



Accelerating Reform in Africa: Mobilising Investment in Infrastructure and Agriculture

Africa Investment Initiative

PRELIMINARY FINDINGS ON DONOR SUPPORT TO AFRICA'S INFRASTRUCTURE

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PRELIMINARY FINDINGS ON DONOR SUPPORT TO AFRICA'S INFRASTRUCTURE

This report broadly maps donor support to both physical infrastructure and the enabling environment for infrastructure investment in Africa. It builds on the extensive analysis carried out by the Africa Infrastructure Country Diagnostic (AICD), which examines the state of Africa's infrastructure. The report is a preliminary version of one of the outputs of the OECD programme on Aid for Investment in Infrastructure, analysing the role of donors in supporting the enabling environment to enhance private investment for Africa's infrastructure.

Infrastructure includes the sub-sectors of water and sanitation, transport and storage, information and communication technology, and energy. It includes physical aspects as well as soft aspects such as policy and administrative management or training in the respective sub-sectors.

The report first examines the volume and distribution of Official Development Assistance (ODA) to the sector and region by multilateral and bilateral donors that report to the Development Assistance Committee (DAC). While so-called 'Other Official Flows' such as non-concessional loans also play an important role, these flows are not examined at this time due to incomplete reporting.

The report then addresses the qualitative aspects of support to Africa's infrastructure, mainly focusing on the approaches and activities of mostly bilateral donors.

ABBREVIATIONS

AfD: Agence française de développement
AfDB: African Development Bank
AICD: Africa Infrastructure Country Diagnostic
CRS: Creditor Reporting System
DAC: Development Assistance Committee
DFIs: Development Finance Institutions
DRC: Democratic Republic of Congo
EU: European Union
ICA: Infrastructure Consortium for Africa
ICT: Information and Communications Technology
IMF: International Monetary Fund
IPPF: Infrastructure Project Preparation Facility
MCC: Millennium Challenge Corporation
MDGs: Millennium Development Goals
NEPAD: New Partnership for Africa's Development
NEPAD MLTSF: Medium to Long Term Strategic Framework
NZ: New Zealand
ODA: Official Development Assistance
OECD: Organisation for Economic Cooperation and Development
PIDA: Programme for Infrastructure Development in Africa
PPIAF: Public-Private Infrastructure Advisory Facility
PIU: Project Implementation Unit
PPPs: Public Private Partnerships
PRSPs: Poverty Reduction Strategy Papers
RECs: Regional Economic Communities
SIDA: Swedish International Development Cooperation Agency
SSA: Sub-Saharan Africa
UK: United Kingdom
US: United States
USAID: United States Agency for International Development
USD: United States Dollars
WAEMU: West African Economic and Monetary Union
WBG: World Bank Group

EXECUTIVE SUMMARY

1. Infrastructure development is key to economic growth and poverty reduction in Africa. Therefore, Africa's infrastructure needs call for a substantial scale-up in financing, particularly through increased private investment. Of the current total spending for Africa's infrastructure, the share of Official Development Assistance (ODA) is relatively small, although the amount is increasing rapidly. Among donors, the multilateral organisations administer roughly 70% of the ODA, with the rest being divided up into small portions from over 24 bilateral donors.

2. Not many bilateral donors have an overall strategy to support Africa's infrastructure, including regional infrastructure. This may be explained by the fact that many bilateral donors provide their support by funding various multilateral organisations and facilities. Nevertheless, donors are actually undertaking important activities for developing Africa's infrastructure. In particular, they acknowledge the importance of improving the enabling environment—i.e. relevant policies, regulations, and institutions that form the framework conditions for infrastructure development—especially to attract private investment to fill the financing gap. Therefore, many bilateral donors are involved in a wide range of relevant activities in support of these framework conditions, such as capacity building for specific programmes, including for the Regional Economic Communities (RECs), helping to reform infrastructure institutions, and so on. Donors are also making use of financial instruments such as guarantees, export credit subsidies, matching grants, and so on, to leverage private investment in infrastructure.

3. As adherents to the Paris Declaration on Aid Effectiveness, many donors have reported successful alignment to partner country priorities as well as harmonisation with other donors, particularly when they fund their support through multilateral organisations. On the other hand, some donors find difficulty in alignment when country capacities are low, or in harmonisation for sector wide approaches and budget support. Assessing the impact of their support is also difficult, particularly since infrastructure development is a long term endeavor, with broader governance reforms being possibly more important than specific capacity building activities. Meanwhile, some direct interventions by donors to facilitate Public Private Partnerships (PPPs) have brought closure to deals. However, the ultimate goal is not attracting private investment *per se*—it is sustainable poverty reduction, which requires complex processes involving many actors and interventions. With this in mind, further examination will be made on the most effective and efficient approaches for donors to take collectively in reaching this goal through the development of Africa's infrastructure.

I. Introduction

4. Boosting infrastructure is critical for economic growth and poverty reduction. In Africa, infrastructure can potentially contribute as much as 2% to GDP, with particularly positive effects in East Africa and Central Africa¹. In other parts of the developing world, notably in China, massive investments in infrastructure established the backbone for other economic activities such as manufacturing, which in turn fuelled economic growth. Moreover, increased access to infrastructure services such as water and sanitation can secure social benefits and help achieve the Millennium Development Goals (MDGs). On the other hand, deficient infrastructure can hamper economic activities and adversely impact human development. Poor infrastructure quality has been found to undermine productivity among manufacturing firms in Africa, especially in low-income countries in central-east and central-west Africa². It is therefore critical to address these deficiencies in order to unlock Africa's productive potential and maximise infrastructure's impact on economic growth and human development. In order to achieve this, significant financial resources for physical infrastructure are required, as well as support for the enabling environment that facilitates the development of physical infrastructure.

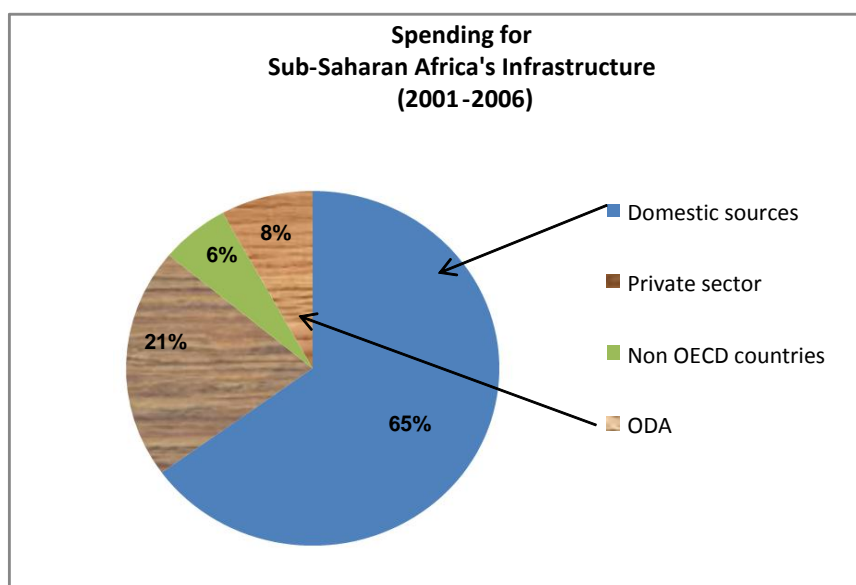
5. According to the Africa Infrastructure Country Diagnostic Study (AICD), which examines the state of Africa's infrastructure, the financial needs for addressing Africa's infrastructure are estimated to be USD 93 billion a year for capital expenditure (two-thirds of the cost), and operations and maintenance (one-third of the cost). However, only USD 45 billion is currently being mobilised and spent. Of this amount, African governments and citizens provide 65%—bearing most of the costs of operations and maintenance—while 21% comes from the private sector³, 8% from multilateral and bilateral donors as ODA, and 6% from non-OECD financiers, such as China, India and the Arab States (See Figure 1).

¹ AICD, 2010; Calderon, 2009

² Escribano, Guasch, Pena, 2009. Furthermore, empirical analysis has shown that in the countries of the West African Economic and Monetary Union (WAEMU), weaknesses in infrastructure – especially in paved roads and electricity supply – are a major constraint to growth (IMF Regional Economic Outlook, Oct 2010).

³ It is important to note, however, that funding from the private sector is often repaid by users through revenues collected from tariffs or fees (such as concession fees) paid by the public sector from taxes and ODA.

Figure 1



Based on figures from AICD, World Bank, 2010

6. Enhancing infrastructure also requires improving the enabling environment through major reforms, for example, in strengthening infrastructure-related institutions, working on policy design, and implementing appropriate regulations⁴. The enabling environment matters for a number of reasons. First, the positive impact of infrastructure on economic growth is only possible if institutions are strong⁵ and if governments integrate infrastructure into national development plans. Second, reforms are essential for delivering infrastructure services in a way that minimises waste and unnecessary costs. An estimated USD 17 billion a year, for instance, is currently lost due to institutional and political bottlenecks—uncollected bills, undisbursed funds from treasury to infrastructure agencies, overstaffed utilities, and so on⁶. Such losses significantly hamper the ability of infrastructure projects to generate the required returns from capital investments.

7. A sound enabling environment is also important in order to encourage the private sector to participate in infrastructure development as well as to make private investment sustainable. Among the priorities ranked by investors in developing countries, the legal framework defining the rights and obligations of private investors was considered the most critical “deal-breaker”, along with consumer payment discipline and enforcement, the availability of credit enhancement or guarantees from government and/ or multilateral agencies, and independence of regulatory institutions and processes from arbitrary government interference⁷. Furthermore, the financial crisis illustrated how private investors turned away

⁴ For detailed analysis of the regulatory, policy and institutional factors that can facilitate private investment in infrastructure, see the background papers of the NEPAD-OECD Africa Investment Initiative expert roundtables: energy (<http://www.oecd.org/dataoecd/44/46/43966848.pdf>); water and sanitation (<http://www.oecd.org/dataoecd/50/56/39663326.pdf>); roads (<http://www.oecd.org/dataoecd/40/23/41775855.pdf>)

⁵ *Regional Economic Outlook: Sub-Saharan Africa: Resilience and Risks*; IMF, October 2010

⁶ AICD, 2009

⁷ *What International Investors Look For When Investing In Developing Countries: Results from a Survey of International Investors in the Power Sector*; Ranjit Lamech and Kazim Saeed; World Bank, 2003

from high-risk, unstable countries, towards more secure projects and countries (a so-called “flight to quality”)⁸.

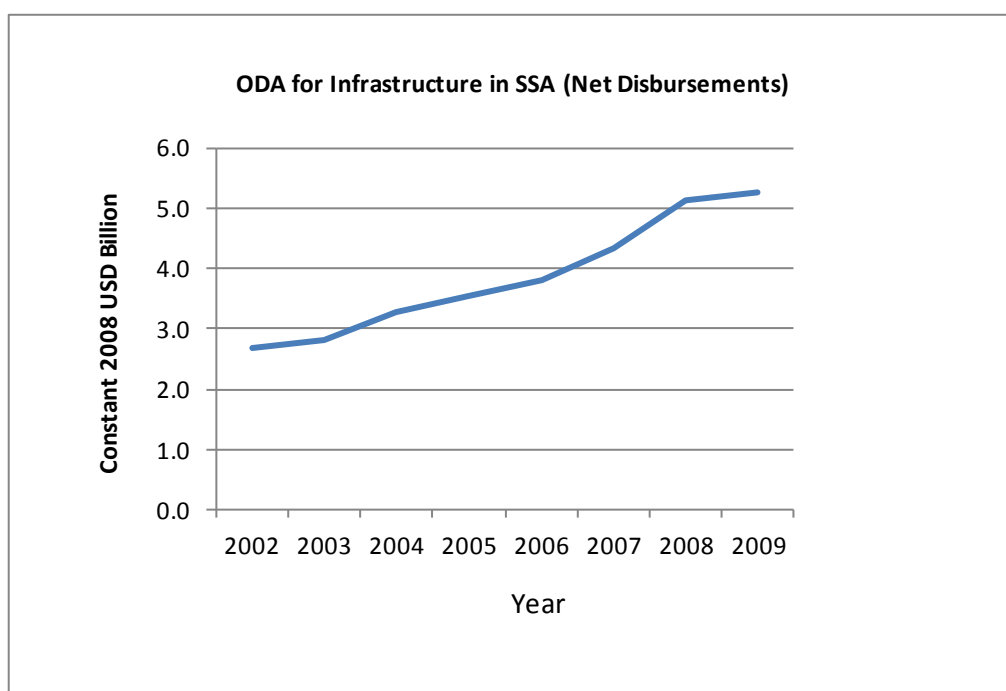
8. In short, to accelerate infrastructure development and ensure its economic and social benefits, both the financial gaps and institutional and policy challenges need to be addressed. African governments and the private sector have key roles to play; but donors stand at the nexus of the two actors, being able to fund infrastructure as well as to support the enabling environment. The following section will therefore first examine the quantitative aspects of donor contributions to Africa’s infrastructure, followed by the qualitative aspects such as strategies and approaches. Annex 1 explains the background to this report.

II. Financing for Sub-Saharan Africa’s Infrastructure

Official Development Assistance for Sub Saharan Africa’s Infrastructure

9. As was shown in Figure 1 above, ODA by multilateral and bilateral donors makes up only 8% of the spending for Africa’s infrastructure. At the same time, ODA disbursements have doubled from USD 2.7 billion to USD 5.3 billion in real terms between 2002 and 2009 (See Figure 2). This rate of growth is higher than the growth rate for ODA globally as well as the growth rate of total ODA to Sub Saharan Africa (SSA) or other sectors in SSA, such as education, for the same period. On the other hand, the growth rate is less than those for infrastructure in the Americas or Asia, which more than doubled. Nevertheless, the doubling volume proves the mounting importance donors are placing in supporting Africa’s infrastructure.

Figure 2



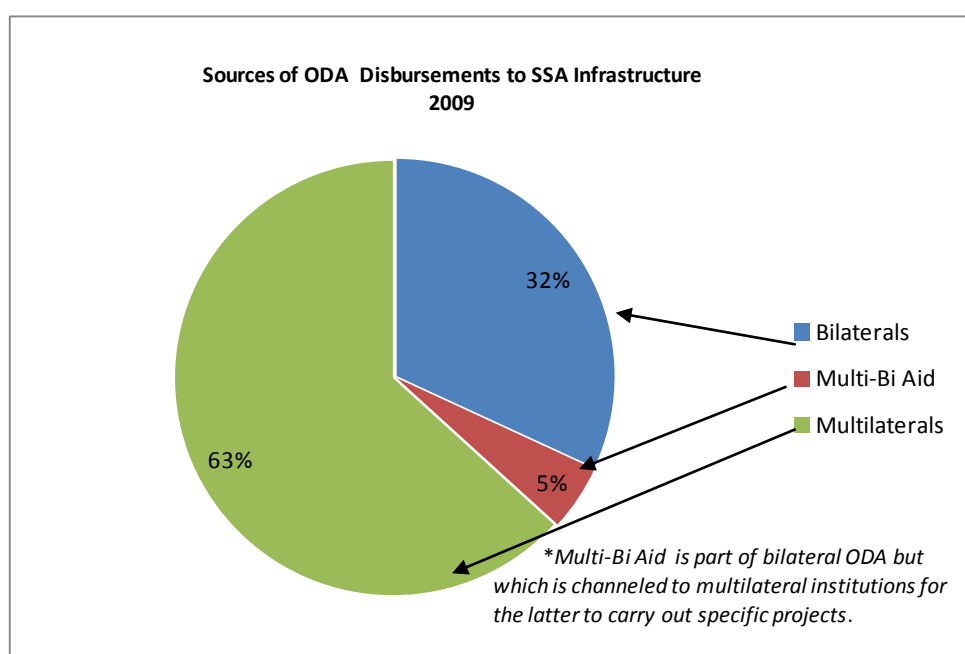
OECD/Creditor Reporting System (CRS), 2011

⁸ Assessment of the impact of the crisis on new PPI projects – Update 6; Private Participation in Infrastructure Database, Note 36, May 2010

10. In 2009⁹, multilateral donors disbursed substantially more for SSA's infrastructure than bilateral donors—63% vs. 37%. Moreover, if one adds the multi-bi funding, which is technically part of bilateral aid but channelled through multilateral institutions for specific projects, then the amount administered by multilaterals is even higher at 68%, leaving only about a third for government to government bilateral aid (See Figure 3).

11. Of the multilaterals, the leading organisations are the World Bank, European Union (EU) Institutions, and African Development Bank (AfDB), in that order (See Table 1). More recently, these multilaterals have scaled up their aid in response to the financial crisis. For example, the European Commission (EC) states that it has increased its contribution to the EU-Africa Infrastructure Trust Fund (see Box 2) by USD 277 million for 2009-2010.

Figure 3



OECD/CRS Database, 2011

12. Among the bilateral donors, as Table 1 shows, the largest contributors to SSA infrastructure in terms of average annual disbursements are Germany, France, Japan, Denmark, Netherlands, Sweden and Norway, in that order. Of note, the other four¹⁰ G8 Members, i.e., United Kingdom (UK), United States (US), Italy, and Canada, are not in the top 10. In fact, their combined ODA for infrastructure is less than that of Germany alone or slightly more than that of France or Japan¹¹.

13. In relation to the G8, the Infrastructure Consortium for Africa (ICA) was launched at the G8 Gleneagles Summit in 2005 to act as a platform for increasing financing from G8 countries and some key development finance institutions for Africa's infrastructure. However, the G8 consists of roughly only 60% of the ODA to Africa's infrastructure by the bilateral donors. Therefore, in order to become more effective

⁹ Only year 2009 is examined here as opposed to 2002-2009 as data on multi-bi funding is not complete for 2002-2008.

¹⁰ Russia does not report to the DAC.

in monitoring the scale up of Africa's infrastructure funding, there is scope for ICA to revisit its list of donors to monitor, including to expand the coverage. This is especially important given that some of the key bilateral donors to Africa's infrastructure, such as Denmark, Netherlands, Sweden and Norway are not members of ICA but provide more financial support than members such as the UK, US, Italy and Canada.

Table 1

Average Annual ODA Disbursements for SSA Infrastructure (2002-2009, constant 2008 USD million)											
#	Donor	Amount	Share of All Donors	#	Donor	Amount	Share of All Donors	#	Donor	Amount	Share of All Donors
1	World Bank	1,307	34%	11	UK	66	2%	20	Luxembourg	10	0.3%
2	EU Institutions	918	24%	12	US	56	1%	21	Austria	8	0.2%
3	AfDB	274	7%	13	Italy	51	1%	22	Finland	8	0.2%
4	Germany	230	6%	14	Belgium	45	1%	23	Korea	5	0.1%
5	France	184	5%	15	Spain	37	1%	24	Emirates	3	0.1%
6	Japan	182	5%	16	Ireland	25	1%	25	Australia	2	0.04%
7	Denmark	119	3%	17	Canada	23	1%	26	Greece	0.2	0.01%
8	Netherlands	86	2%	18	Portugal	20	1%	27	NZ	0.2	0.004%
9	Sweden	75	2%	19	Switzerland	19	1%	28	Others	22	0.6%
10	Norway	73	2%					Total		3,851	100%

Source: OECD/CRS, 2011

14. Regardless of the overall volume of any individual donor's ODA, it is useful to compare the relative importance donors place on infrastructure as a proportion of their ODA to Africa. Table 2 shows that the multilateral institutions all allocate more than 20% to infrastructure¹². On the other hand, of the bilaterals, only Denmark, the United Arab Emirates, Japan, Korea and Germany allocate more than 10% to infrastructure. Among other G8 Members, Italy, France, and Canada allocate only 5-7%, the UK allocates 2%, and the US is the donor that allocates proportionally least among all donors by providing only 1%, i.e. an average of USD 56 million annually to infrastructure out of USD 5.1 billion to SSA. On the other hand, both the UK and US provide significant amounts to help improve the enabling environment—e.g. general public sector policy and administrative management, decentralisation, financial sector development, privatisation and so on—which may not directly relate to infrastructure *per se* but is nevertheless critical, particularly for attracting private investment.

¹² The other sectors are those such as education, health, agriculture, etc.

Table 2:

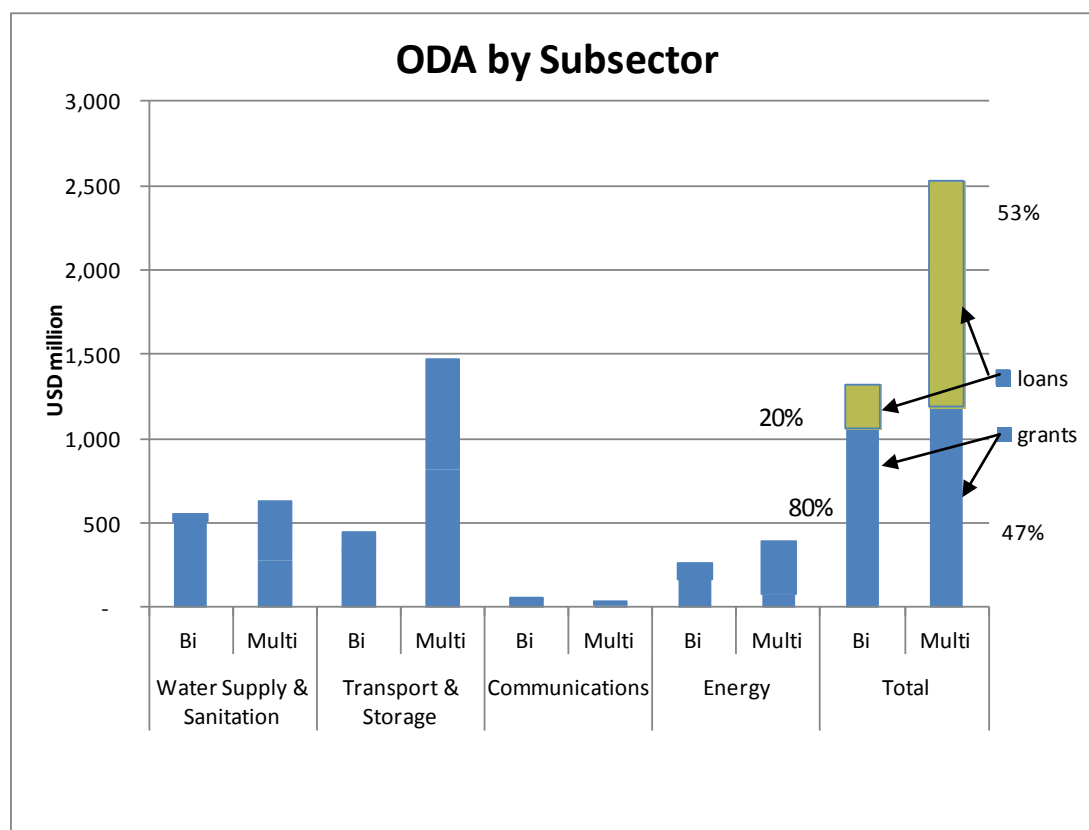
Share of Infrastructure in Total Allocable ODA for SSA by Each Donor (2002-2009, constant 2008 USD)					
#	Donor	%	#	Donor	%
1	World Bank	30%	15	Switzerland	6%
2	EU Institutions	22%	16	Netherlands	6%
3	AfDB	22%	17	Ireland	6%
4	Denmark	16%	18	Belgium	6%
5	UA Emirates	14%	19	France	5%
6	Japan	14%	20	Finland	4%
7	Korea	13%	21	Austria	3%
8	Germany	10%	22	Canada	3%
9	Sweden	9%	23	Australia	3%
10	Luxembourg	8%	24	UK	2%
11	Norway	8%	25	Greece	1%
12	Portugal	8%	26	NZ	1%
13	Spain	7%	27	US	1%
14	Italy	7%			

Source: OECD/CRS, 2011

15. While some donors may provide relatively little to Africa's infrastructure in terms of both volume and share of aid to all sectors, Africa may still be a priority within their infrastructure operations compared to other regions. This is the case for Ireland, Portugal, and Luxembourg, for example, which direct more than 60% of their infrastructure ODA to SSA as opposed to other regions. Conversely, for donors such as Japan, which is providing a relatively high amount in terms of volume and share of infrastructure in all sectors for SSA, they are in fact allocating only 5% of infrastructure ODA to SSA, as their focus is more on infrastructure to Asia. Finally, there are other donors whose data show that Africa's infrastructure is clearly not a high priority, such as Australia, Greece, and New Zealand.

16. In terms of sub-sectors, a large proportion is disbursed to transport and storage, followed by water supply and sanitation (See Figure 4). Much less is disbursed to energy, and hardly any to communications due to significant private investment in telecommunications. For each sub-sector, the respective amounts disbursed by multilaterals and bilaterals are roughly the same, except for transport and storage where the multilaterals disburse about three times more than the bilaterals. As for loans versus grants, within bilateral ODA for SSA's infrastructure, the share of grants is much higher at 80%. This is in contrast to the multilateral organisations such as the World Bank and AfDB which provide predominantly loans, but less than the EU institutions which provide mostly grants. Because of these EU grants, total multilateral ODA to SSA infrastructure is roughly half grants and half loans.

Figure 4



Note: Annual Average ODA disbursements 2002-2009 in constant 2008 USD. Source: OECD/CRS 2011

17. As for recipient countries, Table 4 shows that the top ten SSA countries that received the largest amount of ODA for infrastructure from all donors between 2002 and 2009 were Ethiopia, Tanzania, Mozambique, Ghana, Uganda, Kenya, Democratic Republic of Congo (DRC), Senegal, Burkina Faso, and Madagascar, in that order. In fact, Ethiopia received more than 10% of the total USD 3.7 billion annual average disbursements for this period. Further investigation would be useful to analyse why these countries received relatively large amounts, how they compare to the financial needs in terms of their different sub-sectors in infrastructure, and what scope there is for attracting private sources of funding.

Table 4

2002-2009 Average Annual Disbursements for Infrastructure in SSA (Constant 2009 USD million)								
#	Recipient	Amount	#	Recipient	Amount	#	Recipient	Amount
1	Ethiopia	382	18	Chad	62	35	Gabon	18
2	Tanzania	288	19	Malawi	56	36	Djibouti	16
3	Mozambique	267	20	Cape Verde	45	37	Mauritius	14
4	Ghana	227	21	Mauritania	45	38	Mayotte	14
5	Uganda	219	22	South Africa	45	39	Gambia	12
6	Kenya	176	23	Guinea	43	40	Central African Rep.	10
7	DR Congo	165	24	Sierra Leone	40	41	Togo	10
8	Senegal	157	25	Cote d'Ivoire	36	42	St. Helena	8
9	Burkina Faso	147	26	Sudan	33	43	Swaziland	7
10	Madagascar	144	27	Angola	30	44	Sao Tome & Principe	6
11	Nigeria	139	28	Burundi	28	45	Zimbabwe	5
12	Zambia	129	29	Namibia	28	46	Botswana	4
13	Mali	127	30	Lesotho	27	47	Comoros	3
14	Benin	117	31	Guinea-Bissau	23	48	Somalia	3
15	Cameroon	102	32	Liberia	19	49	Equatorial Guinea	3
16	Rwanda	68	33	Congo, Rep.	19	50	Seychelles	0.2
17	Niger	66	34	Eritrea	18	Total		3,650

Source: OECD/ CRS, 2011

Note: The Total differs with that of Table 1 as the latter uses constant USD 2008 whereas the above uses constant 2009 USD.

III. Donor Approaches to SSA Infrastructure¹³

Strategies

18. For a number of years, many African countries have mentioned infrastructure development as one of their top priorities, including by featuring it as one of the main pillars of their Poverty Strategy Reduction Papers (PRSPs). More recently, at the continental level, heads of state endorsed a number of priority infrastructure projects as well as appointed champions for their development at the African Union Assembly in January 2011 in Ethiopia. On the donors' side, the DAC developed guiding principles for donors on how to help enhance infrastructure's contribution to poverty reduction and economic growth (see Box 1). Furthermore, through the Aid for Trade programme, initiated by the World Trade Organisation (WTO) and to which OECD contributes through monitoring and evaluation, donors have been assisting African countries to address the lack of infrastructure as a constraint to their ability to trade and access global markets. These efforts have resulted in recognising the need to increase capacity building and technical assistance for infrastructure development.

¹³ This section is largely based on responses to a questionnaire sent to DAC Members on 5 November 2010. As Denmark, the Netherlands, and Norway have not yet responded, these countries will generally not be referred to. The strategies and approaches of the multilateral institutions will also be reviewed in the revised report.

Box 1

Guidelines for Donors on Promoting Pro-Poor Growth through Infrastructure, 2006

The DAC has developed the following principles, *inter alia*, which pinpoint how donors can help developing countries maximise the benefits of infrastructure development.

- Use a country-led approach
- Ensure cross-sector synergies
- Analyse the sustainability of proposed infrastructure investments
- Co-ordinate capacity building activities from planning to operations
- Help ensure the participation of poor people in the infrastructure cycle
- Help establish cost-recovery and tariff collection system
- Help improve transparency
- Promote environment factors
- Foster Public Private Partnerships, including investments by the local private sector
- Provide predictable, long-term ODA
- Support other financing mechanisms, such as credit enhancements and guarantees
- Help develop capital markets
- Address specific issues for fragile and landlocked states
- Support regional and cross-border infrastructure
- Assess the impact of infrastructure on poverty.

19. On an individual basis, many donors acknowledge the important role that infrastructure plays in Africa's development by referring to it in their development assistance strategies. A few DAC donors have gone beyond acknowledgement and have developed strategies, such as Belgium, Japan, Korea, UK, and the US. Specifically, the United States Agency for International Development (USAID) has a dedicated Africa Infrastructure Program, the EU Members have a Joint EU-African Infrastructure Partnership strategy, and Japan elaborates its focus on regional aspects such as the integrated Corridor-Based Approach. Canada has articulated a Pan-Africa Regional Program Strategy, which covers infrastructure from the perspective of trade and regional integration. Furthermore, key multilateral institutions have their respective strategies for infrastructure (See Box 2). Other donors support infrastructure development without elaborating strategies.

Box 2

Multilateral Donors' Strategies for Africa's Infrastructure

AfDB is active in supporting regional infrastructure. It is the executing agent for the Programme for Infrastructure Development in Africa (PIDA), which serves as the blueprint for the development of the continent's infrastructure, including investment strategies, priority projects, and a framework for engaging with development partners. PIDA attempts to merge all the various infrastructure initiatives—namely the NEPAD Short Term Action Plan (STAP), the NEPAD Medium to Long Term Strategic Framework (MLTSF), and the AU Infrastructure Master Plans—into one coherent programme for the continent. AfDB also houses several facilities, such as the Infrastructure Project Preparation Facility (IPPF) and the African Water Facility.

The World Bank Group (WBG) has developed the Sustainable Infrastructure Action Plan (SIAP), which

outlines funding guidelines for the Bank's infrastructure operations for 2009-2011. The Plan identifies four core activities: access to basic services; cross-sectoral linkages; mainstreaming sustainability; and scaling up WBG support and leverage. In addition, in response to the financial crisis, the World Bank launched the Infrastructure Recovery and Assets Platform and the Infrastructure Crisis Facility in April 2009, which aim among other goals, to help countries develop strategies in response to the financial crisis, including by leveraging private sector financing through joint ventures. The WBG is also in the process of formulating its global Group-wide strategy for infrastructure.

The European Commission's strategy, developed in partnership with the African Union (AU), was formalised through the EU-Africa Infrastructure Partnership. The Commission, which focuses on all infrastructure sub-sectors, has established an Infrastructure Trust Fund, through which Euro 210 million in grants from the EC and EU Member States are blended with loans from the European Investment Bank, bilateral European financing institutions and others, reaching a total financing of over Euro 2 billion for 35 regional infrastructure projects in SSA. The creation of an enabling environment for private sector investment is also an increasingly important element of the Commission's approach.

20. Some donors state that they focus on specific sub-sectors of infrastructure—as Sweden does with the energy sector (which includes rural electrification and renewable energy), Turkey with water and sanitation, and Austria with energy (see Box 3) as well as water and sanitation. Furthermore, some donors such as Turkey mention that they are active in physical projects, while others focus more on the enabling environment, such as Portugal, UK, and US. Many donors explicitly indicate their priority countries, such as Belgium, Canada, Luxembourg, Portugal, and Sweden. As for fragile states, while some donors such as the UK state the importance of assisting their infrastructure development, others mention that peace and security are prerequisites for donor support in developing physical infrastructure and improving the enabling environment.

Box 3

Austria's Support for Renewable Energy in Africa

As part of its development assistance strategy, Austria has been engaging heavily with African governments on energy. Based on an "Energy for Sustainable Development" policy, it is, for example, helping improve the efficiency of power plants in South Africa through business partnerships between Austrian and local enterprises. Furthermore, taking a regional approach, Austria supports the Economic Community of West African States (ECOWAS) Centre for Renewable Energy and Energy Efficiency, which aims to strengthen the enabling environment for renewable energy in its member states. The co-operation includes the following activities:

- Tailored policy, legal and regulatory frameworks and quality standards
- Capacity development and training
- Advocacy, awareness raising, knowledge management and networking
- Investment and business promotion through tailored financial mechanisms
- Demonstration projects and showcases with potential for regional scaling-up.

Launched in July 2010, the Centre aims to become a hub for capacity building and training on sustainable energy which includes water, wind, solar, and biomass technology.

In addition, Austria supports the SOLTRAIN (Southern African Solar Thermal Training and Demonstration Initiative), a regional initiative that offers targeted capacity building and knowledge transfer in the field of solar thermal energy. Austria partners with local NGOs and domestic private enterprises in Mozambique, Namibia, Zimbabwe and South Africa on this initiative.

21. In many cases, bilateral donors support infrastructure development through funding various multilateral organisations and facilities. Donors such as Belgium use these multi-bi channels by recognising the limits to their mid-sized funding level for government-to-government projects, but larger donors like the US also make use of them. As shown in Figure 3 above, this multi-bi aid amounted to 5% of total ODA for infrastructure in 2009 or 15% of bilateral aid. As donor reporting on multi-bi funding is still incomplete, the actual proportion may be higher and may be growing. Considering that—as explained above—the multilaterals administer roughly 70% of the ODA funding for SSA’s infrastructure, the most effective strategies, approaches, and division of labour that could be considered by the bilaterals in disbursing the remaining ODA in relatively small amounts will be worth exploring further in line with commitments under the Paris Declaration on Aid Effectiveness.

Regional Infrastructure

22. Economies of scale from regional infrastructure can reduce costs of construction and services compared to those that are developed and used on a country by country basis. In particular, regional infrastructure makes sense from Africa’s geographical perspective. For instance, Africa has 16 international river basins which present enormous hydropower potential. In fact, an increasing number of infrastructure projects in Africa involve two or more countries—from power pools to submarine cables to transport corridors. At the same time, in order to maximise the benefits of regional infrastructure, an appropriate policy and institutional environment has to be in place. This includes: creating consensus among various countries; harmonising regulatory frameworks, including tariff-setting; capacitating regional institutions that oversee regional projects; and so on. Moreover, accelerating the delivery of regional infrastructure will require innovative financial instruments, increased harmonization and co-ordination among all players, including national governments, and a fair sharing of the costs and benefits of trans-boundary projects among the participating countries¹⁴.

23. While several donors acknowledge the importance of a regional approach to Africa’s infrastructure, most seem to resort to the multilateral organisations to take leadership as—with their number of field offices across the continent—they are well placed to address the crucial aspect of regional infrastructure. Some donors support regional economic communities (RECs), as Austria is doing in the renewable energy sector, as explained above; others like Japan emphasise regional integration through, e.g. the development of the transport Corridor-Based Approach, which includes One Stop Border Posts (See Box 4).

24. France has a diverse approach to supporting regional infrastructure, which consists of: knowledge creation and dissemination; establishing sectoral regulations and supporting investment plans; project preparation; financing investment; and reinforcing partner countries’ institutions and regional integration organisations. On knowledge creation, the French Development Agency has supported the aforementioned AICD, the most comprehensive study on the state of Africa’s infrastructure. It has also given technical assistance and facilitated experience-sharing among several river basin organisations—the Senegal River Basin Development Authority, Volta Basin Authority, the Niger Basin Authority, and the International Commission of the Congo-Oubangui-Sangha Basin. It has also helped establish a regulatory framework for the West Africa Power Pool, which, according to some estimates, could save USD 435 million a year in electricity costs for the countries in the pool as well as 5 million tons of carbon through the promotion of environmentally sound and cost-effective hydropower¹⁵.

¹⁴ ICA Press Release 2010

¹⁵ IMF Regional Outlook, Oct 2010

Box 4

Japan's Transport Corridor-Based Approach

Japan has been a major supporter of regional infrastructure in Africa, mostly through ODA loans provided by the Japan International Cooperation Agency (JICA). As high transportation costs are a major obstacle to African trade and global competitiveness, Japan has developed a Corridor-Based Approach, which involves supporting the whole chain of transport infrastructure –highways, railways, bridges, ports—as well as the soft infrastructure related to it—border crossing regulations, customs clearance, and so on.

The Approach also includes support for One Stop Border Posts, such as in Malaba between Kenya and Uganda—i.e. to go through joint customs once instead of separately—which has helped reduce the border-crossing times for railway freight from two days to about an hour. In addition, JICA is working on harmonising regulatory frameworks in East Africa, such as for the axle load regulation.

JICA has been instrumental in developing other corridors, such as connecting the ports of Kenya and Tanzania with landlocked countries and linking the region's east and west coasts of Mozambique, Namibia, and Angola. JICA has also funded the development of regional power generation and distribution networks, including offering technical assistance for grid operations among countries in the power pools and enhancing domestic power distribution systems.

Enabling Environment

a) Regulatory and Institutional Aspects

25. Donor activities in support of infrastructure development include strengthening the enabling environment, such as policies, regulations, laws and institutions that guide investment, construction, operations, and maintenance for infrastructure. Improvements in these areas are considered particularly essential for attracting private investment to fill the financing gap for Africa's infrastructure. Box 5 offers some elements of the enabling environment that are documented in various sources.

26. Many donors agree that the enabling environment is an important part of any infrastructure development plan. Therefore, they are engaged in capacity building through deployment of experts or training of government staff active in various aspects of infrastructure planning and operations. Canada states that its support through the AfDB's work in governance, particularly on capacity building of the financial and economic areas, is very much geared towards improving the enabling environment. At the same time, it also indicates the need to build technical capacity of RECs, as the regional approach to infrastructure planning is highly important. It gives examples such as addressing the standardisation of legal and regulatory frameworks as well as streamlining inefficient procedures within RECs. Canada also points out that regional strategic frameworks are not sufficiently built up from country strategies, while conversely, country strategies often fail to articulate regional commitments.

27. Other donors provide more direct support that relates to specific projects or programmes. USAID, for example, provided transaction support and capacity building for the newly created Kenya Electricity Transmission Company to strengthen the transmission arrangements for the Lake Turkana wind project. It also worked in Namibia to establish an energy regulator as well as in Mozambique on tariff setting for electricity as part of a plan to integrate wind into the main energy mix and attract investors. More generally, USAID has indicated that the lack of capacity among partner governments to negotiate complicated business with the private sector as the largest barrier to closing project deals. Therefore, it provides technical support as well as large-scale training to address this challenge. Japan, meanwhile, has

undertaken capacity building for the Tanzania Electric Supply Company Ltd (TANESCO); the Tanzania National Road Agency (TANROADS) and the Bujagali PPP energy project in Uganda. It has also assumed chairmanship of the transportation platform of the ICA.

28. France has worked with the World Bank to help Senegal establish an administrative entity to oversee the construction of the Dakar-Diamniadio toll road, which is a public private partnership. In particular, the Public-Private Infrastructure Advisory Facility (PPIAF) housed in the World Bank provided financing for building technical and operational capacity for this partnership. PPIAF functions as a catalyst to increase private sector participation in emerging markets. It provides technical assistance to governments to support the creation of a sound enabling environment for the provision of basic infrastructure services by the private sector. The contributors to the facility are Australia, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, United Kingdom, and the US.

Box 5

Some Elements of the Enabling Environment

Regulatory and Policy Aspects

- Legislation for private sector participation and privatisation
- Regulatory frameworks (including quality standards and tariff setting)
- Procurement procedures and requirements
- Contract monitoring and enforcement mechanisms
- Property rights
- Disclosure of information
- Dispute arbitration mechanisms
- Harmonisation of regional national and sub-national regulations

Institutional Aspects

- Contract negotiation and oversight, cost benefit analysis, complex tendering, data gathering, and evaluations
- Consensus-building (identifying key issues; setting priorities and implementation strategy; developing infrastructure blueprints)
- Establishment of institutions, e.g. PPP units
- Reforming institutions e.g. unbundling
- Auditing and other internal financial controls
- Corporate governance of public entities
- Knowledge building (design of database; water data and information needs; disseminating best practice)
- Bill collection and enforcement of consumer payment

b) Leveraging Financing and Risk Mitigation Mechanisms

29. Many donors see the importance of the private sector's contribution in achieving the MDGs. For example, 11 bilaterals¹⁶ signed on to the Bilateral Donors' Statement in Support of Private Sector Partnerships for Development at the UN Private Sector Forum in September 2010. Furthermore, the OECD Investment Committee has developed the Principles for Private Sector Participation in Infrastructure for developing country governments (see Box 6). Yet when it comes to specifically assisting Africa's

¹⁶ Austria, Denmark, Finland, Germany, Japan, the Netherlands, Norway, Switzerland, Sweden, the UK and the US.

infrastructure, only a few donors—namely, Austria, Belgium, Luxembourg, Italy and Korea—explicitly acknowledge the need to mobilise private investment. For instance, Belgium states that, because ODA is limited, it is best to use it as a lever to attract other financial resources for infrastructure development. On the other hand, many donor countries are actually contributing to various non-aid instruments related to export credits and risk guarantee schemes to leverage private investment for Africa’s infrastructure.

Box 6

OECD Principles for Private Sector Participation in Infrastructure (2007)

The OECD Investment Committee has developed a set of principles, covering five areas for developing country governments to consider when aiming to attract private sector participation (PSP) in infrastructure. These include:

- 1) Consider the long-term costs and benefits of given projects, available financing options (including subsidies) and appropriate risk sharing between the public and private parties.
- 2) Develop an enabling policy framework for investment (administrative capacity, fighting corruption, ensuring a competitive environment, ensuring access to capital markets).
- 3) Secure public buy-in and political support for PSP and project implementation.
- 4) Establish a working relationship in order to ensure the general public’s infrastructure needs
- 5) Communicate expectations about responsible business conduct to the private partner

The *Principles* are applicable to a range of private sector arrangements, from management contracts to full-scale privatisation (divestiture). In addition, a *Checklist for Public Action* has been developed, based on the *Principles*, for application in the water sector. Assessments have already been undertaken in Egypt, Lebanon and Russia. The *Principles* can also be used as a dialogue tool, in helping various stakeholders in infrastructure – municipalities, ministries, local governments, civil society organisations – to develop a coherent position on PSP and how it can maximise development benefits. Furthermore, because the *Principles* can be used by governments as a self-assessment tool of how infrastructure fits into their development strategies, it can help build government capacity and strengthen the policy making process.

30. In particular, the Private Infrastructure Development Group (PIDG)—which consists of members such as Austria, Ireland, Germany, Netherlands, Sweden, Switzerland, UK and the International Finance Corporation of the World Bank—is helping developing countries to overcome the obstacles to private sector infrastructure investment through a range of specialised financing and project development facilities. Although not exclusively for Africa, these facilities have evolved in response to specific conditions within the infrastructure markets of the poorer developing countries. Each facility/programme, such as DevCo, Technical Advisory Facility, InfraCo, Emerging Africa Infrastructure Fund, and GuarantCo, seeks to provide a unique solution to the market gaps created by insufficient resources, low levels of capital development and poor technical capabilities.

31. Several donors see aid as only one mechanism through which they can help strengthen the enabling environment, particularly to attract private financing. Italy provides its support through institutional capacity building, risk evaluation and brokerage of existing risk mitigation schemes. In particular, during its G8 Presidency, it created the Initiative for Risk Mitigation in Africa (IRMA), with the support of the NEPAD-OECD Africa Investment Initiative. IRMA is housed at the AfDB with the aim to offer brokerage services as well as information on available risk mitigation instruments for interested investors and African governments engaged in infrastructure projects. The US Millennium Challenge

Corporation (MCC) also encourages new instruments—guarantees and other risk-sharing instruments, investment facilities, performance contracting, parallel financing, matching grants, first loss facilities and so on. For MCC, these types of instruments are most effective if they follow logically from the identification and analysis of constraints to growth and have promising returns in terms of sustainable poverty reduction and economic growth.

32. Most DAC members have official export credit agencies that offer instruments for their home companies to use in their investments abroad, including for Africa’s infrastructure. These agencies offer relevant products, such as direct credits, refinancing, interest-rate support, as well as guarantees and insurance. For example, Proparco, the arm of the Agence française de développement (AfD) that works on private sector issues, contributed to a partial guarantee to establish a subsidiary of a French telecommunications company in Cameroon. As official entities, export credit agencies are among the biggest sources of public financial support for foreign businesses investing in developing countries, especially in infrastructure projects. Furthermore, guarantees and insurance are crucial when it comes to infrastructure, where the payback period of investments can last up to twenty years or more, requiring protection for international investors against a wide range of risks.

33. Many donor countries have separate guarantee agencies outside their export credit agencies. Other countries even have the aid agency administer guarantees, such as the Swedish International Development Cooperation Agency (SIDA)—one such guarantee was made available to the Maputo Port in Mozambique and another to a telecommunications company in Uganda for installing a mobile network in rural areas. DAC Members also contribute to multilateral guarantee facilities such as the World Bank’s Multilateral Investment Guarantee Agency. Canada mentions that mobilising private capital investment is a fast growing segment of the work of the AfDB. Another noteworthy initiative includes pooling mechanisms, which blend grants, interest rate subsidies, technical assistance, and private financing (see Box 7).

Box 7

Africa, Caribbean, and the Pacific (ACP) European Union Energy Facility

The ACP-EU Energy Facility has created a pooling mechanism that “pools”, or combines, grant funding from the Facility with other financial resources, such as loans and interest rate subsidies from EU institutions and the private investors of eligible projects. The mechanism is aimed at medium-sized investment projects that focus on improving access to energy in rural and disadvantaged areas.

Eligible private investors can submit project proposals and requests for funding. Grants will be provided to them to cover the initial investment cost for projects with low commercial returns but high social benefits, such as electrification projects in rural and peri-urban areas, as well as renewable energy and energy efficiency projects. In addition, the grants from the pooling mechanism can be used to provide technical assistance and support for project preparation to ensure well-designed projects and their smooth implementation. Moreover, the pooling mechanism can give interest rate subsidies through a lump sum to private financial institutions which would allow them to provide long-term finance at reduced interest rates to the investors.

One of the key benefits of the pooling mechanism is that it enhances investor interest in projects and geographic areas that would otherwise be unattractive from a financial point of view. Moreover, the mechanism requires applicants to show that the support would have potential leverage effect on other sources of funding, such as commercial loans and concessional finance.

Source: ACP-EU Energy Facility, Pooling Mechanism Guidelines. EC Feb 2011

34. In general, donor agencies co-ordinate with other ODA and non-ODA institutions in their countries for Africa's infrastructure. Several also support investment promotion activities aimed at spotlighting Africa—and its infrastructure potential—as an appealing destination. For example, as African utility and other infrastructure related officials are invited to the US on trade missions to learn about US operations and practices elsewhere, USAID also works with other agencies to send American companies to African countries to identify investment opportunities. Furthermore, the US Department of Energy has a programme to facilitate comprising a national network of 18 scientific and research labs that share technical expertise with African institutions on energy matters—for example, on collecting data on wind energy resources in Angola. The US Department of Commerce is also implementing the National Export Initiative, which has an objective of exporting technology, including on geothermal energy in East Africa. The US Treasury, meanwhile, co-ordinates a virtual working group that gathers key stakeholders involved in energy issues in Africa, namely, International Financial Institutions; African finance and energy ministries; local development finance institutions; some U.S. agencies; private developers; and state-owned power companies. The working group holds regular video conferences to discuss key issues affecting the African energy sector with the aim of producing concrete products to facilitate private investment and carry out reforms.

Paris Declaration on Aid Effectiveness

35. Many donors indicate general adherence to the principles of the Paris Declaration on Aid Effectiveness in working on Africa's infrastructure development, particularly by co-ordinating with or contributing to the multitude of regional initiatives such as PIDA. The UK states that it does not see particular challenges in implementing the Paris Declaration in this area because its support is generally through the multilateral development banks. Canada, whose Pan-Africa Regional Program Strategy takes into consideration the African Union, Infrastructure Consortium for Africa, NEPAD-Infrastructure Project Preparation Facility, and African Water Facility (all hosted by the AfDB), mentions its experience as overwhelmingly positive, particularly due to robust AfDB management systems as well as the firm commitment by all stakeholders in the relevant process.

36. Other donors also state that their assistance is aligned to partner countries' priorities, particularly expressed in the national development plans or Poverty Reduction Strategy Papers (PRSPs). Austria, for instance, mentioned specifically that in Uganda's water and sanitation sector, the government led successful consultations to enhance its monitoring and evaluation capacity by developing a performance measurement framework that included indicators on access, usage, managerial aspects, impact and cost effectiveness. To this joint effort, Austria contributed in improving the definition, criteria, and methodology of this framework.

37. On the other hand, some donors expressed challenges in alignment. As mentioned above, one factor is that regional strategic frameworks may not be sufficiently built up from country strategies, and conversely, country strategies often fail to articulate regional commitments. Italy also mentions that aligning to country systems on procurement, monitoring, and ensuring environmental standards is problematic. Korea states that the partner government's lack of financial or administrative capacity poses challenges in aligning to their priorities. The UK also adds that Project Implementation Units (PIUs) are often needed for complex PPP arrangements, which is a noteworthy point, as the Paris Declaration actually discourages the setting up of PIUs. Here, perhaps a distinction made need to be made between establishing specialised units that are well integrated and part of ministries as opposed to donor-driven PIUs that are disconnected from the normal government administration. Further exploration is needed to see what types of PIUs are being established and how they contribute to sustainable capacity development, rather than drain capacity.

38. On harmonisation with other donors, Canada states that its Pan-Africa Regional Program Strategy supports multi-donor programming, common reporting, joint monitoring and evaluation, and the use of country systems when feasible. The UK mentioned that in many countries, donors have jointly supported procurement practices to strengthen government capacity to lead infrastructure programmes. Furthermore, Japan has initiated informational exchange meetings in Nairobi with Korea and China on infrastructure activities for Kenya as a contribution towards harmonisation with development partners. On the other hand, Korea as a new DAC Member, states that harmonising in general with other donors on different processes and programme cycles, such as sector wide approaches and budget support, takes substantial effort. More generally, it may be worth pursuing the issue of effective division of labour among many bilateral donors so that each administers small portions of the total ODA for Africa's infrastructure.

39. Regarding results or evaluative evidence on what works and what does not in improving the enabling environment, the UK carried out a study in 2008 to map the causal linkages between inputs to improve the enabling environment with outcomes of increased private participation in infrastructure¹⁷. However, the study repeatedly pointed out—and several donors have expressed the same view—that assessing the impact of these interventions is difficult, mostly because such activities are often part of long-term processes. Support for a procurement bill today, for instance, may see increased investment or improved infrastructure services only ten years afterwards. Furthermore, the enabling environment cannot be dissociated from broader governance reforms—for instance, anti-corruption measures in general may impact on the enabling environment for infrastructure more specifically than particular capacity building interventions.

40. At the same time, better correlation may be established between direct assistance towards completing investment transactions and immediate returns, e.g. using PPIAF's grants for PPPs that increased access to and improved quality of infrastructure services or raised the receipt of concession fees and tax revenues paid by infrastructure investors and so on. However, the ultimate goal is not attracting private investment—it is sustainable poverty reduction that could happen at the end of a long and complex process involving many actors and interventions. Further work is therefore needed to explore the most effective and efficient approach that donors should collectively take in reaching this goal through the development of Africa's infrastructure.

IV. Conclusion and Next Steps

41. Infrastructure is essential for Africa's economic and social development. It requires significant financial resources as well as a strengthened enabling environment—policies, regulations and institutions—that facilitate investment, construction and operations. Multilateral and bilateral donors are providing increasing ODA to Africa's infrastructure as well as playing a key role in addressing various challenges in infrastructure development. For example, they have been active in supporting the enabling environment through capacity building for RECs, knowledge transfer on solar thermal energy, or large scale training on how to negotiate with the private sector. Donors have also been using resources to promote private investment for infrastructure by providing risk guarantees, export credit subsidies, and pooling mechanisms that blend loans and grants.

42. This draft report presents only the preliminary findings of the mapping exercise on donor activities in support of infrastructure. An updated version will classify and analyse in more depth the various channels of donor support to the enabling environment as well as financial facilities to leverage private investment. The report will also look more closely at how multilaterals and the emerging economies such as India and China are approaching infrastructure development, including the enabling environment. Finally, lessons learned from other regions applicable to Africa will be explored.

¹⁷ *A Desk Review of DFID's Private Sector Infrastructure Investment Facilities* (March 2008)

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ANNEX 1

BACKGROUND TO THIS REPORT:

1. The OECD Investment Committee and Development Assistance Committee (DAC) are undertaking a two-year programme (2011-2012) on the role of aid in leveraging private investment in Africa's infrastructure. The programme, Aid for Investment (AfI), comprises: a mapping exercise of donor activities in support of Africa's infrastructure, particularly on the enabling environment for private investments; detailed case studies that explore the nature of these support; and finally, a strategic guidance for donors on how to strengthen and maximise the leveraging effect of aid on investment for Africa's infrastructure.

2. As a first step of the AfI, a questionnaire was sent to DAC member countries, as well as visits were made to key multilateral institutions involved in Africa's infrastructure¹⁸. The questions covered: strategy; project activities; adherence to the Paris Declaration on Aid Effectiveness; domestic co-ordination and coherence; and special considerations—such as regional approaches. This work-in-progress report—based on preliminary findings built on DAC statistics, the donor responses to the questionnaire, as well as other analytical material—tries to present a synthetic overview of how donors are supporting Africa's infrastructure development.

3. This preliminary report is intended for discussion at the 2011 Ministerial Conference of the NEPAD-OECD Africa Investment Initiative on 26-27 April in Dakar, Senegal. The revised version after the Ministerial will give a closer look at mapping and analysing further: donor support to the enabling environment more specifically, non-aid financial instruments, and regional and global initiatives. In addition, the role of emerging economies in Africa's infrastructure as well as lessons from other regions such as North Africa and Asia will be explored to the extent possible. It will also try to capture the views of the private investors regarding the role that aid can play in improving the enabling environment which could then lead to their enhanced investment.

¹⁸ The World Bank, Infrastructure Consortium for Africa, European Investment Bank and the African Development Bank provided inputs. Visits to relevant US entities were also carried out.