



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

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Preface

The purpose of this report is to assess progress in the provision of assistance and support to Africa for improvement of its basic physical infrastructure.

In 2005 the G8 and key multilateral agencies, namely the World Bank, African Development Bank, European Commission and the European Investment Bank established the Infrastructure Consortium for Africa (ICA) to increase focus on and attention to Africa's infrastructure needs.

This first annual report of the Consortium gives principal attention to establishing an accurate baseline of project financial commitments which were made in 2005, particularly by its members but also by other sources, and to assembling a picture, as complete as is possible at the end of a year, of commitments made in 2006.

The report also gives a brief assessment of the current situation with regard to various non-financial obstacles to African infrastructure development. Taking account likely future financial flows, the report tries to weigh the adequacy of current trends, and to identify any issues that may warrant further consideration at this time.

Acknowledgements

The ICA Secretariat gratefully acknowledges the assistance given by many of the Consortium's members, at a busy time of year, in providing information on recent project commitments and in answering the questionnaire that was addressed to them.

Thanks are also due to the World Bank's Africa Region which, with financial support from the Public-Private Infrastructure Advisory Facility (PPIAF), collected some of the data included in this report concerning support for African infrastructure development from Arab and oil-producer international development funds and from India.

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Executive Summary

- i. Weak infrastructure is a major contributory cause of Africa's poor record in economic growth and reduction of poverty.
- ii. The New Partnership for Africa's Development (NEPAD) has given special priority to infrastructure which supports economic integration among countries.
- iii. In many of the annual meetings of the G8 leaders and in others connected with the Millennium Development Goals, commitments have been made to channel more resources from rising aid budgets to Africa.
- iv. Studies of the additional aid needed in Sub-Saharan Africa have arrived at figures of between an additional \$10 and \$14bn per year. On the basis of these studies the report of the Commission for Africa recommended an additional \$10 billion per year from developed countries, which is a doubling relative to current levels of support.
- v. Commitments for African infrastructure projects by OECD countries, predominantly by members of the Infrastructure Consortium for Africa reached more than **\$7.7 billion in 2006**, up from about \$7.0 billion in 2005. The increase was almost entirely in the form of Overseas Development Assistance (ODA) for Sub-Saharan Africa (SSA), which grew approximately 15% to reach \$5.1 billion. The USA and Japan substantially raised their bilateral aid commitments to the sector in SSA. Three-quarters of the total ODA was channelled through the main multilateral institutions, which also increased their commitments.
- vi. NEPAD's advocacy for greater attention to regional and cross-border infrastructure has borne fruit. Commitments to regional projects accounted for some 5% of the total commitments by ICA members in 2005, and well over 10% in 2006. However both the AfDB and the World Bank now have more regional projects ready to go ahead than they have the resources to finance. The immediate financing gap is more than US\$2 billion.
- vii. Since 1997 the financing of projects by the private sector has generally been less for Sub-Saharan Africa (excluding South Africa) than for North Africa, but investments have grown steadily, reaching over \$4.5 billion in 2005. Three-quarters has been for mobile telephony, but some countries have also received investments from independent power producers, and from concessionaires taking over the management of railways, ports or power distribution companies.
- viii. Africa is now drawing substantial support, which may grow further in coming years, for infrastructure development from emerging donors. Arab funds and banks have long been involved but are now more significant. Interest has also been rising from India. China has already made substantial investments and has further committed to lending \$5 billion to African countries, mostly for infrastructure, over the three years 2007-09.
- ix. Very few African governments can yet have confidence that their countries may receive assistance of the scale from developed countries that has been recommended by reports from the UN and the Commission for Africa.
- x. In order to fulfil their own broad aid pledges for the years up to 2010, the G8 and most other OECD countries, have to find effective ways of significantly increasing aid expenditures. Some new forms of financing for infrastructure have already been

developed, such as the Trust Fund of the EU-Africa Partnership for Infrastructure. Strong commitment has now to be built to ensure replenishments for African Development Fund 11 and IDA 15 that are of adequate size, and give appropriate priority, to African infrastructure.

- xi. The report discusses five classes of constraint which could impede aid increases. These constraints, which are related to project preparation, implementation, coordination and maintenance, cost recovery and participation of the private sector, are all important and need continued high-level attention and support from both African Governments and donors.

CHAPTER 1: Africa's Infrastructure Needs

1. The years since the start of the twenty-first century have seen rapidly rising recognition of the extent of Africa's infrastructure lag and of its significance as an obstacle to more sustained economic growth and effective reduction of poverty. Many elements have contributed to generating these new perceptions. One of the earliest was the effort initiated late in the 1990s to carry out systematic opinion surveys among poor people themselves: the responses from Africa typically gave great emphasis to transport problems, with water issues often mentioned in second place. Establishment of the UN Millennium Development Goals (MDGs), though not directly covering much of infrastructure, attracted more attention than in the past to indicators allowing objective comparison between countries.

2. The late 1990s and early 2000s also saw publication by leading African and international economists of analyses demonstrating the great significance of geographical factors in restricting benefits from trade and limiting the spread and inclusiveness of development. Surveys of business opinion began to be carried out in more countries, and the results from Africa typically ranked infrastructure problems (unavailability, unreliability and high costs) on a par with corruption as the most important obstacles to business operations.

The NEPAD initiative

3. At the political level in Africa, the leaders of some of the continent's most influential countries succeeded by late 2002 in generating broad consensus among the members of the African Union in support of the New Partnership for Africa's Development (NEPAD), a commitment to a reinvigorated development effort.

4. One of the main planks of the new partnership was stronger economic cooperation between neighbouring countries, including development of better physical links. The diseconomies of small national markets would be overcome, construction of more efficient larger-scale facilities (e.g. hydroelectric) would become feasible, and shared resources such as river basins could be developed more effectively (almost all Africa's major rivers are shared between two or more countries).

5. Another key feature was the African Peer Review Mechanism (APRM), under which each country would periodically carry out a systematic and objective assessment of its own development management, with advice and assistance from a committee of leading independent professionals from other African countries. Real improvement in governance was recognised as vital to successful development in almost all countries, without which it would probably not be possible to secure the renewed support from aid donors, and increased investment from the foreign private sector; and which together would make it possible to carry out the larger-scale multi-country projects that were needed.

The Four Key Infrastructure Sectors

6. Four main sectors make up what is generally referred to as "economic infrastructure", because of the importance of these services to the day-to-day operation of virtually all other economic sectors and hence to economic growth, employment and of productivity.

Water supply and sanitation and water resource management

Poor water quality and lack of supply are major causes of high rates of infant mortality and frequent ill health among adults. Collecting water over long distances is a heavy burden on vast numbers of women.

Regular WHO-UNICEF monitoring reports show that the situation is very serious in Sub-Saharan Africa, with more than 40% of the population lacking access to safe water and 60% without basic sanitation. Only limited improvements have been achieved since 1990, and, at best, only half of all the countries in SSA are currently expected to achieve the related MDG by 2015.

In North Africa, with only about 10% of the population now lacking access to safe water – and 20% to basic sanitation – large improvements are nonetheless also needed to increase quality of supply, and the number of hours it is available each week. High levels of inefficiency and consequent poor financial performance of the utility companies needs also to be corrected.

Energy

There are widespread shortfalls of supply in Sub-Saharan Africa. Reliability and efficiency of services are also both poor in most countries in Sub-Saharan Africa, and have been growing worse in a number of important countries for a variety of reasons. Access to affordable energy is often restricted to only a small minority of urban dwellers. Meanwhile, more investment is also needed in intra-country distribution networks.

Costs to business, in terms of lost/spoiled production, or the high investment and running costs for captive generation to reduce dependence on public supply are large; they often rank as one of the most important factors discouraging

business investment in a country.

Higher quality of power supply is now generally maintained in North Africa, but continuous investments are required to expand generation and transmission, and major rural electrification continues.

Transport services

Road network expansion and upgrading have both been inadequate in many countries, but an even more widespread problem, has been poor maintenance of existing infrastructure.

Sub-Saharan Africa's overland transport costs tend to be very high compared with those of many Asian developing countries. The premium is due partly to thin traffic on weak routes, and partly to inefficient management of maintenance and services. These problems inhibit the effective spread of economic growth and now tend to pinch worst at the levels of (a) trade routes for the landlocked countries, (b) farm/village-to-market roads whose reliability significantly affects the possibilities of shifting from subsistence to commercial agriculture, and increasingly (c) movement in the continent's rapidly growing major urban areas.

The middle-income countries of North Africa have more developed transport networks which they are able to keep in better balance with demand, but they also face the need for substantial upgrading of inter-country links to boost trade and economic integration.

In air transport, many Governments have shown reluctance to enforce agreed decisions, in particular Yamoussoukro which calls for an open skies policy and increased safety measures. Despite recent efforts from donors such as the EU, the World Bank and the US, the picture remains today quite grim. Many African air carriers are unable to become or stay profitable, inter-country connections are limited, freight

and passenger costs are high, and security is poor, resulting, for example, in the list of air carriers banned by the EU comprising mostly African-based companies.

African ports in Sub-Saharan Africa need upgrading and modernisation, especially if they are to play the role of regional hubs, an essential factor in the development of regional integration and trade with landlocked countries. Security standards of ships and ports also need to be targeted.

While railways could represent an economical and environmentally friendly means of transport, the situation, in particular south of the Sahara shows important deficiencies. The rail systems built before independences were often aimed at connecting resource-rich regions with ports, and do not represent solutions adapted to modern intra-regional trade and human flows. In addition, several gauge systems coexist, making regional interconnection difficult. Finally, under-maintenance has left the networks in a very poor state. Some plans are now being developed under NEPAD to reinvigorate and integrate the railways, with the support of the multilaterals. Concession of rail operators is also under way, with the help of the private arms of some ICA members.

ICT

Large-scale, and very profitable investment, has been undertaken over the last ten years in almost all the countries for the introduction of mobile telephone services. This work has been financed largely by the private sector.

A larger participation from public sources will probably be necessary in some of the future investments likely to be required, such as those in the creation of widespread the broadband infrastructure, and development of non-commercial e-services.

The costs of catching up

7. Efforts have been made to estimate the additional expenditures that would enable Sub-Saharan Africa to make a significant start on overcoming its infrastructure gap, and the share of these that might need to come from the international community. Most of the exercises have been for particular sectors or countries.

8. Research carried out in 2003-04 by Professor Sachs for the UN Millennium Project, calculated what it would cost to achieve, by 2015, "MDG-compatible" progress in energy, roads, water and sanitation. Work in three African countries, studied in depth, led to the conclusion that additional annual expenditures (from 2005 to 2015) of between \$32 and \$40 per person was required, of which around \$20 would need to come from donors. Applied to the whole of Sub-Saharan Africa, this equated to the need for **additional donor support of \$14 billion per year**.

9. A completely different approach, applying econometric relationships from past years to estimate what would be required to support a 7% GDP growth rate (indicative of the increase that would make it possible to meet the poverty-reduction MDG), led the World Bank in 2004 to conclude that Sub-Saharan Africa's investment in infrastructure would require an **additional \$10 billion per year**. (This additional \$10bn per year equates to approximately \$14 per person).

10. In 2004 the UK Government assembled a group of leading African politicians and political thinkers into an independent Commission for Africa, to reflect on the continent's situation and prospects, and to present a vision to the international community which would strengthen confidence between African and foreign

governments and reinforce their partnership for bringing about development.

11. The Report of the Commission for Africa broadly accepted the World Bank's analysis – an additional \$10 billion per year to 2010 from developed countries was needed. The Commission proposed doubling the \$10 billion per year from 2010, subject to review.

12. The report recommended a total annual increase in aid to Africa of \$25 billion. Infrastructure therefore accounted for 40% of the total called for, a significant amount.

13. The report of the Commission was an important input to the G8 Summit Meeting which took place at Gleneagles in Scotland in July 2005. The meeting gave renewed highest-level endorsement to earlier promises to scale up aid to developing countries and devote half the increase to Africa, thus doubling the annual flow of aid to the continent by 2010 from the base-year of 2004.

CHAPTER 2: Current Trends in Foreign Financial Support

Aid volumes

14. The volume of new commitments by ICA aid agencies to infrastructure in Africa increased strongly between 2005 and 2006, by nearly 10% on an Africa-wide basis, and by around 15% in terms of ODA flows to Sub-Saharan Africa. These conclusions emerge from data supplied by ICA members in response to a survey carried out by the ICA secretariat in December 2006. The aim was to build up an authoritative and comprehensive baseline set of data about commitments made in calendar year 2005 and to gather as complete a picture as possible of commitments in 2006.

15. For the four multilateral agencies involved (African Development Bank, European Commission, European Investment Bank and World Bank) and five of the seven bilateral agencies, the information generated was in the form of commitments approved for individual projects designed to meet infrastructure needs. All projects are listed in the Statistical Annex to this report.

16. Table 1 summarises the broad pattern of aid agency support for African infrastructure in 2005 and 2006 that emerges from the survey. ODA for Sub-Saharan Africa dominates the picture, and commitments reached over \$5.1 billion in 2006. Overall aid commitments to North Africa were held almost constant. The ODA increase for Sub-Saharan Africa resulted principally from the activities of the multilateral agencies.

17. Bilaterally, Japan and the USA stand out for their growing commitments to African infrastructure, directly funding both projects and studies.

Table 1 - Recent trends in commitments by ICA/OECD multilateral and bilateral agencies in support of infrastructure development in Africa (US\$ m)

Destinations:	North Africa		SSA - SA		S. Africa	All Africa	
Sources:	ODA	N-C	ODA	N-C	N-C	ODA	N-C
2005							
Multilateral	--	1,047	2,850	410	235	2,850	1,692
Bilateral	704	220	1,500	7	60	2,204	287
Total	704	1,267	4,350	417	295	5,054	1,979
2006							
Multilateral	--	1,388	3,800	255	375	3,800	2,018
Bilateral	538	--	1,325	35	--	1,863	35
Total	538	1,388	5,125	290	375	5,663	2,053

SSA – SA Sub-Saharan Africa excluding South Africa
 ODA Official Development Assistance
 N-C Non-concessional capital flows

Source: Calculated on the basis of the 2005 and 2006 project commitments (statistical annex). See table 7 in the statistical annex for details of the derivation of the data above.

18. If smaller OECD donors have been able to maintain their recent minimum 5% share of ODA commitments to Africa for infrastructure, then overall commitments in 2005 and 2006 will have been higher than shown in the table – by at least \$100 million in 2005 and \$200 million in 2006.

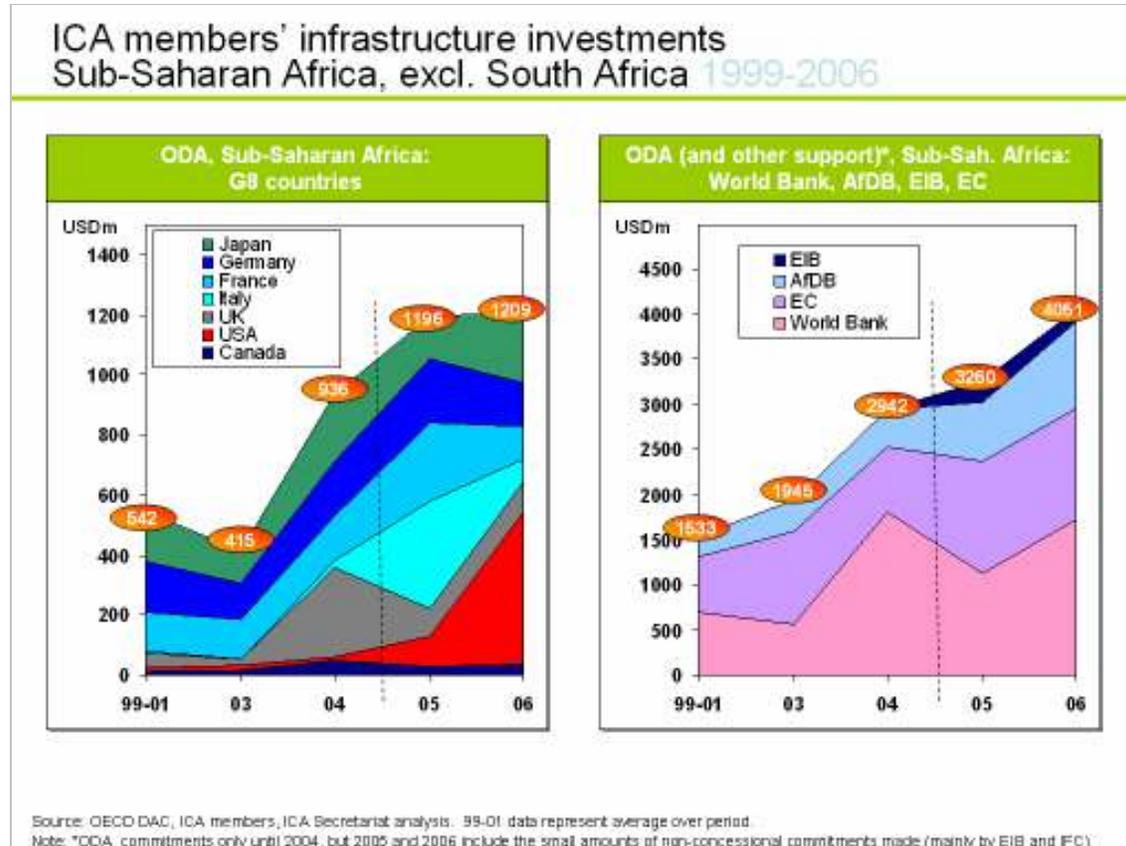
19. Since aid commitments can fluctuate from one year to another, it is important to try to see how the results suggested by the ICA survey compare with past trends. The OECD-DAC (Development Assistance Committee) has long collected detailed information from its member countries on annual ODA commitments: the main trends of the last ten years are summarised in tables 9 and 10¹ in the statistical annex.

20. At the broad level, the statistical series covering the previous decade indicates year-to-year fluctuations but little sign of growth before the year 2004, when ODA commitments to SSA rose to a peak well in excess of \$4 billion in 2004. Revised DAC figures, based on its new classification, reinforce this analysis.

21. In comparing ICA survey and new OECD-DAC data for 2005 we find ICA collected data to be some 25% above the DAC findings. The scale of the difference is not particularly surprising in view of the range and extent of classification dilemmas that arise. Discounting the 2006 ICA collected data by 25% would suggest that these commitments, when expressed in DAC terms, would have been about \$4.15 billion. This figure is significant because it would indicate that the greatly increased level of commitments reached in 2004 was not a flash in the pan but was repeated two years later. 2004 would appear to mark a shift to a notably higher equilibrium level of activity.

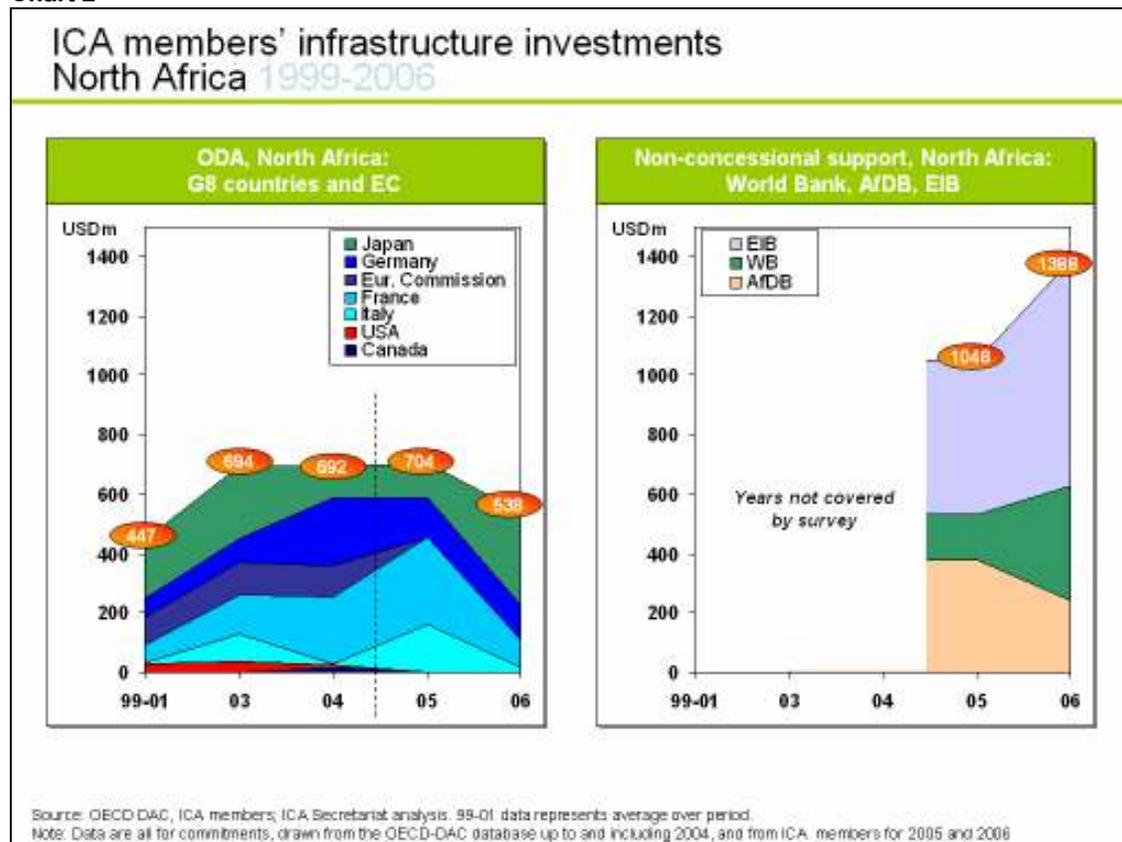
22. Charts 1 and chart 2 link ICA member's survey data (2005 and 2006) with OECD-DAC data (pre-2005). They include an important dotted line between 2004 and 2005 to denote the different data represented.

Chart 1



1 - OECD data has recently been changed by classification adjustments, but that work has not yet been brought down to the level of detail needed for this report.

Chart 2



23. Chart 1 demonstrates importantly that the strong growth of ODA to SSA in recent years, with both multilateral and bilateral support more than doubling since the year 2000. Around three quarters of funding continues to come from multilateral sources. The EC and the WB have more than doubled their support, while the AfDB has recorded a fourfold increase in commitments (from a lower starting value). The doubling of bilateral commitments is largely driven by major increases from the USA and Japan.

Are new commitments meeting the need?

24. One way to get an appreciation of the future progress towards fulfilment of the recommended basic infrastructure requirements of Africa is to express project

commitments made by ICA members in terms of the average amount per person in

each country in 2005 and 2006. As was seen in paragraphs 8 and 9, figures of an additional \$20 per person and \$14 per person, year on year, were recommended by the reports of the UN Millennium Project and Commission for Africa respectively.

25. Table 2 shows that the current levels of aid from ICA members in 2005 and 2006 remain very low in a majority of countries for which commitments were made. It is hard to assess the impact of recent increased commitments on countries such as Gabon and Senegal and a relatively few others, but it is reasonable to conclude that **very few of the countries can expect, in the short term, to receive the minimum additional capital flows that have been recommended.**

Table 2: Total infrastructure aid commitments per person in Sub-Saharan Africa from main ICA sources 2005-2006

	Country	Per cap. income 2003	Population 2003	ICA aid committed in 2005-06	Ave. ann. ICA aid per capita ²
		PPP\$	Millions	\$ millions	US \$
1	Zimbabwe	n.a.	13.1	13.5	0.5
2	Liberia	n.a.	3.4	75.1	11.0
3	Sierra Leone	530	5.3	95.6	9.0
4	Malawi	590	11.0	116.1	5.3
5	Tanzania	620	35.9	474.4	6.6
6	Burundi	630	7.2	115.0	8.0
7	DRC	660	53.2	376.8	3.5
8	Guinea Bissau	680	1.5	20.5	6.8
9	Ethiopia	710	68.6	1,283.3	9.3
10	Congo	730	3.8	62.8	8.3
11	Madagascar	800	16.9	272.9	8.0
12	Niger	830	11.8	212.8	9.0
13	Zambia	850	10.4	192.1	9.2
14	Nigeria	900	136.5	607.1	2.2
15	Mali	960	11.7	314.4	13.4
16	Eritrea	1,020	4.4	55.5	6.3
17	Kenya	1,030	31.9	403.2	6.3
18	Mozambique	1,060	18.8	430.5	11.4
19	Cent. Afr. Rep.	1,080	3.9	102.6	13.1
20	Chad	1,080	8.6	180.3	10.5
21	Benin	1,110	6.7	364.3	27.2
22	Burkina Faso	1,170	12.1	72.9	3.0
23	Rwanda	1,290	8.4	241.2	14.4
24	Côte d'Ivoire	1,400	16.8	8.6	0.3
25	Uganda	1,430	25.3	454.7	9.0
26	Senegal	1,620	10.2	658.3	32.3
27	Togo	1,640	4.9	9.9	1.0
28	The Gambia	1,740	1.4	97.6	35.0
29	Sudan	1,760	33.5	115.4	1.7
30	Mauritania	1,870	2.8	185.1	33.0
31	Angola	1,910	13.5	99.7	3.7
32	Cameroon	1,990	16.1	391.2	12.1
33	Guinea	2,080	7.9	145.3	9.2
34	Ghana	2,190	20.7	600.0	14.5
35	Lesotho	3,100	1.8	81.0	22.5
36	Swaziland	4,850	1.1	3.1	1.4
37	Gabon	5,500	1.3	129.5	45.8
38	Namibia	6,660	2.0	101.6	25.4
39	Botswana	8,370	1.7	5.5	1.6
40	Mauritius	11,280	1.2	13.0	5.4

Sources: World Bank (2005) World Development Indicators 2005. Washington, D.C. Calculations from Annex Tables to current report.

Multilateral initiatives

26. Multilateral institutions currently provide around 75% of total aid finance to African infrastructure projects.

27. Various developments of the last few years at the main multilateral agencies hold out promise of further reinforcement of their support for infrastructure in Sub-Saharan Africa in the coming years. The African Development Bank has just completed the first half of the three years covered by the 10th replenishment of the African

2 - The average of 2005 and 2006 data was taken so as to make it statistically more significant for each country. The averaged data will represent an increase in the commitments to some countries since 2004, when the data for the reports of the UN Millennium Project and the Commission for Africa were produced. Despite these increases the data illustrates are far from reaching even a minimum investment of \$14 to \$20 per person.

Development Fund, with 45% of commitments in this period being for infrastructure, much higher than in previous years.

28. The World Bank Group has made important efforts in recent years to substantially scale-up its financing for infrastructure in Sub-Saharan Africa. Contributing governments agreed in March 2005 on a 14th replenishment of IDA that was 25% above its predecessor (the largest expansion since the early 1980s). Half of the resources were to go to Sub-Saharan African. Infrastructure's share of IDA project commitments in Africa was to be raised to some 40% by fiscal year 2008 (compared with an average of about 34% under IDA 13). As a result, levels of IDA support have risen from \$600m in 2000 to an annual average of more than \$1,500m over the last three years. During the current year, 2007, IDA is expected to meet its target of allocating 40% of its African resources to infrastructure projects in excess of \$2 billion. Some cyclicalities can be observed in IDA funding, due to the tendency for resources to run out in the last year of the replenishment cycle, which prevents the full pipeline of projects for that year from being approved.

29. The European Commission has maintained strong and steady support for the transport sector in Sub-Saharan Africa and has taken a series of initiatives strengthening its role in other infrastructure sectors. Following the 2002 World Summit on Sustainable Development, the Commission developed an EU-ACP Water Facility and assigned to it €250 million of resources from the 9th European Development Fund. Additional funding has since been provided to the Water Facility and a similar Energy Facility has also been established and given €220 million.

30. For the future, the Commission hopes that the 10th European Development Fund (which would cover the period 2008-13) might be approved at a level 50% above that of the ongoing 9th EDF. If country requests were sufficient, infrastructure could probably continue to attract about a quarter of total funds, thus securing some €5.6 billion to sustain and expand all the above-mentioned programmes over six years.

31. The coming years are also expected to see rapid development of the EU-Africa Partnership on Infrastructure, which was created in 2005 to enhance Europe's support for the development of Africa's regional infrastructure. The Trust Fund set up as part of the Partnership will be used to subsidise loans, or otherwise facilitate financial packages, provided by European financial institutions (whether public or private). €60 million has been set aside from EDF 9 to start the Trust Fund, which will be used to soften loans in the region of €260 million provided by the European Investment Bank. In addition to the Commission, at least 6 EU Member States are expected to contribute to the start-up phase of the Trust Fund.

G8 bilateral donors

32. As regards the G8 members of ICA, are all deeply committed to helping Africa overcome its infrastructure gap, but few have set for their own financing objectives, as clear as those they insisted on getting from the multilateral agencies, in return for their financial support.

33. France maintains a substantial programme, with particular, but not exclusive emphasis, on the water sector and to urban planning and management.

34. Japan, despite a large drop in activity in the first half of the current decade, is making serious efforts to rebuild its programme, helping to fulfil its government's undertaking to double ODA to Sub-Saharan Africa between 2004 and 2008.

35. The USA continues with a substantial programme of technical assistance, which is now being complemented by increasingly substantial commitments to projects by the Millennium Challenge Corporation. The idea behind the operation of this body has been to work with countries to document good performance on a transparent set of indicators regarding the quality of economic management. Once this has been satisfactorily completed, substantial funding can be made available for implementation of "Compact" programmes worked up in the preparatory period. The programmes which have so far been proposed by many of the countries have had significant infrastructure elements. Increased commitments, to

further countries, are envisaged in the coming year or two.

36. Though it has greatly run down its earlier support for transport and energy, Germany maintains a significant programme in water and sanitation, and on occasion provides substantial help beyond that. It hopes to see a strong revival in the coming years of its activity in the energy sector.

37. Italy is seeking to rationalise its own past aid policies and is optimistic of being able to give increased support to the new EU Partnership for Africa and the African Development Bank.

38. The UK has largely reduced direct project funding, aside from the provision of some technical assistance, and is a key provider of budgetary assistance. It also is a significant contributor to several facilities set up to help prepare projects, and leverage private sector participation in infrastructure. Analyses of resource allocations indicate that infrastructure accounts typically for something close to 5% of the UK's bilateral aid expenditure for Africa.

39. Canada contributes little to the direct funding of infrastructure projects, and like the UK, provides some targeted technical assistance and support to project preparation. Canada also spends about 5% of its bilateral aid on infrastructure in Africa.

Emerging sources of finance

40. Beyond the OECD countries emphasised in the preceding pages and covered in the principal DAC aggregates, other countries have become much more important for Africa in recent years. The Arab and oil-producer funds and banks, which have provided longest-standing and most continuous support, are now more numerous and of larger scale. They have been joined by China and India, in particular, the Exim banks of both these countries.

41. Information collected on Arab and oil-producer institutions suggests that their commitments for infrastructure projects in 2005 amounted to about \$1,100 million for Africa as a whole, and some \$700 million for Sub-Saharan Africa. The Islamic

Development Bank, one of the most important of these institutions, recently announced a substantial enlargement of its planned activities.

42. Information provided by India Exim Bank indicates that the dedicated lines of credit it opened in support of African infrastructure projects amounted to nearly \$100 million in 2005 but \$600 million in 2006. The Bank also provided larger financial facilities to a wider range of countries in general credit lines which are also fully useable for purchases related to infrastructure.

43. Although there have been press reports of even larger commitments for African infrastructure from Chinese sources in the last few years, the government is not at present releasing any official figures. It has on the other hand given the Chinese Exim Bank a broad target of lending \$5 billion to Africa over the three years 2007-09, mainly on concessional terms, and with the expectation that a large part of this would be devoted to infrastructure-related purposes. China Development Bank, which disbursed some \$66bn for infrastructure related projects in China in 2005, is currently exploring investment opportunities in Africa.

The rise of private investment

44. The last two decades have seen a significant shift in all the world's main regions, developing and industrialised alike, towards more mobilisation of the private sector for provision and financing of infrastructure, increasingly on a cross-border basis. Africa compares weakly to other developing regions, though reflects the same phenomenon.

45. Private investment in infrastructure, much of it from outside Africa, now exceeds aid flows to infrastructure in total volume, as shown in chart 3³. On an Africa-wide basis, this has been the case since the late 1990s. In some years of the current decade it has applied too to Sub-Saharan Africa when taken separately.

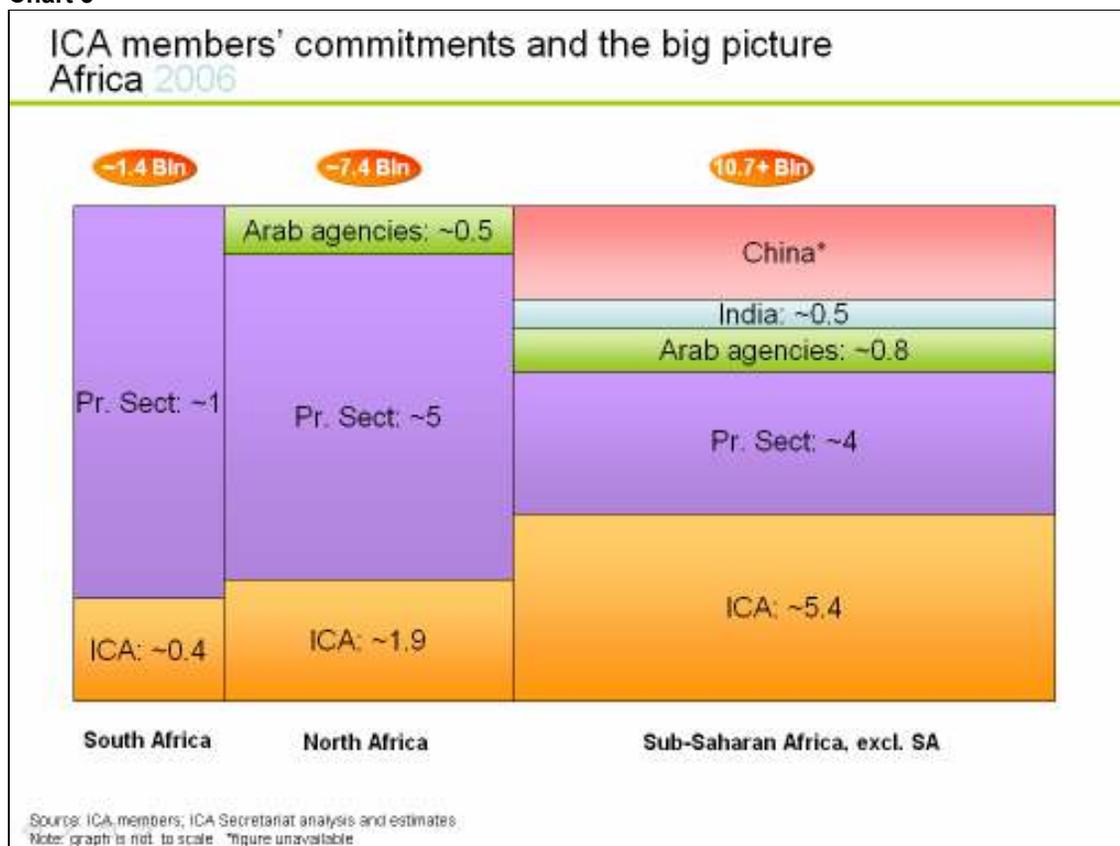
46. The middle-income countries of North Africa began to experiment, very cautiously in the late 1990s with the Asian approach of inviting private bidders to take responsibility

3 - The private investment figures include aid-agency investments in such projects, but the resultant double counting is not large enough to alter this picture.

for financing, building and operating a new installation, such as a generating plant, an airport or a mobile telephone service. South Africa had opened its telephone market and took major initiatives in the middle 1990s to interest the private sector, foreign as well as

domestic, in financing and managing toll roads.

Chart 3



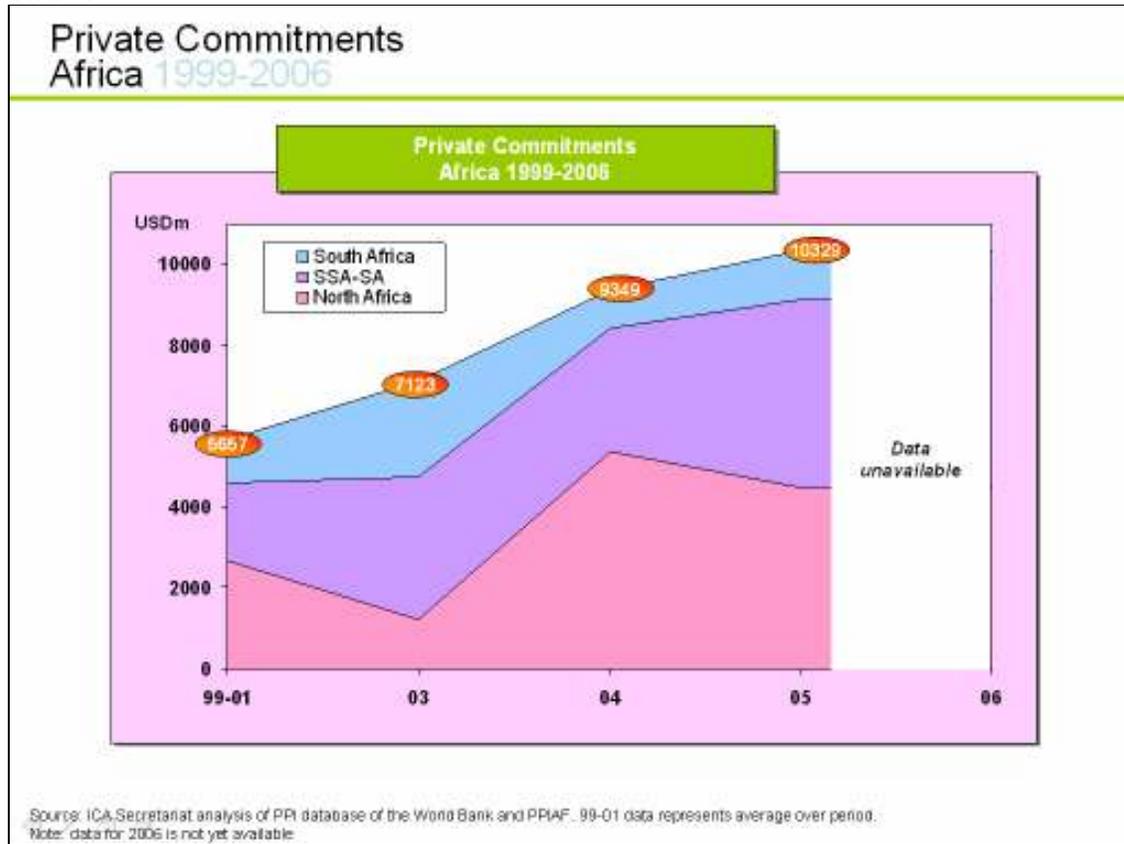
47. Elsewhere in Sub-Saharan Africa, contracts have been awarded to independent power producers, as in the North, but interest has also gradually spread in an approach to private-sector participation in the form of concessioning of an already existing enterprise, for a defined period (20-30 years is normal); this approach has been relatively successful in Latin America. Such concessions have been awarded for the operation and rehabilitation of African ports and railways and also some power distribution enterprises, but with financial commitments by the concessionaire companies that are usually quite small.

48. The limited scale of these types of investment reflects the often small profit margins on offer when set against long-term political risk and regulatory instability

concerns. Mitigation instruments developed by such bodies such as OPIC, MIGA and the World Bank have helped, but have not brought about wholesale change in the levels of private investment.

49. Chart 4 shows the recent growth of private flows. While investments in all parts of the continent have been dominated by ICT, and more particularly mobile telephone services, they are also gradually growing in the energy sector, especially power and gas, and within the transport sector to ports, railways and air operations. A notable development in 2005 was a major private investment in the water sector in the form of concessions won by Spanish companies for the construction and operation of several water desalination plants in Algeria.

Chart 4



CHAPTER 3: Current distribution of ICA support

50. This chapter summarises and discusses the sectoral and regional distribution of aid to African infrastructure, as it emerged from the ICA survey and data collection exercise undertaken. It focuses mainly on the financial contributions being made by ICA members with the most substantial infrastructure programmes, and is complemented with information on private capital support, and that from the Arab funds and banks and India.

Water supply and sanitation and water resource management

51. Table 3 shows that the total commitments reported by ICA members fell from some \$2.0 billion in 2005 to \$1.8 billion in 2006. The reduction was due to a fall in non-concessional lending to South Africa and the Maghreb countries. Funding for Sub-Saharan Africa (excluding South Africa), essentially all in ODA form, increased some 20% to reach more than \$1.4 billion. This increase is reassuring since the latest DAC figures indicate 2005 commitments to Sub-Saharan Africa for water 25% below those achieved in 2004.

Table 3 - Main sources of foreign assistance to the water & sanitation sector 2005-06 (US\$ m)

	AfDB	EU ⁴	WB	Japan	France	Germany	USA	Italy	ICA Total	Pri-Vate ⁵	Arab Fds.& India
2005											
North ⁶	--	--	98.0	72.3	39.0	38.8	200.0	84.5	532.6	510.0	85.0
West	37.8	116.9	207.2	41.5	15.0	18.8	--	--	437.2	--	45.9
Central	54.4	37.5	--	--	17.0	21.1	--	--	130.0	--	--
East	192.4	--	--	17.8	37.8	98.9	3.1	--	350.0	--	4.0
South	--	319.0	60.7	8.0	59.9	--	3.2	22.4	473.2	--	--
All-Afr	--	--	76.0	--	--	--	--	--	76.0	--	--
Total	284.6	473.4	441.9	139.6	168.7	177.6	206.3	106.9	1,999.0	510.0	134.9
SSA-SA	284.6	240.4	343.9	67.3	78.7	138.8	6.3	22.4	1,182.4	--	49.9
2006											
North	99.0	--	66.8	56.1	38.0	94.3	--	15.0	369.2	n.a.	31.2
West	81.3	67.7	348.5	21.3	22.2	10.9	0.7	--	552.6	n.a.	14.7
Central	18.6	21.2	25.0	4.5	23.7	35.8	--	--	128.8	n.a.	13.5
East	84.0	203.8	153.0	25.1	9.3	13.4	0.5	--	489.1	n.a.	53.0
South	30.5	106.1	23.3	7.3	--	14.0	0.5	51.3	233.0	n.a.	10.8
All-Afr	--	16.5	--	--	--	--	--	--	16.5	n.a.	--
Total	313.4	415.3	616.6	114.3	93.2	168.4	1.7	66.3	1,789.2	--	123.2
SSA-SA	214.4	415.3	549.8	58.2	55.2	74.1	1.7	51.3	1,420.0	--	92.0

4 - Includes EC and EIB data

5 - Data private-sector and Arab funds & India commitments in 2006 are underestimates as complete data was not available at time of writing.

6 - Details of the country membership of each region, as defined by the AU, are provided in the annexed tables. Expenditure on regional projects, involving more than one country, are all shown separately in the annexed tables. Here, however, they have normally been added to the totals for the sub-regions concerned, to provide a more complete picture of commitments for each sub-region. The row "All-Afr," for All-Africa, which appears after the sub-regions, is used only for expenditures that cannot be attributed to one or more sub-regions.

52. Our ICA figures suggest that the multilateral organisations – AfDB, EC and the World Bank – are playing a more dominant role in this sector than in earlier years. This in part reflects the successful and continuing EU-ACP Water Facility, and in part also, the close cooperation that has developed between the three organisations.

53. All three, though especially the World Bank and the African Development Bank, are increasingly coordinating their activities in order to maximise the impact of their assistance. The World Bank has identified 19 countries, which together account for 80% of Sub-Saharan Africa's population, and which it believed had reasonable chances of meeting MDG targets. To increase the contribution from its funds, the African Development Bank adopted in late 2003 a policy of emphasising, in particular, support for rural water supply, with a lower cost per person newly served than in urban areas. The two banks have prepared joint MDG assessments in more than 12 of the 19 focus countries, leading to the development of joint investment programmes, with shared

supervision visits and reporting requirements.

54. The scale of needs remains such that it is important for the bilateral partners not to reduce their level of activity (as comparison of 2005 and 2006 commitments suggest some did), but to play an expanded role in closer collaboration with multilaterals proach.

Energy

55. ICA members' committed in the region of \$1.9 billion in 2005 and \$2.4 billion in 2006 for energy projects – see table 4. In 2006 over 50% of commitment to SSA went to South Africa, leaving only around \$350m for the rest of the whole of SSA. This figure is very small given the power crisis which is affecting much of SSA.

56. Lending to the sector included a much higher proportion on commercial terms than in the case of water and sanitation, and therefore corresponds less closely with figures available on ODA flows except, to a degree, in the case of Sub-Saharan Africa. The Arab Funds and India are significantly more important contributors to this sector than for water.

Table 4 - Main sources of foreign assistance to the energy sector 2005-06 (US\$ m)

	AfDB	EU	WB	Japan	France	Ger- Many	USA	Italy	ICA Total	Private	Arab Fds.& India
2005											
North	377.5	356.0	52.6	45.7	--	93.6	--	--	925.4	400.0	151.0
West	13.6	13.0	265.3	--	19.0	4.6	3.8	23.6	342.9	626.0	112.5
Central	--	--	15.0	--	--	--	--	--	15.0	--	9.5
East	--	161.0	44.3	--	37.5	--	0.7	289.0	532.5	156.0	51.2
South	--	53.5	--	--	--	12.4	2.8	--	68.7	7.0	102.0
All-Afr	0.9	--	--	--	--	--	0.5	--	1.4	--	--
Total	392.0	583.5	377.2	45.7	56.5	110.6	7.8	312.6	1,885.9	1,189.0	426.2
SSA-SA	14.5	227.5	324.6	--	56.5	5.0	7.8	312.6	948.5	782.0	275.2
2006											
North	--	760.0	259.6	106.0	56.0	23.3	--	--	1,204.9	n.a.	233.0
West	--	48.3	157.2	14.1	--	8.8	4.7	--	233.1	n.a.	142.1
Central	75.0	--	89.0	--	--	--	--	--	164.0	60.0	--
East	127.7	--	193.4	--	10.0	--	0.7	--	331.8	n.a.	514.3
South	37.0	375.0	40.0	2.3	0.9	--	1.1	--	456.3	n.a.	53.5
All-Afr	--	--	--	--	--	--	0.3	--	0.3	n.a.	--
Total	239.7	1,183.3	739.2	122.4	66.9	32.1	6.8	--	2,390.4	n.a.	942.9
SSA-SA	239.7	48.3	479.6	16.4	10.0	8.8	6.8	--	809.6	--	702.9

57. While the figures suggest trends toward the emergence of the European Investment Bank as one of the principal financiers of Africa's power sector (with the World Bank and the African Development Bank handling most of the less creditworthy countries), direct bilateral involvement in the sector is very low indeed.

58. Besides capital contributions to regional projects, other energy initiatives which will warrant consideration by bilateral agencies concern modernisation of cooking fuels, a subject given much attention by the UN Millennium Project, and rural electrification. The experimentation needed to find the cooking-fuels and rural-electrification approaches, best suited to the needs of different areas, should be stimulated by the forthcoming project awards under the EU-ACP Energy Facility. Those projects in turn should provide the basis for expanded national programmes which would be suitable for bilateral support.

59. Significant proportions of 2005 and 2006 aid to the energy sector have been in the form of technical and capital assistance for the promising moves now underway in many parts of the continent, (though particularly in the power sector), toward greater regional cooperation – this is discussed in the next chapter.

60. In parallel to sector reform initiatives to strengthen the generally weak current performance of the large urban-focused utilities, some African countries have developed programmes to support expansion of power services in rural areas, often through the establishment of dedicated rural electrification agencies. In some cases, the focus has been on providing capital subsidies for unprofitable network extensions by incumbent suppliers, while preserving cost recovery principles for operation and maintenance. In other instances, the emphasis has been on promoting entry of new independent suppliers through competitive tendering of licenses for un-served rural areas.

61. Data on private-sector flows, unfortunately only available point for 2005, also demonstrates substantial financing, two-thirds of it going to SSA. Most of this funding was for generation capacity to be

introduced by independent power producers, notably in Nigeria, but also in Uganda, Tanzania and Senegal. Significant commitments were however also made in connection with the approach, which is newer to Africa, of concessioning the operation of existing plant and equipment, as evidenced by a distribution concession in Uganda, and combined generation, transmission and distribution concession in Cameroon.

Transport

62. Table 5 shows that commitments by ICA members for transport projects increased from about \$2.6 billion in 2005 to nearly \$3.2 billion in 2006. Commitments to Sub-Saharan Africa (minus South Africa) increased more than 30%, to reach \$2.8 billion in 2006. In this sector, unlike the others, bilateral commitments (principally from USA and Japan) have increased strongly, in line with increased multilateral funding.

63. The ICA commitments are supplemented, to the tune of some 10-20%, by those from the Arab banks and India. Private finance recorded in these years is quite limited in scale and linked entirely with port and railway concessionings in only a few countries (for example, Apapa wharf facilities at Lagos in 2005). As in the other sectors, the bulk of the financing from ICA sources is now provided by the three main multilateral agencies, with the EC a major player in the road sector.

64. An important initiative emerging – which contrasts significantly with more general trends – is for Japan to rebuild part of its infrastructure support to Africa by making substantial contributions to the financing of some of the projects led by the African Development Bank, including several of regional interest. A number of project commitments have already been made, and the Japanese government approval has been indicated as probable in others.

65. The African Development Bank has taken the initiative to encourage participation in some regional transport

projects from the Arab Banks, which have often undertaken co-financing operations in rather than with the main multilateral agencies.

the past, but normally with one another,

Table 5 - Main sources of foreign assistance to the transport sector 2005-06 (US\$ m)

	AfDB	EU	WB	Japan	France	Germany	USA	Italy	ICA Total	Private	Arab Fds.& India
2005											
North	--	163.0	--	--	256.0	--	--	74.4	493.4	86.2	188.0
West	180.8	503.0	94.0	19.1	75.1	12.5	81.6	--	966.1	400.2	234.0
Central	125.0	191.7	207.0	--	50.3	--	--	--	574.0	91.8	106.8
East	40.7	222.9	70.0	36.8	0.9	46.9	3.4	--	421.6	12.5	132.0
South	--	109.0	--	19.7	--	10.4	--	--	139.1	--	6.6
All-Afr	6.6	--	--	--	--	--	0.4	--	7.0	--	--
Total	353.1	1,189.6	371.0	75.6	382.3	69.8	85.4	74.4	2,601.2	590.7	667.4
SSA-SA	353.1	1,026.6	371.0	75.6	126.3	69.8	85.4	--	2,107.8	504.5	479.4
2006											
North	143.0	--	60.0	149.0	--	--	--	--	352.0	n.a.	277.0
West	122.3	129.8	143.7	21.6	19.0	8.0	496.6	--	941.0	n.a.	136.3
Central	85.0	218.6	39.0	0.1	--	5.0	--	--	347.7	n.a.	129.9
East	249.7	493.1	366.8	38.7	25.0	37.0	--	--	1,210.3	27.0	36.4
South	56.4	56.3	60.7	101.9	--	13.0	0.4	26.3	315.0	n.a.	23.7
All-Afr	--	--	--	--	--	--	1.9	--	1.9	n.a.	--
Total	656.4	897.8	670.2	311.3	44.0	63.0	498.9	26.3	3,167.9	27.0	603.3
SSA-SA	513.4	897.8	610.2	162.3	44.0	63.0	498.9	26.3	2,815.9	27.0	326.3

ICT

66. Table 6 provides data for 2005 only. ICA members did not report for 2006 significant new ICT activity, and there is, as yet, no systematic information about private investments. The table shows little donor financing in 2005, though resources from the private sector were significant.

67. In 2005 most ICA support came from the World Bank Group (including IFC), France (Proparco) and Italy for project investment; the United States and Canada funded technical-assistance and capacity-building activities. The only information available so far on 2006 concerns projects

to promote the use of electronic communication (in government, services to the public, education and trade), with IDA financing in Ghana and in Rwanda, and an IFC investment in a Nigerian company assisting internet use in university education.

68. The scarcity of recent new initiatives reflects the strong role played by the private sector. More than half the ICA's members are directly involved in development of the EASSy (Eastern Africa Submarine Cable System) project, and the EU-Africa Partnership on Infrastructure envisages priority to assistance for development of ICT infrastructure.

Table 6 - Main Sources of foreign assistance to the ICT sector 2005 (US\$ m)

	AfDB	EU	WB	Japan	France	Germany	USA	Italy	ICA Total	Private	Arab Fds.& India
North	--	--	--	--	20.0	--	--	--	20.0	3,474.0	--
West	--	--	40.0	--	--	--	7.6	--	47.6	2,397.1	--
Central	--	--	--	--	--	--	--	--	--	71.0	--
East	--	--	--	--	--	--	--	--	--	787.8	--
South	--	--	--	--	--	--	--	23.7	23.7	1,309.5	--
All-Afr	--	--	40.0	--	--	--	--	--	40.0	--	--
Total	--	--	80.0	--	20.0	--	7.6	23.7	131.3	8,039.4	--
SSA-SA	--	--	80.0	--	--	--	7.6	23.7	111.3	3,381.9	--

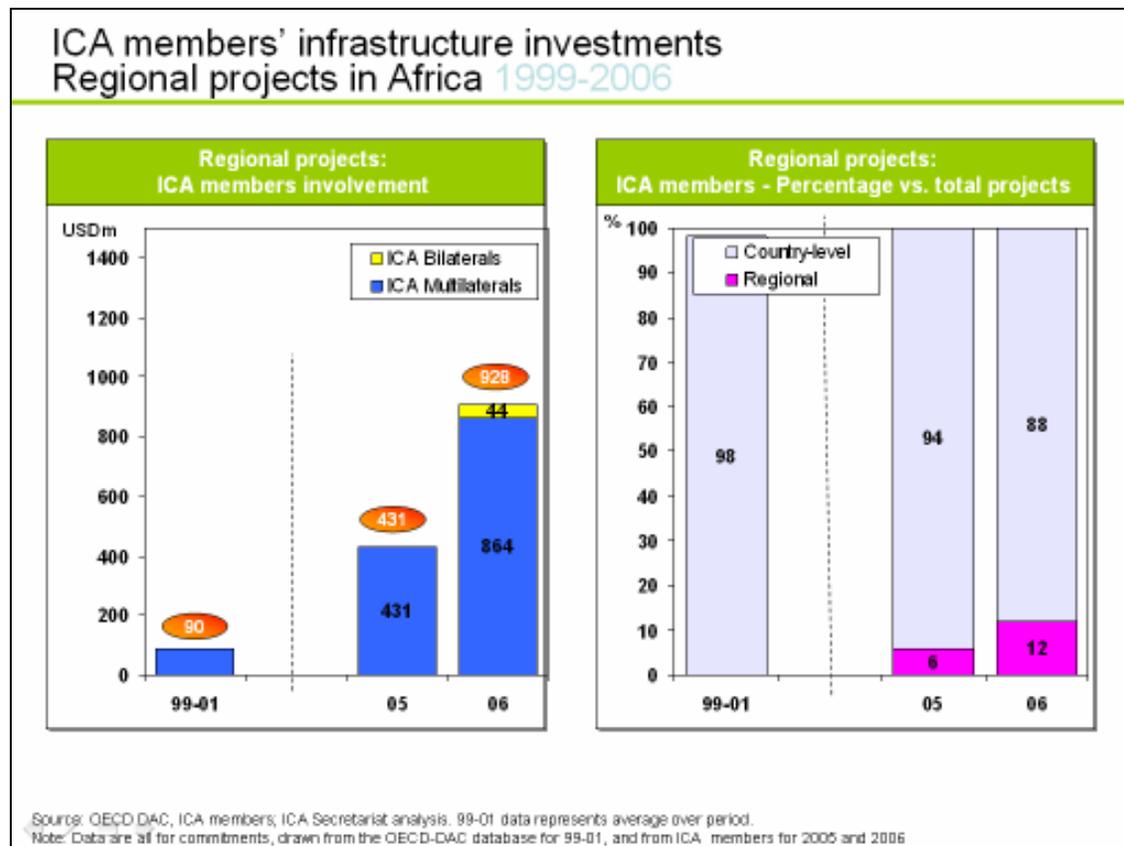
CHAPTER 4: Support for Regional Projects

69. One of the most important ways in which the NEPAD was intended to enhance Africa's infrastructure development was by substantially increasing the share of investment devoted to multinational projects. The ICA has also chosen to give particular attention to regional projects, not just new investment, but also helping to remove some of the bottlenecks to implementation and increased support to making existing infrastructure more efficient. A great deal more activity is now underway towards

improvement of inter-country infrastructure and services than was the case even only five years ago.

70. Many countries have responded to the NEPAD. Some real improvements have already been brought to fruition, as in consultation and planning among the countries participating in the Nile Basin Initiative, and in the actual functioning of some countries' main links to the sea.

Chart 5



71. Due to the expanded interest of national governments in multi-country projects and the strong response given by the ICA members, there are many more

projects underway, which can be expected to yield over time improvements in economic growth as a result of more reliable electricity supplies, more efficient

transport, cheaper gas, safer air services, etc. The results of the ICA survey show that, on an all-Africa basis, the share of annual infrastructure commitments by the ICA/OECD multilateral and bilateral agencies devoted to regional projects has risen from less than \$100 million in 2000 to over \$400 million (about 6% of the total) in 2005 and nearly \$1 billion, 12% of total commitments in 2006.

72. While the pace of progress towards improved cooperation across national frontiers has naturally varied among regions and among sectors, a momentum has developed and some things are moving. Southern Africa and West Africa have tended to be the pacemakers in many fields over the last decade or so. East Africa has developed much greater interest in recent years in redeveloping, on a more sustainable basis, the cooperation that existed among the core countries of the

region thirty years ago. North Africa continues to demonstrate steadily rising interest in regional cooperation, and wider support for similar initiatives appears now to be building in Central Africa.

73. Lead sectors in the move towards strong collaboration have tended to be energy, most widely electricity (especially the regional Power Pools), and overland transport and trade facilitation. Partly, but not only because of the link with electric power and the continent's large hydroelectric potential, initiatives have also been spreading in water resource management and river basin planning. The Senegal River Basin Water Resources Development Project for which an IDA Credit was approved in June 2006 is just one illustration – see box 1 – other important initiatives are on-going on the Niger, Zambezi and the Nile.

Box 1 - Senegal River Basin Multipurpose Water Resources Development Project

This complex \$110 million IDA multi-sector project is part of a ten-year programme in two phases involving Guinea, Mali, Mauritania and Senegal. It builds on previous World Bank assistance to the Senegal River Basin Authority (OMVS) that helped its member countries develop a common vision for regional cooperation to jointly develop and manage the Senegal River Basin. Member countries considered that water resources planning at the country level prevented realizing the full development opportunities offered by the basin.

The project's objectives are to modernize river basin institutions, facilitate regional water resources planning, management and development, expand regional multipurpose water resources infrastructure, mitigate health impacts from related water infrastructure and foster economic growth through collaborative basin development. A \$40 million malaria control 'boost' component is included in the project with a focus on control of the mosquito vector using insecticide-treated bed-nets, indoor spraying, and environmental management, mitigating malaria infection risk related to population movements; and partnership coordination and research and dissemination on malaria control. A direct benefit of the policy dialogue that accompanied project preparation was the return of Guinea to OMVS in May 2006. Guinea's absence from OMVS had constrained the possibility to develop the enormous hydropower potential of Guinea (6,000 MW) to help address the energy crisis impacting all OMVS member countries.

Expected outcomes from the project include improved institutional capacity for effective management of the basin, expansion of regional multipurpose water resources infrastructure to improve the livelihood of the population living in the basin, adoption of improved agro-forestry practices in basin communities and development of community fisheries. The project will also ensure that health impacts from water-related infrastructure are mitigated. The project targets 60% utilization of insecticide-treated bed-nets among children under five in the project areas and coverage of the Albendazole and Praziquantel regions to reduce the incidence of Schistosomiasis.

Source: World Bank (2006) Mid-Term Review of IDA14 Pilot Project for Promoting Regional Projects.

74. The scale of what has been started, especially in electricity and transport, is an impressive accomplishment on the part of many African institutions and governments.

The concerned sectoral institutions have to date generally taken the lead in developing the momentum successfully to design cooperative initiatives and work towards

their approval. But governments have also had important parts to play, in prioritising such projects, sometimes sacrificing narrower national interests, and adjusting schedules and procedures to fit with those of their neighbours.

75. The year 2006 saw very important steps towards further improvement of the processes for coordinating the design, selection and prioritisation of regional and continental projects. Agreement was reached on 5 September 2006 in Tunis at a meeting hosted by the AfDB on a new “Co-ordination Mechanism” which spells out the particular role of each of the main bodies concerned – AU Commission, NEPAD Secretariat, the Regional Economic Communities (RECs), and the African Development Bank – and proposes a mechanism to ensure better coordination and alignment among them, and with national governments.

76. Building on the REC capacity building work on-going by many ICA members, and recognising the importance attached to the issue by past meetings of the G8, Germany has proposed⁷ a REC capacity building initiative that will focus support on infrastructure facilitation and implementation. Details of how the initiative will link to existing sources of capacity building support, and how any fund set up under the initiative might operate, will be resolved in the run up to Germany’s G8 Summit in July.

77. Implementation of regional projects requires greater than normal assistance from donors and other partners. A review by the World Bank of its experience under IDA 14 notes that “processes to obtain

technical agreement on engineering specifications, terms of reference and bid requirements, are more involved when they bring together line ministries in different countries, and one or more regional body. Different national procedures for financial management and audit requirements add to challenges.

78. If regional projects are to be developed at the pace that Africa’s needs require then substantial additional aid will also be needed for their implementation. **Funding shortages have already become a major constraint on what the AfDB and WB are able to do in this field.**

79. In the replenishment negotiations in 2004, leading up to the 10th African Development Fund (covering mid-2005 to mid-2008), the donors responded to NEPAD’s emphasis on regional economic integration by allocating 15% of the funding envelope to regional projects. Intense competition for this envelope has developed among the different AfDB departments, all under pressure from member governments to support regional schemes, not just infrastructure. In 2006, when multi-country projects accounted for 40% of overall infrastructure lending – some \$270 million – the Bank had to postpone further action on \$1 billion of multinational road and electricity transmission projects that would otherwise be ready to move forward in 2007, for lack of finance – see Box 2. Tables 11 and 12 along with Maps 1 and 2 in the statistical annex provide an overview of the priority transport and energy projects of the African Development Bank.

Box 2 – Multinational projects in the AfDB’s 2007 lending programme requiring funding

	US\$ mn needed
Mauritania – Senegal: Rosso Bridge	85.0
Gambia – Senegal: Gambia River Bridge	85.0
Guinea – Guinea Bissau: Boké – Quebo Road	72.0
Nigeria – Cameroon: Enugu-Abakaliki-Mamfe-Ekok Road	100.0
Guinea – Senegal – Guinea Bissau: OMVG Interconnection	170.0
Zambia – Tanzania – Kenya: Transmssion Interconnection	360.0
DRC - Rehabilitation of Inga I and II Powerstations	160.0
	<u>1,032.0</u>

7 - All documents and presentations relating to the Annual Meeting of the ICA, Berlin, January 2007, are available at <http://www.icafrica.org/en/news-events/article/view/first-year-results-presented-at-icas-berlin-meeting>.

80. The situation is very similar for the World Bank's Africa Region. Regional lending will increase strongly from \$490m in 2006 to \$900m in 2007. However, as a result of this strong demand all IDA 14 regional resources for regional projects will have been exhausted in two years instead

of three as originally envisaged. As a consequence a pipeline of projects worth around \$1bn will currently go unfunded in 2008 – see Box 3 below.

Box 3 – Multinational projects in the World Bank's 2008 lending programme requiring funding

	<u>US\$ mn needed</u>
West Africa Power Pool Phase 3	100.0
Southern Africa Power Pool	110.0
East Africa Power Pool (Ethiopia/Kenya/Uganda transmission)	100.0
Niger Basin Phase 2	150.0
Southern Africa Trade and Transport Facilitation	130.0
Agriculture Science and Technology	50.0
Lagos Abidjan Trade and Transport Corridor	100.0
Regional Communications Infrastructure Programme APL2	<u>200.0</u>
	<u>940.0</u>

81. Although there is general agreement that the lead role in the provision of technical and financial support for multi-country projects is usually more easily fulfilled by multilateral agencies, given the scale of the challenges greater bilateral participation in the facilitation and financing of regional projects is desirable. Bilateral agencies could: scale up their technical assistance, and funding of studies in support of regional project concepts; offer more support to ensure that regional projects are embedded in country planning and budgetary processes; consider more direct co-funding of projects; and, as key shareholders of the multilateral institutions

advocate for more resources to regional projects.

82. One aspect of helping to attract more bilateral – and private – financial support for regional projects, is wider and faster dissemination of documentation, as it emerges, about projects under preparation. This was one of the points brought out by the one-day meeting on *“Financing Electricity for Growth in Africa”* organised by the ICA in Tunis, in December 2006. The NEPAD is working on a project database with technical help from the World Bank Group's MIGA agency. All stakeholders would benefit from a site which is up-to-date and relevant.

CHAPTER 5: Project implementation constraints

83. Development of infrastructure is restricted, of course, not only by lack of resources for investment, but also by various other constraints which can apply just as much in Africa as in other parts of the world. Indeed, one of the reasons for concern about non-financial constraints is the considerable evidence that non-effective efforts to relieve them in Sub-Saharan Africa in the 1970s and 1980s, probably led to low returns on major portions of the infrastructure investment undertaken at that time. This chapter looks briefly at key measures that need to be addressed to help improve the non-financial barriers for further significant infrastructure investment to occur.

Project preparation

84. Contrasting with the recent experience of the AfDB recounted in chapter 4, the adequacy of arrangements for the selection and preparation of infrastructure projects to a stage which would enable financial solutions to be considered continues to be a bottleneck. The technical institutions, both national and regional, that carry leading responsibilities in management of the infrastructure sectors still suffer from capacity limitations, but they are improving.

85. Many ICA members have responded, not only by increasing their own activities in project preparation, but by helping to set up dedicated facilities. Japan, Canada, France and the Development Bank of Southern Africa have all provided funding dedicated to advancing NEPAD projects. Germany is working with SADC to create a \$6 million fund to help finance the preparation of projects for its geographical area. The World Bank and the UK are large funders of a range of facilities with operations in Africa.

86. As well meaning and good as many of these facilities are, there does not exist a "one-stop-shop" where project sponsors can

go to get their projects prepared; this results in sponsors having to apply to often several different sources of finance to get various bits of their project prepared. This takes time, and is compounded by the fact that most funds set up with donor support offer little assistance to 'upstream' activities e.g. project scoping and prefeasibility studies, where money is at greater risk to zero outcomes on investment. The ICA Secretariat has recently produced a user guide to project preparation facilities⁸ currently operating in Africa, with the joint aims of helping with access to funding and improving collaboration between funds, which is currently very limited.

87. To help with collaboration the ICA Secretariat with the AfDB has helped organise, on an experimental basis for some sample projects, a so-called "tunnel of funds", in which different funding agencies will cooperate to agree on a division of responsibility for supporting the various stages of work necessary to produce projects that are ready for bidding out.

88. Given the large sums of up-front money required, typically between 2 to 6 per cent per project, the ICA has called on its members and African countries to do more to support project preparation, particularly upstream activities.

89. Private money will be needed to help fill much of Africa's infrastructure funding gap. A common complaint from the private sector is that there is a lack of well prepared projects; driven by profit margins, the private sector cannot expect that the public sector pick up the entire bill. In addition to increasing the information flow on projects, various efforts in financial, legal and contractual engineering need to be pursued jointly between countries, donors and the private sector; for example, the structuring of public-private partnerships.

8 -. Copies of the guide (in English and French) can be downloaded at www.icafrica.org/resources

Country capacity to implement projects

90. The agencies typically responsible for managing the implementation of infrastructure projects – works ministries, roads departments, railway corporations, power and water utilities – are transiting from traditional government-dominated bodies, with weak budgetary and contracting procedures, to agencies at arm's length from government or even largely privatised, whose performance is assessed against objective standards of service delivery and commercial performance. Traditional management practices and procedures unfortunately provided weak protection against poor governance and corruption.

91. Major institutional reforms such as delegation of responsibilities for managing the road network to an executive agency, corporatising utilities, concessioning major facilities, and organising local services within the framework of community-driven development, have proved quite effective in improving performance and are now fairly widespread. Such reforms also enable the aid agencies to raise their sights from the limited function of trying to ensure that the funding provided is indeed effectively spent on the works intended, and that they are delivered to the standards contracted, to helping develop capacities and procedures to ensure that a country gets the best results from all the resources available to the sector.

92. In countries which have given serious attention to improving the management practices applied in a given sector, some ICA members have been able to make good progress in harmonising their procedures and requirements and generally reducing the burdens they impose on country agencies. For instance, project implementation units (PIUs) are no longer supported by the main donors to the water and sanitation sector in Senegal, Tanzania, Uganda and Zambia; instead aid is channelled through government budgets.

93. Illustrative of the desired direction in the road sector is the Roads Sector Programme which was agreed between the Ethiopian Roads Authority (ERA) and its partners, including several ICA members. Consensus was reached not only on the large road investment plan, but also on performance objectives and the policy and institutional reforms required to meet the objectives. A major effort was made to harmonise practices (procurement, documentation, contract administration, financial, environmental and social impact management, monitoring of implementation results) among the different stakeholders. In Africa more generally, financing through budget support is beginning to be applied in the transport sector, but in a few cases (principally in East Africa) through general budgetary support.

94. While there continue to be individual cases where project execution, and hence aid disbursements, are much slower than they should be, there is little evidence to suggest that the scale or extent of the problem has increased and hence that the limits of effective implementation capacity are being reached. Information on the disbursement rates of ICA members is limited and the subject may warrant a study to help bring to light to any common patterns that may be emerging.

95. Despite advances, the capacity to implement regional projects often remains weak. For example, implementation of the in-country portion of a road, designed to span four countries, will often involve several government stakeholders. Donors and other financiers can find that there is a lack of ownership at the country-level resulting in long-implementation delays. Without a clear project sponsor in a country projects can fail to get properly embedded in planning and budgeting cycles. This problem is compounded when a country is expected to join others in financing a regional project but where the economic benefits to it are slim. Lack of ownership can also result in the poor flow of information about projects, with an obvious impact on stimulating potential investors.

Adequacy of maintenance and operation

96. Too often in the past works have been built at high cost, often to meet a political deadline, and then given no maintenance: rural water pumps that functioned no more than two years; even major roads that were so neglected that they had to be reconstructed at cost many times what should have been spent to maintain the surface in good condition.

97. Many of the institutional innovations discussed in all-Africa technical fora and propagated by donors – such as greater use of private contractors, inclusion of performance elements in contracts, creation of Roads Boards and Funds, mobilisation of community leadership – have been motivated in significant part by maintenance considerations. Policies and capacities have been strengthening in many countries and continue to do so.

98. In the road sector most countries, however, still lack the budgetary resources and the organisational capacities to carry out adequate maintenance of more than about half of the national road network; shortfalls are concentrated where roads fall under local government and municipal responsibility.

99. New forms of private participation should be able to make a more significant contribution. For example, long-term performance-based contracts, such as that in Nigeria where initial payment out of the Government budget's for road maintenance is gradually overtaken by toll revenues. In a further innovative approach under a recent IDA Credit to Kenya, arrangements have been made for a concessionaire to collect a toll on part of the Northern Corridor and take responsibility for maintaining, to defined standards, both that portion of the corridor and part of the Nairobi ring road (where direct tolling is difficult).

100. ICA members fully recognise the importance of not expanding infrastructures in Africa, as in any other part of the globe, beyond the capacities of the countries to organise and finance adequate maintenance. Serious efforts to develop adequate capacities for helping to maintain public infrastructure, and to provide a share

of the resources needed to sustain them, are very important parts of the governance agenda and of any notion of mutual accountability. The necessary financial resources will come from national budgets, aid flows, user charges, or taxation, or more likely, a combination. But they must flow and they must be efficiently used.

Inadequate cost recovery

101. The expansion of infrastructure services needs to be accompanied with measures to reduce their dependence on government subsidy, and make them more self-sufficient, when conditions allow.

102. Advancing the process of reform in the management of infrastructure is equally important as important as new resources to the sector, so as to reduce the future direct burden on government and donors.

Climate for private participation in infrastructure

103. Now that the capacity of the private sector to offer efficient and cost-effective infrastructure services has been better demonstrated and understood (e.g. private provision of services does not equal privatisation), the pace at which greater private sector participation develops will be a constraint on infrastructure investment and efficiency. This is evident from the comparative experience of different countries regarding development of their mobile telephone services over the last ten years, but it also applies to many other infrastructure services.

104. Two principal types of private investor are probably most important in the provision of infrastructure and infrastructure services. One is the major international company, and its underlying portfolio investors, who may consider making a large greenfield investment or even taking over, on a concession basis, a major existing investment – a highway, or a railway or energy system, for instance. The other is the local contractor, probably of medium to small size, who will anyway be setting the price/quality standard that the country is

achieving in construction and maintenance of most infrastructures, and who might be attracted into fixed investments in regional energy or water systems.

105. Attention has been steadily increasing over the last ten years to the development of regulatory institutions for the infrastructure sectors in Africa, and other dimensions of the investment environment. Mobile telephone providers have felt sufficiently confident to start operations in virtually all countries in Africa, though in some within a framework ensuring less competition than would have been desirable for consumers and the country's economy. In fields such as power distribution and the supply of water services, on the other hand, only few countries have yet been able to create the conditions that would attract either of the types of investor mentioned.

106. While both types of investor will be interested in all general aspects of the business climate, the make-or-break factors in their investment decisions will probably be significantly different – expropriation and foreign exchange risk for the international investor, likely transparency of contract award procedures and regulatory arrangements over the long term; precise division of risks with other parties involved, including insurers, will also be important. The local contractor will be concerned too with transparency of bidding procedures and fair regulation, but less with international comparisons, and more with local factors such as contract enforcement, honesty of supervision, timeliness of government payments, and the possibilities of equipment leasing. The cost-effective supply of raw materials is increasingly likely to impact on both types of investor.

107. Public sector promoters of projects need to give more thought to specific ways of allocating risk, and how these ways can be adjusted to suit the needs of different investors, while also benefiting governments, taxpayers and users.

108. The ICA Secretariat will shortly publish, with help of the Public-Private Infrastructure Advisory Facility (PPIAF), a user guide to available risk mitigation

instruments, with the aim of helping to increase knowledge about them and their utilisation.

CHAPTER 6: Conclusions and key ICA actions in 2007

109. ICA members' aid commitments for infrastructure projects grew strongly in 2006 compared with 2005. For Sub-Saharan Africa they appear to have reached the same high level as had been achieved in 2004, ending a prolonged period that had seen year-to-year fluctuations but no real growth. Strong support has also been maintained for North Africa, but on hardening terms

110. ICA member contributions to regional infrastructure projects more than doubled in 2006, however the overall level of finance remains relatively low.

111. Africa is drawing substantial support, which may grow further in coming years, from emerging new financial sources – the Arab and oil-producer funds and banks, long involved but now more important, China much more commercially active than in previous decades, and strongly increased interest from India.

112. Large-scale private-sector investment has continued to increase, in many countries in telecommunications, and in several Sub-Saharan countries in power generation, and now increasingly in the operation of power distribution and of further railway services.

113. Despite these increases it would seem that very few countries can expect in the immediate-term to receive the minimum additional finance for infrastructure recommended in the reports of the UN Millennium Project and the Commission for Africa.

114. It will be important to build support now to ensure replenishments of the ADF 11 and IDA 15 are of adequate size and give appropriate priority to infrastructure in Africa, and to regional projects.

115. Contributions by EU Member States to the EU-Africa Infrastructure Trust Fund will be a very important additional contribution to the support of regional and cross-border projects.

116. Given the scale of the need, the private sector arms of donors need to do more with African Governments to facilitate greater private sector investment.

117. African Governments have increased their interest, in the last five to six years, in developing infrastructure that will increase economic integration with neighbours. Substantial flows of multinational projects have resulted.

118. The selection and implementation of regional projects, and their coordination with other activities should benefit from the consensus reached in 2006 between African institutions on a new 'co-ordination mechanism' led by the African Union Commission, which clarifies their expected roles and responsibilities among them, and with national governments.

119. The capacity to manage the preparation, execution, maintenance and operation of infrastructure projects is increasing in some African countries. The lack of commitment by some African countries to developing sustainable infrastructure remains a barrier to increased donor and private sector finance.

120. Despite currently unfunded project pipelines at the AfDB and World Bank, there remains a lack of resources for upstream project preparation, resulting in lack of well structured and bankable projects. This is particularly the case for projects where a degree of private sector finance is desired i.e. public-private partnerships (PPPs).

121. Lack of project ownership at the country-level remains a barrier to the effective implementation of some projects, though particularly those which involve more than one country.

122. Substantial further improvements are needed at the country-level, particularly in terms of engraining sound national standards so firmly that they give donors and investors the confidence to provide broader support.

The case for African infrastructure in government and donor budgeting could be significantly strengthened by improvements in the results frameworks and measuring systems used in the various sectors.

123. Large-scale private-sector investment has continued to increase, in many countries in telecommunications, and in several Sub-Saharan countries in power generation, and now increasingly in the operation of power distribution and of further railway services.

124. Good measuring systems would identify problems and targets, and track progress.

Key ICA actions in 2007

125. ICA members, supported by its Secretariat, are working together at helping to provide solutions in response to the issues raised in this report. The following are just some of the activities to be undertaken by members and the ICA Secretariat in 2007.

126. Replenishment discussions in 2007, for IDA 15 and ADF 11, need to make a strong case for more money to infrastructure and, in particular, regional projects.

127. The EU-Africa Trust Fund, the financing instrument of the EU-Africa Partnership on Infrastructure managed by the EIB, which will channel EU contributions in support for regional and cross-border projects, is scheduled to commence operations in the spring of 2007.

128. Ways will be explored to deepen collaboration with China. Harmonising policies and procedures, along with seeking win-win results, are two areas that China suggested could be explored.

129. Germany will use their Presidency of the G8 in 2007 to ensure that the focus on Africa is maintained with particular emphasis on improving the investment climate and the removal of infrastructure bottlenecks.

130. A German proposal for a capacity building initiative for infrastructure at Regional Economic Communities will form

part of her Presidency of the G8. Members agreed to work together with Germany and African partners to help shape the initiative in advance of the G8 Summit in July.

131. Japan and the US will provide enhanced technical cooperation for REC's capacity to help increase the flow of bankable projects, with support to project preparation, help with coordinating project information with the relevant countries, and building consensus at regional and country levels.

132. The ICA Secretariat will organise a high-level meeting on transport with the aim of helping to increase the flow of private sector money to the sector.

133. Members will work to help ensure that information on current risk instruments is better available to the private sector. The ICA Secretariat will support this effort with a users guide.

134. Two ICA-backed studies will generate essential data on the state of infrastructure in Africa and help plot the way forward with implementing regional infrastructure projects.

135. The Africa Infrastructure Country Diagnostic (AICD) Study is sampling national level data across infrastructure sectors in 24 African countries, to generate a quantitative assessment of the state of Africa's infrastructure and creating a baseline to assess progress and address future needs.

136. The Medium to Long Term Strategic Framework (MLTSF) is the second phase of the NEPAD's infrastructure development objective. It will provide a strategic framework that will serve as the basis for defining, implementing and monitoring infrastructure development on the continent. Both studies are expected to finish reporting by early 2008.

137. The African Development Bank will develop a proposal, which will be submitted to members in the course of the year, for ensuring the development and sustainability of African infrastructure-related statistics.

About the ICA

The Infrastructure Consortium for Africa (ICA), a Gleneagles G8 commitment, is a major effort to accelerate progress to meet the urgent infrastructure needs of Africa in support of economic growth and development. It will address both national and regional constraints to infrastructure development, with an emphasis on regional infrastructure, recognising the particular challenges at this scale. However the Consortium will also engage at the country level, since most infrastructure services are addressed at the national level, within national budgets and implementation frameworks, and issues of harmonisation also need to be addressed at this scale.

The Consortium is a tripartite relationship between bilateral donors, multilateral agencies and African institutions, intended to make its members more effective at supporting infrastructure in Africa by pooling efforts in selected areas (such as information sharing, project development, and good practice). Although ICA is not a financing agency, the Consortium would act as a platform to broker more donor financing of infrastructure projects and programmes in Africa. The success of the Consortium will be judged by concrete action and outcomes, in terms of the quantity and quality of sustainable infrastructure services delivered to Africa's people, and the resultant development benefits.

To underpin the work of the ICA a Secretariat located in the African Development Bank has been established. Through the Secretariat, the Consortium collaborates closely with the African Union, its NEPAD programme, the Regional Economic Communities and the AfDB.