters, on as comparable a basis as the evidence has allowed. While there are limits to the findings and assessment of individual PPFs for the reasons cited, the analysis has nonetheless identified several issues relating to specific PPFs that need to be addressed going forwards. More broadly the analysis has sought to deliver a strategic perspective on the distinctive role of PPFs in addressing Africa's project preparation challenge.

As it was not always possible to assess whether an identified facility met the chosen definition of an infrastructure PPF, ex ante, some 30 or so entities were initially approached to take part in a survey of PPFs. Table 1 sets out the 17 infrastructure focused project preparation facilities identified, organised in terms of the extent of their focuses on infrastructure project preparation globally and in Africa.

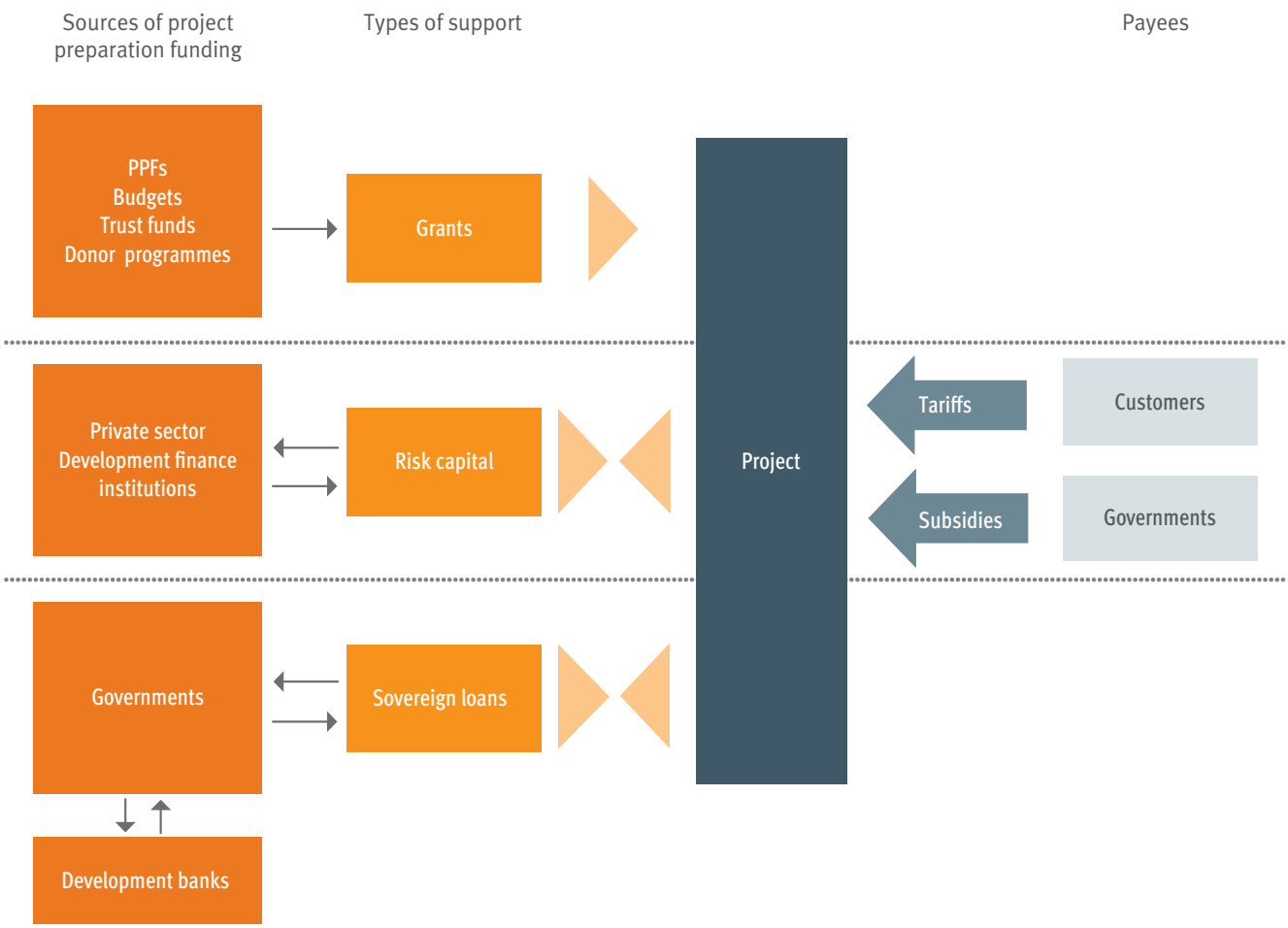
TABLE 1 PROJECT PREPARATION FACILITIES BY FOCUS

AFRICA INFRASTRUCTURE PROJECT PREPARATION	GLOBAL INFRASTRUCTURE PROJECT PREPARATION	AFRICA INFRASTRUCTURE (GENERAL)	GLOBAL INFRASTRUCTURE (GENERAL)
COMESA-PPIU	AFFI-TAF	EU-AITF	ESMAP
DBSA-EIB PDSF	PPIAF	AWF	PIDG-TAF
ECOWAS PPDU	InfraVentures	SEFA[3]	
NEPAD IPPF	DEVCo		
NEPAD PPFs			
SADC PPDF			
InfraCo Africa			
USAID AIP			

Wider project preparation landscape

PPFs are, however, just one source of funding for project preparation. But along with budgetary support, funding from trust funds and development agency programmes, they are an important source of grant funding. Development credits ultimately need to be repaid to sovereign lenders by governments, potentially but not necessarily paid for by the project, whereas risk capital provided by project developers needs to be repaid by the project, that is, ultimately by the project's customers, together with any government support. These flows are illustrated in Figure 1.

FIGURE 1 SOURCES OF FINANCIAL RESOURCES FOR PROJECT PREPARATION[4]



Nature of PPF support and coverage

Most of the different PPFs identified tend to focus on providing support to different phases of the project cycle, rather than to all phases (although some do). This support tends to break down into early and mid-to-late stage support. Early stage support focuses on identifying / working up different project concepts and determining the elements of the enabling environment that need to be in place for the project to be able to obtain financing (specifically a private sector sponsor in the case of PPPs). The latter phases involve the more detailed technical design, financial and legal structuring, environmental and other impact assessments and execution of the project.

Table 2 provides specific examples of the activities undertaken and outputs required, differentiating between early, mid and late stage activities.

The provision of support to sequential phases of the project cycle by different PPFs has become known as the 'tunnel of funds' approach to project preparation.

A useful way of establishing the coverage of PPFs is to map each one's main focus onto a matrix by type of public and private sector projects and by project cycle phase. This is illustrated in Figure 2.

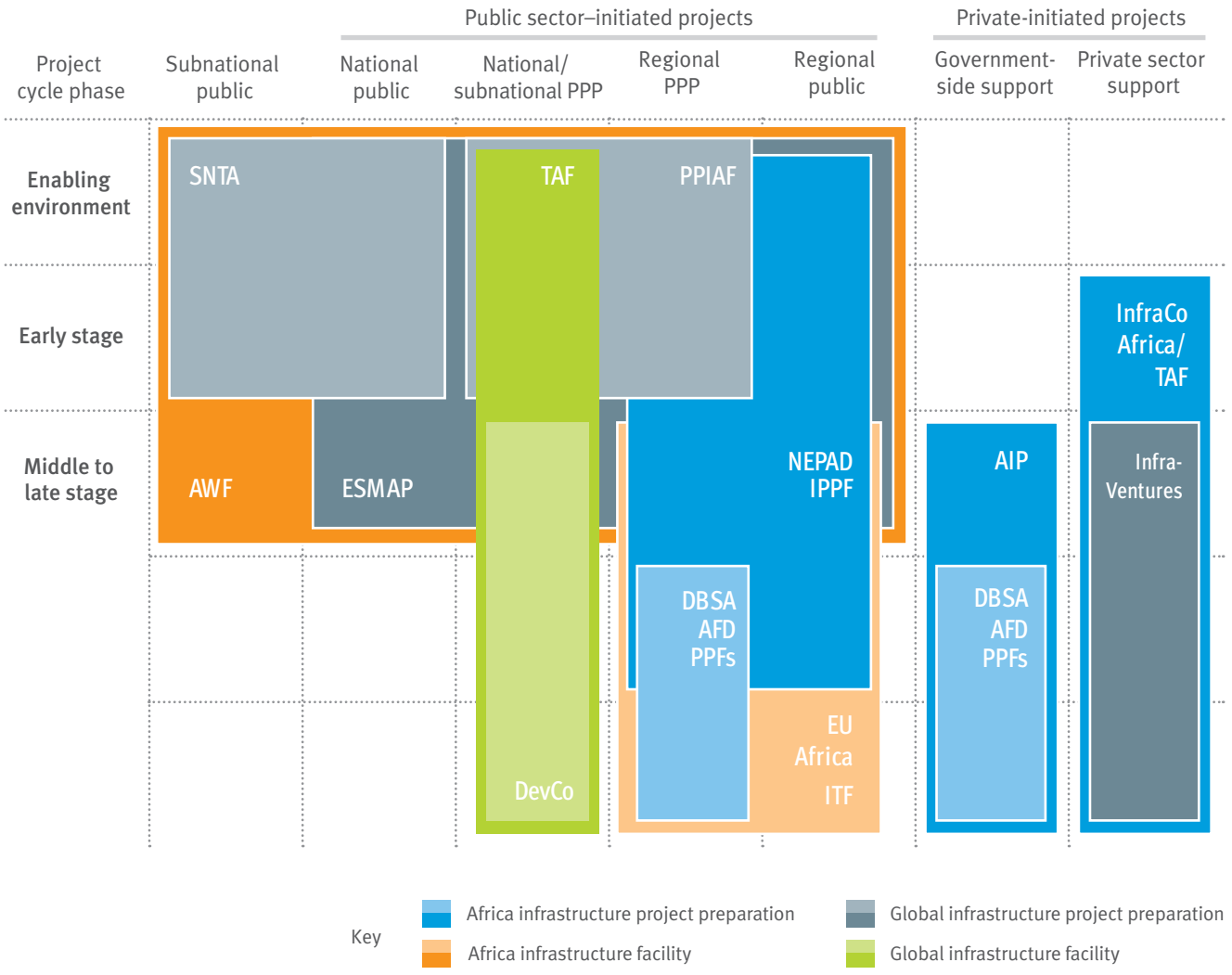
TABLE 2 PROJECT CYCLE PROCESSES, ACTIVITIES AND KEY OUTPUTS

PROJECT CYCLE PHASES	PROCESSES	DETAILED ACTIVITIES	EXAMPLES OF REQUIRED OUTPUTS
Early stage Concept development	Project identification and concept development	Sector planning, project identification and screening	Sector policy papers Project concept notes Prefeasibility reports
	Establishing the enabling environment	Identifying legal / regulatory / institutional and other impediments and rectifying them	Laws Regulations Allocation of responsibilities
Mid to late stage Feasibility, structuring and transacting	Due diligence	Detailed financial, legal, engineering, environmental and social appraisals	Reports that validate and develop concept further
	Project structuring	Detailed financial and legal structuring	Financial models Legal documentation
	Marketing	Promotion of the project and assessment of private sector interest	Detailed project description / information memorandum Road shows / conferences
	Transacting	Procuring and negotiating project documentation	Bid documentation Signed, negotiated project documentation

This mapping analysis, combined with the views of many interview respondents, would suggest that at least as regards PPFs, support to the early stages of the project cycle is arguably that which receives the least attention – particularly where the public sector is seeking to originate and solicit private sector interest in PPPs. Where projects are originated by the private sector, there is often a lack of funding from PPFs for advisory services to support governments, especially where projects are negotiated directly with a sole-sourced developer rather than competed. This is a significant gap, as projects are often originated by the private sector in Africa, due to a lack of government capacity to do so (with notable exceptions such as Kenya). Moreover, private sector–originated projects can only access project development funding through signing a joint development agreement with PPFs such as InfraCo and InfraVentures, rather than being able to access funding directly to develop projects themselves.

As illustrated in Figure 2, most PPFs, particularly those supporting PPPs, seek to target their support in the middle to later stages of project preparation – project structuring through transaction / execution – as these phases are much easier to address than the earlier stages and are most aligned with their own business activities (that is, lending).

FIGURE 2 MAPPING OF KEY PPFS



PPF commitment flows

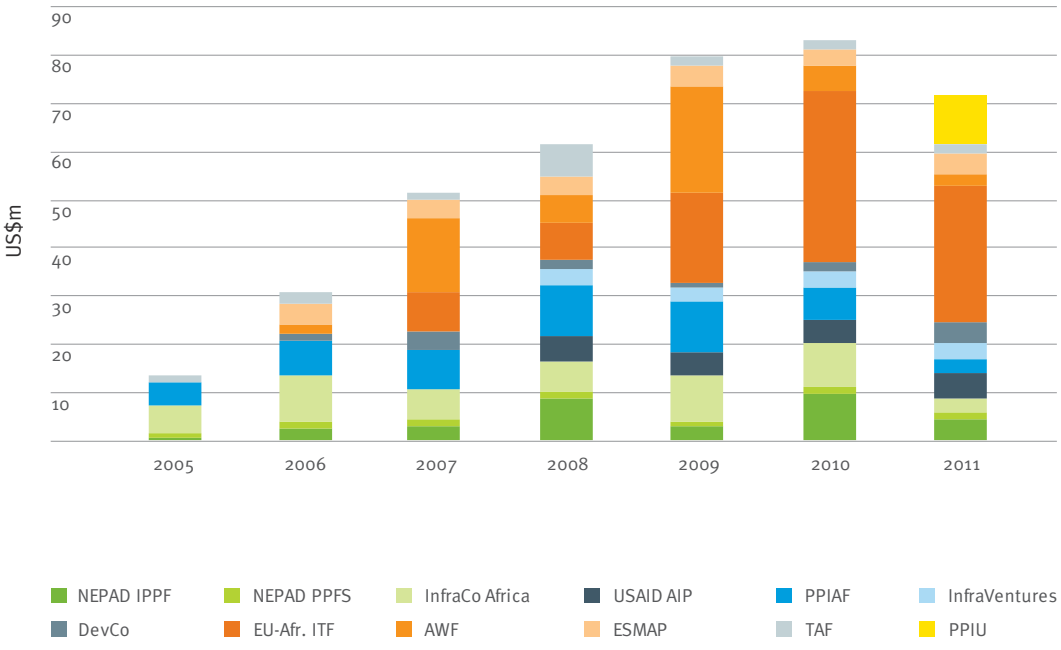
The value of commitments from PPFs to project cycle activities in Africa, from PPFs, grew significantly from just over US$10m in 2005 to over US$80m in 2010, reflecting international policy focusing donor attention on African infrastructure in the wake of the 2005 Gleneagles summit. Spending peaked in the years 2009–2010, with a drop back in 2011 to 2008 levels.[5] This may reflect the delayed impact of reduced donor spending commitments in the wake of the financial crisis.

Figure 3 breaks down these totals by specific PPF.

It is clear that EU-AITF has dominated in terms of scale since its formation in 2007, committing an estimated US$35.5m to project preparation in 2010 alone. Other key facilities are PPIAF, which maintained a steady flow of annual commitments of around US$8m through the period until 2011; AWF, which committed close to US$22m at its peak in 2009; and InfraCo Africa, which committed approximately US$7m annually over the period.

The detailed figures tend to confirm the gaps identified in the mapping exercise. If these figures are analysed by project cycle phase, while PPIAF has committed close to US$40m on project-specific (Phase 2) support, it is by and large the only major source of funding for government-originated PPPs. As regards support to the private sector, of all project-specific funding, only about one-quarter has been committed to private sector–originated projects (by InfraCo and InfraVentures), covering relatively few projects. USAID-AIP, a proportionately small source of total support, is the main source of funds for governments in directly negotiated transactions, with this support being limited to the energy sector.

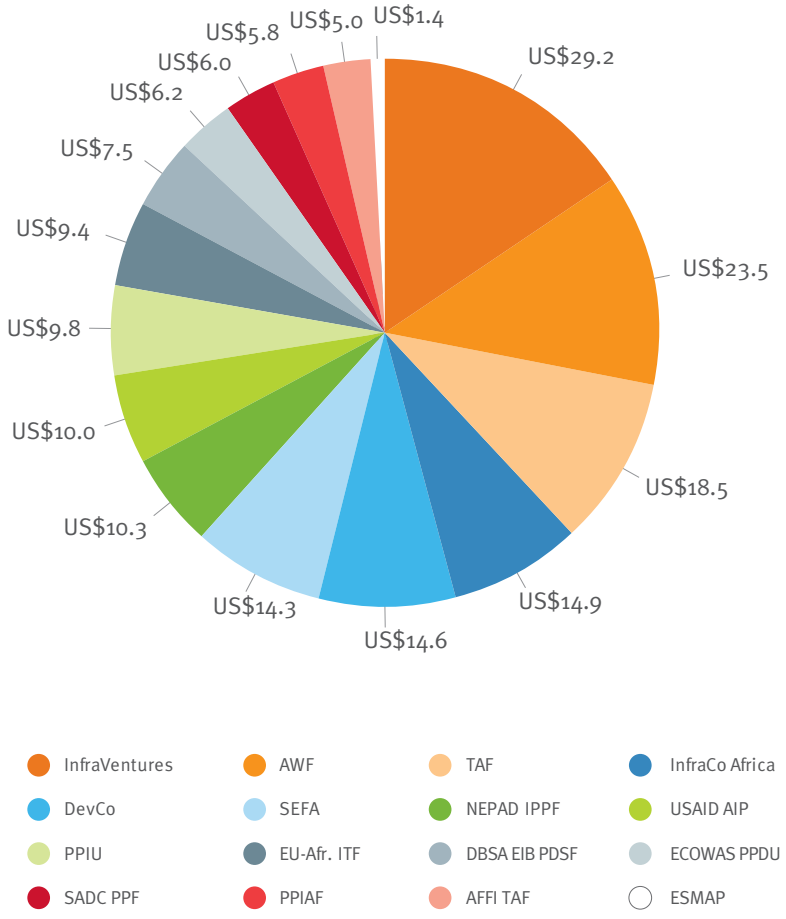
FIGURE 3 ESTIMATED ANNUAL FLOWS BY PPF, 2005–2011



It has also been estimated that the 17 core facilities have approximately US$190m that has yet to be committed to infrastructure projects. In arriving at this figure it has been assumed that the future allocations of PPFs that are not exclusively focused on infrastructure project preparation in Africa follow historical commitment patterns. This figure is roughly sufficient funding to support approximately three years of activity based on previous trends, or to put it another way, approximately enough to provide project preparation to one US$4bn transformative project, if we assume project preparation costs are approximately 5% of the total project value.

A breakdown of remaining funding is shown in Figure 4 below, which illustrates how small amounts of uncommitted remaining funds are spread across the different PPFs.

FIGURE 4 REMAINING FUNDING AVAILABLE FOR COMMITMENT TO AFRICAN INFRASTRUCTURE PROJECT PREPARATION, BY FACILITY, US$m



PPF assessment

While we have been able to collect 'order of magnitude' numbers on individual PPFs, as set out, assessing them on a like for like basis has been particularly challenging. The two main reasons for this are: first, meeting the challenges in applying consistent criteria that reflect the diversity within the PPF cohort (such as focuses on different phases in the project cycle); and second, assembling the necessary evidence and data to support such an assessment.

As regards the latter point, the primary information provided to use in the form of questionnaire responses was far from comprehensive in many cases, although CEPA is grateful to all those PPFs that took the time to respond. We recognise the considerable efforts made in completing the questionnaires. As regards other, secondary information, not all facilities have annual reports, nor previous evaluations that could be used. Thus, the assessment has had to draw on several sources of information, including the views of interview respondents, with necessary judgements made as regards how to assess different PPFs on a comparable basis.

TABLE 3 PPF SCORING

	CURRENT AND FUTURE RELEVANCY		RELATIVE EFFECTIVENESS VERSUS DEGREE OF DIFFICULTY	
	CURRENT RELEVANCY	FUTURE RELEVANCY	DEGREE OF RELATIVE EFFECTIVENESS	DEGREE OF RELATIVE DIFFICULTY
AWF	MEDIUM	MEDIUM	MEDIUM	MEDIUM
DBSA-EIB PDSF	MEDIUM	LOW	LOW	HIGH
DEVCo	MEDIUM	MEDIUM	MEDIUM	MEDIUM
ESMAP	LOW	LOW	MEDIUM	LOW
EU-AITF	HIGH	HIGH	HIGH	MEDIUM
InfraCo Africa	HIGH	MEDIUM	MEDIUM	HIGH
InfraVentures	HIGH	MEDIUM	LOW	HIGH
NEPAD IPPF	HIGH	HIGH	MEDIUM	HIGH
NEPAD PPFs	MEDIUM	MEDIUM	HIGH	MEDIUM
PIDG-TAF	HIGH	MEDIUM	MEDIUM	MEDIUM
PPIAF	HIGH	HIGH	HIGH	MEDIUM
PPIU	HIGH	HIGH	MEDIUM	MEDIUM
SADC PPDF	MEDIUM	LOW	LOW	HIGH
USAID AIP	HIGH	MEDIUM	HIGH	MEDIUM

In applying the evaluation criteria, the aim has been to draw out differences between PPFs to illustrate particular points, rather than to establish a ranking or league table, which could not be supported by the evidence base. The scores provided have therefore been arrived at approximately rather than scientifically and, we recognise, may not always be based on an entirety of the pertinent facts. However, irrespective of the scores which have been applied, we would suggest that the issues raised – which affect both high- and low-scoring PPFs – might be considered further by the PPFs concerned, their funders and other stakeholders, if PPF performance, both singularly and collectively, is to be improved.

These scores, for each PPF, have been grouped into high, medium and low, as assessed against the agreed high-level evaluation criteria of *relevancy*; *effectiveness, efficiency*; *adequacy,* and *sustainability* [6] (several of which have been broken down into more than one parameter or aspect of the criterion). Summary results comprising an evaluation of each PPF against each criterion or parameter are provided in Table 3.

TABLE 3 PPF SCORING, CONTINUED

	RESPONSIVENESS / TIMELINESS AND PROVISION OF INFORMATION		ADEQUACY OF FINANCIAL AND HUMAN RESOURCES	
	RESPONSIVENESS / TIMELINESS / PROVISION OF INFORMATION	MANAGEMENT COST-EFFECTIVENESS	ADEQUACY OF FINANCIAL RESOURCES	ADEQUACY OF HUMAN RESOURCES
AWF	MEDIUM	MEDIUM	HIGH	MEDIUM
DBSA-EIB PDSF	LOW	UNKNOWN	LOW	LOW
DEVCo	HIGH	MEDIUM	HIGH	HIGH
ESMAP	MEDIUM	UNKNOWN	MEDIUM	MEDIUM
EU-AITF	HIGH	HIGH	HIGH	HIGH
InfraCo Africa	HIGH	HIGH	MEDIUM	HIGH
InfraVentures	LOW	UNKNOWN	HIGH	MEDIUM
NEPAD IPPF	MEDIUM	LOW	LOW	HIGH
NEPAD PPFs	MEDIUM	UNKNOWN	LOW	MEDIUM
PIDG-TAF	HIGH	HIGH	HIGH	HIGH
PPIAF	HIGH	MEDIUM	MEDIUM	MEDIUM
PPIU	MEDIUM	UNKNOWN	LOW	MEDIUM
SADC PPDF	LOW	UNKNOWN	LOW	LOW
USAID AIP	LOW	UNKNOWN	MEDIUM	MEDIUM

Conclusions

The starting point for the analysis was an assessment of the performance of an apparent large number of homogenous PPFs. The assumption was that, in aggregate, these facilities were a significant source of potential project preparation funding; however, the available funds were fragmented across a large number of different facilities undertaking similar activities, thus reducing their impact and potentially losing any economies of scale and other benefits. An appropriate policy response to this would be to assess the performance of individual facilities and where possible rationalise, consolidate / merge or close down poorer performers.

The analysis has only partially supported this hypothesis. First, relatively few active and well-resourced PPFs are focused on infrastructure in Africa. As regards the 67 entities identified, infrastructure project preparation is at best incidental to most. Even if just the main PPFs are considered, those with either limited resources and / or a diffuse focus have faced the greatest challenges in achieving traction. Many PPFs are hosted by MDBs, whereby they are strongly influenced, both positively and negatively, by the policies and competencies of their hosting institutions.

Second, the majority of the main PPFs are far from homogenous, being relatively diverse in terms of their focuses on different types of projects and support to different project cycle activities, although most are focused on later stage project cycle activities, where there is a good alignment with the operations and capabilities of most hosting institutions. In comparison, support for early stage project origination is more limited and far from systematic. In particular, there would appear to be a particular gap where governments need advisory support to help them negotiate transactions that have been originated by the private sector.

Third, in terms of scale of resources, PPFs would not appear to be the largest source of infrastructure project preparation funding, although they arguably have a visibility well above their level of contribution. With several PPFs looking for replenishments, the scale of deployment looks already to have turned down during 2011, from its peak at over US$80m per annum during 2009 and 2010. This represents a significant and increasing shortfall in infrastructure project preparation support, when MDBs lack the internal resources to step in to fill the gap. Unless this is addressed it is likely to lead to a reduction in the number and quality of projects available for MDB / DFI and private financing in future years.

While in an ideal world the assessment of individual PPFs would have been undertaken with greater amounts of, and more comparable, data and information, it has nonetheless raised several issues, which need to be addressed if project preparation support is to be more effective. Although individual scoring is not robustly scientific, the analysis has nonetheless helped to draw out some key messages for facility design in different contexts, not least the challenges of undertaking early stage, recipient-executed project preparation and the implications for management resources and scale of total financial resource requirements. While there are sensitivities around the performances of politically important PPFs, if these issues are not dealt with head on, scarce grant resources will not be used as effectively as they might and desired results will remain elusive. More widely, the failure to attempt to recycle such resources, whatever the pressures to demonstrate results on the ground, will become increasingly difficult to justify in the context of constrained development agency budgets.

Moving forward, whether or not all of the issues have been captured fully accurately, clearly emerging issues need to be addressed to provide a sufficient 'burning platform' to justify their further investigation and resolution by different PPFs, their sponsors, hosting institutions and wider stakeholder groups.

PPF models in the future

Despite being a relatively limited source of funding for project preparation in absolute terms, PPFs have a degree of uniqueness based largely on their grant funding that provides them with a much higher degree of flexibility than many other sources of project preparation funding. This flexibility should be used where it is most required; in particular, the use of grants needs to be revisited as regards which parts of the project cycle should be supported by grants and which by repayable resources. To increase their relevancy, PPFs need to ensure a sufficient focus on addressing the current and emerging challenges of project preparation in Africa, recognising their own respective strengths and weaknesses in doing so.

To be more efficient and effective, there needs to be much more co-ordination amongst PPFs and their hosting institutions around a tunnel of funds approach, involving greater sharing of information and more co-operative behaviour. They also need to interface with other aspects of the donor architecture, including Development Fund[7] resources, especially as regards large transformative projects, which cannot be developed solely by PPF resources. Here PPF funds should be used to help facilitate initial project development activities with such other resources being used for much of the 'heavy lifting'.

As regards adequacy, PPFs need an operational scale – both in terms of total scale and management resources – that reflects their ambitions. PPFs

that are closely integrated into hosting MDBs' operations, focused mainly on later stage support, should be able to operate efficiently with relatively lean management structures. While the scale of their resources on a per project basis may need to be considerable, this should be provided, at a minimum, in the form of redeemable grants, which can be repaid by projects at financial close, so that scarce flexible funding can be recycled. Those that are more open and focused on early stage support need implementing capabilities consistent with this role. The fact that management resources for these activities need to be proportionately larger relative to total funding than with MDB-integrated PPFs focused on later stage support, suggests that there should only be a small number of such PPFs, but that they have an open access policy for execution, including by other MDBs and donor agencies.

REC-based PPFs would be likely to be more efficient if focused on specific priority initiatives (such as transport corridors) rather than being generic facilities. They would form the link between RECs, national governments responsible for execution and project financiers.

The requirements for success or best practice for different types of PPF models are summarised in Table 4, which also sets out the key issues facing different types of PPF.

Focus PPFs

In the future, PPFs will need to operate, to a greater or lesser extent, while recognising the prioritised objectives of African national and regional governments. The PIDA PAP, while being a prioritised list of some 51 regional projects, represents a major future challenge from a project preparation perspective, which goes well beyond the resources of the existing PPFs. As discussed, these project preparation requirements will largely need to be funded by mainstream IDA, EDF and ADF resources, as well as by budgetary support from African regional and national governments.

The key question is how these challenges can be addressed, utilising the existing PPFs and other existing tools, and what needs to change to improve effectiveness: specifically, whether a new 'revolving fund' – potentially focused solely on transformational PIDA priority projects[8] – is

TABLE 4 PPF SUCCESS FACTORS / BEST PRACTICE

TYPE OF PPF MODEL	KEY FEATURES	SUCCESSES	ISSUES	REQUIREMENT FOR SUCCESS / BEST PRACTICE
MDB-integrated (e.g. EU-AITF; DEVCo; EIB-DBSA; AFD-DBSA)	Exclusive use by hosting entity Largely focused on later stage activities (closer to financing)	Later stage, systematic support Links to financing	Addressing up front project cycle requirements not popular with hosting entity Lack of recovery of grant resource	Low-cost implementation needs to be linked to access to strong execution skills
MDB-hosted (e.g. PPIAF; NEPAD IPPF; AWF)	Execution by third parties	Strong engagement with recipients	Lack of implementing capacity / lack of cost-effectiveness Poor execution / project sponsorship	Strong implementing capability to engage with clients Better use of hosting organisation's task managers (where available) as well as qualified third party resources
REC-hosted (e.g. SADC; ECOWAS; PPIU)	REC is the hosting entity	Limited to date	Lack of required implementing skills, combined with poor execution	Clear focus on a limited set of activities Access to sources of project finance
Outsourced (InfraCo Africa; USAID AIP)	Execution undertaken by third party entity	Market-based incentive structures	Access to investment and late stage capital	Access to finance and expertise, for both later stage activities and to reach financial close

required either immediately or in the future. There is a further question of how future support is funded, given the constraints facing the budgets of many traditional donors.

This involves examining the extent to which the existing PPFs can be adapted to meet existing and growing gaps. Our view is that the amount of time that would be required for hard restructuring of a significant number of PPFs cannot be justified by the relatively low level of financial resources that would be reallocated as a result. Indeed, even with hard restructuring, which would also involve refocusing any merged entities, there would still need to be a greater degree of co-ordination between the remaining PPFs. Thus, our conclusion is that better co-ordination, along with other themes of greater transparency and openness, are the best approach, with a 'run-off' of resources of existing PPFs. In terms of the future funding, however, we would argue against replenishing any PPF or setting up new ones in the absence of a strong case for doing so. This should take into account conformity with the best practice for different PPF models set out in Table 4. The case for a new facility would be based on clear gaps in the PPF marketplace that are not being covered by other means.

As gaps have been identified in several areas, there is therefore a choice between working with the existing PPFs to address these gaps or else setting up something new. While the latter may eventually be required – although not necessarily just for PIDA projects – we would conclude that in the first instance, several key specialised PPFs would become the main focus of funding. This is especially pertinent as regards earlier stage support because of the higher management cost requirement. These PPFs would cover the main current and future support requirements. However, there will be a need for most of these 'focus' PPFs to either alter (typically restrict) the focus of their activities, or in some cases to change and / or improve their operations. This would include leadership and syndication support. The resultant greater specialisation will create greater interdependencies for most facilities and a consequent need to co-ordinate better.

Table 5 sets out the focus areas, which include existing gaps, the preferred option(s) for focus PPFs, any challenges to be addressed and potential cost implications.

The provision of advisory support to governments on sole-sourced projects is an area where there is a range of potential solutions, all of which may be explored. Arguably, it is in this area that a new revolving facility might be considered, which can be drawn on by governments, with resources being repaid in the event of a successful transaction.

TABLE 5 FOCUS PPFS

AREAS OF FOCUS, INCLUDING ADDRESSING GAPS / LACK OF COVERAGE	CORE FACILITIES AND ACTIONS NEEDED
Screening of public sector regional projects to establish best sequencing and initial project development activities	**IPPF**: but requires a significant overhaul / transformation into a strategic management unit to be more effective in this role
Public sector origination of PPP projects / addressing project-specific enabling environment issues	**PPIAF**: but requires a greater on-the-ground African presence
Development of private sector–originated projects	**InfraCo Africa**: ideally requires an ability to work directly with project developers
Later phase support for regional projects	**EU-AITF**: as is, but potentially greater use of redeemable grants, particularly for PPPs
Supporting public sector on sole-sourced projects	**DEVCo**: but consider PPIAF if IFC unwilling to do so, or new facility
Implementing capacity for specific regional projects	Restructure REC funds as **Initiative Implementing Units** (IIUs)

Recommendations, implementation actions and responsibilities

Our recommendations are targeted on addressing the identified gaps in project preparation, improving the effectiveness of the existing PPFs and supporting key stakeholder aims: namely, the origination of more PPP opportunities, and support for the preparation of identified priority regional projects. The actions are aimed specifically at delivering more systematic, joined-up support to infrastructure project preparation, which currently can be ad hoc and piecemeal, particularly early stage support. In doing so, as far as possible, the recommendations work with existing structures and institutions, save for where the study's findings contradict the received wisdom.

These have been set out in terms of high-level implementation actions, relating to measures affecting all PPFs; and specific actions, as regards many of the core facilities considered. The first of these have been grouped into *informational*, *behavioural* and *structural* recommendations and actions – a series of specific, non-mutually exclusive, but reinforcing proposals for consideration. As such, these may be adopted either singularly or collectively. It is only in the case of the structural considerations that clear alternatives emerge, although these may be seen in terms of sequencing rather than discrete alternatives.

These are summarised in Table 6.

Where these recommendations fail to deliver the desired results within an acceptable timescale, the establishment of a new entity should be considered. Given the clear political support for it, this would most likely involve implementation under the umbrella of the existing NEPAD-IPPF, although consideration should be given to this being established at arm's length, as a corporate entity. In our view, a strong case exists for establishing a stand-alone entity, with its own legal personality, focused exclusively on infrastructure preparation. It would provide services directly where there were clear gaps, or else act as wholesale funder where there were existing capabilities, so as to avoid unnecessary duplication. The scale required for such an entity to be successful would require ongoing budgetary support from African governments, directly or through the AU or RECs.

Such a new facility should remain under active consideration alongside the main strategy of extending coverage and improving co-ordination between existing PPFs. It will be important that significant and early progress is demonstrated in this respect. Indeed, arguably a concept or such a facility should be worked up further so that it can be implemented quickly to support areas in which support was not being delivered to the required extent, quality, or timescales. A potential initial service in this respect would be to provide support to governments negotiating with private sector developers on unsolicited, sole-sourced transactions. This kind of new facility will require African budgetary resources and support from new donors as well as traditional ones.

TABLE 6 SUMMARY OF RECOMMENDATIONS

CATEGORY / RESPONSIBILITY	RECOMMENDATIONS
Informational (ICA Secretariat to take forward)	Capture PPF cost, performance and other data more systematically Investigate the role of other sources of project preparation funding Set up a PPF Network (PPFN) to assist implementation of recommendations
Behavioural (PPFN to lead delivery)	Greater syndication of PPF funds to increase reach – avoids needs for costly restructuring Allow execution by third parties so grant funds flow where they are most needed Greater use of redeemable grants to assist recovery of mid-to-late stage support to improve the sustainability of PPFs focusing on these activities
Structural (Expanded Reference Group, including G20 Members as appropriate)	Re-focus REC-based PPFs on specific initiatives (e.g. transport corridors) rather than running 'generic' PPFs, which lack the scale to be effective Support for transformative projects: PPFs should provide flexible, quick draw-down catalytic support for large regional projects, in advance of ADF / EDF / IDA resources Initially seek to deepen resourcing and address gaps through selected leading / focus PPFs, rather than creating a new facility – but reconsider if solutions cannot be found through existing PPFs

1 Introduction

This Final Report is the last deliverable under Cambridge Economic Policy Associates' (CEPA) contract with the Infrastructure Consortium for Africa (ICA) to assess project preparation facilities (PPFs) in Africa.

The lack of adequate project preparation funding has been recognised by the G20 through the High Level Panel (HLP) on Infrastructure and by the multilateral development banks (MDBs) in their Action Plan, as a key constraint to infrastructure development in Africa. Their reports[9] specifically state a concern that support provided by PPFs is highly fragmented due to the apparent large number of such facilities (Box 1.1).

In response to this, the Development Working Group (DWG) of the G20 has asked ICA to investigate this issue further. In turn, ICA has commissioned CEPA to undertake an assessment of PPFs in Africa, both collectively and individually, to establish, where possible, ways of co-ordinating, rationalising and consolidating PPF activities to improve overall performance.

The initial focus of this report is a testing of this hypothesis. As set out in Box 1.1, in addition to recommendations on project preparation, the report of the HLP has also made a series of recommendations regarding the wider environment for infrastructure project preparation. Not the least of these is the need for MDBs hosting PPFs to streamline their procurement policies and to increase their support to sole-sourced projects. Moreover, some donors such as the World Bank have suggested that the increase in preparation funding would be best addressed by allowing the regional International Development Association (IDA) allocation to be used for project preparation purposes and / or through the creation of a new 'revolving fund'.[10] These wider strategic issues represent an important context for the study, beyond that of assessing individual PPFs, which are picked up in the report's conclusions and recommendations.

The report is presented in two parts.[11] This Volume A comprises the Diagnostic and Recommendations Report. More detailed analyses of key individual facilities can be found in Volume B: Individual Reviews of Priority PPFs.

BOX 1.1 SUMMARY OF HLP ON INFRASTRUCTURE AND MDB ACTION PLAN DOCUMENTS

Cannes G20 – MDB Infrastructure Action Plan and High Level Panel Reports

In October 2011, both the above reports were submitted to the G20 Cannes meeting, and their contents are reflected in the official outcomes statements. There is considerable overlap and agreement between the two documents, although the HLP has more extensive coverage of funding and private sector finance issues.

MDB Infrastructure Action Plan

The report outlines two sets of initiatives: the first deals with unlocking the project pipeline through technical assistance and targeted financial support, and the second deals with measures to improve spending efficiency. On the project supply side, recommendations include an ICA-led assessment of existing PPFs, increased focus on catalytic regional projects, enhanced PPP practitioners' networks, improved incentives for MDB staff to engage with PPPs and regional projects, a project marketplace or platform, and more appropriate procurement processes. On spending efficiency, the suggestions included better and more extensive benchmarking and scale up of the Construction Sector Transparency Initiative. The supporting Annexes include one on draft principles for PPF effectiveness.

HLP Final Report

HLP recommendations are organised around three areas: ensuring a strong and sustainable supply of bankable projects; building an enabling environment; and making funding available under appropriate terms. On the project supply, the list also includes regional PPP networks and country-level PPP units plus a private sector fellowship programme, standardised documentation and an assessment of existing PPFs. It further suggests greater cost recovery and less reliance on grants plus greater co-ordination and information exchange via a suitable technology platform.

Regarding an enabling environment, the HLP recommends that MDBs be more proactive and flexible, particularly towards private sector and PPP projects. This in turn requires improved staff incentives, enhanced procurement, adoption of a lead bank approach and greater disclosure. The funding initiatives covered use of infrastructure bonds, extended use of guarantees and risk mitigation instruments, reform of debt sustainability and regional limits plus use of non-traditional sources.

Both the MDBs and the HLP agreed on a global list of 11 exemplary regional transformative projects, of which five were in Sub-Saharan Africa. As of October 2011 the PIDA PAP process had not yet been finalised.

1.1 Background and context

Africa faces a considerable infrastructure gap that must be addressed if it is to sustain the historically high rates of economic growth that it has recently experienced. The Programme for Infrastructure Development in Africa Priority Action Plan (PIDA PAP) has been established to prioritise key projects, together with Institutional Architecture for Infrastructure Development in Africa (IAIDA), which sets out the principles and approach to delivering PIDA PAP.

These ambitious plans are to be implemented in an extremely challenging context. A difficult international credit environment exists, especially in terms of providing long-term debt for infrastructure projects and most, if not all, of the traditional donors who have funded PPFs, largely with grant monies, are facing increasing budgetary constraints. In consequence, looking forwards, it is likely that more of the burden of funding project preparation will fall on African governments themselves – a point recognised by them – and potentially new sources of funding from other G20 countries.

1.1.1 The infrastructure gap and its causes

Africa, especially Sub-Saharan Africa (SSA), has been left behind in terms of infrastructure development, which has serious implications for economic growth. Figure 1.1 compares infrastructure provision in African low-income countries (LICs) to that in other regions.

As set out in Table 1.1, it has been estimated that between 2001 and 2006 infrastructure investment in Africa was approximately US$25bn a year when the spending of governments, state-owned enterprises and donors is taken into account.

Approximately 38% of this investment was domestically sourced; ODA and non-OECD donors together provided approximately 24%; and the private sector being responsible for a further 38%. ODA funding focused on water and transport, whereas non-OECD finance focused on energy and rail, and private finance was concentrated in ICT.

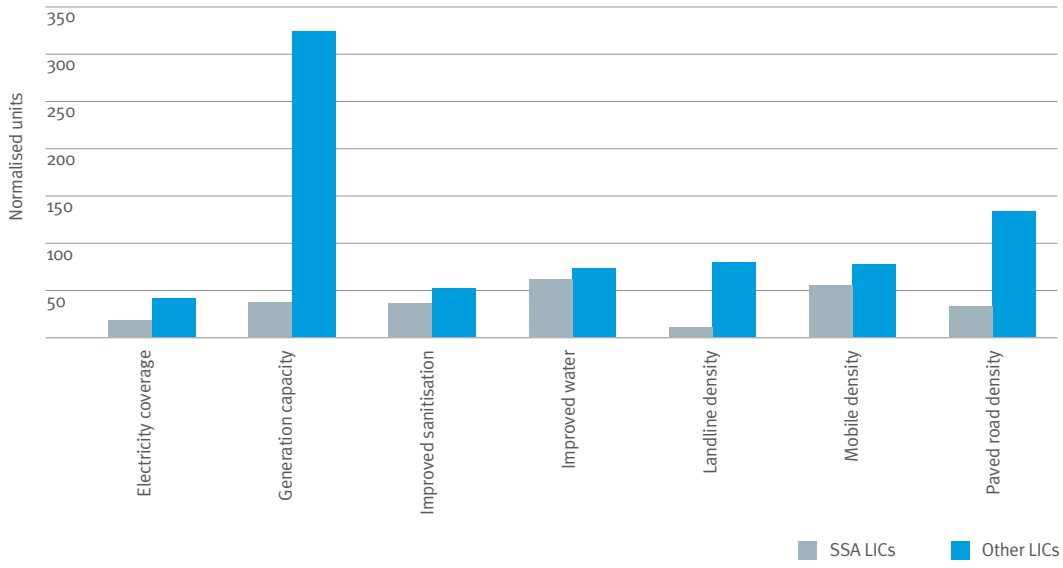
There are many reasons for Africa's poor infrastructure investment performance, but in particular, there has been a lack of access to non-recourse debt for most projects – with much

TABLE 1.1 ANNUAL AVERAGE ESTIMATES OF INVESTMENT BY SOURCE AND SECTOR, US$bn

SECTOR	PUBLIC	ODA	NON-OECD	PRIVATE	TOTAL
ICT	1.3	0.0	0.0	5.7	7.0
Power	2.4	0.7	1.1	0.5	4.6
Transport	4.5	1.8	1.1	1.1	8.4
Water & Sanitation	1.1	1.2	0.2	2.1	4.6
Irrigation	0.3				0.3
Total	9.4	3.6	2.5	9.4	24.9

Source: Foster and Briceño-Garmendia (2010), Africa's Infrastructure: A Time for Transformation.

FIGURE 1.1 AFRICA'S INFRASTRUCTURE DEFICIT [12]



of that provided being from the DFIs. This is due to the very low (or non-existent) credit ratings for African countries, which makes it difficult to obtain foreign loans of a sufficient tenure. Those projects that have received foreign currency loans have typically had hard currency revenues, or have strong links to South Africa, allowing projects to access rand revenues, which mitigates foreign exchange risks. South Africa is the only African credit market capable of providing local currency loans for infrastructure on competitive terms and in sufficient amounts.

Project bond markets are also underdeveloped, and institutional investing in infrastructure is limited. While there are a range of African pension funds, in most cases only a small share are directed towards infrastructure projects; for instance, it is estimated that in Uganda only 1.8% of pension assets are in infrastructure and in Tanzania only 0.07%.[13]

Increasingly, however, it has also been acknowledged that the bottleneck for infrastructure in Africa is not purely one of the availability of finance (though this is not insignificant; the cost of redressing Africa's infrastructure deficit is estimated at US$43bn per year,[14] close to double historic trends), but also the lack of appropriately packaged and bankable projects. For a project to be successful, an enabling legal and regulatory environment is required, and (public-private partnerships) projects must be structured in such ways that the risk allocation is acceptable to private investors and lenders.[15]

1.1.2 PIDA PAP and IAIDA

While many donors turned their attention to the funding of infrastructure in Africa after the Gleneagles summit in 2005, most recently the PIDA PAP has called for a step change in infrastructure provision, requiring a commensurate increase in project preparation funding. Yet, the necessary scale of resources required for robust project preparation is seldom available.

The PIDA PAP contains a pipeline of some 51 transformative regional projects, with a total estimated cost of some US$68bn between 2012 and 2020.[16] The ICA has estimated that this will involve a rapid ramping up of project preparation spending on these projects from US$200m to US$500m per annum, in addition to project preparation spending on national projects. PIDA PAP's architects are also hoping that a number of these projects can involve private financing through PPPs. PIDA PAP also envisages a substantial domestic resource mobilisation effort, for both project preparation and investment financing.

Specifically, large-scale, complex multi-country 'transformative' public projects present considerable challenges in terms of reconciling different legal systems and approaches, international agreements and regulations, co-ordination of local processes, and the huge scale of human and financial resources required.

It is intended that institutionally this major effort will be underpinned by IAIDA. This provides a high-level 'enabling' framework for decision making and implementation of regional infrastructure projects within PIDA (although national and subnational projects are excluded). It also recognises that individual project preparation and financing requirements will differ by region and project, and that practical implementation will be based on the principles of subsidiarity, solidarity and local ownership.

The decision-making structures at the continental level include the African Union Assembly of Heads of State and Government, a Council for Infrastructure Development, the AU Commission and the NEPAD Planning and Coordinating Agency (NPCA).[17] Regional infrastructure strategies, polices and project priorities are determined within this structure. As well as being responsible for regional project screening, the NPCA provides the main institutional link and co-ordination / reporting mechanism to the implementation structure.

The latter includes regional economic communities (RECs), countries and specialised agencies, but it is explicitly recognised that RECs are not structured or resourced as implementing organisations and that it is at the country level that actual project development, financing, construction and operation will have to take place. Project development will have to be driven by a partnership comprising specialised public sector agencies, private actors and financiers, MDBs and DFIs and other development bodies, both domestic and foreign.

1.2 Project objectives and approach

Within all of the above, the initial objectives of the project, as per the Terms of Reference (ToRs), were to provide a detailed performance review of individual PPFs, which formed Phase I of the project; following this, Phase II was to comprise a set of recommendations flowing out of the findings of Phase I, as regards co-ordinating and restructuring options.

While being as faithful to the initial ToRs as possible, the approach pursued by CEPA has been a flexible one adapted to take account of developments that have occurred during the course of the project. In particular, there have been challenges in obtaining a level of detailed and comparable information on individual PPFs necessary to do the initially intended comparative assessment on a like for like basis.

Key elements of the final approach adopted are set out below.

1.2.1 Selecting and assessing infrastructure PPFs

Initially, building on work previously conducted by ICA, CEPA identified up to 67 potential sources of funding for project preparation, including national PPP units.[18] Excluding the latter, a more detailed analysis undertaken over the course of the project has, however, revealed a core group of 17 facilities, of which 12 are currently operational (although in varying need of replenishing). The other five are yet to either achieve minimum funding levels or else commit to any projects.

The other identified potential sources of infrastructure project preparation funding typically comprised more generic donor-programmes, or their technical assistance components, as well as credit advance facilities and bilateral trust funds held at MDBs. While these are indeed potential sources of project preparation resources, for the most part this would be incidental to the much wider and varied missions of the entities identified, rather than being an integral part.

CEPA's ToRs initially called for a review of individual facilities and ranking of performance. It became rapidly apparent that this would be more than challenging for a number of practical and other reasons. First, the identified facilities were far from homogenous, making evaluations difficult on a like for like basis. Second, any such performance assessment would need a reasonable degree of engagement by the PPFs themselves; such a potentially threatening approach would have been likely to be counterproductive. Even with this adjustment, the engagement and data collection exercise proved extremely difficult.

To address the second point, the approach was widened to include an assessment of the infrastructure project preparation landscape in Africa and the role of PPFs within this. Although the information collected was far from comprehensive, individual PPFs have been assessed against a range of parameters, on as comparable a basis as the evidence has allowed. While there are limits to the findings and assessment of individual PPFs for the reasons cited, the analysis has nonetheless identified several issues relating to specific PPFs that need to be addressed going forwards. More broadly the analysis has sought to deliver a strategic perspective on the distinctive role of PPFs in addressing Africa's project preparation challenge.

1.3 Overview of project activities

While considerable effort was expended on the analysis of individual PPFs, as per the ToRs and given the issues raised above, this activity was supplemented with several others, necessary to reach conclusions about key questions and to make forward-looking recommendations.

1.3.1 Identifying and defining key PPFs

For purposes of this study infrastructure PPFs have been defined as holders of more than US$5m 'ring-fenced', non-allocated funds that can be drawn down to fund infrastructure project preparation cycle activities. These essentially break down into the following groups:

- PPFs focused exclusively on infrastructure project preparation in Africa;
- global infrastructure PPFs that cover Africa;
- infrastructure facilities focused exclusively in Africa, including infrastructure project preparation; and
- global infrastructure entities that also provide material support to infrastructure project preparation.

This excludes the following:

- programmes where funds have been pre-allocated;
- advances on development bank credits, which are principally focused on supporting activities necessary to secure approvals for such credits (which may overlap in terms of technical studies, for instance);
- special purpose bilateral trust funds, such as those to support climate change mitigation adaptation; and
- more generic, multi-purpose project preparation / technical assistance funds, which lack a substantive focus on infrastructure.

As it was not always possible to assess whether an identified facility met the chosen definition of an infrastructure PPF, ex ante, some 30 or so entities were initially approached to take part in a survey of PPFs. This included a request for data on activities as well as a request to perform a self-assessment against criteria of *relevancy*, *effectiveness*, *efficiency*, *adequacy* and *sustainability*. The facilities approached are listed in Table 1.2, grouped by the categories listed above.[19]

1.3.2 Information capture and analysis

The approach was to emphasize the capture and analysis of information of the funding and commitment profiles of the 17 core PPFs focused on supporting infrastructure project preparation in Africa. In addition, the aim was to put this into the context of the funding of project preparation more generally, to help assess the relative importance of such facilities.

Key aspects of these core PPFs are set out in Table 1.3.

TABLE 1.2 PROJECT PREPARATION FACILITIES BY FOCUS

FOCUS	GENERAL	COUNTRY SPECIFIC	REGION SPECIFIC	SECTOR SPECIFIC
Infrastructure project preparation in Africa	InfraCo Africa NEPAD IPPF USAID AIP NEPAD PPFs	RSA PPP Unit NIAF PPP Unit Mauritius PPP Unit Egypt	DBSA-EIB PDSF ECOWAS PPDU SADC PPDF AFFI-TAF COMESA-PPIU	
Infrastructure project preparation in developing countries (including Africa)	InfraVentures DEVCo			
Infrastructure in Africa (including project preparation)			DBSA DF EU-AITF (SSA focus)	AWF AEEP
Infrastructure in developing countries (including project preparation)	PPIAF[20] PIDG-TAF		IsDB TAF	ESMAP Globeleq AEF

Note: Appendix A provides a full list of those facilities approached and the responses received.

TABLE 1.3 PPF SUMMARY

PPF	YEAR ESTABLISHED	TOTAL FUNDING (US$m)	INFRASTRUCTURE PROJECT PREPARATION IN AFRICA (US$m TO DATE) (% OF TOTAL PROJECT COMMITMENTS TO DATE)	RATIONALE
Active facilities				
AWF	2004	167	52 (46%)	The AWF was established to attract increased investment to meet national and regional water sector targets in Africa. This was to be achieved through improving the enabling environment and providing direct capital investments.
DEVCo	2003	82	22 (52%)	DEVCo was established to provide governments with advisory support on divestitures and PPP transactions.
ESMAP[21]	1983	113	25 (22%)	ESMAP was set up to encourage the knowledge exchange and institutional capacity building required for adoption of environmentally sustainable energy practices in low- and middle-income countries.
EU-AITF	2006	486	103 (24%)	EU-AITF was set up to attract and leverage resources and technical expertise to support cross-border infrastructure investments in SSA.
InfraCo Africa[22]	2004	65	50 (100%)	InfraCo Africa was set up to de-risk early stage infrastructure project development for projects across SSA.
InfraVentures	2008	100	16 (50%)	InfraVentures was established to support and proactively develop private and PPP infrastructure projects in IDA countries.
NEPAD IPPF	2004	46	35 (97%)	NEPAD IPPF was established to assist African countries and regional economic communities (RECs) to prepare high quality regional infrastructure projects in the energy, water, transport, and ICT sectors.
NEPAD PPFs	2003	12	12 (100%)	The PPFs was set up to facilitate AFD and DBSA financing of NEPAD projects, through the provision of grants to project promoters to advance preparation studies.
PPIAF	1999	260	80 (37%)	PPIAF was established to support the creation of a sound enabling environment for the provision of infrastructure services by the private sector.
PPIU	2011	20	10 (50%)	The PPIU was set up to help accelerate the preparation and co-ordination of infrastructure projects in the Tripartite region (COMESA-EAC-SADC), particularly on the North-South Corridor.
TAF	2003	40	19 (96%)	TAF supports the work of other Private Infrastructure Development Group (PIDG) facilities through the provision of technical assistance and capital grants.
USAID AIP	2008	35	25 (100%)	AIP was established in response to needs in the electricity sector throughout Africa. The programme facilitates the closure of late stage electricity projects.
Inactive, or yet to commit material amounts				
AFFI-TAF	2011	5t	-	AFFI-TAF was set up to support the AFFI's goal of providing advisory services to the public sector for feasibility studies and other project preparation activities.
DBSA-EIB PDSF	2010	7	-	The PDSF was set up as an experiment where EIB could offer technical expertise and DBSA could provide on-the-ground expertise to infrastructure projects, whether public or private, in its target countries.
ECOWAS PPDU	2008	6	-	Aims to support project preparation in the West African region.
SADC PPDF	2008	6	-	The PPDF was established to finance the preparation of regional co-operation and integration projects.
SEFA Project Preparation Window	2012	14	-	SEFA's objective is to scale up renewable energy and support the delivery of universal power in Africa. One of its three windows provides project preparation grants for small and medium-scale renewable energy infrastructure.

1.3.3 Case studies

A series of short case studies were used to investigate two specific areas. The first of these looked at approaches to project preparation and PPFs, in particular, those adopted in other, non-African countries and contexts. This analysis is set out in Appendix B. The second looked at the history of typical projects within key regional programmes and how these have progressed through the project development cycle, as a means of exploring the role of key PPFs in more detail. This analysis is provided in Appendix C.

1.3.4 Interview programme

The aim of the interview programme was to obtain information and views from a range of stakeholders on PPFs and other pertinent issues. This included discussions of high-level issues such as the role of PPFs in project development, types of approaches of different PPFs, PPF performance, options for PPFs in terms of changes to approaches and structures going forward, and specifically the need for a new 'revolving' facility.

The bulk of these interviews took place face to face, including through a number of field missions, with the remainder taking place telephonically, and including both African- and non-African-based entities. These covered PPFs, bilateral and MDBs[23] and DFIs, project developers and financiers and development agencies. Altogether, over 30 individuals, as listed in Appendix D, were interviewed. In addition, the team undertook many additional informal interviews, while attending relevant conferences and field visits.

1.3.5 Field visits / missions

From CEPA's London base, a number of these interviews involved field visits / missions and attendance at conferences. These have included the following:

- Tunis (twice), to present initial findings and a forward-looking work plan to the ICA AGM, and to interview key PPFs such as the NEPAD Infrastructure Project Preparation Facility and the African Water Facility.
- Washington, in order to consult with PPFs based at the World Bank Group, such as the Public-Private Infrastructure Advisory Facility (PPIAF), the IFC Infrastructure Development Corporation (DEVCo) and the Global Infrastructure Project Development Fund (InfraVentures), as well as other Washington-based PPFs (specifically USAID's Africa Infrastructure Program), and IADB, to discuss its experience of PPFs in Latin America.
- Luxembourg, to consult with the EU-AITF, Africa-Caribbean-Pacific (ACP) department and any other relevant EIB-based PPFs (e.g., JASPERS).
- Paris, to meet an officer from the French Treasury.
- Paris, to present the Draft Final Report to the study's Reference Group.

A planned visit to Johannesburg was cancelled as a result of severe travel problems. This was for purposes of meeting with several PPFs housed in DBSA, together with the NEPAD Planning and Coordination Agency (NPCA), which is leading PIDA implementation with the AU Commission, as well as locally based developers and lenders. The majority of these planned meetings were subsequently completed by teleconferences.

1.4 Recommendations

Taking together the evaluation of PPFs, plus other findings, a series of recommendations and suggested actions have been developed. At one level these relate to PPFs in general, at another to the specific PPFs examined in detail. These involve a range of measures, falling into the following groupings:

- Informational: that is, improving the flow / availability of information – for instance, PPFs sharing more information on their operations with each other.
- Behavioural: that is, changing how different PPFs work, for instance, as regards better co-ordination.
- Structural: the most radical of measures, it includes recommendations on merging, consolidation and closing of PPFs, as well as the possible creation of new entities.

1.5 Report structure

The rest of this report is structured as follows:

- Section 2 considers the nature of the project cycle as it relates to different types of project, the operations of different types of infrastructure PPFs active in Africa and other sources of infrastructure project preparation support.
- Section 3 maps the support provided by the different key PPFs against the project cycle requirements of different types of projects and identifies gaps in support.
- Section 4 analyses the scale and profile of infrastructure project preparation support provided by the key PPFs.
- Section 5 provides an assessment of individual PPFs, based on the agreed evaluation criteria.
- Section 6 provides conclusions on the role of PPFs in the context of future infrastructure project preparation challenges in Africa.
- Section 7 provides recommendations and implementation actions and next steps.
- Annex 1 provides specific recommendations on key PPFs.

In addition:

- Appendix A provides a list of different facilities approached.
- Appendix B provides information on PPFs elsewhere.
- Appendix C provides a series of African case studies, which explore the role of individual PPFs in more detail.
- Appendix D provides a list of individuals and institutions interviewed during the course of the study.

2 The Infrastructure Project Preparation Cycle and PPFs

This section begins by examining what is meant by project preparation in the context of infrastructure, before moving on to examine important aspects of the operations of the key PPFs, including their hosting, implementation and execution arrangements and why they have been established as distinct operations. The section also considers other sources of project preparation funding, including the use of MDB credits and bilateral trust funds, host government budgetary resources and the resources of private sector developers.

2.1 What is infrastructure project preparation?

Infrastructure project preparation involves the undertaking of all the project preparation cycle[24] or development activities necessary to take an infrastructure project from identification through concept design to financial close, including feasibility testing and financial and legal structuring, as well as capital-raising. Changes to the enabling environment, in terms of implementing new laws and regulations, and the establishment of new institutions and processes to support project cycle and downstream project life-cycle activities, have also been included, reflecting ICA's definition of the project cycle as a six-phase process, as set out in Figure 2.1.[25, 26]

While these activities may overlap with what is required by different MDBs to secure approval for the issue of loans and credits, infrastructure project preparation should be seen as being a distinct activity. Indeed, while traditionally these activities may have been largely one and the same for national public sector infrastructure procurements, the needs of PPPs and regional projects are significantly more onerous from a project preparation perspective, demanding a much more involved approach.

The precise nature of the cycle and its complexity at each phase will depend upon a number of factors, such as the complexity of the project supported (for instance, dams are technically more challenging than thermal plants); the number of countries involved; and the degree of involvement of the private sector, as an operator and financier.

Table 2.1 discusses each of Phases 1 to 5 in more detail, taking into account some of the specific issues relating to regional projects and PPPs.

FIGURE 2.1 THE INFRASTRUCTURE PROJECT DEVELOPMENT PROCESS

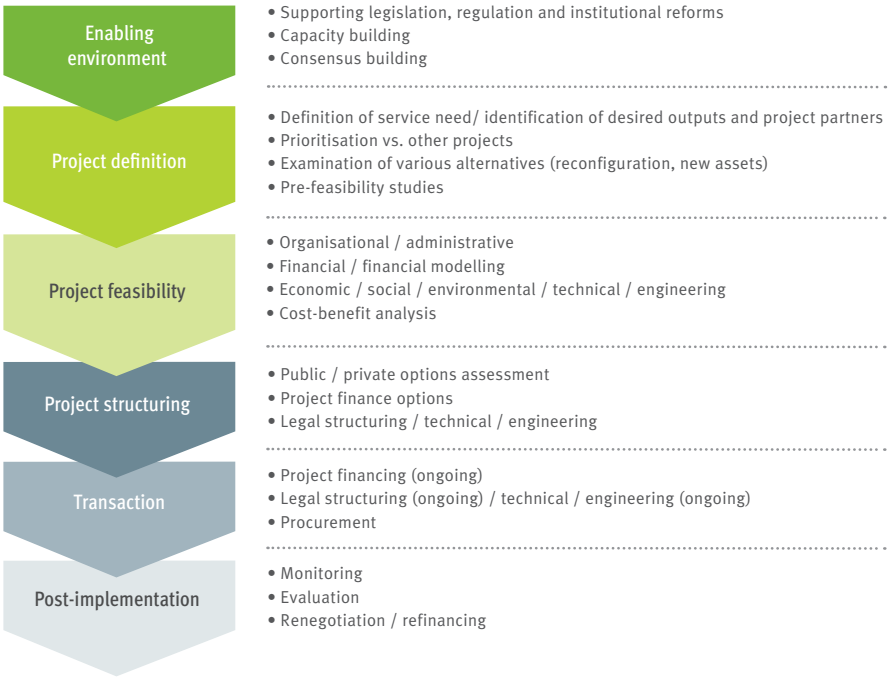


TABLE 2.1 DESCRIPTION OF PROJECT CYCLE ACTIVITIES

PHASE	DEFINITION AND OVERVIEW	ACTIVITIES	REGIONAL-SPECIFIC ISSUES	PPP-SPECIFIC ISSUES
Phase 1: Enabling environment	The enabling environment refers to the relevant policies, laws, regulations and institutions that allow and support the development of projects.	Examples of activities in this phase include designing enabling legislation; designing, reviewing or changing regulatory approaches; and capacity building of the different stakeholders involved.	Treaties may be required between participating countries. Cross-border institutions may need to be created.	Legislation must allow for PPPs. Key lender requirements such as step-in-rights for lenders must exist.
Phase 2: Project definition	This phase includes early stage concept design work that is needed before the full feasibility phase, as it defines the project's parameters.	Activities in this phase include definition of the need for the infrastructure service; identification and scoping of desired outputs and their wider economic benefit; prioritisation of the project in relation to other national / regional demands on resources; and commissioning of early stage pre-feasibility studies.	Initial concepts need to take into account the specific financing requirements of regional projects.	If projects are to attract private finance they need to be defined in such a way that they reflect the requirements of commercial finance, and not just broader economic and social objectives.
Phase 3: Project feasibility	If the pre-feasibility study concludes positively, then more detailed feasibility studies need to be undertaken.	These cover organisational, financial, technical, social, environmental and other aspects of the project. A detailed cost-benefit analysis is also crucial to establishing the feasibility of the project, especially where public monies are involved.	Many regional projects involve highly complex technical issues and interdependencies that can require careful sequencing.	PPPs are likely to require higher thresholds across all feasibility aspects, including technical (especially construction risks), commercial and financial.
Phase 4: Project structuring	This phase involves creating the appropriate commercial and technical structure for the project and is crucial not only for attracting finance, but also for attracting the right mix of finance.	This involves assessing the options for public and private participation and the development of a preferred option; development of project financing options; and development of an overall commercial structure and preliminary legal structuring.	The project will need to be structured in a way that accommodates cross-border issues and structures.	PPPs require careful risk allocation if they are to be bankable.
Phase 5: Transactions	This phase entails moving the project on from the planning to the implementation stage. Detailed work is undertaken to translate plans into tangible agreements and to procure goods and services.	This phase involve the further development of the activities in the project structuring phase, including developing project financing, legal structuring, and documentation for all major commercial and finance agreements; technical and engineering support; and finally, procurement. At the end of this phase, the project reaches financial close.	Regional projects will typically include many more participants than a typical single country procurement, increasing the complexity considerably, even on public procurements.	To a considerable extent PPPs are legal constructs including the execution of several key documents, which are time-consuming and expensive to develop.

As regards Phase 6 – Post-implementation – once the project is in implementation, monitoring of outcomes and progress is extremely crucial – for both the private and public sectors. Typically, monitoring and evaluation plans are produced during the project structuring and transacting phases. Post-implementation support will be necessary to deal with any unexpected circumstances that may lead to renegotiation of procurement agreements, financing terms and conditions, and so on.

The responsibility for project preparation activities – or overall *sponsorship* – will also vary according to who has responsibility for progressing the project. This may be government ministries and departments, national utilities, or private sector developers, depending upon the circumstances. Where government wishes to involve the private sector in projects, either as an operator or financier, the aim is for the public sector to perform the sponsor role until a private sector sponsor can take over. In practice, this means developing the project to a point where it attracts sufficient developer interest – which should be seen as the principal aim of public sector project preparation for PPPs.

Highly attractive opportunities may require only limited initial development by the public sector (for instance, potentially lucrative concessions), whereas others will require much more work, for instance to address different risks, before they become of interest to the private sector. In general, however, the larger the project, the more countries involved, the more work that will be required, particularly in terms of establishing the legal frameworks, institutions and PPP processes that make up the enabling environment. By way of example, the preparation of a large dam involves considerable technical and other pre-feasibility feasibility work, before the private sector will provide the investment required for the downstream project development process.

There is, however, still a vital need for public sector side sponsorship to manage all the public sector side inputs required to secure approvals, authorisation and permissions.

2.1.1 Infrastructure project preparation costs in Africa

The costs involved in such preparation are assumed to be considerable. There is, however, no standard metric for defining project preparation costs; perhaps the most common is a percentage of total capital financial or initial construction costs.[27] Although recognised as important – particularly in the development, financing and implementation of large, transformative regional projects – very little systematic research has been done that segments by size, sector, geography or type (public, private or PPP).

World Bank experience suggests project preparation costs are some 5% to 10% of total capital cost; although for transport, a range of 3% to 5% is quoted. For large, transformative projects, the upper 10% is used for energy and 5% for transport. When preparing the budget for InfraVentures, IFC looked at its own costs for preparing loans for private partners across a variety of PPP projects in Africa and found costs ranged from 1% to 4% (this, however, covered only the later phases of the project preparation cycle).

Public sector projects do not have the same intensity of structuring and procurement / negotiation costs. Once private sector interest has been realised, development activities[28] are normally funded by the developer; InfraCo Africa suggests that even for smaller scale energy projects, project preparation can easily add to the 10% level.

PIDA and AU / NPCA suggest overall rates of 5% to 10% for such regional projects; with 7% being taken as a central estimate across sectors.

2.2 PPF hosting arrangements

Table 2.2 lists the facilities initially approached to participate in the study, together with their hosting arrangements.

2.2.1 Traditional approaches

As illustrated by Table 2.2, the most common or traditional approach is to house a PPF within a public financial institution. There are several reasons for this, including the fact that the funds will be protected through high levels of fiduciary standards and that the host institution will provide the legal personality required for contracting purposes. It is also assumed that such institutions have robust implementing capabilities; there will be a pool of individuals capable of task managing / executing project preparation activities; and the institution's lending and other activities will create origination / disbursement opportunities.

By 'implementation' we are referring to the *management* of the PPF, the development and implementation of its strategy, the preparation of terms of reference for resource provision and the monitoring and evaluation of results, as well as wider service marketing and stakeholder management. 'Execution' refers to the undertaking of the actual *project specific support* activity, including its task management, especially of third party advisors (financial, legal, environmental, etc.).

Within MDBs, implementation and execution activities of PPFs are usually separated from each other, through the establishment of programme management units (PMUs) responsible for implementation. Depending on the precise arrangements, project preparation grants can be executed by recipients (or less likely, other development institutions).[29] In the case of DEVCo, implementation and execution are both carried out by the IFC.

Table 2.3 illustrates how this works in practice for some of the key PPFs identified as being housed within public financial institutions.

TABLE 2.2 PPF HOSTING ARRANGEMENTS

HOSTING ARRANGEMENT	EXAMPLES
Multilateral development banks / development finance institutions	EIB: EU-AITF WBG: PPIAF; InfraVentures; DEVCo, ESMAP IsDB: AFFI-TAF
Africa-based development banks	AfDB: NEPAD IPPF; AWF, FAPA DBSA: DBSA DF, DBSA-EIB PDSF, NEPAD PPFs, SADC PPDF
AU and RECs	ECOWAS: PPDU COMESA: PPIU AU: EU – Africa Infrastructure Partnership
National government departments	Egypt: PPP Unit Egypt Mauritius: PPP Unit Mauritius South Africa: RSA PPP Unit
Other	Actis Infrastructure Fund: Globeleq Nexant Incorporated: USAID AIP PIDG: InfraCo Africa; TAF GIZ: AEEP RECP

TABLE 2.3 MDB-HOSTED PPFS: FIDUCIARY, IMPLEMENTATION AND EXECUTION ARRANGEMENTS

PPF	FIDUCIARY MANAGEMENT (HOSTING INSTITUTION)[30]	FACILITY / FUND MANAGEMENT (IMPLEMENTING ENTITY)	USER OF SUPPORT (EXECUTION / TASK MANAGEMENT)
NEPAD IPPF	AfDB	AfDB	Recipient
EU-AITF	EIB	ITF Secretariat	Nominated development banks / DFIs and others in an internal financiers group (e.g. PIDG, AfDB)
PPIAF	World Bank	PMU (hosted by WB)	IBRD (mostly) / recipient
AFFI-TAF	IsDB	Board / Secretariat	Participating DFIs
DBSA-EIB PDSF	DBSA	DBSA	Recipient
SADC PPDF	DBSA	SADC	Recipient
AFD- DBSA	DBSA	DBSA	Recipient
ESMAP	World Bank	PMU (hosted by WB)	World Bank
AWF	AfDB	AWF PMU	AfDB /Recipient
DEVCo	DEVCo Trust (IFC)	IFC Advisory Services	IFC Advisory Services

2.2.2 Outsourced arrangements

There are also several instances of outsourcing fiduciary, implementation and execution activities:

- PIDG-TAF: fiduciary management is handled by a private investment bank, acting as a trustee. Implementation activities are largely outsourced to a contracted programme management unit, including a TAF technical advisor. Execution is typically handled through the PIDG investment vehicles receiving grants (including InfraCo Africa).
- USAID AIP: execution activities have all been outsourced to a private management consultancy, Nexant Incorporated.

Developer approaches

Some PPFs have sought to adopt approaches that are more consistent with those of private sector project developers, specifically InfraVentures and InfraCo Africa. Indeed, these facilities would wish to differentiate their approach from more public sector side PPFs, specifically as regards the fact that they are not advisors to government, but rather investment principals, operating in their own commercial interests (albeit within an overall developmental mandate). The approach is either to work with a party through a joint development agreement (JDA) that has secured project development rights from government in an acceptable manner,[31] or else to secure such rights from government and to develop the project from there. Note that in such approaches, as the PPF is not working for government, the public sector requires its own advisors to protect its own position. In addition, InfraCo's management team are incentivised along private sector lines with material bonuses paid for projects that are financially closed successfully.

Table 2.4 summarises some of these alternative arrangements to the main MDB PPF model.

TABLE 2.4 FIDUCIARY, IMPLEMENTATION AND EXECUTION ARRANGEMENTS

PPF	FIDUCIARY MANAGEMENT (HOSTING INSTITUTION)	FACILITY / FUND MANAGEMENT (IMPLEMENTING ENTITY)	USER OF SUPPORT (EXECUTION / TASK MANAGEMENT)
PIDG-TAF	PIDG Trust	PIDG PMU plus Technical Advisor	PIDG vehicle (e.g. EAIF, InfraCo Africa)
InfraCo Africa	InfraCo Ltd	InfraCo Board	eleQtra (InfraCo Ltd)-contracted management team
Infra-Ventures	IFC	IFC	IFC
AIP	USAID	USAID	Nexant Incorporated
Globeleq[32]	Globeleq	Globeleq	Globeleq
PPDU[33]	PPDU Company	PPDU Company Board	Advisory / developer team

2.3 Why PPFs?

While many, if not most, PPFs have been established within MDBs, it is useful to consider some of the comparative advantages that PPFs can have as distinct from those of the MDBs' normal operations; in other words, why they have been set up as separate operations. Reasons include the fact that they do the following:

- offer an opportunity for bilaterals to combine grant resources while having a greater role in the facility than they would through other multilateral arrangements;
- are more flexible than the larger IDA /ADF / EDF resources, in terms of not having to be pre allocated or tied to lenders; and
- offer potential to be driven more by the needs of recipients ('demand-led'), rather than as in the 'supply-driven' business model of a given MDB.

Where PPFs have been established outside of the MDBs, other factors may also be relevant:

- There are greater opportunities to work outside of the constraints of the main MDBs, which can be much more politicized and bureaucratic, or to bypass problems within key institutions.
- They offer more opportunity to work directly with the private sector, in terms of skills and possibly financial resources.

2.4 Other sources of infrastructure project preparation funding

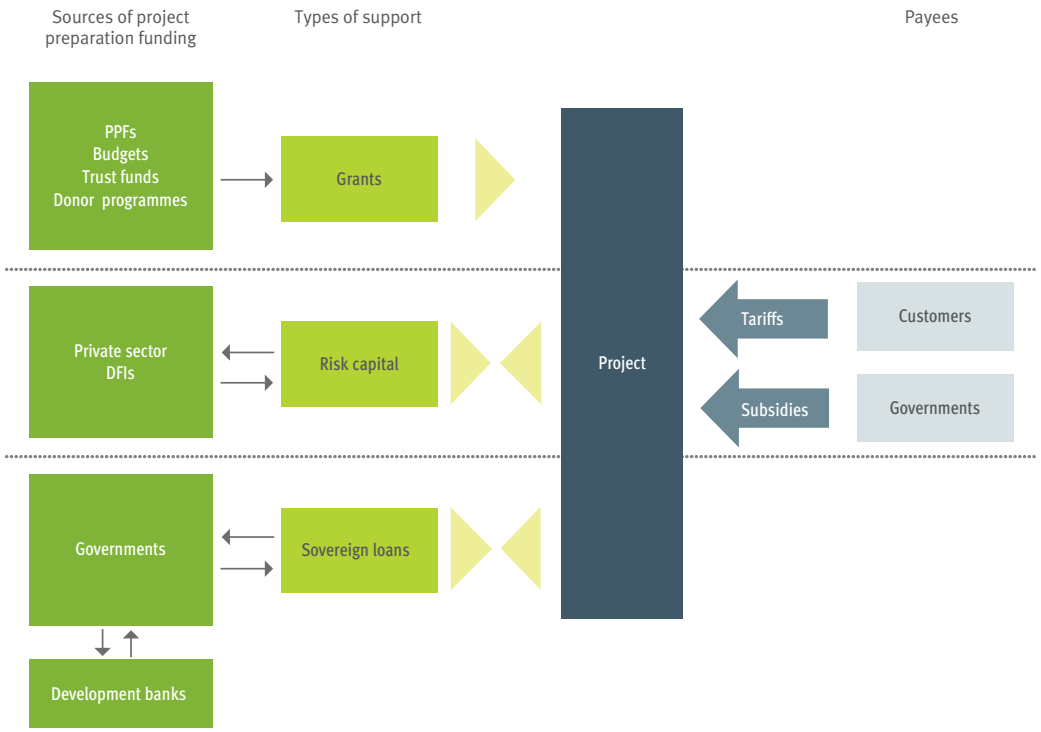
PPFs are just one source of funding for project preparation. They are, however, along with budgetary support, funding from trust funds and development agency programmes, an important source of grant funding. Development credits ultimately need to be repaid to sovereign lenders by governments, potentially but not necessarily paid for by the project, whereas risk capital provided by project developers needs to be repaid by the project, that is, ultimately by the project's customers, together with any government support. These flows are illustrated in Figure 2.2.

MDB task managers responsible for supporting governments in project preparation activities will typically draw on several of these sources for funding project preparation, rather than just relying on PPFs hosted at the institution.

The private sector itself, which typically does not have access to significant concessional third party resources, also has to invest considerably in project preparation, although it will be looking for projects to pay for this support, either at financial close or over the life of the project. Recovering project development costs requires a tariff level sufficient to do so.

While the sum total of these other sources of non-PPF funding is not known, as we discuss later, we believe it to be considerable relative to that provided by the PPFs. These other sources of funding for project preparation are discussed below.

FIGURE 2.2 SOURCES OF FINANCIAL RESOURCES FOR PROJECT PREPARATION



2.4.1 Credits and credit advances

It is not uncommon for MDB task managers to draw on a main credit for purposes of project preparation. This can involve advancing part of the credit – pre-funding, that is, 'piggy-backing' a downstream project in an earlier credit, or drawing on an unused earlier credit.

Particularly in the case of large publicly funded projects, the scale of infrastructure project preparation is such that at some point it will require financing out of either a dedicated credit or else as part of funding for the overall infrastructure.

Sometimes credits are partly advanced to cover early studies, especially where there is a major overlap with the requirements of the credit approval process (such as technical or critical environmental studies). Such credits are typically either funded by the MDB's own resources (subscribed capital), or else through the utilisation of the respective development funds (IDA, ADF or EDF) managed by the largest MDBs.

The World Bank, for instance, currently operates a Project Preparation Advance on a sovereign basis, with countries being able to borrow up to US$3m in advance per project. If the project does not proceed, then in an IBRD country, the loan has to be repaid; and in an IDA country, it is converted effectively into a grant.[34] There is a current consultation paper to raise the limit from US$3m to US$6m for IBRD and IDA countries. In the case of IDA regional projects, each individual country credit counts as an individual project, so for three countries the current limit is US$9m but would rise to US$18m.[35] The ADF has a regional project allocation of 20%; the IDA's currently is 15%.

To gain an order of magnitude estimate, the World Bank reported commitments to 45 infrastructure projects in Africa in 2011 worth a total of US$3.3bn. While all would not have had project preparation advances, those that did could still account for about half, or US$70m per year. In the AfDB, by contrast, the credit advance facility is a little-used entity, mainly for small projects, and largely for non-infrastructure projects.

Undisbursed monies from previous credits can also be drawn on with the host government's approval.

The use of stand-alone technical assistance loans or credits to prepare specific infrastructure projects has reportedly declined in the World Bank, but is still reasonably common in the AfDB.[36]

The need to finance massive early stage project preparation costs for mega projects may, however, transform the use of stand-alone technical assistance operations. As an example, a recent World Bank project information document for Inga III, due for Board approval in April 2013, consists of a US$43m IDA grant, plus an AfDB contribution of US$20m.

2.4.2 Bilateral and special purpose trust funds

Driven by declining operations budgets and beneficiary preferences for grants, proactive task managers may also draw on a wide range of bilateral, multi-donor and other trust funds (such as climate change funds) to take projects forward. These may be sector / country / regional / global- or use-specific; tied or untied; small or large scale. Each institution has developed its own portfolio and management arrangements. In combination, the growing importance and complexity of trust funds adds intricacy and reduces the ability to track and account for the overall flow of resources into

infrastructure project preparation. Other funds like the AfDB MIC Trust have been created out of MDB net income. There is no clear evidence on their use in the project cycle, but the interviews suggest most are deployed for early stage work, or social or environmental impact assessment, or climate change or associated themes.

In addition to the trust funds hosted at MDBs or DFIs, there is also a diverse set of technical assistance projects or budgets in programmes, which are designed to enable or accelerate project preparation and implementation, particularly with public sector procurement. These ad hoc and typically small US$5m-to-US$10m-sized 'pockets' may be country-specific or for transport corridors or power pools. Such donor and beneficiary behaviour is unlikely to change in the short term; it is also often associated with mission creep towards generalised capacity building rather than project-specific transactions or investments.

2.4.3 Governments

Governments are a major source of infrastructure project preparation funding. Resources mobilised through national budgets and bond issues by utilities, are beginning to increase and are likely to continue to do so. Clearly much depends on the growth dynamics and macro-economic conditions. Examples include Kenya, particularly in its master planning and detailed project preparation and on the LAPSSET corridor, plus Ghana in its use of emerging oil and gas sectors as anchors to attract private investment.

At the AU, REC and country levels, there is wide recognition that additional and substantial domestic resources have to be mobilised for national and regional infrastructure project preparation. Specifically, active consideration is being given to tiered country and regional contributions to replenishment of the NEPAD IPPF trust fund at AfDB.

2.4.4 Private sector

While experienced and well-capitalised private sector infrastructure developers are beginning to emerge from the Republic of South Africa (RSA) and Nigeria or cascade into the region as its wealth and growth make it more attractive, the current supply side is very limited. Most are small and do not have deep pockets, with the current main routes to market being JDAs with vehicles like InfraVentures or InfraCo, or some form of PPP directly with a public sponsor. The mega resource–driven mining and oil / gas private sector investments clearly generate associated major power and transport networks, but the issue is how to integrate these into public grids and public access.

3 PPF Mapping and Gap Analysis

This section begins by exploring the differences between public sector and private sector origination of projects. The service provisions of different PPFs are mapped onto a matrix of project types and phases of the project cycle. There is then a discussion of the gaps that exist in the current coverage of support provided by PPFs.

3.1 Types of project

3.1.1 Public versus private sector initiation of projects

Public sector initiation or origination refers to projects that have been conceptualised by the public sector and are then solicited to the private sector.[37] Private sector origination refers to those project opportunities that have been identified by private sector developers. The former will typically be based around public sector priorities where the returns are likely to be as much economic and social, rather than the more narrow financial focus of the private sector.

This has a number of implications. At the highest level, by definition, private sector–originated projects are those which private sector developers want to do (although lenders will still need to be attracted to the project). Public sector–initiated projects seeking sovereign loans from MDBs need to satisfy such lenders' requirements, which will be more exacting from a public policy perspective, but less so from a project financing perspective (as the ultimate obligor is the borrowing government, not the project).

Public sector–originated PPPs are arguably the most challenging projects, because these are driven by government objectives, yet need to capture private sector developer interest as well as satisfying commercial bankability requirements. These are even more challenging where there is a requirement for additional donor support, in the form of either direct loans or guarantee backstops.

3.1.2 Public sector national and subnational projects

Traditionally, national infrastructure projects have been initiated by the public sector, typically with the support of the donors; bilateral trust funds and / or loan advances have been used to fund early stage preparation work. MDB loans have then been used to finance the capital aspects of the project. Examples of projects that are normally financed in this way are roads, bridges, electricity transmission and distribution, plus water catchment and distribution infrastructure.

In the case of subnational projects, such loans are either provided to the national government and then on-lent, or lent directly to the subnational entity. This may be a municipality or a state-owned utility. Where loans are provided through the sovereign lending windows of the development banks they will require sovereign guarantees, although DFIs (often the private sector arms of development banks) can take municipal / utility risk.

3.1.3 Public sector–initiated PPPs

For purposes of this discussion, PPP projects are those for which the public sector has responsibility, but under the PPP different categories of risk are, to varying degrees, transferred to the private sector. Such risk transfer may involve performance risks (including construction risks), whereby the private sector participants are subject to penalties in the form of lost income or profits in the event of underperformance or failure; or other commercial or financial risks, including partial or full credit default risks in the case of lenders.

These projects are either national or regional. Regional projects can vary considerably in their complexity. At one end of the scale, relatively straightforward projects exist between two countries, such as bridges and transmission links, which can be more akin to two national projects. At the other are multi-country projects involving challenging co-dependencies, considerable scale, technical difficulties, etc., as set out in Table 3.1 below.

A particular challenge for many dams is their considerable scale, especially from a financing perspective. Even several MDBs working together may not be able to provide the quantum of financing required, necessitating the raising of private debt capital. This will require robust guarantees, effectively leveraging the balance sheets of the MDBs (although ultimately it is national governments at risk through their indemnifications of the latter).

3.1.4 Private sector–initiated projects

Private sector initiated projects fall into two main types: first, those which can be undertaken without public sector support, in which the role of the public sector is largely to licence and regulate / monitor; second, those projects which are dependent on government (or public sector entities) either to be the full or partial off-taker to a project, or else to guarantee the finance of the project.

If Africa is compared to many parts of Asia, there are relatively few project sponsors, particularly those with the requisite level of skills and finance to take projects through the project cycle. However, they are often the entities who first identify project opportunities at an early stage. Despite some of the problems associated with sole-sourced project development, many developing countries have embraced this approach, such as Malaysia, as set out in Box 3.1, which illustrates some of the trade-offs involved in adopting such a policy.

While the private sector is one of the main sources of bankable project ideas in Africa, and arguably often has the greatest ability to sponsor projects, the policies of many if not most donors have sought *not* to support governments that negotiate directly with such sponsors.[38] This is irrespective of the fact that with few exceptions it has been extremely difficult for most governments to originate projects and / or competitively procure (Kenya being a notable exception to this).

TABLE 3.1 REGIONAL PROJECT COMPLEXITY

LEVEL OF COMPLEXITY	EXAMPLES	PRIMARY CONSIDERATIONS
Low	Bridges	Splitting of revenues between countries
	Telecommunications	National borrowing capacities
Medium	Multi-country roads	Sequencing of building to maximise use
High	Dams (and associated transmission links)	Project-specific technical issues
		Scale of financing requirements
		Establishing creditworthy off-take
		Structuring multi-country power purchase agreements
		Developing regulatory institutions
		Water rights implications
		Social and environmental impacts

However, a number of small sponsors, either local businesses or sometimes ones from countries such as India, are seeking to develop projects. What donors have financed, rather than the provision of direct support to sponsors, is the establishment of developer vehicles such as InfraCo and InfraVentures that can enter into JDAs with such promoters.[39]

3.1.5 Types of infrastructure project

The types of projects supported by the different PPFs differ considerably. Table 3.2 provides a taxonomy that differentiates projects according to their source of origination, setting out the different types of project that this gives rise to. (See table overleaf).

BOX 3.1 INFRASTRUCTURE PROJECT DEVELOPMENT IN MALAYSIA

INFRASTRUCTURE IN MALAYSIA

INFRASTRUCTURE	1965	2005
Paved roads (km)	12,464	67,851
Length of railway tracks (km)	1,731	1,920
Number of dry berths	19	233
Telephones per 100 population	1	16.6
Electricity generation capacity (MW)	336	9,217

Source: Adapted from G. Naidu, Infrastructure Development in Malaysia.

PUBLIC AND PRIVATE INVESTMENTS IN INFRASTRUCTURE DURING THE 7TH MALAYSIAN PLAN (1996–2000), IN US$m

SECTOR	PUBLIC INVESTMENT	PRIVATE INVESTMENT
Roads	3,922	5,596
Ports	1,742	1,356
Airports	348	1,904
Rail	129	3,389
Telecommunications	1	8,203
Water & sanitation	974	1,385
Total	7,117	21,831

Source: Dani Salleh and Ho Chin Siong (2008), The involvement of private sector in local infrastructure development in Malaysia.

Malaysia has one of the best-developed infrastructure systems in Southeast Asia, which has seen a major improvement in the past four decades.

The main reason for Malaysia's success in its infrastructure development in recent years has arguably been its active and flexible involvement of the private sector. Proposals for infrastructure projects can originate from either government plans or else directly from the private sector. There are no limits on the number or types of proposals that may originate from the latter, a policy characterized as 'first-come, first-served'. As a result, over the course of the 7th Malaysian Plan (1996–2000), the private sector invested more in Malaysian infrastructure than the government did.

While involving the private sector in this way allowed Malaysia to gain from its dynamism, it did leave the government open to a number of risks. Due to the government's desire to encourage private sector involvement in infrastructure, it took a higher burden of these risks. This encouraged the private sector to undertake adventurous projects with reduced levels of concern over the projects' viability. Indeed, initially, the willingness to accept private proposals was often not combined with sufficiently rigorous evaluation processes to ensure they were cost-effective or that there was sufficient demand for the project. The result was a number of notable cases of project failures and stranded assets.

TABLE 3.2 TYPES OF INFRASTRUCTURE PROJECTS

INITIATION	PUBLIC SECTOR					PRIVATE SECTOR	
PROJECT[40]	SUBNATIONAL	NATIONAL	NATIONAL/ SUBNATIONAL	REGIONAL	REGIONAL	NATIONAL/ SUBNATIONAL	NATIONAL
MODEL	PUBLIC	PUBLIC	PPP	PUBLIC	PPP	PRIVATE	PRIVATE
Characteristics	Smaller scale	Traditional infrastructure projects financed by sovereign loans, sometimes mixed with grants		Several projects are likely to make up a regional programme, such as a transport corridor or power pool	Often mega projects, requiring private finance in addition to public Development bank partial risk or credit guarantees	Requires public sector off-take or guarantees to be bankable Development bank loans / credits to or for public obligations	Stand-alone[41] projects, requiring licensing. Often linked to mines. DFI senior / subordinated loans
Typical scale	US$20m–US$50m	US$50m–US$100m	US$30m–US$300m	US$100m+	US$500m+	US$50m–US$300m	US$50m–US$300m
Sector examples	Water supply and treatment Solid waste management	Bridges Roads / feeder roads HV transmission LV transmission	Ports / airports Power generation Cellular telephony	Power pools transmission links Cross-border rail and road links Bridges	Dams / linking HV transmission (often with Eskom in South Africa as the off-taker) Digital cabling	Transmission links to mines IPPs	Captive generation (e.g. for mines) Dedicated road / rail links
Project examples	Nelspruit Water	Douala – Yaoundé road rehabilitation	Bujagali Maputo Port Cotonou Port	Kazungula Bridge Caprivi transmission	West Africa Gas Pipeline (WAGP) Ruzizi III Hydropower	Kpone Power	Unilever Kericho Hydro and thermal plant, Kenya

3.2 Focus and approach of PPFs

It is possible to differentiate between different PPFs according to the project cycle activities they support and their approach to project preparation.

3.2.1 Nature of project cycle support from PPFs

Most of the different PPFs identified tend to focus on different phases of the project cycle. This arguably breaks down into early stage (Phases 1 to 2) and mid-to-late stage (Phases 3 to 5). The first of these include identifying / working up different project concepts and determining the elements of the enabling environment that need to be in place for the project to obtain financing (specifically a private sector sponsor in the case of PPPs). The latter phases involve the more detailed technical design, financial and legal structuring, environmental and other impact assessments and execution of the project.

Table 3.3 provides specific examples of the activities undertaken and outputs required, differentiating between, early, mid and late stage activities.

The funding of sequential support to different stages of the project cycle by different PPFs has become known as the 'tunnel of funds' approach to project preparation.

TABLE 3.3 PROJECT CYCLE PROCESSES, ACTIVITIES AND KEY OUTPUTS

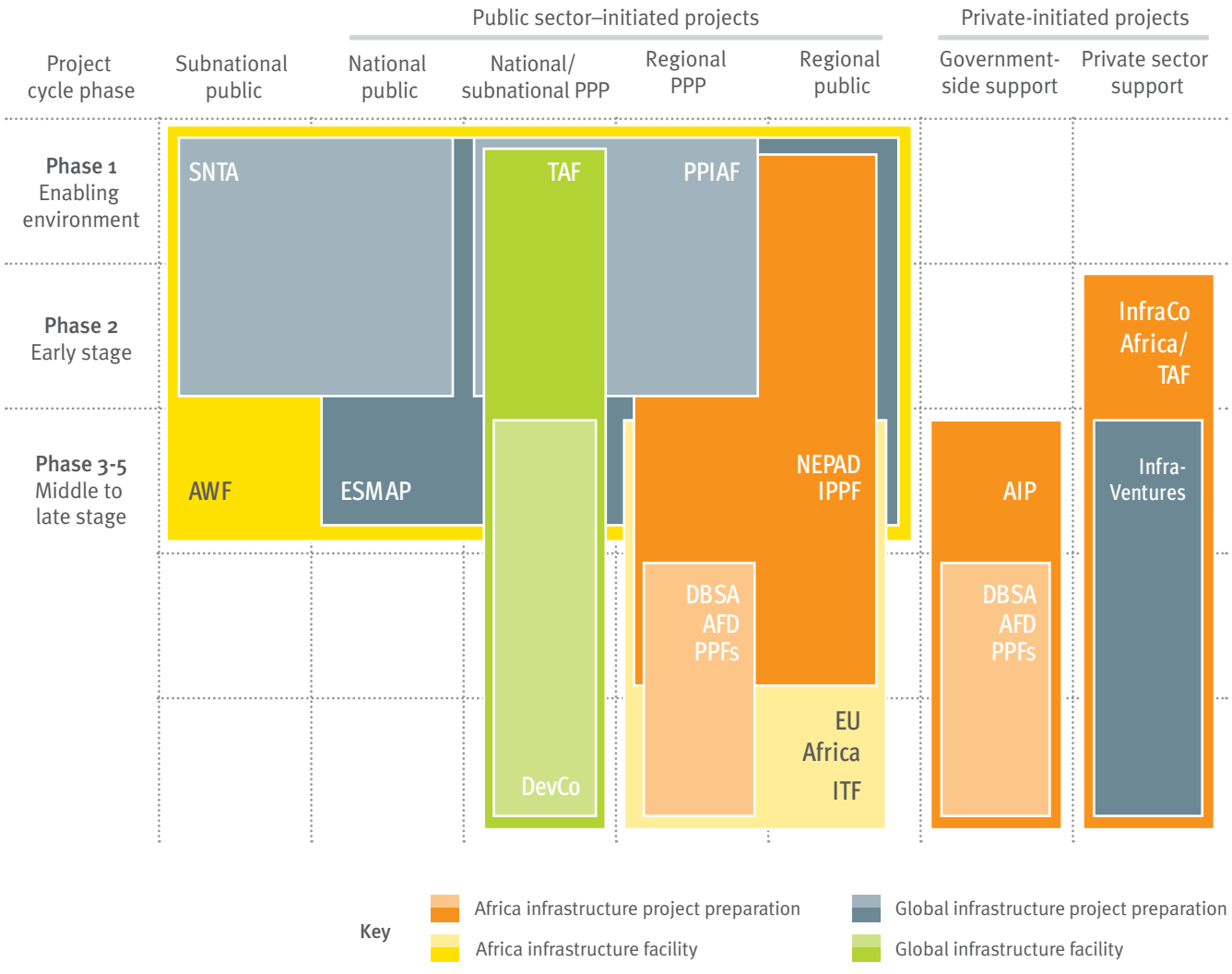
PROJECT CYCLE PHASES	PROCESSES	DETAILED ACTIVITIES	EXAMPLES OF REQUIRED OUTPUTS
Early stage: concept development	Project identification and concept development	Sector planning, project identification and screening	Sector policy papers Project concept note Prefeasibility reports
	Establishing the enabling environment	Identifying legal / regulatory / institutional and other impediments and rectifying them	Laws Regulations Allocation of responsibilities
Mid to late stage: feasibility, structuring and transacting	Due diligence	Detailed financial, legal, engineering, environmental and social appraisals	Reports that validate and develop concept further
	Project structuring	Detailed financial and legal structuring	Financial models Legal documentation
	Marketing	Promotion of the project and assessment of private sector interest	Detailed project description / information memorandum Road shows / conferences
	Transacting	Procuring and negotiating project documentation	Bid documentation Signed, negotiated project documentation

3.3 PPF mapping

A useful way of establishing the coverage of PPFs is to map their respective main cover onto a matrix by type of public and private sector projects and by project cycle phase. This is illustrated in Figure 3.1.

This mapping analysis, combined with many interviews, would suggest that at least as regards PPFs, early stage is arguably that which receives the least attention, particularly in those projects that are furthest away from the traditional, national public procurement model that utilises development bank financing of infrastructure projects. Since its establishment in 1999, PPIAF has arguably been the facility with the most in-depth focus on the early phases of project development, particularly from a PPP perspective. Most PPFs seek to target the middle to later stages – project structuring through transaction / execution – as these phases are much easier to address than the earlier stages and are closest to their own business activities (that is, lending). Donor reporting also likes to claim investment leverage, and this is more demonstrable closer to the transaction.

FIGURE 3.1 MAPPING OF KEY PPFS



3.4 Current gaps in support

A combination of the above analysis and different interviews suggested that those areas which are experiencing the most significant gaps in support are the mid-to-late stages of private sector–originated projects, 'mega' or transformative projects and public sector–originated PPP projects.

3.4.1 Private sector–originated projects

There are two gaps in support for private sector–originated projects: (i) support for governments when negotiating with sole-sourced private sector sponsors; and (ii) support for private sector sponsors who have obtained the rights to develop projects, and have undertaken early stage development work at their own risk for such projects.

As regards the first of these, save for the AIP in the energy sector, most of the bespoke PPFs have been set up solely to support public sector–originated PPPs. For example, IFC Advisory Services – the operator of DEVCo – will not support government unless it implements some form of competitive metric when dealing with unsolicited, sole-sourced approaches. Although there are examples of the World Bank responding in these situations, such as in agreeing with government to divert undrawn amounts from pre-existing credits to be applied for new purposes, though, this is not through any of the facilities identified.

This is a major gap due to the fact that a significant number of PPPs in Africa are initiated in this way, due in part to the limited ability of public sectors to develop bankable project concepts. Arguably, therefore, the ability of government to draw down on funds to allow it to be properly advised would be useful.

As discussed, those private developers wishing to raise third party donor support are, on the whole, limited to working with entities such as InfraCo Africa and InfraVentures. This may not be a bad thing for those developers who lack the competencies to take a project to market; however, there may be other developers who do not lack the competency to do so, just the financial resources required.

3.4.2 Mega / transformative projects

Transformative projects – those of a value of US$1bn or more – are largely in the power sector. They include dams and connecting HV transmission projects, typically with cross-border dependencies, which define them as regional projects. Given their scale and complexity, they must meet significantly greater project preparation requirements than most projects across the project cycle, but specifically in terms of demonstrating proof of concept, before the private sector can be attracted to develop the project further.

The preparation of such projects is currently considerably underresourced. Task managers in institutions seeking to support such initiatives spend considerable amounts of effort tracking down different sources of funding to take such projects forward. Under-resourced project preparation leads to delays and misfires and eventually higher investment costs.

3.4.3 Public sector origination of PPPs

A clear bottleneck is the early stage development of PPP opportunities by governments. Governments are familiar with early stage development of traditional public sectors, but less so with establishing the prerequisites for a PPP. While many government departments would be able to interpret any technical / engineering pre-feasibility reports, it is more challenging for them to understand whether a PPP approach is a genuine possibility and what it requires – certainly without expert support. This issue is compounded if, say, the early stage concept development is being funded as part of a public sector credit and the responsible task managers are not interested in PPP; where, for instance, this might lead to the loss of a sovereign lending opportunity. It is therefore not clear that all projects are systematically 'screened' for PPP potential. For instance, PPIAF has experience of World Bank task managers dropping projects where no clear lending opportunity has arisen, but where potential PPP opportunities may exist.

3.5 Lack of systematic support

While it is often possible to raise project preparation funding from a range of different sources, this is ad hoc at best; support needs to be much more systematic as well as more comprehensive, if especially large projects are to be brought to financial close more quickly. Poorly structured deals also rarely survive long before they need to be renegotiated.

4 Scale of PPF Activities in Africa

After considering the extent of coverage of the PPFs in the previous section, this section explores the scale of resources that has been brought to bear, based on the information gathered through the survey of core PPFs. It concludes by providing rough estimates of total donor support to donor project preparation and demonstrating the relative small proportion of this provided by the core infrastructure PPFs identified.

4.1 PPFs analysed

As set out, information was collected on 17 core facilities that met the definition of an infrastructure PPF and for which over US$5m was raised.[42] These are listed in Table 4.1 under the four typologies identified.

The responses received provided varying degrees of completeness in terms of the numbers and other information requested. Several had to be constructed on the basis of limited information. Estimates and / or amendments to the numbers provided were required for almost all of the facilities cited. All the numbers presented should therefore be considered as order-of-magnitude estimates (they also have differing year-ends). Detailed analyses of each PPF are contained in Volume B.

TABLE 4.1 CATEGORISATION OF KEY FACILITIES

AFRICA INFRASTRUCTURE PROJECT PREPARATION	GLOBAL INFRASTRUCTURE PROJECT PREPARATION	AFRICA INFRASTRUCTURE	GLOBAL INFRASTRUCTURE
COMESA PPDU	AFFI- TAF	EU-AITF	ESMAP
DBSA-EIB PDSF	PPIAF	AWF	PIDG-TAF
ECOWAS PPDU	InfraVentures	SEFA	
NEPAD IPPF	DEVCo		
NEPAD PPFs			
SADC PPDF			
InfraCo Africa			
USAID AIP			

4.2 Estimating funds raised for infrastructure project preparation in Africa

The financial analysis of core PPFs suggests that a total of US$664m has been raised during the 2000–2012 period, of which close to US$190m has yet to be committed (this figure will no doubt have decreased once facilities have produced their reports). Of the estimated US$445m that has been committed to Phases 1 to 6 of the project cycle, some US$350m has been committed to Phase 2–5 activities (that is, excluding enabling environment and post-transaction monitoring). Figure 4.1 shows the total amounts cumulatively committed to each PPF by donors, as well as funding allocated to other activities.

4.2.1 PPF infrastructure project preparation expenditures

Figure 4.2 below provides an annual breakdown, by type of PPF, of total infrastructure project preparation expenditures on Phases 1 to 6 in Africa between 2005 and 2011.

The total grew significantly from just over US$10m in 2005 to over US$80m in 2010, reflecting an international policy focusing donor attention on African infrastructure in the wake of the 2005 Gleneagles summit. Spending peaked in the years 2009–2010, with a drop back in 2011 to closer to 2008 levels.[43] This may reflect the delayed impact of reduced donor spending commitments in the wake of the financial crisis. From 2007 onwards, the annual flows are dominated by Africa-focused rather than global infrastructure facilities.

Figure 4.3 breaks down these totals by specific PPF.

FIGURE 4.1 CUMULATIVE TOTAL FUNDING

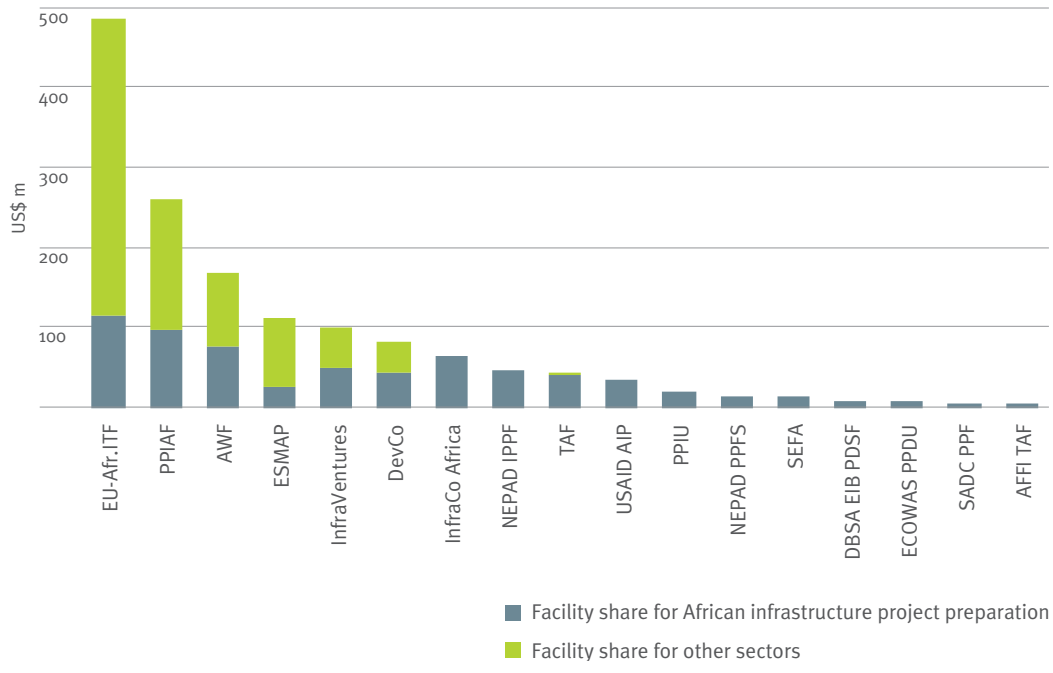


FIGURE 4.2 ESTIMATED ANNUAL FLOWS BY CATEGORY, 2005–2011

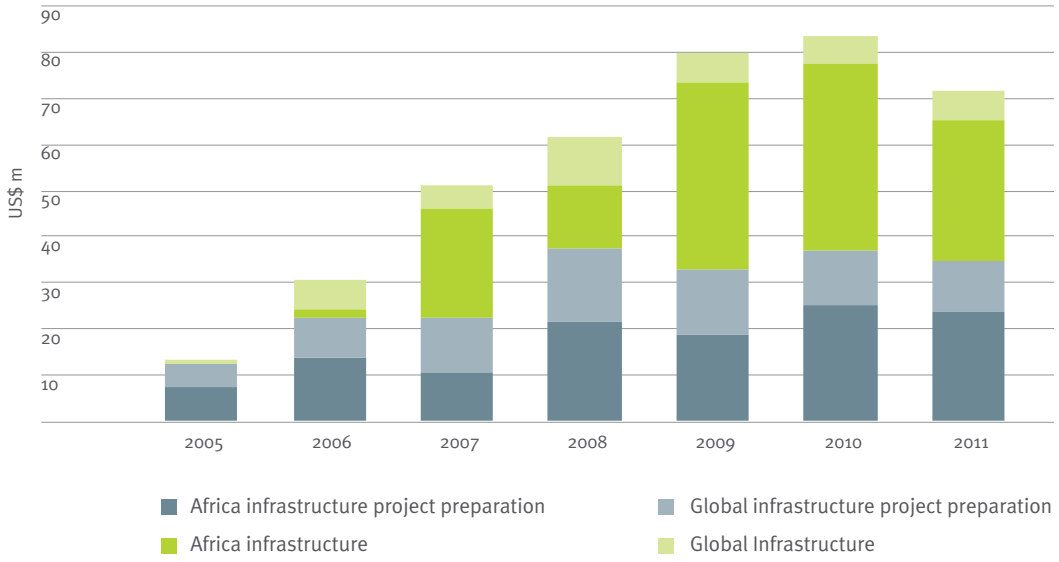
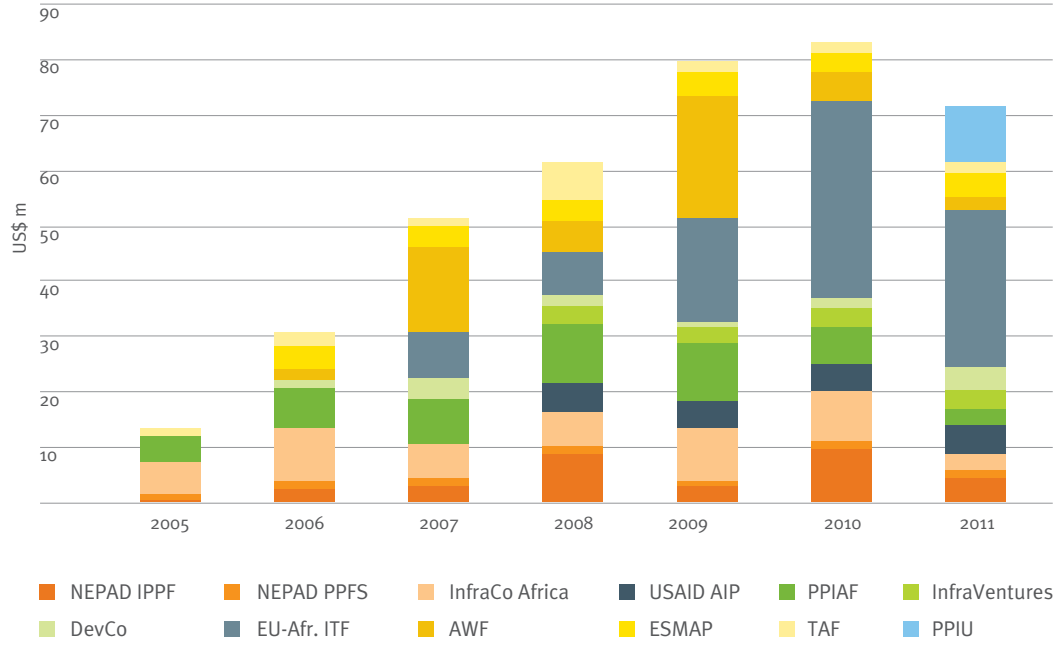


FIGURE 4.3 ESTIMATED ANNUAL FLOWS BY PPF, 2005–2011



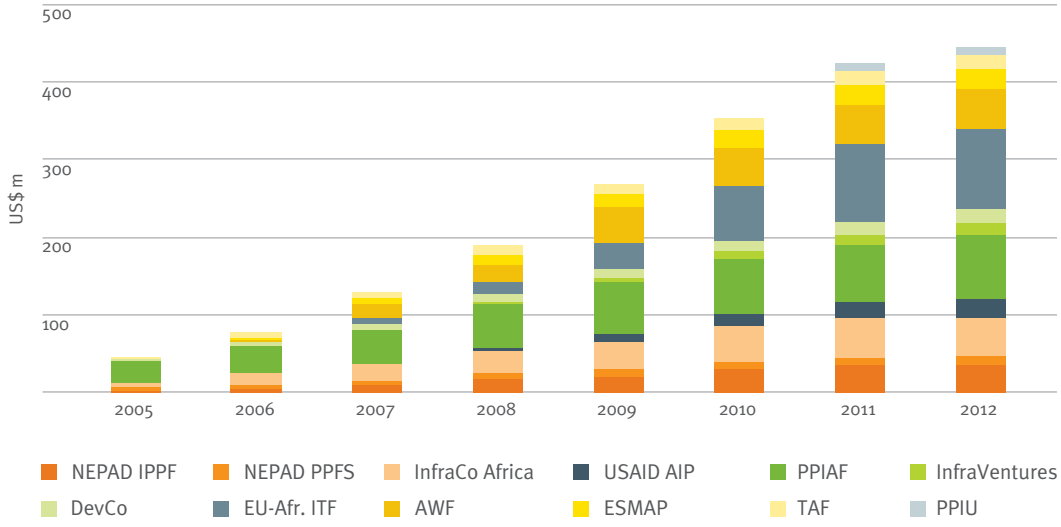
It is clear that EU-AITF has dominated in terms of scale since its formation in 2007, committing an estimated US$35.5m to project preparation in 2010 alone. Other key facilities are: PPIAF, which maintained a steady flow of annual commitments at around US$8m annually, until 2011; AWF, which committed US$21.9m at its peak in 2009;[44] and InfraCo Africa, which committed approximately US$7m annually over the period.

The average annual spending per active facility was approximately US$3m. It should also be noted that of the 17 facilities, five of these were not active, or had made very limited disbursements by the end of 2011.

The cumulative US$445m total estimated to have been committed by the key PPFs to project preparation in Africa is presented in Figure 4.4.

Cumulatively, the facilities with the largest spending were: EU-AITF, which committed US$103m between 2007 and 2011; PPIAF, which committed US$51m between 2005 and 2011; and InfraCo Africa, which invested US$50m between 2005 and 2011.

FIGURE 4.4 CUMULATIVE SPENDING BY FACILITY, 2005–2012



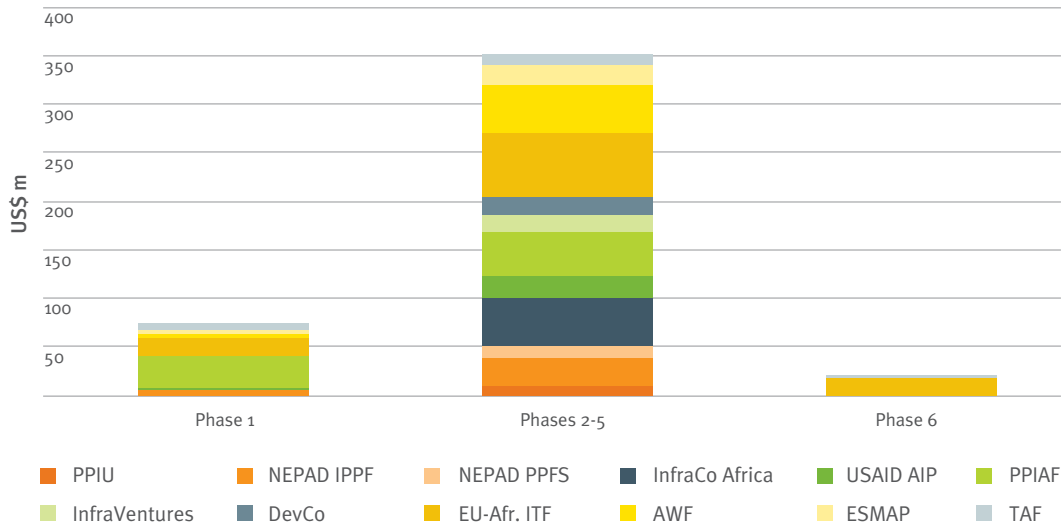
4.2.2 Focus of facilities

Some 75% of total infrastructure project preparation support has been estimated to have been allocated to Phases 2 to 5 of the project cycle, as is shown in Figure 4.5 below.

Support to Phase 1 activities has been paid mostly by PPIAF, which provided 40% of its total support to Africa for this.

As set out in Section 3, coverage of support is very thin in a number of areas. The commitment figures from PPFs tend to bear this out. While PPIAF has committed close to US$40m on Phase 2 support for government originated PPPs, it is by and large the only major source of funding in this area.[45] As regards support to the private sector, of all project-specific Phases 2–5 funding, only about one-quarter has been committed to private sector–originated projects by InfraCo and InfraVentures, covering relatively few projects. USAID-AIP funds, a small proportion of total support, are the main source of funds for governments in directly negotiated transactions, and these are limited to the energy sector.

FIGURE 4.5 SUPPORT TO PHASES OF THE PROJECT CYCLE, 2000–2012[46]



4.2.3 Available for future commitments

It has also been further estimated that the 17 priority facilities have close to US$190m which has yet to be committed to infrastructure projects. In arriving at this figure it has been assumed that the allocation of patterns of PPFs which are not exclusively focused on infrastructure project preparation in Africa follow historical patterns. This figure is roughly sufficient funding to support approximately three years' activity based on previous trends, or to put it another way, approximately enough to provide project preparation to one US$4bn transformative project, if we assume project preparation costs are approximately 5% of the total project value.

A breakdown of remaining funding is shown in Figure 4.6 below.

The PPF with the largest amount of funding available to commit is the IFC's InfraVentures. The DBSA-EIB PDSF facility has been active since 2010, but has not yet committed funds to any projects.

Some of the remaining funding for disbursement is from facilities that are at early stages of development. The COMESA PPIU became active in 2011 and so far has committed US$10m of its total US$20m funding. The SEFA Project Preparation Window only became active in 2012 and has not committed any of its US$14m funding allocated to project preparation.

FIGURE 4.6 REMAINING FUNDING AVAILABLE FOR COMMITMENT TO AFRICAN INFRASTRUCTURE PROJECT PREPARATION, BY FACILITY, US$m

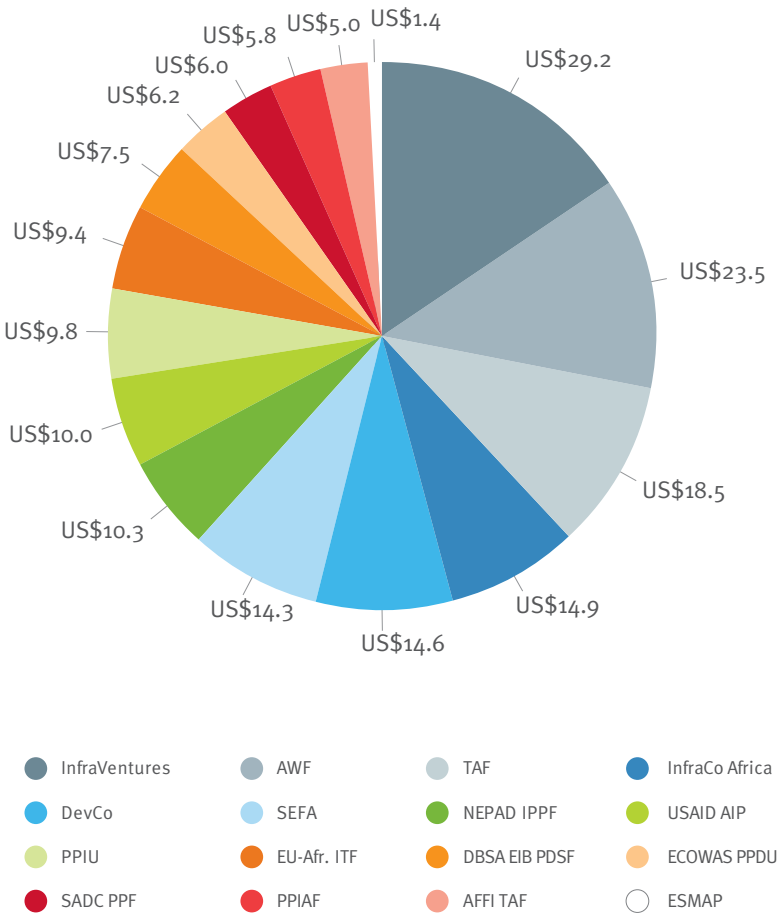


TABLE 4.2 ESTIMATE OF ODA SPENDING TO PROJECT PREPARATION, 2010

SHARE OF ODA DEVOTED TO PROJECT PREPARATION (%)	DERIVED ESTIMATE OF 2010 SPENDING ON PROJECT PREPARATION (US$m)
3	360
5	600
7	840
10	1,200

Source: OECD Stat and CEPA analysis.

4.2.4 Analysis of total project preparation spending

To put the spending of the project preparation facilities into perspective, it is useful to estimate how much support is available for African project preparation from other sources. While it is difficult to find specific data on any of these other sources, the OECD-DAC database does report flows of Official Development Assistance (ODA) to infrastructure in Africa, from which we can make an estimate of project preparation. In 2010, the main donors[47] provided US$12bn to African infrastructure. If the different flat averages of project preparation costs discussed in Section 2 are applied to these totals, we can obtain estimates of at least aggregate levels of donor / official support, as set out in Table 4.2.

Using the estimates in Table 4.2, if 2010 PPFs committed approximately US$80m in 2010, this was between 7% (assuming 10% of total ODA flows committed to project preparation) and 22% (assuming 3% committed), which would suggest a maximum of around 20%. Thus, while PPFs are an important contributor to project preparation, they are not driving it. However, more 'bottom-up' work is required in this area to obtain more robust estimates.

5 PPF Assessment

Having considered the coverage of PPFs as regards support to infrastructure project preparation in Africa in Section 3 and its scale in Section 4, we will now consider how well individual PPFs have performed. The analysis presented incorporates the views of interview correspondents as well as desk research and interviews with PPFs themselves. However, the final assessment is solely CEPA's, based on its best judgement, given the imperfect information available.

While we have been able to collect 'order of magnitude' numbers on individual PPFs, assessing them on a like for like basis has been particularly challenging. The two main ones are first, applying criteria in a manner that reflects the diversity within the PPF cohort; and second, assembling the necessary evidence and data to support such an assessment.[48]

As regards the latter point, the primary information provided to us in the form of questionnaire responses was far from comprehensive in many cases, although CEPA is grateful to all those PPFs that took the time to respond. We recognise the considerable efforts made in completing the questionnaires. As regards other, secondary information, not all facilities have annual reports nor previous evaluations that could be used. Thus, the assessment has had to draw on several sources of information, including the views of interview respondents, with necessary judgements made as regards how to assess different PPFs on a comparable basis.

In applying the evaluation criteria, the aim has been to draw out differences between PPFs to illustrate particular points, rather than to establish a ranking or league table, which could not be supported by the evidence base. The scores provided have therefore been arrived at approximately rather than scientifically, and we recognise they may not always be based on an entirety of the pertinent facts. However, irrespective of the scores which have been applied, we would suggest that the issues raised – which affect both high- and low-scoring PPFs – might be considered further by the PPFs concerned, their funders and other stakeholders, if PPF performance, both singularly and collectively, is to be improved.

The scores for each PPF have been grouped into high, medium and low, as assessed against the agreed high-level evaluation criteria of *relevancy*; *effectiveness, efficiency*; *adequacy* and *sustainability*[49] (several of which have been broken down into more than one parameter or aspect of the criterion).

5.1 Relevancy

Relevancy is the extent to which the objectives and design of a facility are consistent with infrastructure challenges; this includes alignment with the needs and priorities of beneficiaries, by sectors, countries and groups.

While there is considerable variety in the focus and approaches of different PPFs, the vast majority of them have demonstrated a medium to high degree of relevancy. The willingness of many of the PPFs to step in and take risks where others before have failed (such as InfraCo Africa in Cape Verde, and NEPAD IPPF for the Trans-Gambia River Crossing) is valuable. It is arguable that these projects would not have gone ahead without their support, or at the very least, implementation would have been further delayed. The case study analysis on regional projects in the appendixes demonstrates how many of the PPFs identified have been successfully involved in some key projects in Africa, as illustrated in Table 5.1.[50]

TABLE 5.1 SUMMARY OF PROJECT CASE STUDIES

PROJECT	PROJECT CHALLENGES	PROJECT PREPARATION SUPPORT	RESULT
Ruzizi III hydroelectric – 147 MW regional hydroelectric plant between DRC, Rwanda and Burundi	Regional location at the confluence of three fragile states, and history of conflict	Two EU-AITF grants for technical / PPP and ESIA Transaction advisors funded by NEPAD IPPF, NEPAD PPFs	Ongoing
Cabeolica Wind Farm – Cape Verde, installed capacity 28 MW	Two earlier failures to complete a public procurement process for a wind farm	Developed over 2007–2010 by InfraCo Africa Received grants from PIDG-TAF	Closed in 2010
East Africa Rail Corridor Project – to construct nearly 600 km of railway and upgrade nearly 1,000 km	The EAC has a poor record of rail concessions.	Feasibility financed by NEPAD IPPF	Currently in development
Trans-Gambia River Crossing – bridge plus two border posts to replace existing ferries in the Gambia	The concept of a bridge dates back to at least 1978, but both political commitment and finance have proved problematic.	NEPAD IPPF updated previous studies in 2006.	Closed in 2011
CLSG Interconnection project – 1400 km HV transmission line between Côte d'Ivoire, Liberia, Sierra Leone and Guinea	Critical for the reconstruction efforts in Liberia, Sierra Leone and the forest region of Guinea	EU-AITF provided grant for feasibility and ESIA, and second grant for post-implementation. WB provided support to set up SPV.	Currently in development, considered close to financial close
Kazangula Bridge – connects Zambia and Botswana over the Zambezi River, replacing the ferry operation	The project has been considered since 1983 – when it was not seen as economically viable – and has suffered from political disputes between the other countries and Zimbabwe	Design and enabling environment support from NEPAD IPPF Post-implementation support from EU-AITF	Reached financial close in 2012

5.1.1 Scoring

For purposes of this analysis, 'relevancy' can be seen in terms of *current* and *future*. In distinguishing between PPFs, this is not just about focusing resources on project preparation in Africa – which is important – but doing so in a manner that reflects the particular challenges faced in developing infrastructure projects in Africa. Thus, relevancy includes the ability to 'stretch' to respond to PPP and regional priorities.

Moreover, this is not so much a measure of how well or poorly a PPF is performing, but rather how appropriate its overall mission is. Whereas PPFs can have a high degree of current relevancy, future relevancy takes into account PIDA and other ambitions. Future relevancy has been assessed against *current* mission / focus, not in terms of the *potential* for the PPF to increase its relevancy.

Table 5.2 scores the key PPFs against current and future parameters.

As can be seen, most of the PPFs have a high or at least a medium current relevancy. ESMAP is the main outlier, largely because it was never established with project preparation specifically in mind. Those facilities that score highest on current relevancy reflect their degree of focus on current project preparation challenges in Africa, whereas those that score lower have less specific focus. Future relevancy reflects the ability of their currently intended scopes of focus to keep pace with anticipated future challenges.

PPIAF, NEPAD IPPF, EU-AITF and PPIU all appear to be relevant now and in the future. The challenge for those PPFs such as AIP, InfraCo Africa, InfraVentures and PIDG-TAF is how they might rise to the PIDA and other challenges.[51]

The main factor which reduces the current and future relevancy of DEVCo is the fact that it cannot be used to support sole-sourced negotiations which lack a competitive dynamic – which is arguably a major handicap in Africa.[52] Following a strategic review, AWF has refocused its activities on project preparation, but it is probably too early to see how this has operated in practice.

Although the relevancy criterion is more about focus than effectiveness, SADC PPDF and DBSA-EIB are clearly in danger of being left behind in terms of maintaining their relevancy in the absence of undertaking project preparation.

Taking the PPFs together, we would conclude that, especially with the PIDA agenda and its focus on transformative regional projects, there is an emerging future 'relevancy' gap.

TABLE 5.2 CURRENT AND FUTURE RELEVANCY

	CURRENT RELEVANCY		
FUTURE RELEVANCY	HIGH	MEDIUM	LOW
High	PPIAF; NEPAD IPPF; EU-AITF; PPIU		
Medium	AIP; InfraCo Africa; InfraVentures; PIDG-TAF	DEVCo; NEPAD PPFs; AWF	
Low		SADC PPDF; DBSA-EIB PDSF	ESMAP

5.2 Effectiveness

Effectiveness could be judged by the speed at which like for like projects were propelled through the different phases of the project pipeline to financial close. However, any evaluation needs to reflect the fact that few PPFs cover the whole project cycle. Thus, financial close for most PPFs is not a main evaluation parameter; it is more about how effective they are at undertaking the activities upon which they are focused.

It is clear that African PPFs operate in a highly challenging context. As different PPF-specific evaluations have shown, this has quite often meant that they have failed to meet either their own or their donor sponsors' ambitions. However, that said, some appear to be more effective than others.

5.2.1 Determinants of effectiveness

A number of factors have been identified that can certainly influence, if not determine, effectiveness. For those PPFs focused on only parts of the project cycle, this includes the ability to co-ordinate with other PPFs in a 'tunnel of funds' approach. Other factors include the extent of an African presence, the clarity of focus and alignment of the PPFs with their hosting institutions' policies and core competencies, and the restrictions that this may place on the PPF.

Extent of co-ordination

Effectiveness is not only driven by the sole actions of the PPF in question, but through its ability to co-ordinate with other entities, where necessary. There is very limited evidence of any systematic PPF incentives to co-operate, although there are positive examples of 'tunnel of funds' approaches: for instance, between IPPF and the EU-AITF and between PPIAF and IFC Advisory Services (DEVCo). On the whole; however, this seems to be limited to co-operation between the different World Bank Group–hosted facilities, the EU / European DFIs, and the different PIDG entities (TAF and InfraCo Africa). The tied and outsourced nature of USAID's AIP to a private contractor, irrespective of the relevancy and quality of the initiative, does not make for good donor co-ordination.

It is also important that PPFs are well networked to sources of project financing, a key strength of the EU-AITF approach, whereas more limited linkages elsewhere are likely to have hindered individual and overall PPF performance.

Extent of an African presence

A key issue with developing projects, whether they are pure public or more challenging PPPs, is the need to be on the ground to work with different stakeholders and to help promote the necessary government commitments, which remain a major barrier to development. A local base facilitates better networking opportunities, the building of relationships and trust, the understanding of issues and workable solutions that are all important prerequisites for progressing the project cycle. A feature of pretty much all the internationally based PPFs is that key professionals spend a much lower amount of time than is desirable based where projects are being developed. While they may have in-country or regional representation, an issue is whether more might be achieved by a more sustained, on-the-ground presence (notwithstanding the difficulties of achieving this).

PPF housing

It is difficult to house a PPF at an MDB without its performance being heavily influenced by that of the host institution. This goes beyond the inevitable bureaucratic challenges that most public institutions face. Even at a seemingly innocuous level, simple things such as the adopted procurement policies of the host institution can place restrictions on, for instance, use of consultants of certain nationalities; alternatively, there may be requirements for participation by certain groups. Execution of grants by other, third party, development institutions seems to be particularly problematic, whether or not this is driven by procurement policies.

In addition to policies, differences in implementing and executing capabilities will have perhaps the greatest impact on operations. Indeed, PPFs have been arguably most successful where their focus has a strong alignment with the host institution's policies, business objectives and capabilities. As already set out, most hosting institutions would prefer to engage in the later stages of the project cycle where there is a greater likelihood of a

transaction, leading to a lending or investment opportunity for the host institution. Problems arise when support desired by government clients cannot be provided, because the relevant skills do not exist in-house; or the institution itself is not interested because it has no business interest in the area; or it runs contrary to its policies. The involvement of more than one MDB in a PPF's operations is a further complication, as several sets of policies may need to be adopted.[53]

Lack of appropriate implementing capability

The challenge becomes all the greater, it would seem, the further away the implementing capability requirement is from the traditional public lending business model. Strong PPF implementation capabilities and access to professional execution skills are paramount to the success of PPFs that are focused on those activities furthest away from day to day (lending) business.

Achieving success as a PPF is not just about the provision of funding, it is about the wider role played by their management. For example, often a significant proportion of management time is required to promote / sponsor ideas, educate, help put together funding requests and generally 'hand-hold', all of which has to be done by the implementing entity of the PPF. Implementation capability should not therefore be just an administrative overhead, but a vital, value-added part of a PPF's operations, especially those focused on early phase project cycle activities.

The amount of time and skilled resource required for this should not be underestimated. The additional organisational / institutional, technical and financing challenges created by PPPs and regional projects, have raised requirements in term of such skills and competencies and the financial resources required to provide them. Many PPFs have underestimated these challenges; but in certain instances, particularly in the case of NEPAD IPPF when it was originally established, the gap between considerable ambition and ability to deliver has seemed difficult to bridge.[54]

PPFs with well-resourced implementing (programme management) units have tended to be much more efficient at deploying funds on a timely basis. This is particularly relevant to those that have been set up as units within MDBs. A good implementing unit will have a thorough understanding of its remit, particularly as regards what is required for successful execution. PPFs housed at the AfDB seem to have had more problems committing funds to projects than those at the EIB and World Bank, an issue recognised by the former.

In addition, several PPFs are too small to incorporate the required scale of implementing resources, a particular issue where the PPF needs an especially active implementing capability. This appears to be the case with the entities based at the DBSA.

Clarity of focus

Finally, focus would also appear to be important. Those PPFs that have a well-targeted remit have an advantage over those which are attempting to cover multiple types of projects and project phases. It would appear better to develop core competencies in a limited number of areas rather than trying to cover everything.

5.2.2 Scoring

In scoring effectiveness, it is also important to take into account the separate parameter of degree of difficulty involved. Factors which increase difficulty include a focus on early stage project preparation as opposed to later stage; private sector focus as opposed to public; regional as opposed to national; and a range of activities supported as opposed to a narrow focus.

As shown in Table 5.3, the PPFs have been grouped according to these different parameters, based upon our understanding of their relative perceived success, although it should be noted that some PPFs have been operating longer than others and therefore have had more time to demonstrate success.[55]

Those PPFs that have been most effective tend to be those which have more well-defined mandates, of medium degrees of difficulty, together with appropriate implementing capabilities and access to strong executive skills. Those which have the greatest problems have picked up some of the greatest challenges – and without such capabilities. Many of the PPFs have taken considerable time, however, to reach the point where they can achieve a medium score, often after necessary refocusing of their activities. As regards the lowest scoring, this has largely arisen through inabilities to disburse or close transactions (which is part of PPFs' role). Arguably InfraVentures has been unlucky in that although it has not closed any transactions in Africa, it has gotten close, only to be frustrated at the last minute by events beyond its control.

TABLE 5.3 RELATIVE EFFECTIVENESS VERSUS DEGREE OF DIFFICULTY

	DEGREE OF RELATIVE EFFECTIVENESS		
DEGREE OF RELATIVE DIFFICULTY	HIGH	MEDIUM	LOW
High		InfraCo Africa; NEPAD IPPF	SADC PPDF InfraVentures; DBSA-EIB PDSF
Medium	PPIAF; EU-AITF; USAID AIP; NEPAD PPFs; DEVCo	PIDG-TAF; AWF; PPIU	
Low		ESMAP	

5.3 Efficiency

Based on DAC definitions, efficiency is a measure of how economically resources / inputs (funds, expertise, time, etc.) are converted into results.

5.3.1 Determinants of efficiency

Efficiency is one of the most difficult criteria to assess, with no agreed, universally applied Key Performance Indicators (KPIs), which can be used for benchmarking purposes. In terms of inputs, cost is an obvious indicator, whereas the results against which KPIs might be measured would ideally include a range of outputs, outcomes and impacts.

Such cost-effectiveness measures are extremely difficult to develop on the basis of the information available. However, as one snapshot of efficiency, where we have had the information, we have been able to compute a measure of management and overhead expense to funds committed, although this should also be treated with caution due to issues of comparability.

PPF cost comparisons

A number of the active PPFs provided cost information from which it was possible to undertake some tentative high-level analysis on the management (implementing costs) versus amounts of commitments for certain of the PPFs considered.[56] These are presented in Table 5.4.

Table 5.4 illustrates a number of points:

- With the exception of the AWF, the high cost-to-commitment ratios of the PPFs focusing on earlier phase activities, which are in the 20–30% range. In large part, relative to other activities, these ratios demonstrate the greater implementation efforts required in this area, although that does not necessarily mean there is not scope for greater efficiencies.
- The much lower costs of those facilities that are either focused on downstream project cycle activities and / or are able to rely on execution from entities which will bear such costs.
- As larger PPFs, PPIAF and EU-AITF are expensive on a per annum basis – but they are also relatively more successful at committing resources.

Indeed, comparing like with like can be problematic in the absence of a much greater granularity of data. In practice, there may be somewhat of a blur between where implementation and execution costs lie. For instance, task management of PPIAF grants,[57] and the funding of InfraCo's management

TABLE 5.4 COMPARISON OF PPF MANAGEMENT COSTS

		MANAGEMENT EXPENSE			
PPF[58]	PERIOD	FULL PERIOD (US$m)	AVERAGE PER ANNUM (US$m)	COMMITMENTS OVER PERIOD (US$m)	EXPENSE / COMMITMENTS (%)
NEPAD IPPF	2004–11	10.3[59]	1.5	35.7	29[60]
PPIAF[a]	2000–11	31.9	2.9	156.1	20
DEVCo[a, 61]	2004–11	5.4[62]	0.8	36.5	15
EU-AITF[b]	2007–11	9.2	2.3	95.8	10
AWF[b]	2006–11	5.4	1.1	46.6	12
PIDG-TAF	2004–11	2.1	0.3	18.5	11
InfraCo Africa	2005–11	3.7[63]	0.6	65.0	6
Totals / averages		67.9		454.2	15

Sources: Questionnaire Responses, CEPA Research.

a. Whole facility.

b. Apportioned for Africa project preparation.

team – as opposed to its Board and other costs[64] – are not included as implementation costs, whereas they are funded out of the their respective PPF's resources.[65] The other facilities appear able to have these covered by either the hosting institutions or beneficiaries.

Whereas it is possible that efficiency arguments might be made – for instance, a greater contestability of funds may produce efficiencies – overall early stage project cycle work is much more management intensive than 'lighter touch' downstream management, where objectives are much clearer. As it will be difficult to reduce these, a clear implication is that it is important to create scale economies if the ratio of management costs is to be brought down, that is, larger grants. Thus, it is better to concentrate early phase activities in relatively few PPFs.

Of course, merely measuring commitments does not give a very good sense of the quality of the outputs, outcomes or impacts arising from the expenditures. This is much more difficult to measure in the absence of appropriate performance outcomes, and impacts being generated through publicly available PPF monitoring and evaluation data streams.

5.3.2 Scoring

Comparing apples with pears is extremely difficult: for instance, comparing an entity such as the PIDG-TAF, which can operate with a lean implementing unit as it is largely deploying grants to skilled executors, with the high risk early stage operations of a project developer, such as InfraCo Africa. As set out, an additional issue in assessing cost-effectiveness is the treatment of trust management fees, charged by most MDBs, and whether these should be taken into account. Ideally, such an assessment would be conducted between PPFs that are as like for like as possible. In providing some of the cost-efficiency comparisons in Table 5.4 we would reiterate the challenges of comparing costs, although they can be used to a degree to compare between like for like PPFs.

Timeliness and responsiveness to applications for support is also important in terms of facility management. Provision of transparent and timely information to donors, and into the public domain, is also a form of efficiency, from the perspective of enabling PPF funders to make timely decisions. These metrics are included as an assessment tool in Table 5.5.

It was not possible to include all PPFs in the comparison of management costs to commitments set out in Table 5.4, largely because they had not provided sufficient information in their responses, or are at too early a stage for such analysis to be performed. As such this parameter is only partial.[66] EU-AITF and the PIDG facilities seem to be most cost-efficient in this respect.

Organisations hosted by the PIDG and the World Bank tend to score best in terms of responsiveness and provision of information, as borne out by this study. PPFs such as the NEPAD IPPF, and DBSA-EIB PDSF were slower in providing responses; but NEPAD IPPF was extremely thorough and transparent in its reporting. InfraVentures and AIP provide little publicly available information on activities and performance.

TABLE 5.5 RESPONSIVENESS / TIMELINESS AND PROVISION OF INFORMATION

MANAGEMENT COST-EFFECTIVE NESS	RESPONSIVENESS / TIMELINESS / PROVISION OF INFORMATION		
	HIGH	MEDIUM	LOW
High	PIDG-TAF; InfraCo Africa; EU-AITF		
Medium	PPIAF; DEVCo	AWF	
Low		NEPAD IPPF	
Unknown		ESMAP; PPIU; NEPAD PPFs	InfraVentures; AIP; DBSA-EIB PDSF; SADC PPDF

5.4 Adequacy

Adequacy is considered in terms of the provision of financial and human resources required to operate successfully. Financial resources can be seen as relative to overall mission – the more ambitious the mission, the more resources are required, both in terms of the total quantum, but also in terms of the size of individual grants provided to projects.[67] Human resource skills can be seen as the implementation and execution skills (in-house or accessible) necessary to complete the given PPF's mission. This has both scale and skills aspects.

5.4.1 Scorings

The scorings for the different facilities are set out in Table 5.6.

DEVCo is the top ranked entity when it comes to adequacy of its human and financial resources, given its mission: that is, it is the most fit-for-purpose of the entities. At the other extreme, given the importance of its mission, NEPAD IPPF's financial resourcing would appear far from sufficient. Moreover, despite recent changes, we remain concerned as to the appropriateness of its staffing. While resources have been made available for its management, this will need to be kept under review to ensure an appropriate skills mix.

TABLE 5.6 ADEQUACY OF FINANCIAL AND HUMAN RESOURCE

ADEQUACY OF HUMAN RESOURCES	ADEQUACY OF FINANCIAL RESOURCE		
	HIGH	MEDIUM	LOW
High	DEVCo; EU-AITF; PIDG-TAF	InfraCo Africa	
Medium	InfraVentures; AWF	PPIAF; AIP; ESMAP	NEPAD PPFs PPIU
Low			NEPAD IPPF; SADC PPDF; DBSA-EIB PDSF

5.5 Sustainability

Sustainability is the ability to self-finance out of reflows / profits (not the environmental or social sustainability of the projects supported, which we do not see as being directly relevant to this analysis). This is an absolute rather than a relative measure.

5.5.1 Determinants of sustainability

The main determinant of sustainability that this report focuses on is the ability to recover grant funding.

Recovery of grant funding

Most PPFs use grant funding for all project cycle activities, with no attempt to reimburse even later stage support. This reduces the sustainability of most PPFs and arguably creates a degree of moral hazard. This is because free resources are rarely treated with the same degree of care as repayable resources, either by PPFs or recipients. Moreover, especially for later stage project development, it is not clear why the project should be subsidized when it can repay at least a proportion of the costs involved. As shown by the case studies in Appendix B, this contrasts with, for example, India, where funding for Stages 3–5 of the project cycle has been undertaken on a revolving basis as summarised in Box 5.1.

Moreover, even in Africa, private sector institutions such as the Africa Finance Corporation (AFC) are also beginning to invest directly in project development activities on a full commercial basis.

The exceptions to this are InfraCo and InfraVentures, which specifically seek developer success fees, with the developers at the former having bonus payments linked to those fees. Despite this, the amounts received from African investments to date have been small relative to investment cost. IFC Advisory Services receive success fees on transactions involving DEVCo, but it is unclear whether these reflows are for DEVCo's or IFC's account. However, the model is clearly appropriate from the perspective of recovering fees from successful projects.

5.5.2 Scoring

With the exception of DEVCo, InfraCo and InfraVentures – entities whose business models certainly have the potential to recoup fees and which are scored as medium – all other facilities have been scored as low. There are no known examples of a clear PPF exit strategy being incorporated in PPF founding charters, fund documents or business plans.

BOX 5.1 PROJECT PREPARATION COST RECOVERY IN INDIA

India Infrastructure Project Development Fund (IIPDF)

In 2007 the Indian federal government set up IIPDF as a revolving fund to support project development, with the Ministry of Finance providing an initial capital to the IIPDF of Rs. 100 Crore (approximately US$18m).

The IIPDF supported a Sponsoring Authority (SA) to cover the costs of project preparation for specific projects, from the feasibility / structuring phases onwards. The IIPDF did not provide grants, but rather interest-free loans to the SA, up to the value of 75% of the total project development cost. On the successful completion of the bidding process, the project development expenditure was recovered from the successful bidder, along with a success fee. Three main types of projects were funded by the IIPDF, which each generate different levels of success fees:

- Revenue Generating Commercial Projects: commercial projects undertaken by the private sector are charged a success fee of 40%.
- Efficiency Enhancement Projects: where there is no or low private sector investment, the IIPDF charged a success fee of 25%.
- Non-revenue -generating projects with high economic returns: in this case, IIPDF funding is repaid by the government without any success fee.

6 Conclusions

In this section we draw our conclusions based on the preceding analysis, as well as on the additional information contained in the appendixes. In Section 7 we set out the recommendations that these conclusions give rise to.

The starting point for the analysis of PPFs was an assessment of the performance of an apparent large number of homogenous PPFs. The assumption was that, in aggregate, these facilities were a significant source of potential project preparation funding; however, the available funds were fragmented across a large number of different facilities undertaking similar activities, thus reducing their impact and potentially losing any economies of scale and scope benefits. An appropriate policy response to this would be to assess the performance of individual facilities and where possible, rationalise, consolidate / merge or close down poorer performers.

As we discuss below, this hypothesis only partly holds up, although the general set of HLP / MDB recommendations from which this study was derived – specifically the need to address unsolicited bids head on – have, on the whole, been borne out by the interviews undertaken.

We begin by summarising key features of the existing PPFs and their role within the broader project preparation landscape. We then turn to the project preparation challenges in the future and the distinctive role of PPFs within this, specifically as regards best-practice structures that PPFs might conform to if they were to be more efficient and effective. Finally, we consider how the existing and emerging gaps in project preparation resources can be addressed, and the extent to which this might be done through the existing coterie of PPFs, as well as the case for any new entity and what form this might take.

6.1 PPFs and the project preparation landscape

Relatively few active PPFs of any scale are focused on infrastructure in Africa. This study has identified some 12 or so PPFs of reasonable scale providing support to projects in Africa. Some are solely focused on project preparation, whereas others combine project preparation with other areas of infrastructure support and / or geographies. While the MDB Action Plan referred to many such facilities, in reality, infrastructure project preparation, per se, is at best incidental to many of the other identified entities.

Within the identified group, PPFs are relatively diverse in terms of their focuses on different types of projects and support to different project development cycle activities. As regards the latter, support is greatest for later stage activities, where there is a good alignment with the lending operations and associated capabilities of the institutions within which the PPFs are housed – which on the whole, is in the MDBs.[68] The main existing gaps, or areas of least coverage, are in the upstream activities least related to their lending operations, specifically support for the public sector origination of PPPs.[69]

Support for private sector initiated projects, which is arguably the dominant form of project origination in Africa due to limited origination capabilities within African governments, is limited to a couple of vehicles and a particular form.[70] This lack of support extends to governments in dealing with unsolicited, negotiated private sector projects. Whether in responding to approaches from the private sector, or in seeking to originate tenders for opportunities, there would appear to be a lack of availability of *speedy* and *systematic* support.[71]

While a degree of co-operation exists between different PPFs to make the best use of their available resources, this is arguably not as automatic as it would ideally be. For instance, a more co-ordinated approach to increasing the origination of private-sector opportunities would benefit the many PPFs focused on downstream activities. To a degree this collective imbalance in focus might be seen as something of a PPF 'market failure'. We would argue that this is best solved through greater flows of relevant information on the progress of different opportunities and co-ordination around a more systematic 'tunnel of funds' approach. In other words, there needs to be much better recognition of the interconnected nature of most PPF activities.

Looking to the immediate future, the challenges emerging from the adoption and political and strategic focus on the PIDA PAP agenda are an order of magnitude different, which imposes additional challenges on PPFs and other project preparation architecture. In this, the existing PPFs are more likely to have a role based on their flexibility as PPFs, rather than on the scale of their operations.

Even today, PPFs would appear to represent only a small proportion of project preparation resources, with several PPFs looking for replenishments. The scale of deployment looks already to have turned down during 2011, from its peak at over US$80m per annum during 2009 and 2010. This represents a significant and increasing shortfall in support. Other important sources include the development funds of the MDBs and European Commission, MDB loans, development agency funded programmes, national budgets, bilateral trust funds held at MDBs, and the private sector itself.[72] Without a considerable research effort, however, it is difficult to arrive at anything approaching an accurate estimate of this, but PPFs are likely to account for perhaps 20% of the total.

PPFs have, however, a degree of visibility well above their level of contribution. In part, this is due to the flexible grant resources, which are easier to deploy than project preparation loans and other sources. Indeed, we would tend to support the argument made by the HLP / MDB Action Plan that such resources have been used where more recoverable resources should have been used, especially for later phase support, where only limited attempts have been made to recoup expended resources.

6.2 Future infrastructure development and financing challenges

The nature / type of infrastructure required is changing, from national public projects to regional and differing forms of PPPs, regional forms of the latter being particularly complex. The PIDA PAP, while being a prioritised list of some 51 projects,[73] represents a major future challenge from a project preparation perspective, which goes well beyond the resources of the existing PPFs. This is not to say that other infrastructure projects will not be developed – far from it – but the relative balance will shift. The donor architecture, including but not limited to PPFs, needs to adapt to this against a background of reduced availability of resources from traditional donors, most of which face considerable budgetary constraints and scrutiny over development spending as opposed to other uses;[74] and increasing financing challenges for infrastructure PPPs, with international banks being less willing to lend to African infrastructure spending.[75]

These developments have profound consequences for the funding of project preparation and the financing of projects.

Due to the budgetary limitations faced by the main donors, there will be much greater emphasis on demonstration of value for money; and for African governments, as well as faster growing G20 countries, on contributing proportionately more to infrastructure development and financing.

As regards the financing of projects, there will be a continuing need for African public and private resources, with increasing south-south flows. The DFIs will also continue to play an important role in project financings.

The ambitions of PIDA need to be seen in this context. The financing for such projects will be a mix of public and private, although the private sector will only consider the most commercially robust of the PIDA pipeline. Outside of telecommunications, this will include power projects where there is creditworthy off-take, such as in the case of Eskom in South Africa,[76] or where there are attractive enclave type opportunities, such as ports. However, public sector investment can make a range of private sector activities more feasible: electricity networks enable IPPs to reach customers, road and rail links enable goods to reach markets.

These points all need to be taken into account when considering the nature of project preparation requirements. PIDA projects will need to be carefully scrutinised and broken up into core prioritised 'building blocks' to see where there may be private sector investment opportunities.[77] This will also require consideration of sequencing to make private sector participation possible. This is likely to involve putting in place the publicly financed infrastructure that makes private investment possible (typically transport links and high voltage transmission links, which facilitate investment in areas such as electricity generation). Opportunities should also be explored to capture the benefits arising from infrastructure investment, such as increases in land values, which might help pay for public infrastructure.

While the PPFs such as EU-AITF will be able to continue to support a range of regional projects, the really mega projects will need to turn to mainstream IDA, EDF and ADF resources, as well as budgetary support from African regional and national governments, for the bulk of their financing. Within this, the PPFs will still have a catalytic and even co-ordinating role.

These different challenges need to be recognised by all stakeholders. In particular there needs to be a realism regarding the role of the private sector, and the conditions required for participation, especially the nature and extent of risk transfer to it. Both regional and PPP projects are, and will be, very challenging. It is essential that governments provide strong sponsorships for projects, which many interviewees argued was currently missing, particularly as regards PPPs. While, as set out, the support provided by PPFs and other sources is not always comprehensive, the lack of commitment of many governments, especially to PPPs, remains the single greatest barrier to project implementation. This is not just about creating regulatory and legal frameworks, it is also about actively committing to government obligations within the project cycle. This involves working with advisors and developers to overcome the different obstacles which will normally arise during project development.

6.3 The future role and best practice structure of PPFs

So what might be the role of PPFs in all of this? What models should PPFs conform to if they are to be more effective in the future? For the most part, we would argue that the contribution of PPFs can be expected to be based on their distinctive attributes and comparative advantages, rather than necessarily the scale of their funding.

The distribution of the project pipeline in Africa tends to be based around many smaller projects (US$50–200m) and a significant number of larger projects (US$1bn+) with relatively fewer in the middle. This small end can be picked up by many of the existing facilities, such as DEVCo and InfraCo Africa; however, as projects become larger the challenges grow. By way of example, InfraVentures is limited to US$4m investments, which limits the scale of projects it can develop to perhaps around US$300m with several other partners.[78] Grant sizes of these amounts are clearly insufficient for US$1bn+ projects.[79]

Most PPFs do not have the resources to fund many projects fully from inception through to financial close, especially larger projects[80] – nor, for that matter, can they be realistically expected to fund long-term enabling environment activities. In the case of larger projects, these need longer term dedicated resources to reach financial close. Such resources need to come from more substantive sources, again ADF / EDF / IDA. However, even within this, PPFs can play an important initial and catalytic role in mobilising project development, especially where their funds can be deployed quickly.[81] Indeed, PPFs have several potential advantages over less flexible, if larger scale, resources, for instance, in situations where the following is needed:

- As set out, for quick and flexible deployment (for instance, it will typically be quicker to enter into a grant agreement than a loan agreement) – such as in these ways:
  - undertaking 'top-down' strategic reviews to address impediments to project development;
  - screening for new project opportunities; and
  - resolving unforeseen legal and other obstacles that arise when developing a project – although arguably this important capability is rarely exploited systematically.[82]
- To operate outside the confines of the MDBs – such as in the case of the PIDG-based entities focused on private sector initiatives.
- To absorb greater degrees of risk – which is particularly suited to early stages of the project cycle where it is not clear whether a project is viable (although very few facilities focus on this).

However, not all of these features apply to all PPFs given their diversity. As such, we would argue that to be efficient and effective, PPFs need to operate in different ways, according to how they are set up, managed and governed.

6.3.1 MDB-housed PPFs

There would appear to be two main models for MDB-housed PPFs – those that are largely 'integrated' into the operations of the institution within which they are housed, and those which are more loosely 'hosted' by that institution. The former are more supply-driven and linked to the other activities of the MDB, whereas the latter, ideally, should be more demand-led.[83]

Both models can play a role, but if PPFs are to be more effective in the future, we would argue that they should conform to one or the other of the models; problems are more likely to arise where they fall 'between the stools'. 'Integrated' PPFs are better focused on later phases of the project cycle, where there is a close alignment with lending / investment and other activities. 'Hosted' PPFs need to be more outwardly focused, with a specific objective of supporting the origination and other early stages of project development. There should also be much greater ease of access by third party institutions. Implications of this, for the scale of implementing activities and establishing execution capabilities, are considerable.

MDB-integrated PPFs

The analysis has shown how many of the MDB-hosted PPFs have been integrated into the operations of the hosting institutions to varying degrees.[84] As discussed, the MDB-integrated PPFs would appear to have worked better where there is a strong alignment with the MDB's main business activities, whether this is lending, investing or advisory business.[85] The project preparation services are inextricably linked to the other services provided by the institution in question.

Where this is working well, as in the case of EU-AITF and DEVCo, there would seem to be an argument that such integration is built on – that is, scaling up what is already working. In such cases, the PPFs are largely a form of budget support for the hosting entity in question and should be explicitly recognised as such. However, the implementation resource costs of such arrangements should be low, given the more limited implementation role.

MDB-hosted PPFs

The MDB-hosted facilities face a much greater challenge in that their mandates have often been much more ambitious – in terms of types of projects supported and the range of project phases – and

they often have had to deal with the more limited execution capabilities of recipients, especially from governments, although some can draw on host MDB capabilities.[86]

To compensate, they need sizeable and well-resourced implementation capabilities, in terms of both human and financial resources, to work with beneficiaries. Where 'hosted' facilities have run into most problems, we would argue it is because of a mismatch between scale of ambition and delivery capability:

- The EIB-DBSA facility involves recipient execution and earlier development phase support, while it would appear to have only a limited implementation capability. However, to justify a large management resource it would be necessary to have a facility of a greater scale, which is not reflected in that of EIB-DBSA.
- While AfDB has been generous in its financial resourcing of NEPAD IPPF, it is possible that it has not always had access to the range of skills it requires. This has been compounded by the considerable scale of its mission (that is, comprehensive early-to-late stage support).
- It is also possible that AWF has lacked the necessary implementation capability, although its management-to-commitments ratio is helped by its scale.

A key message is that such ambitious models should not be entered into without putting in place the requisite management resources, and this needs to be justified with a significant scale of resourcing. A further conclusion that might be drawn is that these entities need to be of considerable scale to accommodate their necessary management costs, and therefore there cannot be too many of them.

6.3.2 REC-based PPFs

The challenges faced by REC-based facilities are considerably greater, as very few project preparation skills are likely to be based in-house. Several facilities have been or are in the process of being established, but they have as of yet failed to make any meaningful commitments to any projects. Two main types of such small-scale PPFs exist: those which are targeted for specific initiatives (for instance, transport corridors, as in the case of PPIU); and those which are more generic in nature, such as ECOWAS PPDU and SADC, and are not focused on any specific activity.

In the case of the initiative-specific PPFs, the range of activities that might be supported by the facility is essentially tightly bound, with a clear focus and rationale. As such, it is much easier to staff up with the requisite skills rather than the more broad-ranging requirements of generic facilities. Entities of this nature, such as the PPIU, can be seen as implementing entities, responsible for developing a co-ordinated and sequenced strategy for a specific initiative. Unless there are compelling reasons for expanding their missions, such entities should remain tightly focused. Such small units can be set up relatively quickly and should have clear 'sunset provisions'.

The lack of in-house capabilities has been recognised in the design of some REC-based facilities. For instance, the management of ECOWAS PPDU was to be outsourced to experienced developers and advisors; however, this would involve an upfront investment in a team which has been difficult to secure.[87] Given this, it would seem appropriate to re-engineer the REC-based facilities for specific agreed regional initiatives, in which the available funds could support a small implementing unit that would work with different national governments responsible for execution. This would seem to be completely in line with the IAIDA.

6.3.3 Developer models

InfraCo and InfraVentures represent the main ways in which private sector–originated projects, or projects which government lacks the capability to develop by itself, can be taken forward. Such models work as much as possible on a commercial basis.

To date the successes of the model are mixed, at least in Africa. Innovative models have no doubt been developed and they have been operating in extremely challenging project financing circumstances. InfraCo Africa has not had access to its own investment capital, which has reduced its ability to close deals quickly. InfraVentures has access to IFC investment capital, but its activities are not limited to Africa: it is possible that opportunities are more attractive elsewhere.

Both InfraCo and InfraVentures have been highly reliant on specific developer teams.[88] Given the constraints faced, it is an open question as to whether other developer teams could have been more successful, or whether greater competition for resources may have produced better results. There is therefore a question as to whether the resources of such entities should be opened up to other developer teams – particularly those that are more Africa-based – who would be able to access resourcing directly. This latter approach would increase the due diligence burden on their respective implementing entities (for instance, the InfraCo Africa board) in terms of the time taken to vet different developers, rather than having the management teams do this.[89]

6.3.4 Summary of optimal PPF design features

The analysis set out above is summarised in Table 6.1.

TABLE 6.1 PPF SUCCESS FACTORS

TYPE OF PPF	KEY FEATURES	SUCCESSES	ISSUES	REQUIREMENT FOR SUCCESS
MDB-integrated (e.g. EU-AITF; DEVCo; EIB-DBSA; AFD-DBSA)	Exclusive use by hosting entity Largely focused on later stage activities (closer to financing)	Later stage, systematic support Links to financing	Addressing upfront project cycle requirements not popular with hosting entity Lack of recovery of grant resource	Low-cost implementation needs to be linked to access to strong execution skills
MDB-hosted (e.g. PPIAF; NEPAD IPPF; AWF)	Execution by third parties	Strong engagement with recipients	Lack of implementing capacity / lack of cost-effectiveness Poor execution / project sponsorship	Strong implementing capability to engage with clients Better use of hosting organisation's task managers (where available) as well as qualified third party resources
REC-hosted (e.g. SADC; ECOWAS; PPIU)	REC is the hosting entity	Limited to date	Lack of required implementing skills, combined with poor execution	Clear focus on a limited set of activities Access to sources of project finance
Outsourced (InfraCo Africa; USAID AIP)	Execution undertaken by third party entity	Market-based incentive structures	Access to investment and late stage capital	Access to expertise and finance, for both later stage activities and to reach financial close

6.4 How to address current and future emerging gaps

Infrastructure project preparation needs to take place within a challenging environment. This is not just about finance, but creating the required levels of sponsorship and commitment amongst stakeholders. On the supply side, it is about ensuring that the skills of people with the right experience and access to other resources are brought to bear systematically on issues of project preparation. For this to happen, there needs to be a step change in information flows and co-ordination of activities.

The gaps are greater the further the distance from national, publicly financed projects and the core skills of the development bankers who have most control over the deployment of PPF resources. While these have coped reasonably well with later stage support, systematic support for public sector origination of PPP projects is something of a gap, as is taking forward private sector–originated projects. The quantum of resources required to develop larger regional projects is a growing issue.

The key question is how these challenges can be addressed, utilising the existing PPFs and other tools, and what needs to change to improve effectiveness: specifically, whether a new 'revolving fund' – potentially focused solely on transformational projects with regional impacts and priority projects[90] – is required either immediately or in the future. There is a further question of how future support is to be funded, given the constraints facing the budgets of many traditional donors.

This involves examining the extent to which the existing PPFs can be adapted to meet current and growing gaps, and how. Our view is that the amount of time and costs that would be required for hard restructuring of a significant number of PPFs could not be justified by the relatively low level of financial resources that could be reallocated as a result. Indeed, even with hard restructuring, which would also involve refocusing any merged entities, there would still need to be a greater degree of co-ordination between the remaining PPFs. Thus, our conclusion is that better co-ordination, along with greater transparency and openness, are the best approach.

In the future, the choice will be between working with the existing PPFs or setting up something new. While the latter may eventually be needed, we would conclude that in the first instance, several key specialised PPFs should become the main focus of funding. These would cover the main current and future areas requiring support. However, there will be a need for most of these 'focus' PPFs to alter (typically restrict) the focus of their activities and in some cases, to change and / or improve their operations. Through the resultant greater specialisation, at the same time this will create greater interdependencies for most facilities and a consequent need to co-ordinate better.

Table 6.2 sets out the focus areas, which include existing gaps, the preferred option(s) for focus PPFs, any challenges to be addressed and potential cost implications.

Whether the identified gaps can be filled by the actions set out above will in large part depend upon the willingness and ability of the institutions to fill such gaps. Indeed, the existing PPF may ultimately fail to deliver to the required extent for a variety of reasons, including the complexity of changing existing agreements, institutional policies, ability to attract the required competencies, etc. If these gaps cannot be filled, the remits of the more flexible facilities may then need to be considered – although this is not likely to be optimal, as there will be less to build on than in the case of the institutions identified.

However, there is an open question as to whether infrastructure project preparation needs a dedicated, stand-alone vehicle, focused exclusively on project development cycle activities and especially early stage activities. If such a new entity is required either because it is not possible to stretch the coverage of the existing facilities, or because it is indeed preferable to start from scratch, the immediate aim should be to fill in the gaps rather than replicate what already exists. Even for PIDA projects we would argue that the complexity of the project development cycle for regional projects is such that it would be sub-optimal to try and place all the skills required within one institution. Again, better co-ordination of existing skills and resources will be optimal.

In the longer term, large-scale resources from African governments will need to be deployed where they are most needed. If NEPAD IPPF is the recipient of these funds, it will need to rapidly evolve to take on the role of a 'wholesale' provider of funds to other PPFs.[91] This reinforces the need for IPPF to act as a highly strategic entity.[92]

TABLE 6.2 FOCUS AREAS AND PPFS

FOCUS AREAS	OPTIONS	DESCRIPTION OF ROLE / CHALLENGES TO BE ADDRESSED	MANAGEMENT COST IMPLICATIONS
Screening of public sector regional projects to establish best sequencing and initial project development	IPPF	IPPF is already undertaking this role to a large degree (in addition to other roles). Working with national government sponsors, a key role will be to determine who is best-placed to take forward a given initiative and when and how other entities are to be engaged, including the need for Development Fund resources. This could include the use of specialist Initiative Implementation Units (IIUs) along the lines of PPIU, where there are complex co-ordination and other issues. This is a major strategic role involving co-ordination with a large range of different stakeholders, including the large MDBs, European and African Commissions, the HLP / World Economic Forum and RECs. While management resource costs are already high for IPPF, relative to its level of commitments, it is likely that these need to be expanded further, but with highly specific skills, such as with experienced project developers who can assist with early stage project development. As regards institutional location, there needs to be consideration of where this role can be undertaken most effectively.	High: three to four additional full-time equivalents (FTEs) While this will increase the cost base, it will be against a higher level of commitments. New resources should be highly specialist.
Public sector origination of PPP projects / addressing enabling environment issues	PPIAF	In parallel to IPPF, PPIAF should continue to focus on the Phase 1 and Phase 2 enabling environment and concept development activities for PPPs. As far as possible, enabling environment activities should focus on specific impediments to progress rather than more generic studies. A specific focus would be on establishing the potential for private investment opportunities as regards regional projects. The additional individuals required to focus on this role need to be based in Africa rather than Washington. PPIAF is well placed to work alongside the World Bank's guarantee department, whose support will likely be required in most larger transactions.	Low–medium: up to two new African based FTEs to focus on additional activities
Late stage support for regional projects	EU-AITF	EU-AITF would largely continue to provide the same focus of support as now, albeit with a greater degree of focus on support for PPPs. The main project development support would come from the internal Project Financiers Group. There will, however, be limits to what this approach may be able to finance. Larger scale regional projects, particularly PPPs, will need to draw on Development Funds.	Limited, if any
Developing private sector–originated projects	InfraCo Africa	InfraCo could potentially be expanded to take the lead on supporting non-eleQtra managed JDAs. This would require an experienced developer to vet third party developers. Such individual(s) would be Africa-based. As InfraCo Africa has a well-defined business model, it would need to be determined how well this additional mandate could be incorporated and, if so, what its specific design might be.	Medium: an experienced developer to contract with different African based developers
Implementing capacity for specific regional projects	Restructured REC funds – IIUs	The AU, RECs and NEPAD-NPCA need to establish priorities within regions to which existing (and potentially additional) resources can be allocated. Terms of reference need to be established for implementing teams.	None: existing resources should be used to fund core teams and third party support
Supporting public sector on single sourced PPP projects	DEVCo or PPIAF new facility	While it would appear that the IFC model could be relatively easily adapted to perform this role, IFC itself would need to change its policies as regards non-competitive procurements. This may not be acceptable to it or DEVCo's contributing donors. An alternative option would be for PPIAF to procure such advice on behalf of governments, which would be in line with its previous attempts to set up a rapid response capability. A third option would be to consider establishing a new facility, potentially operating on a 'revolving fund' basis to support governments in this activity. Indeed, this may be the one area where it would be useful to establish a new PPF.	Medium

As such, different activities might take place under the NEPAD IPPF 'umbrella'. This could involve the establishment of one or more other vehicles focused on specific activities, such as provision of advisory support to government on sole-source transactions. Such vehicles would only be established where emerging gaps or depth of coverage were not being addressed by other PPFs in a timely manner.[93] There is also an argument for any new vehicle to be able to provide support on both a direct and a wholesale basis, in which funds would be used to scale up other PPFs that had demonstrated success.

For purposes of illustration, an outline description of such an entity is set out in Box 6.1.

BOX 6.1 THE AFRICA PROJECT DEVELOPMENT COMPANY

A new entity, the Africa Project Development Company (APDC), could evolve from IPPF. Establishing it as a Company Limited by Guarantee (CLG) would enable it to have a broad range of stakeholders as its members. The Executive Board would comprise experienced infrastructure development professionals, drawn from both the development finance and private finance worlds, as would the management team.

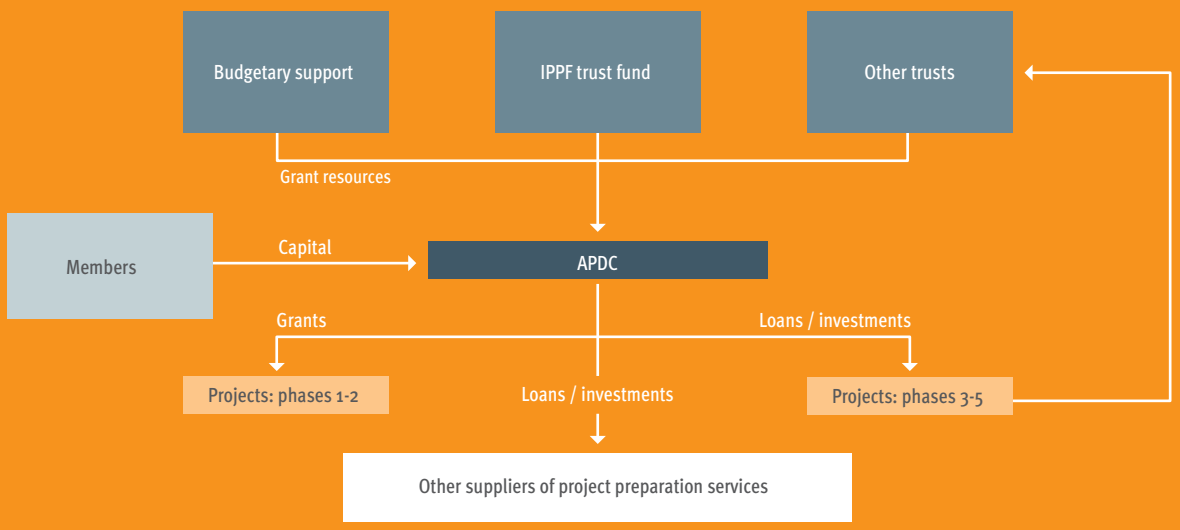
There are likely to be benefits in establishing it as a separate entity, operating on a corporate basis, although under the NEPAD IPPF 'umbrella'. As a separate entity it would still be aligned to PIDA and other infrastructure development objectives, but would be solely focused on project development activities.

The APDC would be funded in several ways, through: direct contributions to its capital; access to trust funds held at MDBs, such as the IPPF (and potentially others – that is, part of the APDC's role would be to ascertain which trusts could be accessed to fund different types of work); and re-investment of profits.

The establishment of a 'revolving fund' could provide:

- Redeemable grants to funding government advisors on transactions where it is not possible to obtain support from other PPFs (for instance, on sole sourced arrangements); indeed, the APDC could be initially set up to provide this service if it was not possible for other PPFs to provide such a service.
- 'Bridging loans' to expedite feasibility and other activities on a more systematic basis than currently, before being repaid by larger ADF or IDA resources.
- Loans and equity to support later stage activities for private sector projects – either directly or via other facilities.

OUTLINE OF APDC



7 Recommendations, Actions and Next Steps

The recommendations and actions in this section are focused on addressing the identified gaps in project preparation, improving the effectiveness of the existing PPFs and supporting key stakeholder aims: namely, the origination of more PPP opportunities, and support for the preparation of identified priority regional projects.

The actions are aimed specifically at delivering more systematic, joined-up support to infrastructure project preparation, which currently can be ad hoc and piecemeal, particularly early stage support. In providing this support, as far as possible, the recommendations work with existing structures and institutions, save for where the study's findings contradict the received wisdom.

These have been set out in terms of high-level implementation actions, as regards measures affecting all PPFs and specifically many of the core facilities considered. Proposals are also made on how these different initiatives might best be implemented.

7.1 Informational and behavioural recommendations

High-level options and recommendations have been grouped into *informational*, *behavioural* and *structural*. As regards the first two of these, a series of specific, non-mutually exclusive, but reinforcing recommendations are provided. On the whole these may be adopted either singularly or collectively. It is only in the case of the structural considerations that clear alternatives emerge, although these may be seen in terms of sequencing rather than discrete alternatives.

7.1.1 Informational

The aims of improving information on different PPFs and flows of project preparation funding are several. Such information will allow better-informed resource allocation, it will help PPFs to co-ordinate better, and it will enable greater transparency of cost and other information, allowing better-informed performance benchmarking.

Systematic data capture on PPFs

While this project has begun to do this, along with the Project Preparation Finder, the level of detail needs to be improved to allow better benchmarking and comparisons between PPFs. The ICA Project Preparation Finder should be enhanced to incorporate the greater data requirements of this project.

As discussed below, this would be assisted through the formation of a PPF practitioner network, supported by the ICA Secretariat.

The key benefits of collecting such information would be the ability to understand the focus and performance of different PPFs more easily.

Cost information should be clearly broken down into different categories to enable like for like comparisons. Categories should include trust management fees; implementation costs; and project related (execution) costs, broken down into those related to task management and those involving expenditures on third party advisors. These will differ between the PPF approaches, but it should be possible for facilities undertaking broadly similar activities to be compared with each other.

Detailed research into sources and scale of project preparation resources

While this study has undertaken primary research on the collection of data regarding project preparation resources provided by PPFs, it has been beyond the scope of the study to undertake detailed research on all sources of such support. It would be useful to undertake a more comprehensive study involving the collection of data from other sources, along the lines of Figure 2.2. This might be approached by developing a data set of all infrastructure projects in Africa reaching financial close over, say, the period 2005–2011 and then drilling down on each to see where their project preparation funding came from. The benefit of such a study would be to clarify the importance of different sources of project preparation funding.

Setting up a PPF Network

Given the fragmented and diverse nature of the existing population of PPFs, it would be difficult to achieve even the limited data collection set out above without the active engagement of different PPFs. A number of benefits – and for relatively limited cost – could be achieved through formalising relationships between the different PPFs through a PPF Network (PPFN), underpinned by secretariat resources from the ICA Secretariat.

This would be based in Africa and would include global, regional, country and subnational facilities as appropriate. Donors, MDBs and beneficiaries would encourage linked PPFs to join and actively participate.

The data services provided by the new initiative would build on the web based ICA Project Preparation Fund Finder and complement the Knowledge Centre, as well as the four existing platforms. As set out, the PPFN would be hosted by the ICA and serviced by a small professional and proactive secretariat. This would probably include a Network Manager plus Communications / IT support and would have a technical assistance budget for prioritised operations and implementation consultancy. There would also be a budget for knowledge products, training and dissemination.

The PPFN's charter would be to provide a forum for policy discussion and advocacy. However, such an arrangement could not be justified purely as a 'talk shop'. Its charter should also incorporate an agenda of prioritised objectives that it would seek to support / resolve / make progress on, ranging from the more simple and uncontroversial to the more challenging.

In addition to the information-gathering aspects set out above, such an agenda could include:

- the development of a framework for 'soft' restructuring, in terms of achieving benefits of economies of scale from PPFs with similar, overlapping coverage;
- the establishment of agreed metrics for evaluating PPF performance (including cost breakdowns by key categories on a consistent basis, particularly as regards allocations between management and programme expenses); this would lead to an annual flagship report complementing the current external infrastructure investment financing survey;
- specific initiatives to improve usage and take-up of the 'tunnel of funds' approach; and
- modalities to improve project preparation fund syndication and third party execution (see below).

Membership would initially be free and secretariat support would be funded separately, but a move to member subscriptions would be expected within, say, three years. In signing the charter, the member PPFs would agree to certain basic principles and operating rules designed to lead to greater relevancy, effectiveness and efficiency of the overall portfolio. Setting up and operating the PPFN also provides an opportunity to widen and deepen the engagement of G20 Members in the ICA. It is an initiative that could be used to accelerate innovation, the strategic positioning of large transformational projects and the mobilisation or switching of resources as needs change.

7.1.2 Changing behaviours

In addition to the enhanced co-ordination opportunities that would flow from the PPFN, in certain situations a higher degree of integration and efficiency in the use of funds may be appropriate. The challenges to be addressed in undertaking such more-involved actions are the barriers created by the constitutions of the different PPFs established by their funders, and the constraints placed on their operations through the procurement and other rules of their hosting institutions.

Greater syndication of PPF funds

To achieve the scale of funds that projects require, the pool of funding could be increased to facilitate syndication of support to other interested entities. In responding to a request for support, the lead institution could send a request via the PPFN to attract other facilities that would potentially be interested

In certain areas where it is possible to identify a given PPFN as a leading expert, an approach would be to designate lead institutions for certain activities. For instance, PPP Phase 1 and Phase 2 support (at least as regards the public sector origination of PPPs) could be led by PPIAF.

This would help consolidate funding into a greater pool, but without the need for hard restructuring of facilities.

Opening up execution to third party institutions

While it is understandable that the hosts of PPFs want to protect technical assistance resources for initiatives that they wish to pursue, this needs to be balanced against the need to allocate resources efficiently and effectively. Loosening control of scarce grant funds, so that they can flow more easily to where they are most needed, is likely to promote greater allocative efficiency. This recommendation relates specifically to the MDB-hosted entities, where there should in any event be potential for third party execution (but this might also be considered where more integrated entities are not committing funding effectively).

A request for execution by a third party should be considered where a strong case can be made. In other words, an application from a task manager in institution A – a third party institution – would be treated the same as if it were from a task manager in institution B – the host institution. This would be subject to demonstrating a high degree of consistency with the given PPF's focus, perhaps given added weight where the project in question has been identified as a PIDA PAP priority project.

This does not necessarily mean that a request would be granted; for instance, it is more than possible that funds might be allocated to higher priorities by the host institution, although where a facility has failed to deploy resources, the case for third party access is greatest. If the institutions could not agree on an application, there could be arbitration by a selected panel – say, drawn from the PPFN, although on the whole this should not be necessary.

Minimum partial recovery of Phases 3 to 5 support

While it may not be possible to recover all resources, all facilities should seek to at least partially recover mid-to-late stage costs. This could be done in a number of ways: through lending resources / redeemable grants, equity support, success fees, etc.

All of the above involve different approaches. Attempting to operate on a fully commercial basis will require a much higher degree of investment or

credit skills than, for instance, grant repayment in the event of a successful financial close.[94]

While all such approaches are likely to require the changing of the operating mandates of the affected PPFs (which will need to be agreed to by funders), some will be more challenging than others, involving potentially significant changes to operations. This might suggest agreeing to implement easier changes prior to the more difficult ones.

A starting point for most PPFs would be to offer redeemable grants for Phases 3 to 5 support.

Grants would be made as now; however, repayment of such grants would be 'triggered' in the event of a successful financial close. Only at this point would the grant become repayable, either as a lump sum or following an agreed profile which might involve repayment instalments. As such, the recovery of funds would be opportunistic rather than required, as in the case of a loan.

The advantages and benefits / disadvantages and costs of each recommendation and supporting actions are reviewed in Table 7.1.

TABLE 7.1 RECOMMENDATION ADVANTAGES / BENEFITS AND DISADVANTAGES / COSTS

RECOMMENDATION	ACTIONS	COST IMPLICATIONS	EXTENT OF CHALLENGE	ADVANTAGES / BENEFITS	DISADVANTAGES / COSTS
Systematic data capture and reporting	Implement through ICA Secretariat	Budget for one administrator / 0.5 FTE plus survey / communications costs	Medium	Enables more informed comparisons to be made between PPFs; for relatively low cost but leveraging ICA /G20	Limited to about US$100k for 0.5 FTE plus US$50k for communications / dissemination
Project preparation resources study	Develop terms of reference for study to be managed by ICA Secretariat	US$100k–US$150k	Low	Clearer view on make-up of sources of project preparation support for ICA knowledge product	None, other than cost (in the absence of delays)
Establishment and operation of PPFN	Identify participants Develop charter, including performance improvement agenda; ICA to host	Increase capacity of ICA Secretariat to support, say, 1 FTE network manager; link to data capture above	Medium	Greater efficiency in allocation of funding Better benchmarking of performance; dissemination of best practice and scale	Relatively few: about US$200k plus meeting / events / research support at US$75k
Syndication of PPF funds	Set up PPFN working group to establish options for taking forward Develop and present options paper	Possible consulting support – US$75k	Medium	Enables scaling up of resources and / or greater distribution of risk amongst PPFs Increased scope to fund development of larger projects	Could be very involved, especially if no commitment to do so by PPFs
Third party access /execution	Establish working group Revise PPF operating documentation to allow third party execution	Internal and external legal costs (link to Cannes G20 MDB procurement initiative)	Medium / High	Improved allocation of funding – more demand-led A degree of competition for funding could improve discipline and lead to less institutional capture of funding	Likely to be similarly involved as above; could lead to extensive disagreements. Changing trust fund agreements is time-consuming and requires consensus.
Partial recovery of funding (Phases 3–5)	Establish working group to look at introduction of redeemable grants	Low	Medium	Greater effectiveness of available funds through recycling and reduced moral hazard of grant funding	Changing operational guidelines to achieve objective; hostility of donors – possible implications for measurement of ODA

7.1.3 Structural recommendations

Following the conclusions, on the whole our structural recommendations are based on attempting to address the gaps in the project preparation landscape, initially by working through the existing institutions, rather than by introducing new vehicles immediately. However, should this not work, it will be important to find other ways of addressing the issues identified. While focused on PPFs, these also touch on other sources of project preparation funding, including the roles of budgetary resources and Development Funds. The time given for the existing institutions to address gaps in the PPF market should be limited: if no clear progress is made within a year of attempting to address issues, alternatives should be actively considered.

As set out in the next subsection, some changes can be made to individual facilities that should be considered further in terms of helping to address some of the problems. However, there are broader, more strategic issues in terms of the extent of the role of PPFs – especially stand-alone PPFs – and that of other aspects of the donor architecture, particularly the much more significant resources available through ADF / EDF / IDA, etc.

Consolidating and / or focusing smaller 'general' PPFs

As discussed, for the most part, if the above recommendations are implemented, as set out, there does not seem to be a strong case for hard restructuring. This would be extremely time-consuming and offer little gain in terms of resources. However, we would not advocate replenishment of specific PPFs unless they could conform to the best practice models set out in the last section.

The same goes for establishing any new PPFs. Allocating a small amount of resources in the hope that other donors will provide additional resourcing is less tenable where several established PPFs already exist. As set out, REC-housed funds, with few existing implementation capabilities, would arguably be best targeted as specific initiatives in which implementation could be outsourced to teams with the requisite skills to develop the necessary strategies (including project prioritisation and sequencing) to take forward initiatives.[95] As per IAIDA and PIDA, execution of the resulting projects would have to be via national governments, but this would be with the support of the initiative / programme implementing team. As such, funds would be more programmatic than in the 'open' PPF approach.

Such initiative-specific IIUs would help national governments procure the necessary expertise to develop individual projects that would comprise the overall initiative.[96] Thus, at the highest levels, the RECs would undertake their co-ordinating role for regional strategies, but would engage specialist teams to implement specific initiatives falling out of these. Over time, such implementing entities could seek replenishments to their seed funding from additional funds, either from AU or REC resources, or from ADF / EDF / IDA resources, etc.

Support for mega / regional projects

As set out, the funding of the project preparation costs of larger projects will require deployment of concessional funding from entities such as IDA, ADF and possibly EDF. The PPF roles in this respect would be more likely to be upfront and catalytic, utilising the potential for appropriately structured PPFs to act more quickly, using their grant funds, or perhaps providing a bridging finance for things such as feasibility studies. Thus, task managers would utilise PPFs to support initial work, while applying for more substantive resources to fund larger downstream project cycle activities.

In general, as regards the larger regional / mega / transformative projects, it is recommended that different modes of both implementation and execution be structured on a case by case basis, depending upon which key players need to be involved. This is likely to require a degree of flexibility in approach such that different organisations can operate most effectively. In some situations a 'task force' of different MDBs and PPFs might be assembled to bring together the human and financial resources necessary to progress the project. This might be based around the main financiers for a project – at least the public ones – so as to improve co-ordination. It might be structured around a 'lead financier' for a given project.

In other situations, implementation and possibly execution arrangements might be best focused within a bespoke 'project' or even 'programme' company, such as one set up to progress a particular transport corridor. The existing PPIU is one such model which, while having the flexibility of a facility, has slightly more programmatic elements. Such arrangements would require bespoke, programmatic funding rather than the more open nature of PPF arrangements.

7.2 Specific recommendations and implications for individual PPFs

In addition to the high-level recommendations made above, we also make specific recommendations regarding individual facilities. This is from the perspective of better addressing the objectives identified, in terms of covering the identified gap – such as initiating / originating more PPP projects – but also in terms of operating more effectively, by increasing the potential range of activities to which scarce resources can be deployed. However, at this stage, we would see that the recommendations suggested should serve as an entry point for discussions with individual PPFs moving forward in terms of how their operations can be improved within an overall strategy of enhancing project preparation support.

To provide an idea of the changes required we have employed a traffic light approach, in which 'green' refers to a largely continue-as-is diagnosis, with various shades of amber reflecting changes that should be considered. These are set out in Annex 1.

7.3 Implementation process

Developing a consensus around these and other recommendations will be challenging, but achievable with the right degree of stakeholder commitment. Many of the recommendations – particularly those involving significant changes in behaviour – may go to the heart of not only individual PPFs, but often their host institutions' business models. It will be important to make a strong case as to why such changes would be beneficial. From this perspective, a primary purpose of this report is to provoke debate regarding the key issues raised – as a first stage in developing the right solutions, which could be variants on what is proposed for consideration in this report. As such, the recommendations made will need to be either accepted or rejected, with the former being refined and developed further, with the involvement of the PPFs and other institutions affected.

To facilitate meaningful engagement and to deliver positive outcomes, a high degree of sponsorship by individuals with the influence and power to engage with the relevant institutions will be required. Without this, it is difficult to see much progress being made.[97]

Over and above the PPFN, a potential mechanism for this would be to turn the Reference Group from this study, together with key African stakeholders currently not represented, into an implementation Task Force, supported by the ICA Secretariat. Sequentially, this would focus on agreeing on funding for the informational measures recommended and for establishing the PPFN, supported by the ICA Secretariat, which would form the main implementing vehicle for many of the informational and behavioural actions. However, this Task Force would take lead responsibility for structural actions, specifically as regards the roles of the main focus PPFs.

PPFN Working Groups could be established to deal with specific behavioural issues. The process could also, for example, lead to re-engagement with the HLP as an advisory group or sounding board for ideas.

Individual PPFs would also need to be engaged, to the extent that they were affected by the proposed changes. Individual Task Force members would need to act as a conduit to the specific PPFs either housed within their institutions or else funded by them.

These implementation responsibilities are summarised in Table 7.2.

TABLE 7.2 IMPLEMENTATION RESPONSIBILITIES MOVING FORWARD

IMPLEMENTATION RESPONSIBILITY	RECOMMENDATIONS
Informational (ICA Secretariat to take forward)	Capture PPF cost, performance and other data more systematically. Investigate the role of other sources of project preparation funding. Set up a PPF Network (PPFN) to assist implementation of recommendations.
Behavioural (PPFN, supported by ICA Secretariat to deliver)	Greater syndication of PPF funds to increase reach – avoids need for costly restructuring. Allow execution by third parties so grant funds flow where they are most needed. Greater use of redeemable grants to assist recovery of mid-to-late stage support to improve the sustainability of PPFs focusing on these activities.
Structural (Task Force: expanded Reference Group, including G20 Members as appropriate)	Refocus REC-based PPFs on specific initiatives (e.g., transport corridors) rather than running 'generic' PPFs, which lack the scale to be effective. Support for transformative projects: PPFs should provide flexible, quick draw-down catalytic support for large regional projects, in advance of ADF / EDF / IDA resources. Initially seek to deepen resourcing and address gaps through selected leading / focus PPFs, rather than creating a new facility – but reconsider if solutions cannot be found through existing PPFs .

7.4 Next steps

If the issues identified in this report are to be addressed in a timely manner, it is essential that momentum be maintained. A number of important meetings can help facilitate this.

We understand that following the submission of this final report, the ICA will welcome feedback from the G20 DWG on the Assessment. At a meeting in Bali, Indonesia, in early October 2012, the G20 reiterated its continued interest in and engagement on the infrastructure project preparation issue in Africa.

Further, the ICA and NEPAD IPPF meetings to be held at the end of November 2012 in Maputo, Mozambique, will serve as the first platform to develop an implementation road map with wider audience participation, including African stakeholders and other interested parties. At this meeting, it will be important to reach agreement on which of the report's recommendations are accepted, so that implementation can begin as soon as possible. A timetable of agreed actions and responsibilities should also be developed at these meetings, which will provide a focus and discipline for implementation activities.

The report, along with the aforementioned meetings, will also inform the work leading to the next G20 DWG meeting and Action Plan. We understand that the report and its recommendations will inform key events such as IDA, ADF and EDF replenishments.

Annex 1 Specific Actions for Selected PPFs

Traffic lights

The aim of the traffic lights is essentially to try and present a snap shot as to where we believe individual PPFs are at the moment, in terms of 'business as usual'. This does not reflect the fact that individual PPFs are already adjusting their strategies to address issues that have previously been pointed out to them; nor indeed, to refocus on gaps in the PPF market that they have recognised. Moreover, neither does it reflect the future roles that we are suggesting individual PPFs might undertake; which by and large, are not solely based on current performance. These roles and the actions required are discussed below.

FACILITY	TRAFFIC LIGHT	SUMMARY
PPIAF		As set out, PPIAF is the leading PPF as regards especially PPP related Phase 1 and 2 activities. Ideally, it should play a more systematic role in helping countries develop pipelines of projects and prioritising PPP opportunities, as well as addressing Phase 1 issues that are hindering specific projects. To do this to the extent required, we would recommend that it rebuild its African network of individuals within the programme management unit (PMU), who can work with governments on a day to day basis to explain PPP requirements and to build understanding and confidence in the approach. Such individuals might well be placed within RECs – rather than World Bank offices – so that they are in a good position to assist with regional Phase 1 and 2 issues. While PPIAF will remain hosted by the World Bank, we would also argue that different African institutions b able to execute projects without the need for a World Bank based task manager. We would see this as being necessary given the greater strategic role that PPIAF would be playing relative to its current role. It is also important to develop stronger partnership with African institutions to establish ownership. The aim would be for this approach to be interpreted as a strategic partnership of PPIAF, the World Bank and key African institutions. To finance this extension of activities, donors would need to finance individuals within the African network and potentially contribute to an Africa specific, non-core fund within the PPIAF Trust.
EU-AITF		As the largest contributor to project development support, the EU-AITF's greatest strengths lie in areas where its Project Financier's Group is strongest. This is largely in the area of public sector projects, although its current role in Ruzizi III is particularly important and particularly encouraging as regards a move into more challenging PPP transactions. In addition to continuing to support PPP regional arrangements, our main recommendation is that it moves towards operating on much more of a revolving basis.
INFRACO AFRICA		Although, to date, InfraCo Africa's success – in terms of numbers of projects reaching financial close – has been below the objectives set in its own original business plan, those that have been delivered score highly in terms of their degree of innovation and the focus on taking very early stage project ideas. In other words, the model remains compelling, especially from the perspective of private sector support. In line with the high-level recommendation, we would also suggest that a greater proportion of InfraCo's funds be available to third party developers (meeting certain criteria) rather than just its own current management team.

FACILITY	TRAFFIC LIGHT	SUMMARY
InfraVentures		InfraVentures shares many of the features of the InfraCo Africa model. While being attractive as an approach, it has failed to transact any projects in Africa to date, largely for reasons outside its control (for example, civil unrest in Mali). It is totally financed by the IFC itself; therefore ICA member influence is more limited than for some facilities. In the absence of being able to enter JDAs with entities with deep pockets, its restriction of US$4m per project limits the number of opportunities open to it. There may also be an issue regarding the fact that it is currently limited to IFC staff in developing projects. The greater availability of individuals with a developer background – particularly those with strong African experience – is likely to be worth considering. If closing deals remains a problem – or to accelerate deployment of funds – an approach would be to vary the existing InfraVentures model by allowing investments in established developers as a form of 'fund funder', rather than relying on its own direct mandates. This has similarities with the way that IFC invests a proportion of its funds in third party private equity funds.
DEVCo		DEVCo is essentially a captive resource used to fund third party advisors on IFC Advisory Services mandates. IFC has arguably managed these resources efficiently in what appears to be an expanding and successful model. DEVCo is able to support a range of PPP modalities as well as divestitures (for instance, DEVCo has undertaken a couple of telecommunications privatisations in Africa; however, some would argue that is not consistent with its 'advisor of last resort' mandate). As such, it is arguable that DEVCo resources be focused only on projects which involve a significant degree of new investment, that is, greenfield projects or rehabilitations. This may involve more work earlier in the project cycle to create more greenfield opportunities – may be required, although its partnership with PPIAF has been a way in which this problem has been addressed. The fact that it does not advise on sole-sourced transactions does inevitably limit its relevancy in Africa. In view of this, we would recommend that IFC consider changing its policies, so that its considerable experience – and reputation for probity - can be used to help governments negotiate better outcomes in such situations. , and / or DEVCo resources be made available for execution by governments – who could potentially hire their own financial advisors. A further alternative might be for PPIAF's PMU to become a secondary implementing entity to DEVCo to undertake this role.
TAF		The PIDG has emerged as a well-financed entity outside of the main development bank / finance institutions, driven mainly by bilateral development agencies who have provided over 90% of its US$0.5bn of resource commitments to date (bilateral and multilateral DFIs have invested in its individual vehicles). While having a fraction of the resources of the main DFIs, PIDG has pioneered a number of initiatives in the PPP space. As such it can be seen as something of a pathfinder for private sector solutions – essentially supporting the main PIDG de facto mandate. This role could potentially be expanded to entities outside of the PIDG membership. To date, TAF resources have been used to support PIDG facilities such as InfraCo Africa. In line with our wider recommendation of finding ways to broaden the execution of funds and with PIDG's role, we would suggest that there is a strong argument for TAF to be able to support project development by third party project developers on, say, a matching grant basis, for projects which are consistent with PIDG's objectives. However, this would be likely to require an increase in TAF's implementing capability to evaluate such proposals and to market them.

FACILITY	TRAFFIC LIGHT	SUMMARY
USAID-AIP		In the absence of changing DEVCo's arrangements, expanding the AIP into other sectors outside of energy is an option that might be considered, although this may be difficult given the outsourced nature of its contractual arrangements. However, such an approach could be particularly useful in areas such as ports, airports, toll roads, etc.
PPIU		It is relatively early days for the PPIU. It has been set up with a clear remit, linked to a specific initiative. Its main challenge would appear to be securing finance for the different initiatives that it is supporting. We would recommend that efforts be made to establish a network of financiers who are potentially interested in providing support to North-South Corridor projects.
NEPAD IPPF		While recognising efforts under way to improve NEPAD IPPF, we believe a potential issue still exists related to implementing capability, although this may be related more to skill mix than quantum of resource. A starting point would be to enhance IPPF's implementing capabilities by investing in more external developer resources. A proportion of its resources should also be deployed to provide execution management support to its clients. We would also recommend that IPPF focus for the most part on Phases 1 to 3 of the project cycle. Phase 1 activities should be project specific rather than generic capacity building. More generic capacity building should be provided through technical assistance loans, financed from elsewhere. Working even more on Phase 2 type activities could be useful in terms of early stage development of PIDA regional projects.
DBSA-EIB PDSF/ NEPAD PPF		Whereas NEPAD PPFs has successfully deployed its funding and needs replenishment, EIB-DBSA has failed to disburse. We would argue that these facilities be merged, either physically or actually, with a more limited, later stage mandate, consistent with their combined scale.
SADC PPDF/ ECOWAS PPDU		These facilities have taken many years to establish and are still not operational. They should be reviewed and restructured to support specific PIDA initiatives.

Abbreviations

Abbreviation	Description
ACP	Africa-Caribbean-Pacific
ADF	African Development Fund
AEEP	Africa-EU Energy Partnership
AEF	Access to Energy Fund
AFC	Africa Finance Corporation
AFD	Agence Française de Développement
AfDB	African Development Bank
AFFI	Arab Financing Facility for Infrastructure
AGM	Annual General Meeting
AICD	African Infrastructure Country Diagnostic
AIP	Africa Infrastructure Program
AITF	Africa Infrastructure Trust Fund
AU	African Union
AU STAP	African Union Short Term Action Plan
AWF	African Water Facility
BETF	Bank Executed Trust Fund
BOT	Build-Operate-Transfer
CEPA	Cambridge Economic Policy Associates
CLG	Company Limited by Guarantee
COMESA	Common Market for Eastern and Southern Africa
DAC	Development Assistance Committee of the OECD
DBSA	Development Bank of South Africa
DevCo	Infrastructure Development Collaboration Partnership Fund
DFI	Development finance institution
DFID	UK Department for International Development
EAC	East African Community
EAIF	Emerging Africa Infrastructure Fund
EC	European Commission
ECOWAS	Economic Community of West African States
EDF	European Development Fund
EIB	European Investment Bank
ESIA	Environmental and Social Impact Assessment
ESMAP	Energy Sector Management Assistance Program
EU-AITF	European Union – Africa Infrastructure Trust Fund
FAPA	Fund for African Private Sector Assistance
FMO	Development Bank of the Netherlands
FTE	Full-time equivalent
GDP	Gross domestic product
GIZ	German International Corporation
G20	Group of Twenty
G20 DWG	G20 Development Working Group
G20 HLP	G20 High Level Panel
IAIDA	Institutional Architecture for Infrastructure Development in Africa
IBRD	International Bank for Reconstruction and Development
ICA	Infrastructure Consortium for Africa
ICT	Information and communications technology
IDA	International Development Association
IFC	International Finance Corporation
IFI	International Finance Institution
IIPDF	India Infrastructure Project Development Fund
IIU	[SADC] Initiative Implementation Units

Abbreviation	Description
InfraVentures	Global Infrastructure Project Development Facility
IP	Insurance premia
IPPF	Infrastructure Project Preparation Facility
IRS	Interest rate subsidies
IsDB	Islamic Development Bank
JASPERS	Joint Assistance to Support Projects in European Regions
JDA	Joint Development Agreement
KPI	Key performance indicator
LAPSSET	Lamu Port and Lamu–South Sudan–Ethiopia Transport Corridor
LIC	Low-income country
MDB	Multilateral development bank
MENA	Middle East and North Africa
MIC	Middle-income country
NEPAD	New Partnership for Africa's Development
NIAF	Nigerian Infrastructure Advisory Facility
NPCA	New Partnership for Africa's Development Planning and Coordination Agency
NPV	Net present value
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PAP	Priority Action Plan
PDSF	Project Development and Support Facility
PIDA	Programme for Infrastructure Development in Africa
PIDG	Private Infrastructure Development Group
PMU	Programme management unit
PPDF	Project Preparation and Development Facility
PPDU	Project Preparation and Development Unit
PPF	Project preparation facility
PPFN	Project Preparation Facility Network
PPFS	Project Preparation Feasibility Study
PPI	Private Participation in Infrastructure
PPIAF	Public Private Infrastructure Advisory Facility
PPIU	Project Preparation Implementation Unit
PPP	Public-private partnership
REC	Regional economic community
RECP	Renewable Energy Cooperation Programme
SADC	South African Development Community
SECO	Swiss State Secretariat for Economic Affairs
SEFA	Sustainable Energy Fund for Africa
SME	Small and medium-size enterprise
SNTA	Subnational technical assistance
SPV	Special purpose vehicle
SSA	Sub-Saharan Africa
TAF	Technical Assistance Facility
ToRs	Terms of reference
USAID	U.S. Agency for International Development
WBG	World Bank Group

Notes

[1] High Level Panel on Infrastructure, *Recommendations to G20 – Final Report*, 26 October 2011; (2) The MDB Working Group, *Infrastructure Action Plan: Submission to the G20 by the MDB Working Group on Infrastructure*, October 2011.

[2] World Bank SDN Financial Solutions (enabling and structuring infra-finance): *Technical Assistance for Delivering Transformational Projects – Draft Concept Note for Discussion*.

[3] SEFA was not approached, as its existence only came to light towards the end of the study.

[4] Finance raised by governments to support project.

[5] The draft results of the ICA external financing survey confirm a substantial decline in 2011 compared with the previous year. Total external commitments for infrastructure in Africa fell by a quarter to US$41.5bn, with ICA Members' contribution halving to US$11.9bn. PPP inflows also declined, although less sharply, to end at similar levels. Both are now below Chinese bilateral commitments, which rose sharply to stand at U$14.9bn for 2011. The share of ICA Members' commitments directed to regional projects increased to 21%, although the overall value declined.

[6] These bear many similarities to, but are not the same as, the OECD-DAC criteria.

[7] That is, the African Development Fund (ADF), the European Development Fund (EDF) and the International Development Association (IDA).

[8] We understand this is covered in the recent Kinshasa II Declaration of August 2012.

[9] (1) High Level Panel on *Infrastructure, Recommendations to G20 – Final Report*, 26 October 2011; (2) The MDB Working Group, *Infrastructure Action Plan: Submission to the G20 by the MDB Working Group on Infrastructure*, October 2011.

[10] World Bank SDN Financial Solutions (enabling and structuring infra-finance): *Technical Assistance for Delivering Transformational Projects – Draft Concept Note for Discussion*.

[11] It is worth noting that this report follows from an Inception Report and Addendum documents.

[12] AICD (2008), op. cit.

[13] Muzenda (2009), *Increasing private investment in African energy infrastructure*.

[14] Ibid.

[15] While the Chinese have been active in Africa, this has been through state-owned entities, with much of their lending guaranteed by governments rather than secured on project revenues.

[16] The long-term cost out to 2040 is expected to be more than US$360bn.

[17] The AU Commission is also supported by an Infrastructure Advisory Group with technical, economic and financial experts.

[18] The Assessment began in early April 2012 with the populating of a high-level database of some 67 PPFs. This list was based on the 2006 guide that CEPA developed for the ICA and then updated using the recently ICA-developed 'Fund Finder'. The database was further expanded based on desk research. This information was presented in an Inception Report, submitted in early May 2012. Following this and advice from the Reference Group, the initial list of 67 facilities was reduced to an agreed-upon group of some 30 facilities. This was further shortened to a core group of 17 agreed-upon facilities, following extensive consultations and desk-based research. while this report discusses this group of 17 PPFs, it is worth emphasising that this group has been identified following six months of consultations with PPFs, discussions with key stakeholders and ICA personnel, and detailed desk-based research.

[19] This excludes facilities that were subsequently found not to be PPFs as per the definition cited.

[20] Includes the subnational technical assistance (SNTA) facility, focused on supporting project preparation by municipal and parastatal entities.

[21] Note that ESMAP could only provide information on funding for 2006–2011, and project disbursements for 2009–2011. Commitments have been estimated from this.

[22] Note InfraCo Africa has also committed a further US$14.8m using TAF and EU-AITF grants.

[23] For purposes of this study we refer to the International Bank for Reconstruction and Development (IBRD) and African Development Bank as MDBs. The term *regional development bank* is used to refer to those development banks with a remit to cover regions of Africa, such as the Development Bank of Southern Africa (DBSA).

[24] The *project preparation cycle* can be seen as separate from the *project life-cycle*, which would focus more on post-transaction activities, specifically construction, operations and ultimately, closure.

[25] In order to be consistent with ICA's project cycle, these have all been grouped as 'enabling environment' activities, even though from a phasing / timing perspective they may take place either in parallel to or even after other activities. Specifically, general capacity-building technical assistance has been allocated to this first phase for simplicity (although it may in reality be linked to other phases of the cycle), with the other phases of the project cycle being defined by *infrastructure project* requirements rather than the requirements of the institutions responsible for project preparation. Enabling environment support may be driven by the specific requirements of a given project, or may be more generic in nature. The analysis in this report has not sought to differentiate between the two.

[26] This report is specifically focused on ICA Phases 1 to 5; we have not sought to investigate post-transaction support in any detailed way.

[27] In the case of the London Underground PPP, reference was made to preparation costs as a percentage of the total NPV over the entire project lifetime.

[28] In this report, 'Development' and 'Preparation' costs are used interchangeably. Moreover, this study refers to PPFs, whereas some donors refer to Project Development Facilities (PDFs). However, a distinction could be made between public sector preparation and private sector development.

[29] The World Bank specifically differentiates between Bank Executed and Recipient Executed Trust Funds, the former being explicitly used to fund day to day operations.

[30] Various fees are charged for fiduciary management, typically up to 5% for the facilities in question.

[31] Sometimes the mandate is secured by a company through a public tender, but it then has to develop the approach itself.

[32] Globeleq is less of a greenfield developer and more of an acquirer of infrastructure assets.

[33] Planned approach.

[34] There appear to be no statistics on the use or value of this facility as it is classified as receivables.

[35] Under the current IDA rules, a regional project has to involve three countries or one plus a fragile state. There is currently no common definition of what constitutes a regional project between the EU institutions, the AfDB and the World Bank Group.

[36] The AfDB 2010 Annual Report gives no specific data on PPF activity around the 36 infrastructure project approvals in that year, but some 20 TA operations were quoted, some of which are project cycle activities. It was also reported that later phase or project cycle studies were often piggy-backed onto investment operations. This can add 5% to 7% of the latter's value.

[37] The ideas for many projects in Africa have been around for many years, often having been conceived in donor-funded technical studies several decades ago.

[38] Donors are more comfortable where such an opportunity is subsequently tendered. Most developers, however, do not want concepts in which they have invested development capital to be subsequently bid out to others.

[39] In some instances, this group can also include state-owned entities who have been awarded government mandates to develop projects. For instance, InfraCo Africa has been supporting Kenya Railways in the development of Nairobi Commuter Rail.

[40] A project is the specific activity being financed. A regional programme such as a power pool will likely comprise several individual projects.

[41] May still require political risk insurance, such as from MIGA, thus requiring some commitment from government.

[42] SEFA's project preparation window, due to its early stage of development, was not added to our priority list until identified at a later date. No questionnaire was sent, as it had not started operations.

[43] The draft results of the ICA external financing survey confirm a substantial decline in 2011 compared to the previous year. Total external commitments for infrastructure in Africa fell by one-quarter to US$41.5bn, with ICA Members' contribution halving to US$11.9bn. PPP inflows also declined, though less sharply, to end at similar levels. Both are now below Chinese bilateral commitments, which rose sharply to stand at U$14.9bn for 2011. The share of ICA Members' commitments directed to regional projects increased to 21%, although the overall value declined.

[44] From the information requested as part of the questionnaire, it is unclear what drove this significant jump in commitments to African project preparation from US$5m in 2008 to nearly US$20m in 2009.

[45] It is, however, important to note that availability of funding is not the only impediment to origination of more PPPs. Political commitment is also vitally important.

[46] Previous data reflected 2005–2011 figures; we do not have an annual breakdown by phase.

[47] The OECD-DAC database provides commitment figures for 22 OECD-DAC donor countries; a range of multilateral organisations including IDA, AfDB and ADF; the EU; and the UN institutions. It also provides information for some non-OECD-DAC members, including the United Arab Emirates and Saudi Arabia.

[48] The interpretation / development of the final assessment criteria is ex-post rather than ex-ante, reflecting these challenges.

[49] These bear many similarities to, but are not the same as, the OECD-DAC criteria.

[50] Focusing on regional projects does not exclude the relevancy of support to other projects, such as national PPPs.

[51] Although InfraCo Africa's future relevancy is currently scored as medium, its management is looking to raise additional financing which could increase the scope of what InfraCo can do. In particular, there is a desire to engage more on the development of regional projects. This would be likely to involve working with national utilities to deliver regional initiatives. This is a potentially groundbreaking development that would greatly increase InfraCo Africa's future relevancy, placing it at the centre of regional initiatives and making it a template for implementing such challenging projects in the future.

[52] DEVCo's management is aware of the gap in the PPF market to support governments in negotiating sole-sourced agreements. There will be discussions within IFC and with DEVCo's donors as to whether DEVCo resources should be allowed for this.

[53] The experience of AFFI should provide a good test of more virtual partnership arrangements, but there are few results to date.

[54] IPPF's recent review has sought to refocus it on a more limited range of activities, and its implementing resources have been increased.

[55] Moreover, PPFs such as NEPAD, IPPF and AWF are in the process of restructuring to improve effectiveness, following strategic review recommendations.

[56] These should all be considered with caution as they may not be an exact like for like comparison. In particular, it is not clear whether trust management fees are always included in costs.

[57] Typically 15% of the grant awarded.

[58] No information was available to conduct a similar analysis for InfraVentures or USAID AIP, two of the remaining key active PPFs. No costs were provided for the DBSA-based PPFs.

[59] Paid for by AfDB.

[60] IPPF's business plan envisages a reduction in this ratio to around 11% over a five-year period from 2011.

[61] DEVCo Quarterly Report, April–June 2012 (confidential to funding donors).

[62] Includes funding of early stage scoping activities.

[63] Excludes EleQtra's (executing entity) management costs.

[64] PIDG PMU costs are excluded from the analysis. The PIDG website shows a PMU contract value of over £600k for management of all PIDG facilities. While it is not clear what period this covers, a proportion should be allocated to InfraCo's costs, along with any trust management fees. Similarly, at least some additional trust may also accrue to TAF.

[65] This may indicate a desire amongst donors to push some management costs into execution activities for cosmetic reasons. At the end of the day, they are both funded from the same grants.

[66] Those facilities providing detailed information should not be favored over those PPFs that did not provide the requested information, or have not had sufficient commitments against which such a cost analysis can be performed.

[67] Note that financial adequacy refers to the scale of resources during the PPF's life, not whether it requires more resourcing now because it has expended all its funding.

[68] In comparison, the competencies of the RECs is at the policy level, not the infrastructure project cycle, which creates a considerable challenge.

[69] A major contributor to this is likely to be the incentives that MDB staff face, in which they are rewarded for successful lending operations, not spending many months and even years on trying to initiate a concept.

[70] This conclusion is largely built on anecdotal rather than data evidence, in part reflecting the absence of a comprehensive data set on all infrastructure projects in Africa which details key factors such as origination, funders, advisors, etc. It should be possible to put such a database together, supplementing the existing PPI database with information on public sector projects and providing more comprehensive information on desired facts.

[71] MDB task managers have pointed to the need to approach several different sources of funding to provide advisors to governments, including bi-lateral trust funds. This lack of systematic support is extremely time-consuming.

[72] An analysis of this would start by identifying, on a project-by-project basis, what was financed, by whom and how it was funded. Such a comprehensive approach is required to avoid double counting.

[73] A further issue associated with many projects within the PIDA PAP pipeline is that they have been originated by governments (over many decades) based on their economic potential, not by the private sector according to their commercial potential. They are typically of considerable size, with objectives of stimulating economic activity through provision of vast generation capacity or through development of trade routes, rather than meeting real, immediate, unmet demand. In other words, they are disproportionate to current and immediate future demand. This does not necessarily make them 'white elephants', but it does make them challenging to design and develop, never mind finance.

[74] At the time of writing DFID, in particular, has become the target of criticism from certain parts of the UK press over the focus and nature of its aid spending.

[75] There is some evidence that international banks are now much more client focused, extending credit only in support of key clients rather than doing more opportunistic project lending. This is not necessarily the case, however, for banks based on the African continent.

[76] These are mainly large dam projects with associated transmission links. These will require both private sector equity and debt. Both will need to be guaranteed through the provision of different partial risk and credit guarantees by the main MDBs. However, the ultimate liability will lie with the hosting countries.

[77] This process has already started with screening of key PIDA private sector projects by a working group linked to the World Economic Forum and re-engagement of the HLP and other practitioner networks.

[78] If development costs are assumed to be 5% of total spend, InfraVentures could develop a US$80m project by itself, a US$160m project in a 50 /50 joint venture, or a US$320m project as a 25% participant.

[79] There is also a question of whether any significant ramp-up in activity for even smaller projects could be supported, given a combination of the scale of project preparation costs and the inability to recycle / recover development costs.

[80] InfraCo Africa is almost unique in seeking to do this. In contrast, private entities have sought to adopt more of a portfolio approach in which the risks of early stage preparation are balanced with opportunities that are closer to financial close.

[81] It is arguable that at the moment grants have been used where they should not be. In order to close projects, grant monies have been used where ideally they should not have been, in part recognising the 'public good' arguments of regional infrastructure and in part to due to a lack of willingness of governments to pay what is required.

[82] PPIAF is currently seeking, and has been for a while, to establish a 'rapid response' service to deal with problems arising in the project cycle. To date, this clear potential role for PPFs has been underexploited; linked to either a lack of external focus or else a lack of capability to respond quickly to requests for support. This approach was at least temporarily suspended due to problems with unsuitable World Bank procurement procedures – an example of one of the problems of MDB hosting. As early as 2002, the Commonwealth Business Council / Commonwealth Secretariat sought to establish a PPF dedicated to this, the Commonwealth Infrastructure Technical Advisory Group (CITAG), but without success.

[83] PPIAF has always faced the conundrum of being established as a Bank Executed Trust Fund (BETF) – explicitly recognised as direct support for World Bank operations – whereas several of its contributing donors have been concerned about 'Bank capture'. This contradiction has never been fully resolved by its operating model.

[84] There would, however, appear to be something of a tension between the hosts of such an entity, who regard them as dedicated resource, and the funders, who would prefer more open access.

[85] DEVCo has been used to support IFC's advisory business, rather than its lending or investment businesses.

[86] NEPAD IPPF explicitly states the need for recipient execution. In contrast, PPIAF is heavily reliant on World Bank task managers for grant execution.

[87] A CEPA-led consortium designed the PPDU, funded by a PPIAF grant. The start-up capital was based largely on InfraCo's, which was subsequently found to be too small; InfraCo Africa made significant use of the PIDG-TAF facility to fund project specific activities.

[88] eleQtra manages InfraCo Africa, whereas InfraVentures is reliant on IFC staff.

[89] Potential candidates would include developers such as Aldwych and the Africa Finance Corporation. Both have been backed to varying degrees by DFIs such as FMO.

[90] We understand this is covered in the recent Kinshasa II Declaration of August 2012.

[91] In a sense, the equivalent of a 'fund funder' in the private equity world.

[92] It is important to reiterate the fact that NEPAD IPPF has been going through a restructuring that is beginning to show positive results. It now has a business plan that focuses only on regional project preparation, rather than general capacity building; there are no limits on the size of the grants it might provide; and it is trying to put a framework contract for consultants in place, in addition to adding some technical FTEs from AfDB. Simultaneously, it is also (slowly) trying to raise funds from African stakeholders. Accordingly, we recognise the value of NEPAD IPPF as an African-owned facility, as well as the transition period it is currently going through, but stress the need for more rapid and effective change.

[93] This might involve NEPAD IPPF adopting more of a PIDG type structure, with different vehicles operating underneath it. One of these might be the Africa Project Development Company as discussed in Box 6.1.

[94] For instance, undertaking a lending business requires credit evaluation skills; equity provision requires investment skills.

[95] In the case of ECOWAS, it was always envisaged that management would be outsourced to professional third party advisors / developers. The suggested approach is not inconsistent with this: it is more narrowly focused on agreed priorities – such as specific transport corridors – rather than being a completely, demand-led facility.

[96] Such initiatives would only be initial development work to establish at least a minimum proof of concept.

[97] We would suggest that the level of sponsorship of this project was below its ambition, which created challenges in terms of obtaining the degree of engagement necessary.