

INFRASTRUCTURE FINANCING TRENDS IN AFRICA - 2013





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Foreword	4
About the ICA	5
Definitions	6
Acronyms	7
List of Graphics	8
1. Key Messages and Findings	10
2. Financing Trends	12
2.1 The Big Picture	13
2.2 Who is Financing Africa's Infrastructure	14
3. Sectoral Analysis	16
3.1 Introduction	16
3.2 Transport	18
3.3 Water	20
3.4 Energy	22
3.5 Information and Communications Technology	24
4. ICA Member Financing	26
4.1 Introduction	26
4.2 Commitments and Disbursements	28
4.3 Trends in Commitments and Disbursements	30
4.4 Disbursements – Completed Projects	31
4.5 Trends in Regional Infrastructure Portfolios	32
4.6 Hard and Soft Infrastructure	34
4.7 Project Preparation	36
4.8 Strategic Outlook	37
5. Other Public Sector Financing	38
5.1 Introduction	38
5.2 China	40
5.3 Arab Co-ordination Group	42
5.4 European sources	44
5.5 African National Budgets for Infrastructure	46
5.6 Other Sources of Finance	48
5.7 Regional Development Banks	49
6. Private Sector Financing	50
6.1 Introduction	50
6.2 PPI Projects Database	51
6.3 Private Sector Survey: Investment Considerations and Risk	52
6.4 Private Sector Survey: Project Preparation Challenges	53
6.5 Countries Most Attractive for Investment	54
6.6 Private Sector Survey: Market Trends	55
7. Regional Infrastructure Projects	56
7.1 African Priorities	56
7.2 PIDA Priority Action Plan	57
8. Economic Impact of Infrastructure Financing	58
8.1 Economic Growth Trajectories	58
8.2 Limiting and Enabling Factors including Infrastructure	59
9 Feature Articles	60
9.1 The Impact of Government Reforms	60
9.2 Innovative Infrastructure Financing	62
9.3 Infrastructure for Extractive Industries	64
9.4 International collaboration in infrastructure projects	66
Annexes	67

Foreword



African and wider international concern to help the continent eradicate extreme poverty and integrate its diverse and growing economies into the global market is finding expression in initiatives to accelerate the construction of energy, information and communications technology (ICT), transport, and water and sanitation infrastructure. It was to promote these much-needed outcomes that the Infrastructure Consortium for Africa was created, and the ICA Annual Report 2013 shows that progress is being made in channelling more finance from regional actors, as well as international institutions, to strategic and sustainable projects.

The ICA Annual Report 2013 shows that a recovery of infrastructure financing continued for a second consecutive year, as reported by ICA members and from research by the ICA Secretariat into other public and private sector actors' funding flows during 2013. ICA members reported commitments of \$25.3bn (up 35% compared with 2012) and disbursements stood at \$11.4bn (down 10%).

The extent that international focus is shifting towards solving the problem of gaps in Africa's infrastructure is underlined by the attention now given to the continent's energy, ICT, transport and water sectors by senior leaders. It is reflected in an ever-growing number of initiatives – from the innovative Africa50 fund to help underwrite commercial infrastructure projects

developed by the African Development Bank and the African Union's potentially transformative Programme for Infrastructure Development in Africa (PIDA) to the United States' Power Africa initiative, a range of European Union programmes and funding from China and other non-ICA member states, plus the United Nations-led global Sustainable Energy for All (SE4All) initiative. As the report shows, Power Africa is making progress in meeting the initiative's initial goals of increasing energy access in sub-Saharan Africa.

Reflecting global concern at the very low levels of access to clean and sustainable energy in many parts of Africa, it is not surprising that the energy sector accounted for the largest share of ICA members' reported commitments in 2013 (52%) as a number of initiatives gathered pace. Energy was followed by transport (21%) and water and sanitation (20%).

The ICA has developed as an instrument to help direct stakeholders towards strategies that will allow even more projects to leave the drawing board than before – when, in many sectors, progress was too slow and limited to satisfy existing, let alone pent-up, demand.

The ICA has long argued the need for early-stage funding (for feasibility studies and detailed design) – a preoccupation for all stakeholders who have spent so much time in feeding data and ideas into the ICA Annual

Report 2013. These sources have previously pointed to issues such as lack of adequate project preparation facilities as critical problems. By highlighting the problems, they can be addressed – and the available data suggests this is now the case, even if much more remains to be done.

To promote these goals, the ICA in June 2014 launched the Project Preparation Facilities Network (PPFN), an alliance of funding facilities dedicated to sustainable infrastructure in Africa, and its membership points to the diversity of major players (*see box, opposite*). The PPFN's creation reflects the concern of the ICA and its members to better understand – and overcome – the technical and policy blockages that can halt the implementation of even the best-designed infrastructure development projects and programmes. The ICA Annual Report 2013 includes input from a large number of private sector stakeholders – who have kindly completed detailed questionnaires outlining their preoccupations and concerns about the project preparation and implementation cycle, risk mitigation and other issues – as well as from public sector member and non-member institutions. This valuable feedback will contribute to overcoming the blockages that have done so much to hold Africa back in the previous five decades, but whose resolution offers the continent such promise in the next 50 years. ■

The Infrastructure Consortium for Africa (ICA)'s mission is to help improve the lives and economic wellbeing of millions across the continent, by supporting the scaling up of investment for project development from public and private sources.

With a focus on regional as well as country-specific initiatives, the ICA helps to facilitate infrastructure development in the water, transport, energy and ICT sectors. This is in recognition of the fact that many African countries lack the essential building blocks of economic progress, such as well-maintained roads and railways, access to electricity, the Internet, drinking water and sanitation.

The consortium is not a funding agency. Rather, it is intended to catalyse and facilitate the financing of African infrastructure projects and programmes, and works to help

remove some of the technical and political challenges to make it easier to build more infrastructure.

Practical help is also a focus for the ICA, which recently established a Project Preparation Facilities Network (*see below*), and ran a workshop on Power Purchase Agreements (PPAs) for renewable energy (*see page 22*).

The ICA Knowledge Center has also been established as an information-sharing database, holding and publishing documentation in the key areas of energy, transport, water, ICT and general infrastructure.

The ICA has strong backing. Its bilateral members include the G8 countries: Canada, France, Germany, Italy, Japan, Russia, the United Kingdom and United States. The Republic of South Africa became the first G20 member of the ICA in

December 2013. Multilateral members include the African Development Bank Group, European Commission, European Investment Bank, Development Bank of Southern Africa and World Bank Group.

Increasingly, the ICA is working to improve the co-ordination of activities among members, as well as between members and other significant sources of infrastructure finance, including China, India, Arab/Islamic financiers (who form the ICA's Arab Co-ordinating Group), African regional development banks and the private sector.

The ICA has a particular focus on regional programmes and projects. In the ICA's Strategic Business Plan 2014-16, the African Union's Programme for Infrastructure Development in Africa (PIDA) is the central focal point of ICA regional programme activities. ■

Project Preparation Facilities Network

The ICA hosted a two-day inaugural meeting of the Project Preparation Facilities Network (PPFN) in Tunis on 17-18 June. The goal of the meeting was to establish a 'network' of Project Preparation Facilities (PPFs). It was a resounding success, and brought together the leading PPFs.

Representatives at the meeting included those from Africa50 Infrastructure Fund, European Union-African Infrastructure Trust Fund (EU-AITF), IFC InfraVentures, DBSA, NEPAD Business Foundation, COMESA's Project Preparation and Implementation Unit (PPIU), ECOWAS' Project Preparation and Development Unit (PPDU), Public-Private Infrastructure Advisory Facility (PPIAF), Sustainable Energy Fund for Africa (SEFA), African Water Facility (AWF) and the African Development Bank.

They deliberated over the establishment of PPFN, designed a work plan on areas of co-operation and a road map for the future.

Participating institutions felt that the establishment of the PPFN was timely and reflected the crucial need to co-ordinate funding of the project preparation phase of programmes such as the Programme for Infrastructure Development in Africa.

They agreed on areas of collaboration and co-operation, including sharing case studies and best practice, and sharing information on project pipelines to assess opportunities for co-financing. ■

Opening Up Aviation Services in Africa

The ICA-commissioned *Study to Assess the Potential for Enhanced Private Participation in the Maritime and Air Transport Sectors in Africa* highlighted the potential impact of private capital and capabilities on the development of those sectors. The 2012 study also identified issues that constrain or discourage private sector involvement.

The ICA subsequently commissioned a two-phase study, *Opening up of Aviation Services in Africa*, aimed at assisting African stakeholders to promote efficient aviation services. Phase one assessed the state of liberalisation policies and implementation, demand and supply dynamics, hubs and fares, taxes, fees and charges with the objective of addressing the barriers to an effective pan-African aviation sector.

The study defined the fundamental problem faced by the industry as "the lack of convenient, safe and affordable air travel" caused by the inadequate supply of flights and seats, high fares and poor safety. It identified the potential problem areas to be addressed as: legal and administrative changes, infrastructure enhancements, taxation changes and aircraft financing.

Phase two of the study centred on demonstrating the benefits of liberalising the air transport sector, as well as options and practical steps for governments and other stakeholders to achieve such liberalisation.

The study and other ICA publications are available at: www.icafrica.org/en/knowledge-publications/introduction. ■

Definitions

Budget Data

Budget allocations: Total approved government budget for the respective item.

Total infrastructure budget: Sum of energy, water and sanitation, transport, and ICT budget allocations. Where available, significant multi-sector or other infrastructure allocations are indicated separately.

ICA Members

AfDB, DBSA, EC, EIB, G8 countries, Republic of South Africa and the World Bank Group. In 2011 all G20 countries were invited to join the ICA. The AU Commission, NEPAD Secretariat and Regional Economic Communities participate as observers at ICA meetings.

Infrastructure

Total infrastructure budget: Sum of energy, water and sanitation, transport, ICT, and multi-sector infrastructure budget allocations.

Hard infrastructure: Physical infrastructure.

Soft infrastructure: Measures to support or accompany the production of physical infrastructure outputs, including research, enabling legislation, project preparation, capacity building.

Project preparation: The undertaking of all project preparation cycles or development activities necessary to take an infrastructure project from identification through concept design to financial close. This includes feasibility testing and financial and legal structuring, as well as raising capital.

Funding

Commitments: Direct funds approved in a given year to projects over their lifetime.

Disbursements: Money outflow

going to infrastructure projects during a given year.

ODA (Official Development Assistance): Grant or loan with public concessional modalities administered by donor government agencies.

Non ODA: Non-concessional funding from public or private sources.

Regional project: Projects with direct beneficiaries in more than one country. They can either be cross-border projects or other regional integration projects involving a minimum of two countries or national projects.

Location

North Africa: Algeria, Egypt, Libya, Mauritania, Morocco, Tunisia.

West Africa: Benin, Burkina Faso, Cape Verde, Gambia, Ghana, Guinea, Guinea Bissau, Côte d'Ivoire, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo.

Central Africa: Burundi, Cameroon, Central African Republic, Chad, Congo, Democratic Republic of Congo, Equatorial Guinea, Gabon, Rwanda, São Tomé and Príncipe.

East Africa: Djibouti, Eritrea, Ethiopia, Kenya, Seychelles, Somalia, South Sudan, Sudan, Tanzania, Uganda.

Southern Africa excluding RSA: Angola, Botswana, Comoros, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Swaziland, Zambia, Zimbabwe.

RSA: Republic of South Africa.

Regional Development Banks

Central African States Development Bank (CASDB), DBSA (an ICA member), EBID, EADB, West African Development Bank (BOAD).

Sector

Transport: Airports, ports, rail, road.

Energy: Generation, transmission and distribution of electricity and gas (including pipelines, and associated infrastructure).

Water and sanitation: Sanitation, irrigation, (trans-boundary) water resource infrastructure, water supply, waste (solid & liquid) treatment and management.

ICT: Information and communication technology, including broadband, mobile network, satellite.

Multi-sector: Not sector specific or cross-cutting projects. This could include implementation of a PPP unit or capacity building programmes.

ADF – African Development Fund	EIB – European Investment Bank	PIDA – Programme for Infrastructure Development in Africa
ADFD – Abu Dhabi Fund for Development	EU-AITF – European Union-African Infrastructure Trust Fund	PIDA-PAP – PIDA Priority Action Programme
AFD – Agence Française de Développement (France)	EXIM – Export Import Bank	PPA – Power Purchase Agreement
AfDB – African Development Bank	G8 – Group of Eight (Canada, France, Germany, Italy, Japan, Russia, UK, US)	PPDU – ECOWAS' Project Preparation and Development Unit
AFESD – Arab Fund for Economic and Social Development	G20 – Group of 20 (Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, South Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, UK, US and the EU)	PPFN – Project Preparation Facilities Network
AMCOW – African Ministers Council on Water	GIZ – Deutsche Gesellschaft für Internationale Zusammenarbeit	PPIAF – Public-Private Infrastructure Advisory Facility
AU – African Union	IBRD – International Bank for Reconstruction and Development	PPIU – COMESA's Project Preparation and Implementation Unit
AWF – African Water Facility	ICA – Infrastructure Consortium for Africa	PPP – Public-Private Partnership
BADEA – Arab Bank for Economic Development in Africa	ICT – Information and Communications Technology	Proparco – French Investment and Promotions Company for Economic Co-operation
BDEAC – Banque de Développement des Etats de l'Afrique Centrale	IDA – International Development Association (World Bank Group)	PV – Photovoltaics
BIDC – Banque d'Investissement et de Développement de la CEDEAO (EBID)	IDB – Islamic Development Bank	RAPs – Resettlement action plans
bn – 1 billion = 1,000,000,000	IDC – Industrial Development Corporation of South Africa Limited	RECs – Regional Economic Communities
BIO – Belgian Investment Company for Developing Countries	IFC – International Finance Corporation (World Bank Group)	RSA – Republic of South Africa
BOAD – Banque Ouest Africaine de Développement	IPP – Independent Power Producer	SADC – Southern African Development Community
CADF – China-Africa Development Fund	IPPF – Infrastructure Project Preparation Facility	SEFA – Sustainable Energy Fund for Africa
CAGR – Compound annual growth rate	ITF – Infrastructure Trust Fund	SFD – Saudi Fund for Development
CAR – Central African Republic	JICA – Japan International Cooperation Agency	SME – Small- and medium-sized enterprise
CASDB – Central African States Development Bank	KFAED – Kuwait Fund for Arab Economic Development	SSA – Sub-Saharan Africa
CIF – Climate Investment Fund	KfW – KfW Development Bank (Business Area of KfW Group, Germany)	TA – Technical Assistance
COFIDES – Spanish Development Funding Company	LIC – Low-income country	UEMOA – West African Economic and Monetary Union
COMESA – Common Market for Eastern and Southern Africa	m – 1 million = 1,000,000	UNECA – United Nations Economic Commission for Africa
CSP – Concentrated Solar Power	MCC – Millennium Challenge Corporation	UAE – United Arab Emirates
DBSA – Development Bank of Southern Africa	MDB – Multilateral development banks	UK – United Kingdom of Great Britain and Northern Ireland
DEG – Deutsche Investitions- und Entwicklungsgesellschaft (KfW Group)	MW – Megawatt	US – United States
DFI – Development Finance Institution	NEPAD – New Partnership for Africa's Development	\$ – US dollar
DFID – UK Department for International Development	NTF – Nigeria Trust Fund	USAID – United States Agency for International Development
DRC – Democratic Republic of Congo	OCGT – Open Cycle Gas Turbine	USTDA – United States Trade and Development Agency
EAC – East African Community	ODA – Official Development Assistance	WACDEP – Water, Climate & Development Programme
EADB – East Africa Development Bank	OeEB – Development Bank of Austria	WAPP – West African Power Pool
EAPP – Eastern African Power Pool	OFID – Organisation of the Petroleum Exporting Countries (OPEC) Fund for International Development	WBG – World Bank Group
EBID – ECOWAS Bank for Investment and Development	OPIC – Overseas Private Investment Corporation	WP – Water Platform
EC – European Commission	PFM – Public Financial Management	WSP – Water and Sanitation Programme
ECA – Export Credit Agency		
ECOWAS – Economic Community Of West African States		
EDFI – European Development Finance Institutions		
EDF – European Development Fund		

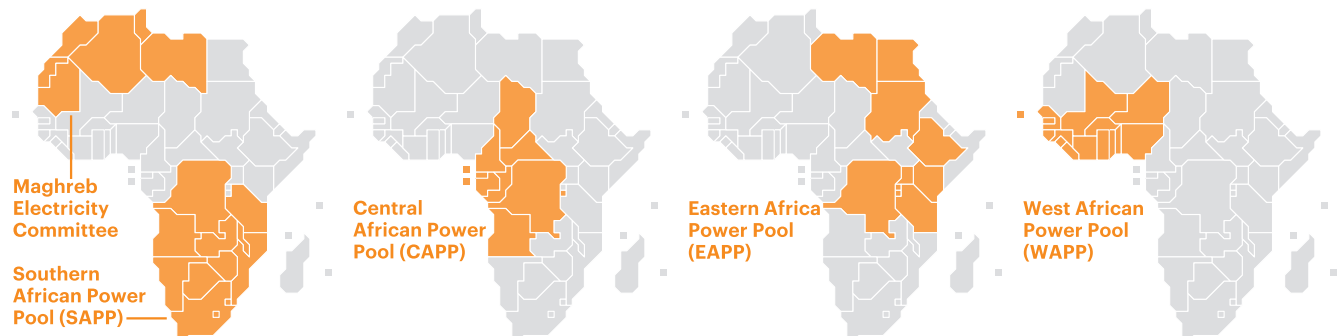
List of Graphics and Maps

Figure 1: ICA members' commitments & disbursements, trends	10	Figure 44: Arab Co-ordination Group: projects and commitments, 2012 and 2013	42
Figure 2: ICA members' commitments by sector, 2013	10	Figure 45: Arab Co-ordination Group commitments 2009-2013	43
Figure 3: ICA members' commitments by ODA/non-ODA, 2013	10	Figure 46: Arab Co-ordination Group commitments by sector 2012 and 2013	43
Figure 4: ICA members' disbursements by sector, 2013	11	Figure 47: Total commitments to Africa for selected non-ICA European countries, 2013	44
Figure 5: Private Participation in Infrastructure (PPI) Projects investment, 2010-2013	11	Figure 48: Total infrastructure commitments for selected non-ICA European countries, 2013	44
Figure 6: ICA commitments and disbursements, 2011-2013	13	Figure 49: Comparison of 2013 commitments by selected European ICA members and non-ICA European countries	45
Figure 7: Non ICA major commitments, 2011-2013	13	Figure 50: Trends in infrastructure allocation 2011-2013	46
Figure 8: Private commitments by sector, 2011-2013	13	Figure 51: National budget allocations per capita	47
Figure 9: Financing flows into Africa's infrastructure, 2013	14	Figure 52: Percentage of GDP allocated to infrastructure in national budgets	47
Figure 10: Who is financing Africa's infrastructure in 2013	15	Figure 53: India – total commitments by sector 2013	48
Figure 11: Geographical sources of finance, 2013	15	Figure 54: South Korea – total commitments by sector 2012	48
Figure 12: Asian sources, 2013	15	Figure 55: Brazil – Total commitments by sector 2012	48
Figure 13: The Americas, 2013	15	Figure 56: Total DBSA commitments by sector, excluding RSA, 2013	49
Figure 14: European bilateral sources, 2013	15	Figure 57: DBSA commitments to RSA by sector, 2013	49
Figure 15: African infrastructure commitments by sector, 2013	17	Figure 58: Total BOAD commitments by sector, 2013	49
Figure 16: ICA members' commitments by sector, 2013	17	Figure 59: Total EADB commitments (infrastructure and non-infrastructure) by sector, 2013	49
Figure 17: ICA members' disbursements by sector, 2013	17	Figure 60: PPI Projects Database – Total private investment by sector and region, 2009-2013	51
Figure 18: ICA funding to the transport sector, 2009-2013	18	Figure 61: Top considerations when deciding to invest	52
Figure 19: ICA funding to the water sector, 2009-2013	20	Figure 62: Risks that must be mitigated in order to secure financing	52
Figure 20: ICA funding to the energy sector, 2009-2013	22	Figure 63: Measures used to mitigate risks	52
Figure 21: ICA funding to the ICT sector, 2009-2013	24	Figure 64: Challenges in implementing infrastructure projects	53
Figure 22: ICA members' commitments by sector, 2013	26	Figure 65: Challenges in organising finance	53
Figure 23: ICA members' commitments by type of funding, 2013	27	Figure 66: Most important factor causing bottlenecks in project preparation	53
Figure 24: ICA members' commitments by region, 2013	27	Figure 67: Countries most attractive for investment	54
Figure 25: ICA members' commitments by region, 2013	28	Figure 68: Greatest challenge facing private sector participants	55
Figure 26: ICA members' disbursements by region, 2013	28	Figure 69: Use of project finance, corporate finance and donor finance	55
Figure 27: ICA members' commitments by sector and region	29	Figure 70: Revenue from African infrastructure: change from 2012-2013	55
Figure 28: ICA members' disbursements by sector and region	29	Figure 71: African portfolio intentions over the next five years	55
Figure 29: ICA commitments by sector and region, 2010-2013	30	Figure 72: Internal Rate of return on African infrastructure investments, anticipated and actual	55
Figure 30: ICA members' disbursements by sector, 2012-2013	30	Figure 73: Economic global economic outlook to 2018	59
Figure 31: Relation between commitments and disbursements for projects completed in 2013, by sector	31		
Figure 32: ICA members' regional portfolios, 2010-2013	32		
Figure 33: PIDA/PAP and other regional commitments and disbursements by sector, 2013	33		
Figure 34: ICA members' hard and soft infrastructure commitments, 2013	34		
Figure 35: ICA members' hard and soft infrastructure disbursements, 2013	34		
Figure 36: Index of ICA members' hard infrastructure commitment trends, 2010-2013	35		
Figure 37: Index of ICA members' soft infrastructure commitment trends, 2010-2013	35		
Figure 38: ICA members' soft infrastructure commitments by type, 2013	36		
Figure 39: Soft infrastructure commitments by category, 2013	37		
Figure 40: Total non-ICA commitments by region, 2013	39		
Figure 41: China: projects and commitments, 2012 and 2013	40		
Figure 42: Chinese commitments by sector 2012 and 2013	41		
Figure 43: Chinese commitments 2011-2013	41		
		Maps	
		Map 1: Infrastructure Interconnections	9
		Map 2: Transport Infrastructure and 2013 Commitments	19
		Map 3: Water Infrastructure and 2013 Commitments	21
		Map 4: Energy Infrastructure and 2013 Commitments	23
		Map 5: ICT Infrastructure and 2013 Commitments	25
		Map 6: Nigerian states and electricity distribution company regions	60

Infrastructure Interconnections



Power Pools



1. Key Messages and Findings

For the second year running ICA members reported an increased level of financing for Africa's infrastructure – with \$25.3bn of commitments in 2013 and \$11.4bn of disbursements, up 35% and down 11% on the previous year respectively. The substantial increase in commitments can largely be attributed to the US presidential initiative, *Power Africa*. Launched in June 2013, *Power Africa* comprised commitments of approximately \$7bn by US government agencies for projects in sub-Saharan Africa. Since its launch it has reportedly leveraged some \$20bn in private sector commitments.

US data collected for 2013 is not comparable to previous years for several reasons. Commitments and disbursements include estimates and they are based on a different dataset compared with previous years in order

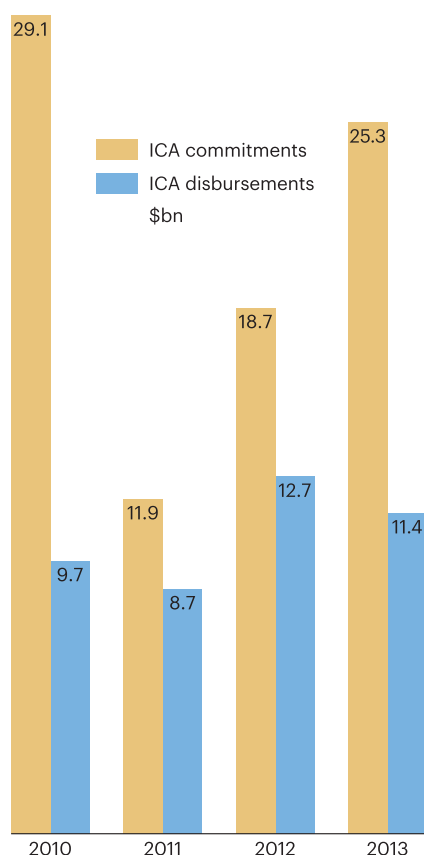


Figure 1

ICA members' commitments and disbursements, 2010-2013

to accommodate reporting on the 2013 calendar year. Commitments contain only those contemplated in the *Power Africa* initiative and OPIC activities for the energy sector and USTDA activities for the other sectors. Disbursements consist of USAID and USTDA data only. At project level, data from USAID, MCC, and USTDA are included.

This means that the levels of commitments as well as funding of regional projects – for the US and for ICA members as a whole – are undervalued in this report while US non-ODA data are not contemplated. US disbursements are likely undervalued. Interpretation of US data provided should therefore be treated with caution as it does not reflect the full picture.

Commitments in the energy sector reached \$13bn or 52% of total commitments. Transport projects attracted \$5.3bn or 21% of commitments and water & sanitation \$5bn or 20%. Multi-sector and ICT commitments remained relatively low at \$1.5bn or 6% and \$0.4bn or 1.6% respectively.

The largest share of commitments by region went to West Africa with 34% or \$8.5bn, closely followed by East Africa with 27% or \$6.9bn.

ICA multilateral and regional development bank commitments amounted to \$12bn while

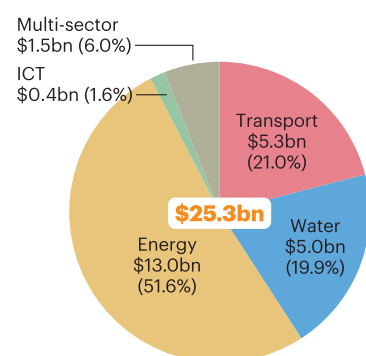


Figure 2

ICA members' commitments by sector, 2013

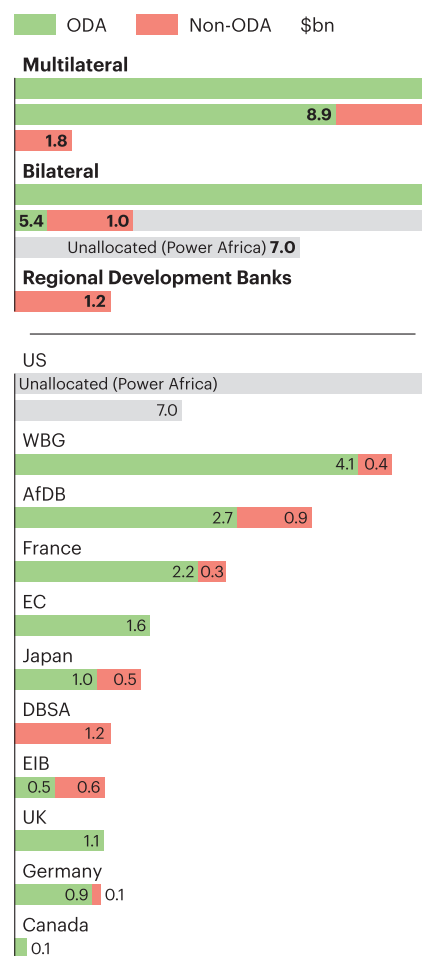


Figure 3

ICA members' commitments by ODA/non-ODA, 2013

bilateral commitments totalled \$13.3bn. Excluding the US, overall ODA commitments were up 5% on 2012 to \$14.3bn, while total non-ODA commitments were down 21% to \$4bn. ICA members with the highest non-ODA shares were the DBSA (100%), the EIB (66%, excluding EU-AITF commitments), and Japan (35%). The EC, the UK and Canada invariably provided purely ODA for their activities.

Conventional funding types continued to feature strongly in ICA members' 2013 commitments. Of total commitments, 47% were loans while 30% were grants. Nearly 20% of commitments featured export finance, largely due to the adoption of this type of

support in *Power Africa*. Equity investments accounted for 0.5%, while guarantees and insurance accounted for 1.3% of commitments.

Different ICA members provide different funding types. Some provide only grants, some just loans while others deploy a mix of financial instruments, so direct comparisons of member commitments and disbursements should not be made.

The ratio of hard to soft infrastructure commitments was 90% to 10%, compared with 94% to 6% in 2012. Of total ICA soft infrastructure commitments, 32% were designated for project preparation and 29% for capacity building.

Regional commitments were reported of \$3.7bn, of which \$887m or 24% went to PIDA/PAP projects. Though a majority of regional project commitments went to transport (51%) and energy (35%) projects, the water sector seems to be attracting more interest for future funding. ICA members expressed interest in nineteen potential regional projects in the energy sector, thirteen in the transport sector, ten in the water sector but just one ICT project and one multi-sector project.

Total ICA member disbursements in 2013 reached \$11.4bn. East Africa and North Africa reportedly received 23% and 20% respectively. West Africa received 16%, the Republic of South Africa (RSA) 13%, Southern Africa 10% and Central Africa 8% of total disbursements. In terms of sectors, transport received most disbursements (37%), followed by energy (34%), water (21%), ICT (4%) and multi-sector projects (4%).

For projects completed in 2013, 77% of the total amounts committed to those projects was disbursed. ODA rates were generally higher than non-ODA rates. The sectors with the highest disbursement rates were the ICT sector (100%), multi-sector (97%) and energy (92%).

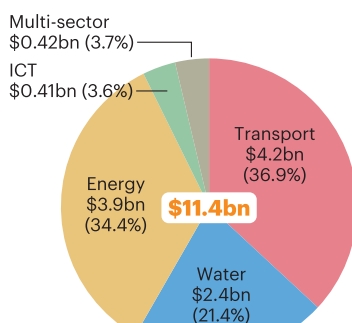


Figure 4
ICA members' disbursements by sector, 2013

ICA members identified the enabling environment as the biggest challenge in project preparation, including ensuring the right attitudes, policies and practices with stakeholders. They said the most challenging aspect of making financial arrangements for projects was determining a project's financial structure.

The Arab Coordination Group's \$3.1bn of commitments to African infrastructure projects in 2013 was less than it was in 2012 but broadly consistent with levels of funding extended over recent years.

African national budget allocations to infrastructure projects appear to be growing but investment levels vary substantially from year to year in several countries.

Almost a third of the commitments made to Africa by non-ICA member European DFIs in 2013 focused on infrastructure. Leveraging private sector investment remains a key focus, with DFI-backed credit lines increasing in number.

At \$13.4bn, Chinese funding was almost exactly the same as it was in 2012, although somewhat less than in 2011. In terms of sectors, transport projects dominated Chinese funding, mainly due to the substantial contributions the Chinese government made to rail projects in East Africa.

Financing from other G20 and non-ICA-member countries is nowhere near the level committed by China but

countries such as India and South Korea remain active. India's Export-Import Bank has been especially consistent in its funding of infrastructure projects, lending \$667m and \$761m during 2012 and 2013 respectively.

Early stage project development facilities have been launched in an effort to meet the demand for pre-financial close funding. For example, the FMO/AFC partnership and the *African Sustainable Energy Facility* both intend to bring more infrastructure projects to market by providing early-stage capital to developers.

Since respondents to the 2013 ICA Private Sector Survey highlighted the lack of early-stage funding as a key barrier to market entry, such new facilities may prove to be useful tools. Respondents also considered the pace at which DFI-led facilities disburse funds to be too slow.

Internal rates of return of between 16% and 25% are anticipated by most private sector investors who also expect their African infrastructure portfolios to expand over the next five years according to the survey.

Private sector interest in African infrastructure appears focused on just a few large-scale projects. Apparently reflecting a preference for supportive policy making, South Africa's REIPPP Programme attracted significant attention in 2013 from investors. ■

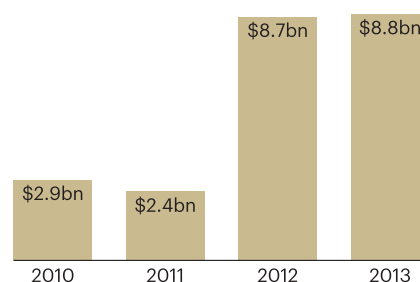


Figure 5
Private Participation in Infrastructure (PPI) Projects investment, 2010-2013

2. Financing Trends



Key trends observable in the financing of Africa's infrastructure during 2013 include:

- ICA members' 2013 commitments are up 35% compared with 2012, reaching a record level of \$25.3bn. The increase has been substantially helped by \$7bn of commitments by US government agencies in the Power Africa initiative.
- China remains the country investing most in Africa's infrastructure. Lending reached \$13.4bn in 2013, almost the same as in 2012 and all directed at sub-Saharan Africa.
- There appear to be fewer commitments from other fast-growing economies, with South Korean support at \$175.4m compared with \$677m in 2012. Brazil, India, Russia and Turkey reported no new commitments in 2013. This may not mean they are not spending or considering investments. India in 2011 said it would commit \$5bn over a three-year period, while South Korea in 2012 said it would provide around \$590m in loans and aid during the following two years, not necessarily solely for infrastructure projects.
- The Arab Co-ordination Group committed almost \$3.1bn in 2013. This amount falls in line with amounts committed in 2010 and 2011.
- The private sector committed \$8.8bn in 2013, up slightly from \$8.7bn in 2012. Around half of this targeted the transport sector, with the other half mainly focused on energy projects. The 2012 and 2013 figures exclude substantial investments in existing mobile networks.
- African national governments appear to be budgeting for more infrastructure, but there is significant reporting of weak budget execution due to constraints including limited institutional capacity and external funding conditions.

Private capital returned to the transport sector in 2013. The World Bank Group's Private Participation in Infrastructure Projects Database reported that \$4.56bn was committed to the sector, the largest amount by far over the last five years during which the next largest amount was \$570m. In 2012, no transport projects featured on the database.

As in 2012, the majority of private capital focused on larger projects in

2013. Some \$4.4bn of transport sector investments targeted two large Nigerian port projects. Seventeen projects in Round 3 of the REIPPP programme worth more than \$2bn and two OCGT power projects that attracted nearly \$1bn made RSA the prime private sector investment location. Water and new ICT projects remain unpopular among private investors.

ICA members reported disbursements down 11% from 2012 to \$11.4bn. Disbursements made to projects reported completed in 2013 amounted to \$394m, while the value of these projects in 2013 was \$5.2bn (not all ICA members reported data for completed projects).

Limitations to the trend analysis contained in the section must be realised. These include the lack of consistent datasets, any central database of private sector investments or commitments made by countries such as China and Brazil.

Nevertheless, the trends do reveal some of the processes and dynamics in the evolution of financing of Africa's infrastructure. ■

2.1 The Big Picture

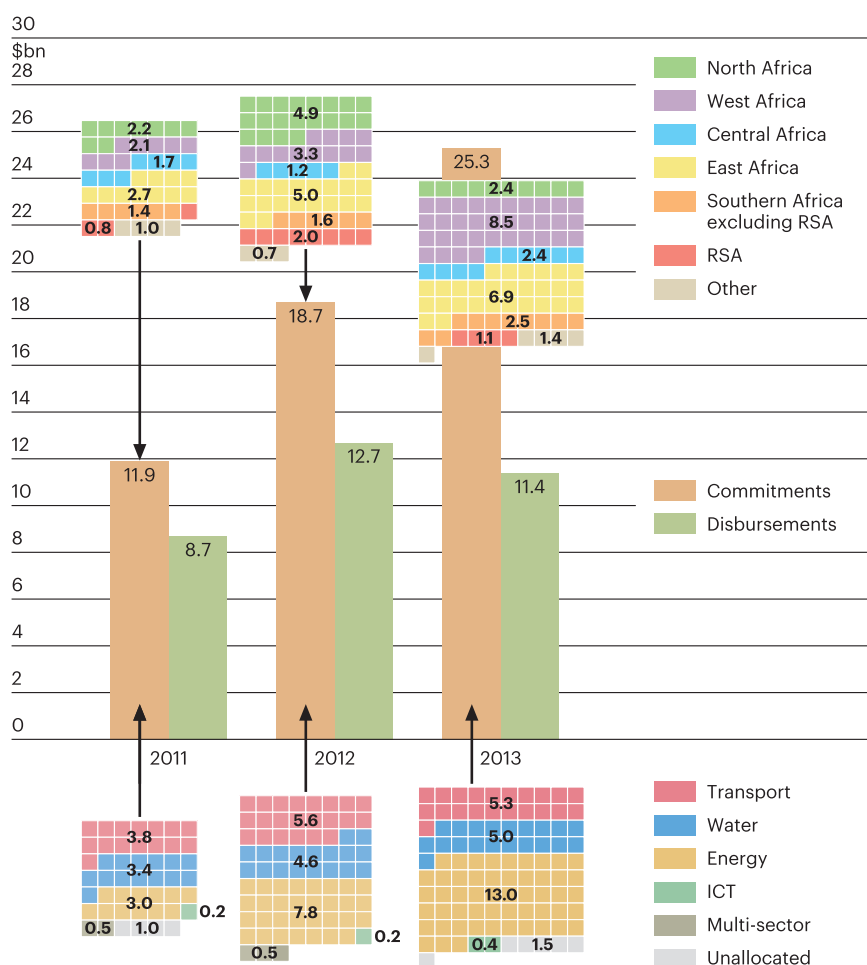


Figure 6
ICA members' commitments and disbursements, 2011-2013

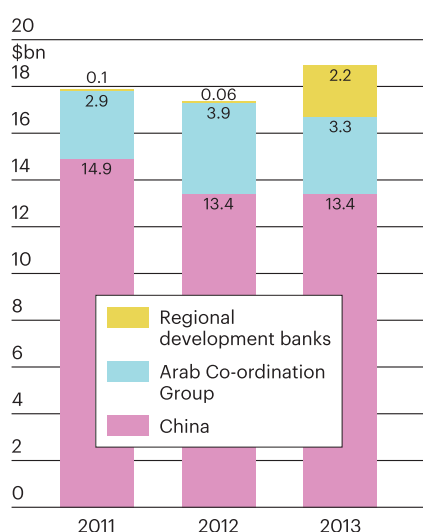


Figure 7
Non ICA major commitments, 2011-2013

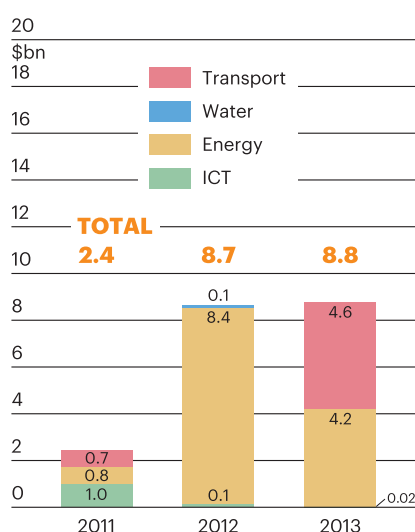


Figure 8
Private commitments by sector, 2011-2013

Bolstered by \$7bn from the Power Africa initiative, more than half of commitments went to energy projects. Excluding US pledges, some 24% of commitments would still be for energy projects. Transport attracted 21% of commitments and water and sanitation, multi-sector, and ICT attracted 20%, 6% and 2% respectively.

The dominance of North Africa and RSA as prime investment locations in 2012 has been eroded in particular by a keen interest in West Africa, with a strong growth rate of 53% between 2010 and 2013. Southern Africa is also proving attractive, with a 55% increase in commitments from 2012 to 2013. Commitments to Central and East Africa rose by an average of 15% and 14% per year since 2010.

Total ICA member disbursements reached \$11.4bn in 2013, a decline of 11% from the \$12.7bn reported in 2012 but 31% more than the \$8.7bn disbursed in 2011. Disbursements appear to be made relatively quickly in the ICT sector.

Disbursement values in 2013 remained almost constant in all regions except Central Africa and RSA. Disbursements fell from \$1.2bn to \$1bn in Central Africa and by 42% in RSA from \$2.6bn in 2012 to \$1.5bn in 2013.

Figure 7 shows that non-ICA member commitments have remained broadly constant for the last three years.

Figure 8 shows that private capital returned to the transport sector in 2013 and continues to flow into energy projects. ■

2.2 Who is Financing Africa's Infrastructure

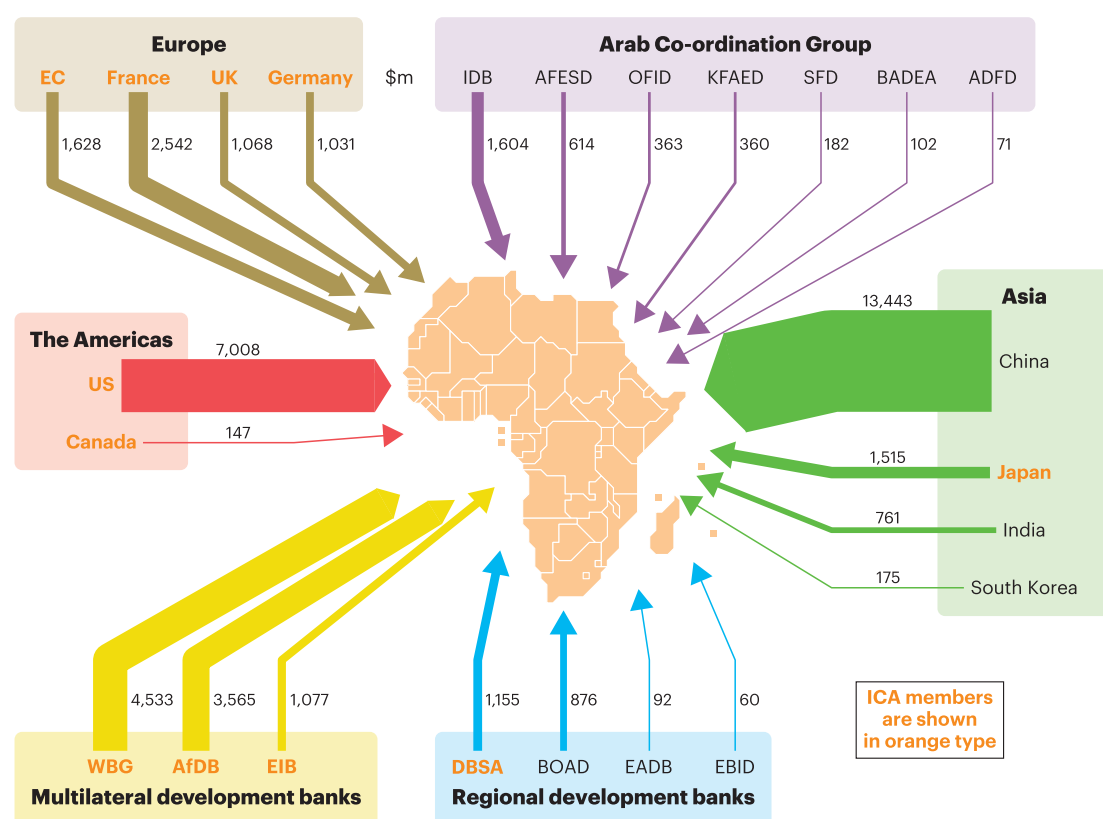


Figure 9
Financing flows into Africa's infrastructure, 2013

Figure 9 is an indication of likely financing flows from external sources into African infrastructure. It does not seek to represent a full or accurate picture as it only shows the total amounts of funding verifiably committed by actors or groups of actors. For example, it does not include financing from African national governments because this may include significant amounts of external funding and would result in double counting.

Moreover, it is unlikely to reflect financing increasingly committed to African infrastructure by private equity investors. Private equity houses such as Denham Capital and Warburg Pincus, for example, have substantial funds committed to African energy, but these will not show as actual commitments, at least until they are earmarked for a specific project.

Moreover, it should be realised that the amounts shown in Figure 9 are made up of many different types of financing. Some actors predominantly

extend commercial loans, while others provide mainly grant funding. This means that the figure does not represent the relative levels of support given by the different actors. Further, it should be realised that some of the actors shown also make substantial contributions to the MDBs, and these sums are not attributed to these contributors as this would be double counting.

But key dynamics are discernible. After dramatic growth in the years leading to 2011, levels of Chinese investments seem to have settled at around \$13bn-\$15bn. Japan's sustained level of commitments alongside investments from South Korea and India, underlines Asia's key role in Africa's infrastructure.

The Arab Co-ordination Group also committed less in 2013 than it did in 2012. In the 2010-13 period, it committed \$3.3bn, \$2.9bn, \$3.9bn and \$3.1bn in each successive year.

The MDBs overall committed around

21% less in 2013 than in the previous year, although the AfDB's commitments – with a strong emphasis on the transport sector – increased by around 21%.

European commitments during 2013 increased by a substantial 27%, while the most striking increases in commitments feature more than \$10bn of anticipated spending in the energy sector. The US has committed \$7bn to the energy sector via its multi-year *Power Africa* initiative, compared with \$791m across all sectors in 2012.

Regional development banks continued to provide significant support for Africa's infrastructure, with DBSA in 2013 committing a total of \$1.2bn, which included commitments of \$556m to energy, \$370m to transport and \$215m to multi-sector projects. ■

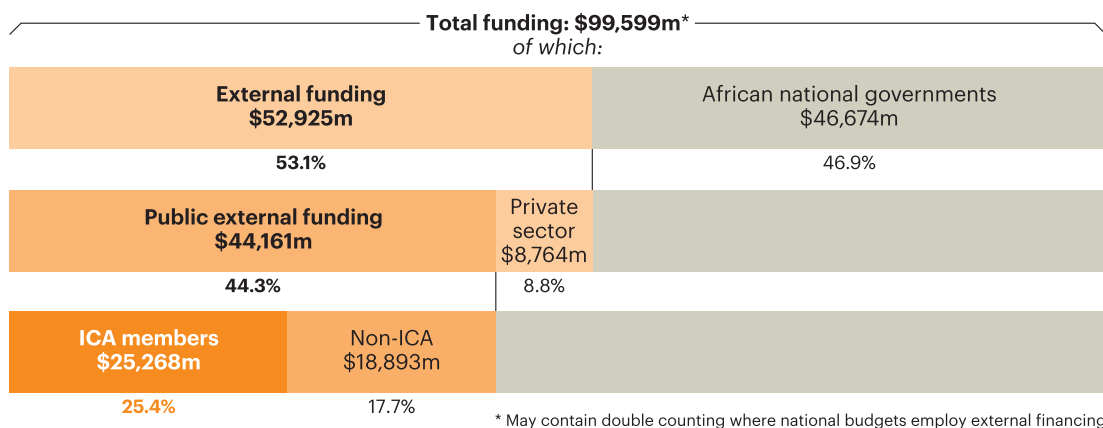


Figure 10
Who is financing
Africa's
infrastructure in
2013

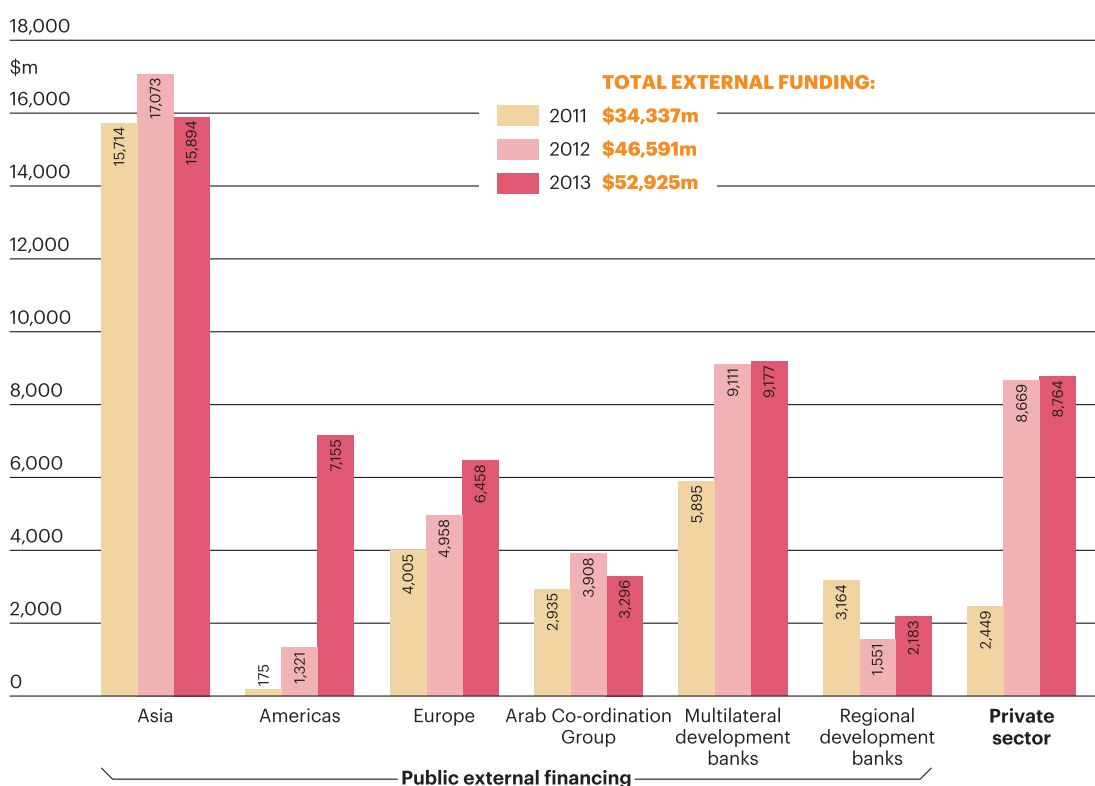


Figure 11
Geographical
sources of
finance, 2013

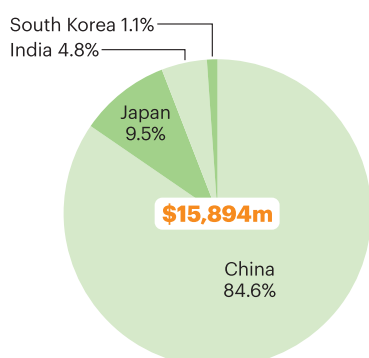


Figure 12
Asian sources, 2013

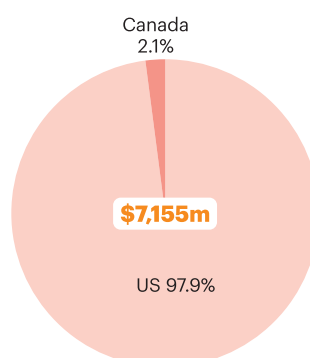


Figure 13
The Americas, 2013

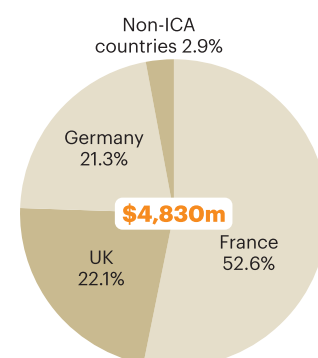


Figure 14
European bilateral sources, 2013

3. Sectoral Analysis



3.1 Introduction

ICA member commitments increased substantially in the energy sector in 2013 compared with 2012.

Excluding the US' Power Africa initiative, commitments to energy sector projects fell by 23%

Commitments increased by 9% in the water sector...

ICA member commitments increased substantially in the energy sector in 2013 compared with 2012, 67%, including the \$7bn made under the US' multi-year Power Africa initiative. But without the US contribution, commitments to the energy sector fell by 23%.

Commitments decreased by 5% in the transport sector but increased by 9% in the water sector. The ICT sector increased by 98% from around \$200m to just under \$400m in 2013.

Of ICA members' 2013 commitments, including US data, \$13bn (52%) went to the energy sector and \$5.3bn (21%) went to transport projects, with water and sanitation receiving \$5bn (20%). Multi-sector projects attracted \$1.5bn (6% and triple the commitment share reported in 2012), while the ICT sector attracted \$396m (1.6%).

Transport projects received \$4.2bn and the largest share of ICA members' disbursements. The energy sector benefited from \$3.9bn (34%) of total

disbursements, while water, ICT and multi-sector projects received disbursements of \$2.4bn (21%), \$411m (4%) and \$419m (4%) respectively.

ICA members disbursing substantially more to the transport sector than the energy sector include the EC, US and WBG.

The regions that benefitted most from substantial transport sector disbursements were East Africa, which received \$1.2bn and North Africa which received \$800m.

The doubling of the share of members' commitments to multi-sector projects was substantially helped by WBG's \$229m commitment to the Senegal River Basin Multi-Purpose Water Resources Development project.

The aggregated data in this report disguises big efforts made by some members in particular sectors. The UK, for example, directed 78% of commitments and 38% of disbursements to the water sector,

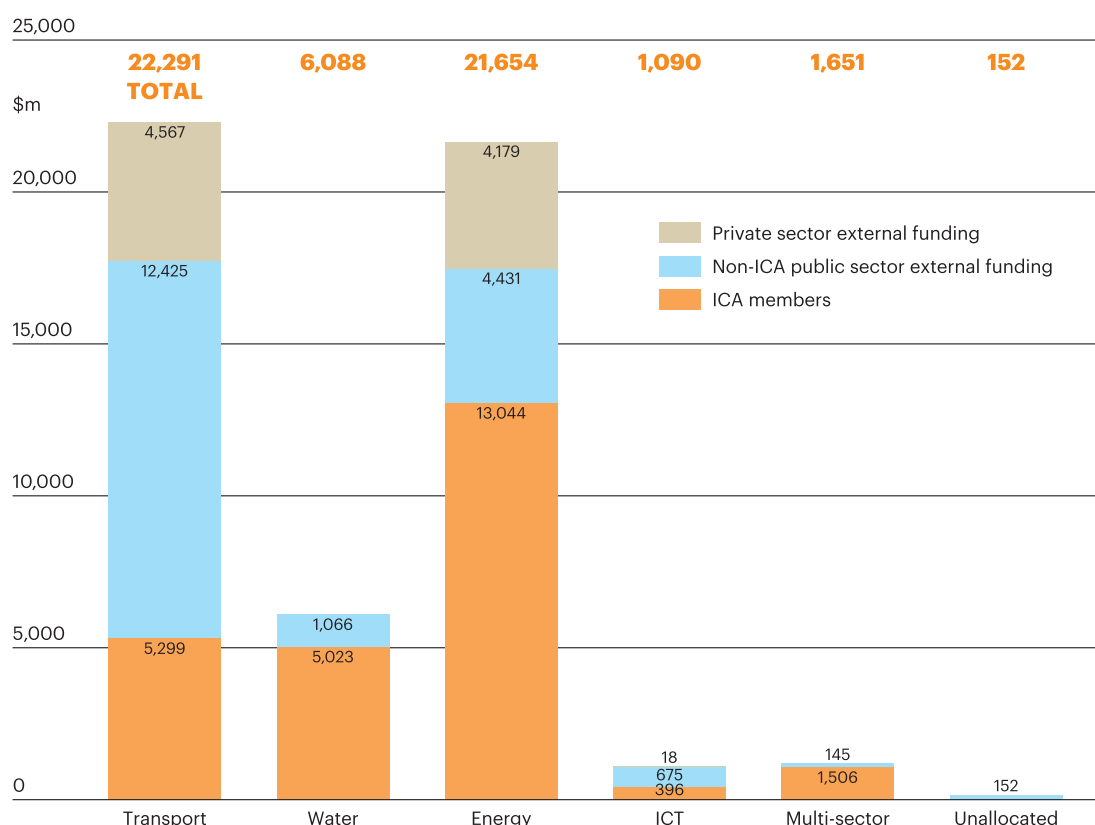


Figure 15
Total African infrastructure commitments by sector, 2013

while the EC directed 61% of commitments and 55% of disbursements to transport projects.

Of the PIDA and regional projects most favoured by ICA members for future commitments, 43% are in the energy sector, 30% are transport projects and 23% are in the water sector. ICT and multi-sector projects each represent 2% of projects being considered by members.

Energy sector commitments increased substantially in West Africa and East Africa, but have declined in North Africa and stayed about the same in Central Africa, where commitments remain very small compared with other regions. RSA's energy sector also attracted substantial private sector commitments of around \$2bn to finance renewables projects, while two OCGT power projects attracted nearly \$1bn.

In the transport sector, commitments increased in West, Central and Southern Africa, including RSA, but

declined in North and East Africa. The private sector also focused on Nigeria's transportation sector in 2013, with the Onne Port expansion and Lekki Deep Seaport projects attracting \$2.9bn and \$1.5bn respectively.

West Africa and Central Africa received the most funding for water projects, while East Africa had \$800m worth of commitments and Southern Africa, including RSA, received \$670m.

There were increases in ICT commitments in 2013 to Central, Southern and West Africa as well as RSA, while East and North Africa experienced significant declines in commitments in 2013. ■

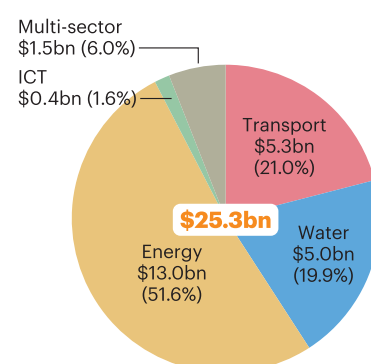


Figure 16
ICA members' commitments by sector, 2013

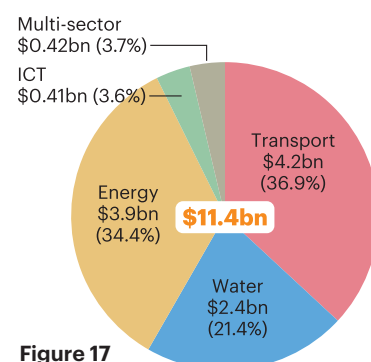


Figure 17
ICA members' disbursements by sector, 2013

3.2 Transport

In 2013, ICA members committed \$5.3bn to the transport sector. Following the wider trend, ICA members' commitments to transport infrastructure peaked in 2009/10, before falling in 2011. Demonstrating the gradual return of investment since then, 2013 commitments to transport infrastructure have grown by 41% since 2011. However, transport infrastructure, and the volume of investment it receives, still varies widely across the continent.

West Africa, Central, and Southern Africa received increased commitments to the transport sector in 2013 compared to 2012. Southern Africa's increased investment is substantially up, from \$0.5bn committed by ICA members in 2012, to \$1.2bn committed in 2013. A significant share of this came from DBSA, which committed funds to various projects within the Regional Infrastructure Development Master Plan. This master plan includes a

specific focus on developing transport infrastructure that facilitates intra-regional trade in Southern Africa.

While it still lags behind other regions, Central Africa's transport sector also received significantly higher commitments in 2013 compared to 2012, rising from \$0.3bn to \$1bn. The bulk of this, almost 45%, was committed by the AfDB. West Africa's transport sector commitments from ICA members increased by 27% in 2013, with the largest contributor being the European Commission who committed over \$0.5bn.

Conversely, commitments made to the transport sector in North and East Africa both declined in 2013 compared to their 2012 levels. North African commitments fell starkly from \$1.6bn in 2012 to \$76m in 2013, while in East Africa the level of commitments fell by some 19%.

Across the continent, the transport sector received 21% of ICA members'

total commitments in 2013, which is a smaller share than the 29% share it received in 2012. Nonetheless, when compared to other infrastructure sectors, the volume of commitments made by ICA members to transport remain second to only energy.

Unsurprisingly given their political focus on the development of economic corridors, the AfDB is the biggest investor in transport infrastructure among ICA members. The AfDB is the lead ICA member for the Eastern and Central Transport Corridors, which focus on enhancing interconnectivity in transport through infrastructure development and trade facilitation. Transport infrastructure has a uniquely important role in facilitating trade channels and determining supply chains, particularly across borders, so as the continent becomes increasingly interlocked, such large multi-country projects are likely to become more common. ■

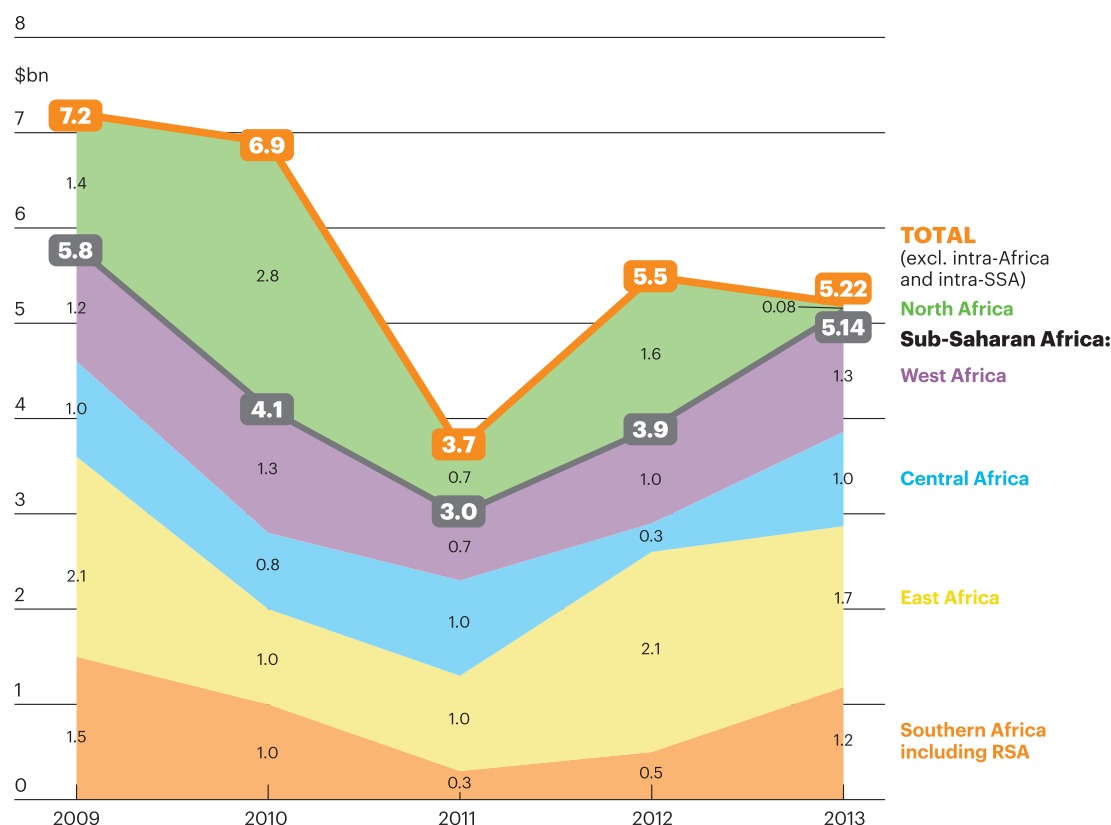
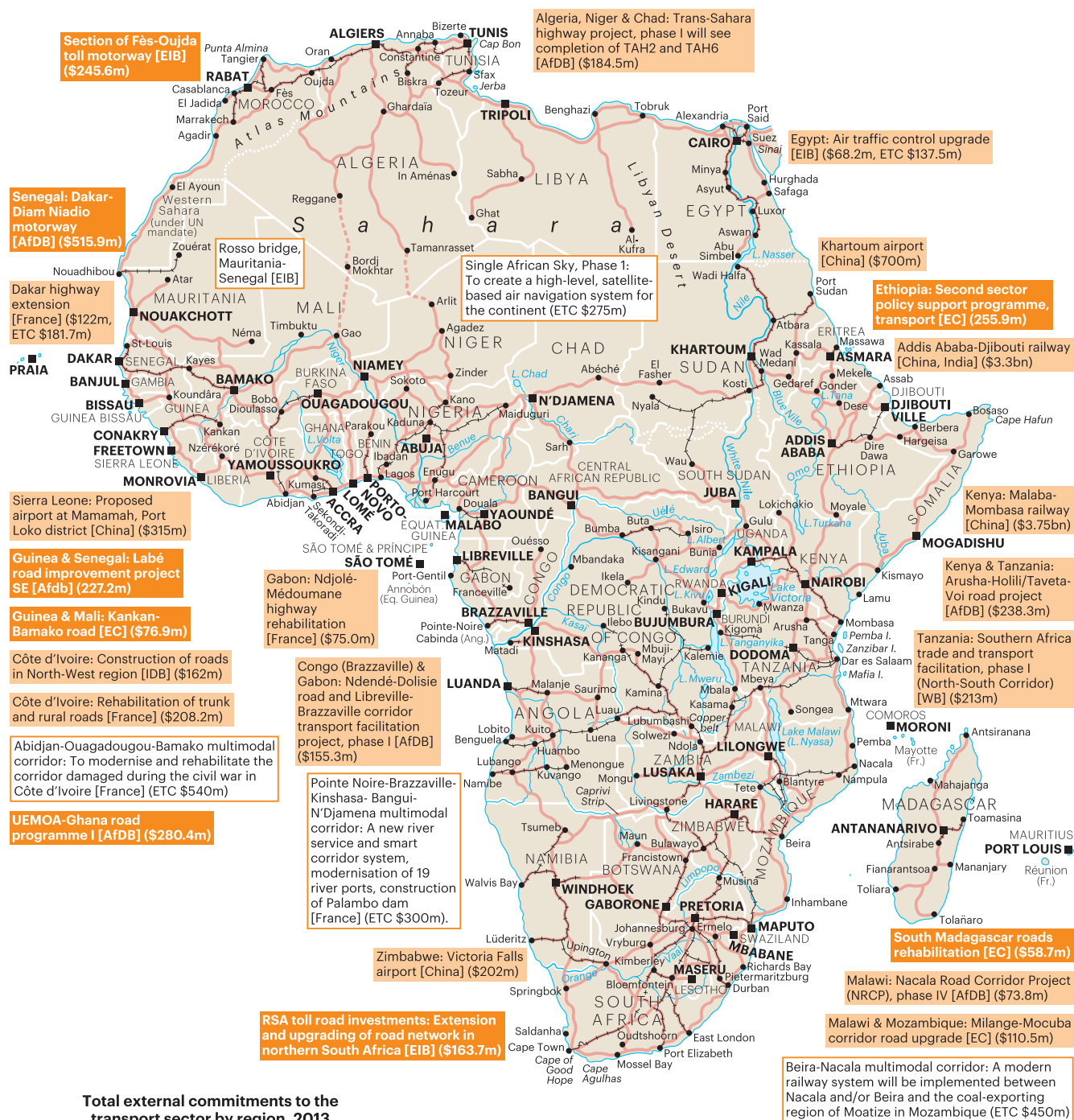
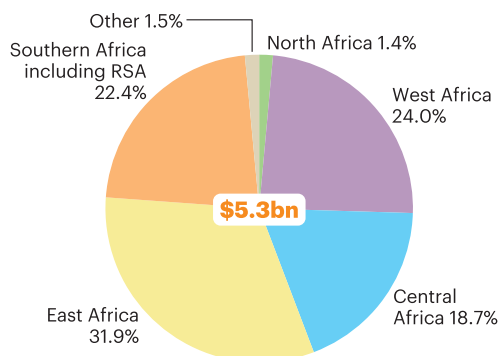


Figure 18
Trends of ICA funding to the transport sector by region, 2009-2013
Pan-African commitments are not shown

Transport Infrastructure and 2013 Commitments



Total external commitments to the transport sector by region, 2013



- National boundary
 - Principal road
 - Main railway
 - A Pipeline projects (PIDA or other priorities identified by ICA members)
 - A Commitments in 2013
 - A Projects completed in 2013
- Principal sponsoring country or institution in square brackets []
- Amount committed shown, plus ETC (estimated total cost)

3.3 Water

Water and socio-economic development in Africa are inextricably linked. Not only are access to clean water and sanitation vitally important to the process of lifting people out of poverty, but sustainable management of the continent's abundant, though unevenly spread, water resources is crucial if the continent is to fulfil its economic potential, particularly in terms of agricultural growth.

During 2013, ICA members committed \$5bn to water projects in Africa. This is relatively consistent with 2012's \$4.7bn, but substantially more than the \$3.8bn and \$3.4bn committed during 2010 and 2011 respectively.

In total, during 2013, sub-Saharan African projects received just over \$4bn, again representing a small increase on 2012's \$3.8bn figure, but substantially more than during 2010 and 2011, when commitments did not exceed \$2.7bn and \$2.4bn respectively.

Of these regions, West Africa and Central Africa received the most funding for water projects, benefitting from \$1.5bn and \$1.1bn respectively, while East Africa had \$814m of commitments and Southern Africa, including the Republic of South Africa, received \$621m. In general this corresponds with 2012's trends, although during that year, East African water projects received \$1.6bn, whilst only \$300m were committed to Central African projects.

North African projects received almost \$1bn in commitments, equivalent to around 20% of overall commitments to water projects. Since 2009, when ICA members committed \$500m to the region, North Africa's share of water commitments has been consistent at around \$1bn per year. ■

ICA support for WACDEP

The ICA Water Platform (WP) is supporting the Global Water Partnership in its efforts to implement the Water Climate and Development Programme (WACDEP) of the African Ministers Council on Water (AMCOW). WACDEP has been created to support countries in integrating water security and climate resilience into development planning processes and the design of 'no regret' financing and investment strategies for climate change adaptation.

The initiative will be implemented at national and trans-boundary basin level, and will start in eight countries (Burkina Faso, Burundi, Cameroon, Ghana, Mozambique, Rwanda, Zimbabwe and Tunisia) and five river basins or shared aquifers (Lake Chad Basin, Limpopo Basin, Kagera Basin, Volta Basin and the North-Western Sahara Aquifer System).

The WP was established in 2011 and is championed by Germany, which provides financial support and an infrastructure expert from KfW to supervise implementation of activities. It encompasses all aspects of water infrastructure development. ■

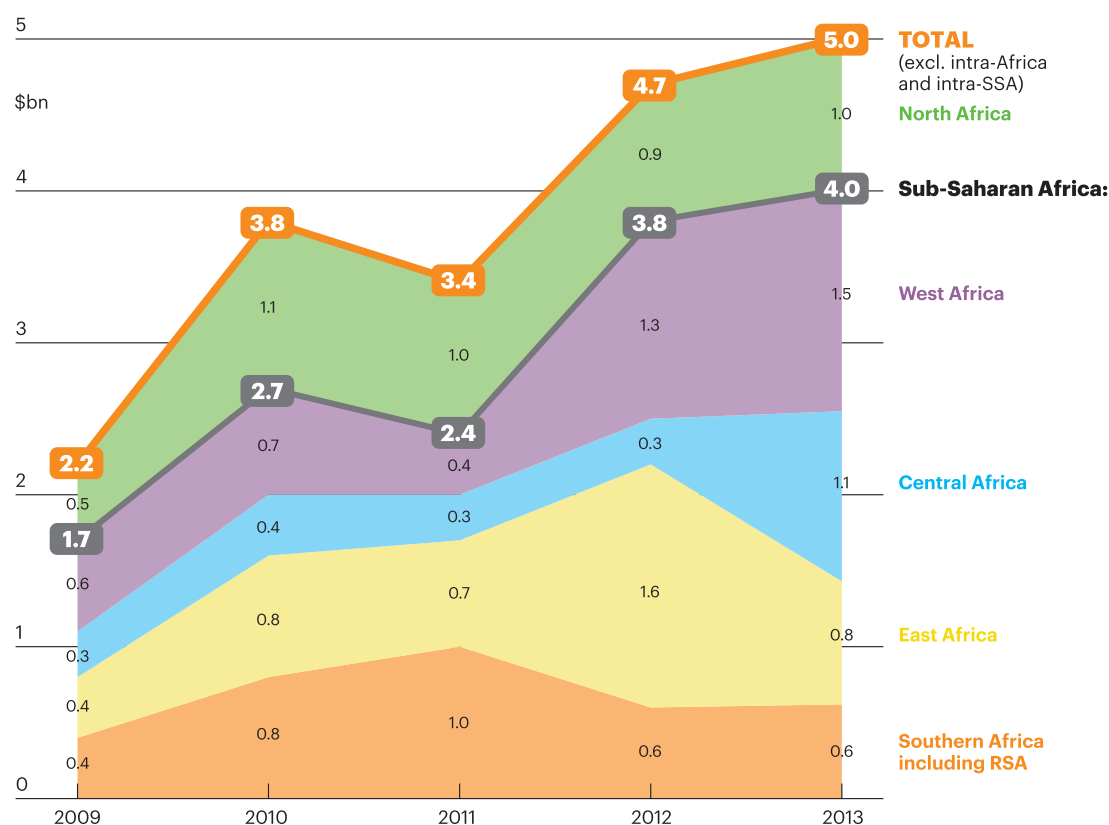
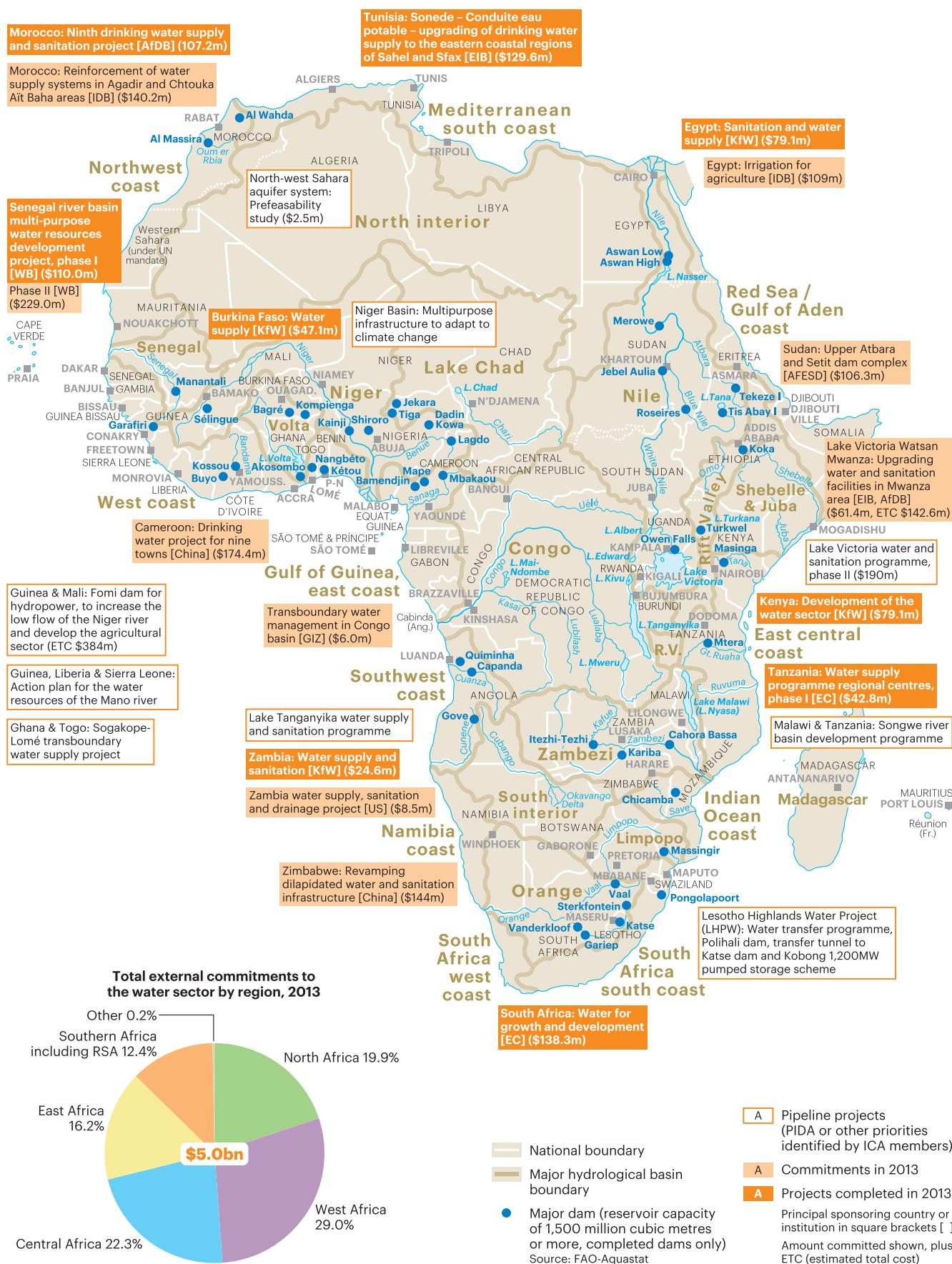


Figure 19
Trends of ICA funding to the water sector by region, 2009-2013
Pan-African commitments are not shown

Water Infrastructure and 2013 Commitments



3.4 Energy

The task facing Africa's energy sector is as challenging as ever, with substantial power deficits confronting many governments across the continent and acting as a constraint on economic growth.

During 2013, ICA members made a total of just over \$13bn of commitments to energy projects across Africa. This is 67% up on 2012's \$7.3bn and a major increase on 2011's \$3bn. This is the most ICA members have made in commitments to energy projects since 2010.

Of this, some \$11.7bn, equivalent to 92%, of ICA funding went to projects in sub-Saharan Africa. West African projects benefitted from the most funding, receiving \$5.5bn, closely followed by East African energy projects, which received \$4.4bn, or equivalent to just under 34% of total energy commitments made. It is noteworthy that commitments to Central African energy projects have started to lag behind its peers in

recent years. During 2013, only \$276m of funding went towards Central African energy projects, representing a mere 2.1%. The trends for 2009-2013 shows commitments fluctuating in the \$200m-\$500m range, with the highest actual commitments in this period coming in 2012.

During 2013, North African projects received nearly \$1bn of commitments. Funding of North African energy projects has fluctuated somewhat over the past five years. During 2012, energy projects in the region received \$2.4bn, substantially up on the \$500m they received during 2011. During 2010, North African energy projects benefitted from an enormous \$4.9bn, again a huge increase on the preceding year when they received just \$400m. ■

Unlocking private capital

Recognising the need for private capital and expertise to boost Africa's power-generating infrastructure, the ICA and the African Legal Support Facility organised a one-week workshop, Enhancing Private Sector Participation in Renewable Energy through Power Purchase Agreements (PPAs), in Nairobi in January 2014. Participants came from African ministries of energy, finance and justice, and from power utilities and government agencies.

PPAs have underpinned the activities of almost all Africa's independent power producers (IPPs), underlining their essential role in attracting private capital to power generation projects.

The workshop included presentations on a variety of renewable energies as well as common factors applicable to all technologies, including land rights, grid connection, electricity supply, force majeure and off-taker risks. There were also sessions on risk assessment, bidding, negotiating skills and dispute resolution, and a site visit to the Ngong Hills Wind Farm. ■

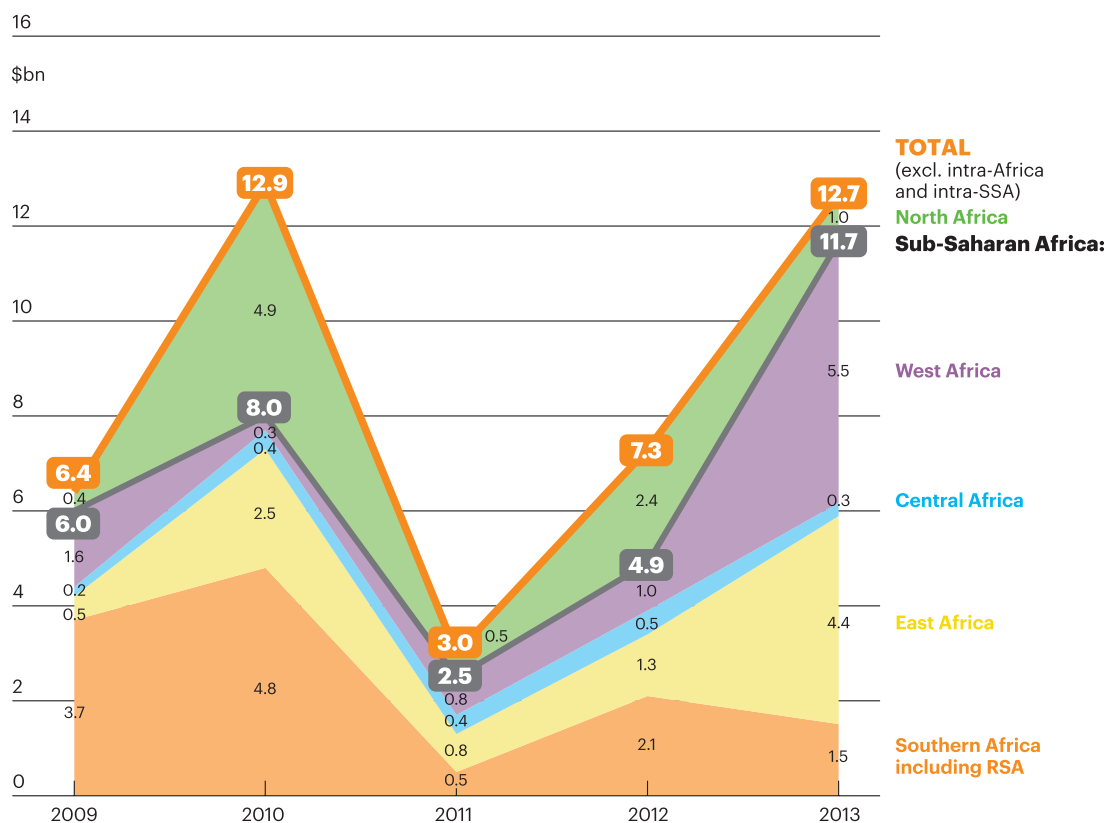
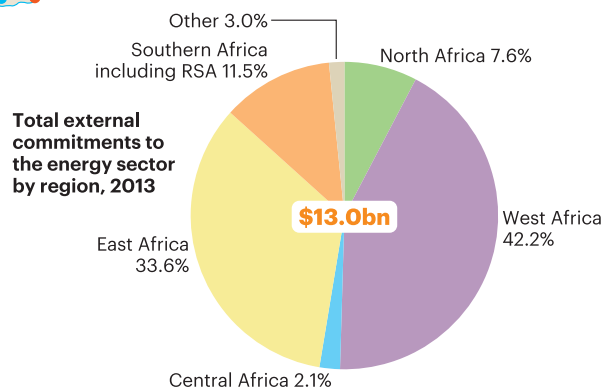
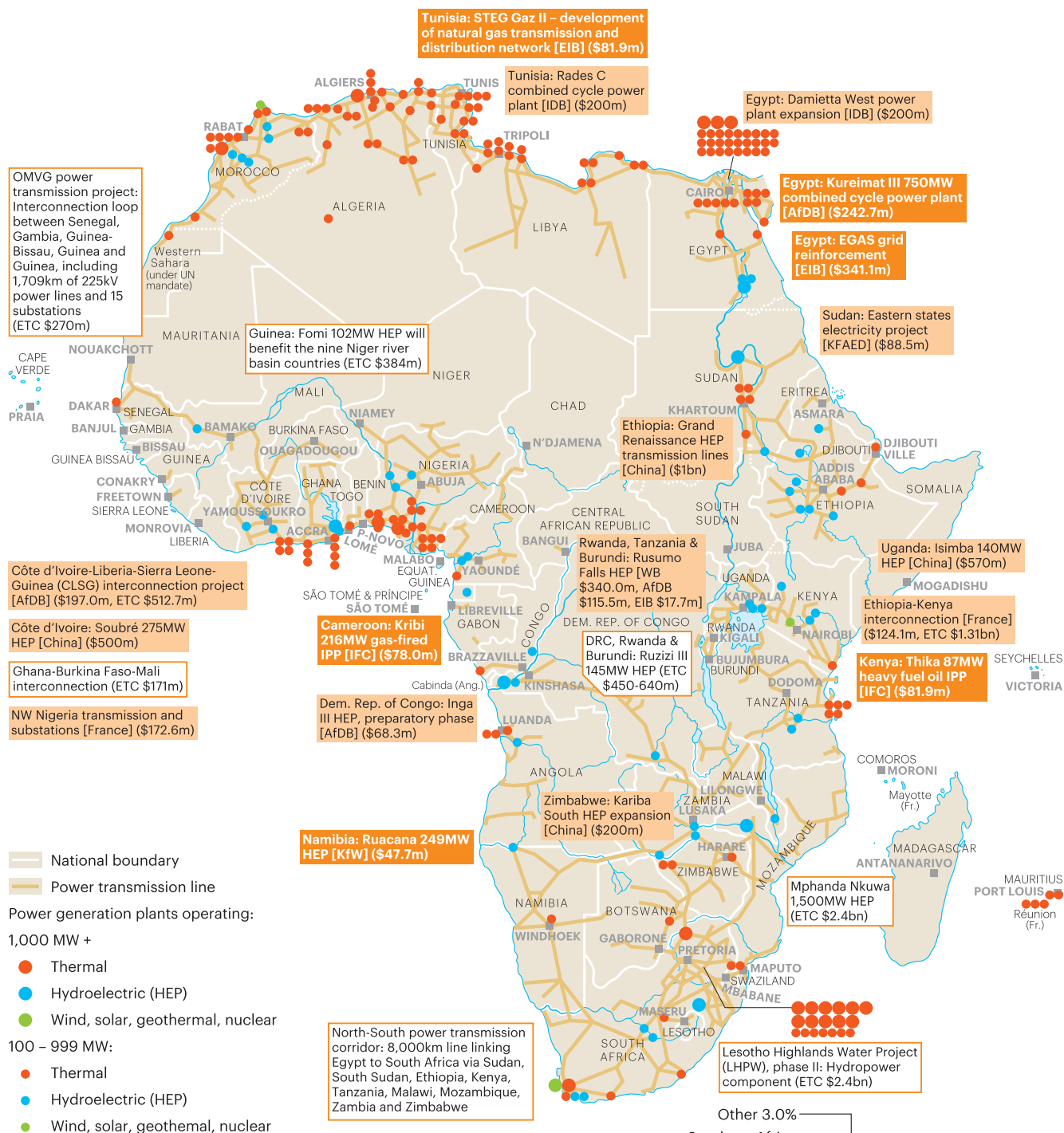


Figure 20
Trends of ICA funding to the energy sector by region, 2009-2013
Pan-African commitments are not shown

Energy Infrastructure and 2013 Commitments



3.5 Information and Communications Technology

During 2013, ICA members reported a total of \$396.4m of commitments to ICT infrastructure projects. At more than double the amount committed in 2012 (\$182m), this figure may signal a welcome return to investment growth in the sector, after a general decline and stagnation in investments from ICA members over the past three years.

Commitments to Central, Southern (inc RSA) and West Africa increased in 2013. Of the \$275.8m committed to region-specific projects, West Africa claimed more than half, receiving \$162.9m, while Central and Southern Africa received \$39.4m and \$37m respectively.

While none of these figures match commitments made in 2009, they do nevertheless return West Africa to its historical position in the sector. Meanwhile, for Central Africa, 2013's commitments exceed the value of the previous three years combined.

Conversely, East and North Africa experienced significant declines in

commitments in 2013. Having received the two largest shares of commitments in 2012, at \$53m and \$55m, respectively, the two regions received only \$36.4m collectively in 2013, which represents individual declines of 70% and 63%.

Though ICT continues to attract less funding from ICA members than all other primary infrastructure sectors, consistently receiving only around 1% of total commitments, perceptions about the sector may be slowly changing. While just four members made commitments to ICT projects in 2012, all but two did so in 2013.

Beyond WBG, which committed \$164.6m, sustaining its consistent investment in the sector in recent years, other significant commitments in 2013 came from Germany (\$63.3m, DEG) the AfDB (\$53.8m) and France (\$44.2m), which committed to a project aiming to expand mobile telephony networks in 17 countries.

Reflecting the breadth of technological

innovation encompassed by the sector, other projects which received commitments in 2013 include; Afrimax Group, which aims to expand 4G wireless broadband services in Africa; Flexenclosure, which manufactures pre-fabricated modular data centres, and; the second phase of the West Africa Regional Communications Infrastructure Program, which aims to support Togo's economic recovery through the improvement and leveraging of regional connectivity and communications.

While telecommunication markets in Africa have pioneered innovation in mobile-based payments and financial services, broader ICT developments of these kinds are required to facilitate greater integration with local, regional and global communications and business. Beyond economic advantages, Africa can also harness the transformative potential of ICT infrastructure for governance and accountability. ■

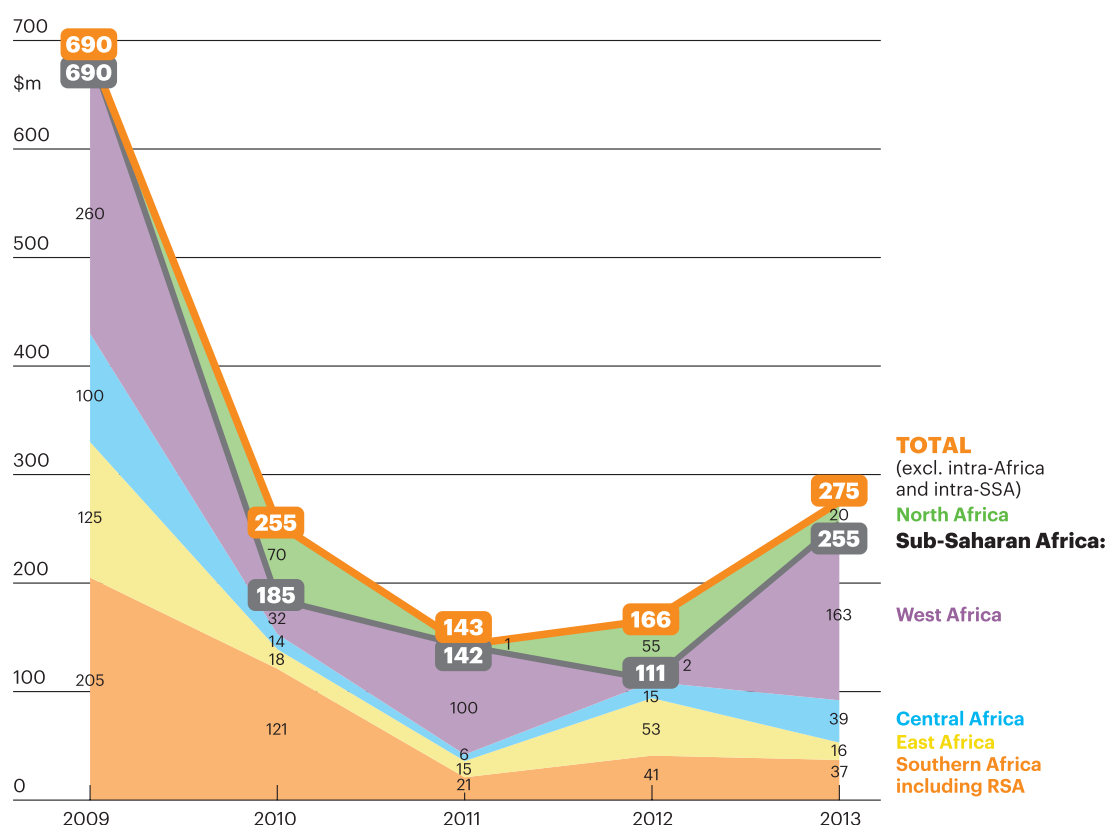
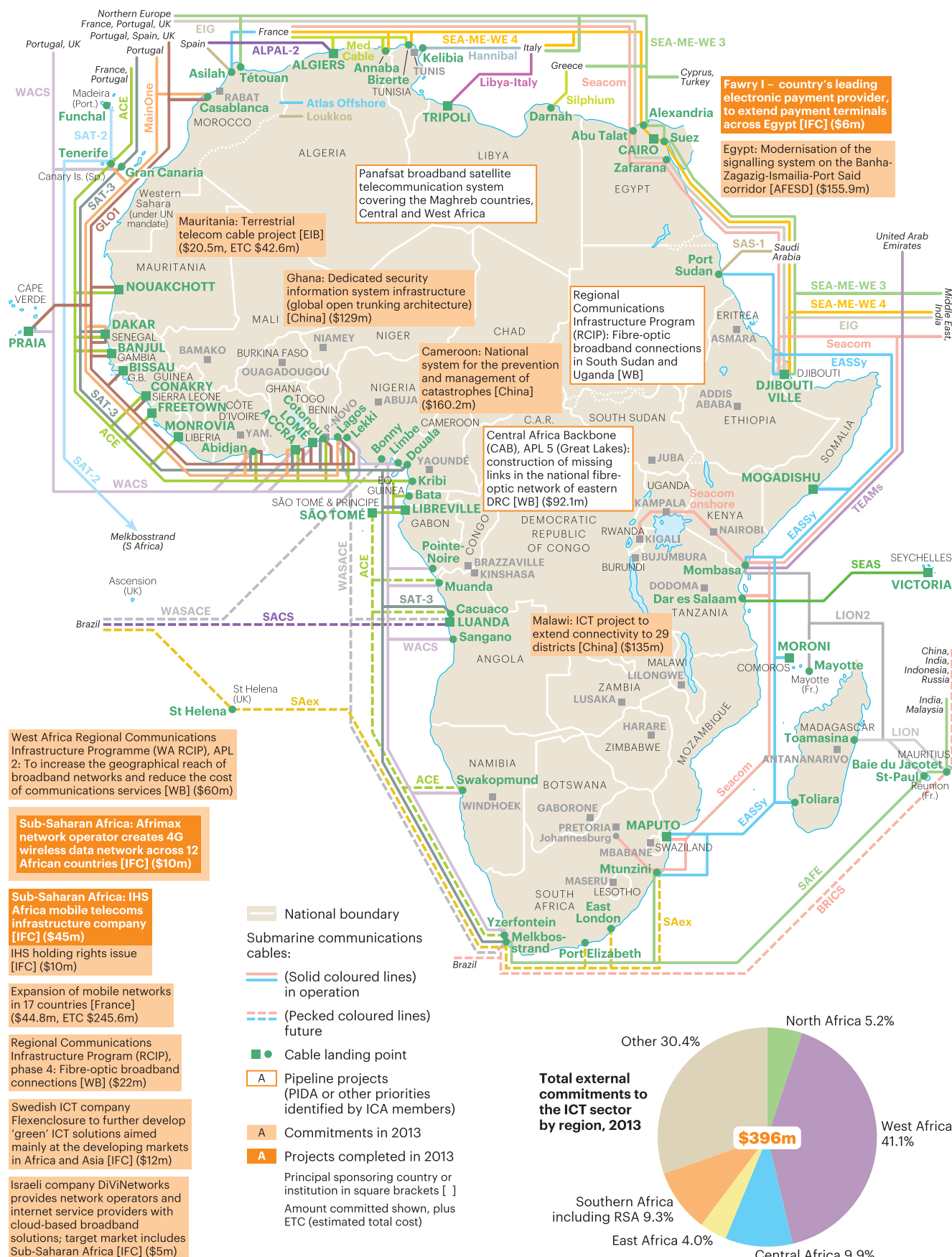


Figure 21
Trends of ICA funding to the ICT sector by region, 2009-2013
Pan-African commitments are not shown

ICT Infrastructure and 2013 Commitments



4. ICA Member Financing



4.1 Introduction

The recovery of commitments to infrastructure financing continued in 2013 for a second year, with ICA members reporting the highest levels of commitments since 2010 (the year with the highest recorded commitments since the ICA's annual reporting began).

In 2013, commitments of \$25.3bn (2010: \$29.1bn) and disbursements of \$11.4bn (2010: \$9.7bn) were reported. Commitments were up 35% and disbursements down 11% compared with 2012.

The huge increase in commitments can be partly attributed to the new US presidential initiative *Power Africa* which placed the energy sector in centre stage in terms of value of commitments with US government agencies committing more than \$7bn. Without this special initiative, the other ICA members' commitments remained stable, up 2% from 2012 levels.

ICA multilateral and regional development bank commitments amounted to \$11.8bn while bilateral commitments totalled \$13.4bn. Excluding the US, overall ODA commitments approximately equalled 2012 levels (\$14.3bn), while total non-ODA commitments were down 21% from 2012 to \$4.0bn. ICA members with the highest non-ODA shares were the DBSA (100%), the EIB (66%), and Japan (35%). The EC, excluding EU-AITF commitments (66%)*, the UK and Canada invariably provided purely ODA for their activities.

In 2013, again and unsurprisingly, the largest share of commitments went to the energy sector (52%, or 33% excluding US commitments), followed by transport (21%) and water and sanitation (20%). While multi-sector projects attracted about twice the commitment share of last year (6%), the ICT segment remained more or less stable at 1.6%.

For ICA members, West Africa

received the highest share of ICA member financing in 2013, attracting a total of \$8.5bn or 34% of overall commitments, followed by East Africa with \$6.9bn or 27%. Central and Southern Africa, both with 10% of total commitments, were slightly ahead of North Africa, which attracted 9% or \$2.4bn. of commitments. RSA received \$1.1bn or 4% of commitments.

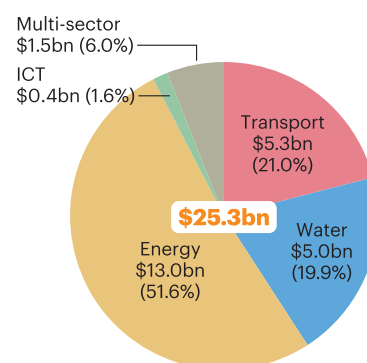


Figure 22

ICA members' commitments by sector, 2013

DBSA's 2013 portfolio was dominated by RSA activities (\$732m). Southern African operations were highest in the AfDB portfolio (\$800m), followed by the WBG (\$579m). The majority of the US energy commitments went to West and East Africa (about \$3.5bn each), North Africa received most commitments from the WBG, Germany and the EIB. For Central Africa, the AfDB and France were the strongest donors.

In terms of types of funding, conventional instruments seemed to prevail throughout 2013: loans and grants provided \$11.9bn or 47% and \$7.6bn or 30% of funding respectively.

The share of export credit finance was pushed up to \$5bn, or 20% of total funding, by the US presidential initiative pledges and had an exceptional effect in 2013 that may not be sustained in the future.

Equity investments accounted for 0.5%, while guarantees and insurance accounted for 1.3% of commitments.

The US reported three large single energy sector commitments: Nigeria Privatisation (\$2.5bn); Ghana 1000 (\$1.5bn); Corbetti Geothermal (\$1bn), while also committing smaller amounts for Mtwara (\$9m), and Lake Turkana (\$8.6m).

The largest transport sector commitment was AfDB's \$238m pledge to the Arusha-Holili/Taveta-Voi Road Project; the WBG's \$229m for the Senegal River Basin Multi-Purpose Water Resources Development Phase II was the largest multi-sector while the EIB's \$61m for the Lake Victoria Watsan Mwanza project was the largest water sector commitment. The largest ICT sector commitment was the WBG's \$60m for the West Africa Regional Communications Infrastructure Programme APL2. ■

* Total EIB non-ODA commitments including the EU-AITF accounted for 55%, since the EU-AITF had ODA commitments only of \$177m.



Figure 23
ICA members' commitments by type of funding, 2013

Power Africa and US funding

In June 2013, US President Barack Obama launched *Power Africa*, a special presidential initiative that aims at doubling access to electricity in Sub-Saharan African in the long term by adding 10,000MW of power generation and expanding access to 20 million households and businesses.

For this initiative the US government has committed a total of about \$7bn for financial support and guarantees through its agencies, and has leveraged about \$20bn of private sector commitments.

Power Africa is coordinated by USAID which has pledged \$285m for technical assistance, grants and risk mitigation for private sector investments. MCC has committed up to \$1bn for its country compacts which include policy and regulatory reform and institutional capacity building, while OPIC has pledged up to \$1.5bn for financing, loan guarantees and political risk insurance. Ex-Im Bank has made another major commitment of up to \$5bn of loan guarantees for US exports.

In terms of this report, please note that the US data collected for 2013 is not comparable to previous years for several reasons.

Commitments and disbursements include estimates and they are based on a different database compared to previous years in order to accommodate reporting on the calendar year of 2013.

Commitments contain only Power Africa and OPIC activities for the energy sector and USTDA activities for the other sectors. Disbursements consist of USAID and USTDA data only. On the project level, data is included from USAID, MCC, and USTDA.

This means that the levels of commitments and disbursements as well as funding of regional projects – from the US and therefore from ICA members in total – are undervalued in this report, and non-ODA data is not covered at all. Therefore, any interpretation of the US data has to be made with caution as it does not reveal the full picture. ■

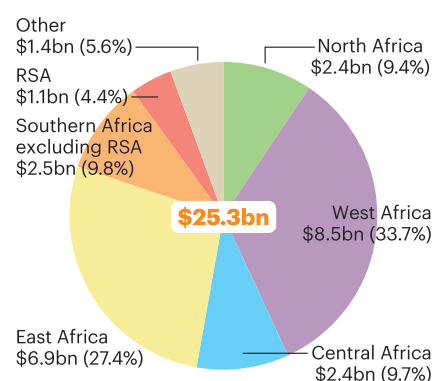
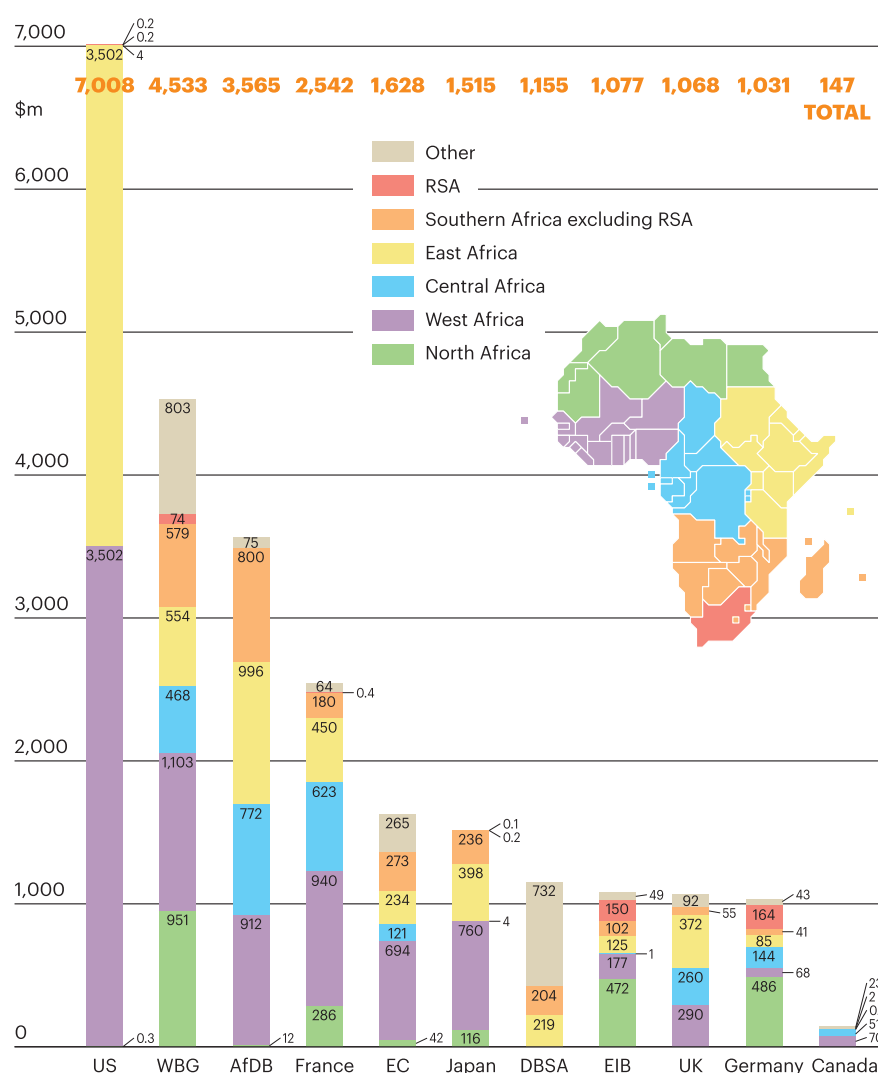


Figure 24
ICA members' commitments by region, 2013

4.2 Commitments and Disbursements



From an individual ICA member perspective West Africa was the top region for commitments by the US, the WBG, France, Japan, the EC, and Canada. RSA benefitted from \$732m from the DBSA while East Africa featured as the prime destination for commitments from the US, the AfDB, and the UK. North Africa received the highest commitments from the WBG, Germany and the EIB. Southern Africa and Central Africa attracted most commitments from the AfDB.

In 2013, the US seemingly preferred West and East Africa for its special energy initiative commitments, allocating \$3.5bn each.

Of the DBSA portfolio 63% were dedicated to RSA, while 19% were pledged for East African and 18% for Southern African projects.

Except for RSA allocations, the WBG had a quite balanced regional portfolio with \$1.1bn or 24% going to West Africa, \$950m or 21% to North Africa, and between 10% and 13% to the other regions.

The AfDB balanced its commitments quite well between West Africa, Central Africa, East Africa and Southern Africa which all received between \$700m and \$1bn.

France allocated about \$900m or 37% to West Africa, \$600m or 25% to Central Africa, \$450m to East Africa and nearly \$300m to North Africa.

The EC and Japan pledged approximately half of their funding (about \$700m each) to West Africa, while the EIB and Germany did the same for the North African region.

The UK made quite balanced commitments to West, Central and East Africa which were between about \$250m and \$370m.

Canada focused its commitments on West and Central Africa with \$70m or

Figure 25
ICA members' infrastructure commitments by region, 2013

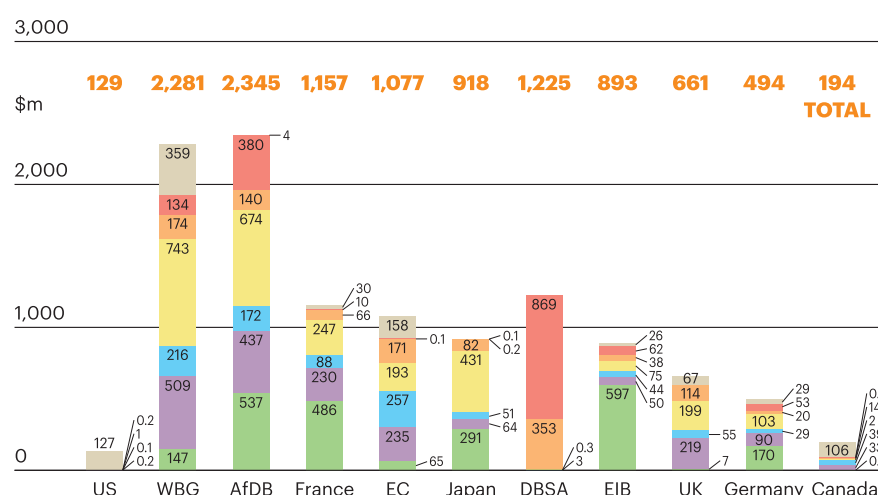


Figure 26
ICA members' infrastructure disbursements by region, 2013

48% and about \$50m or 35%, respectively.

From ICA members' total disbursements of \$11.4bn the highest share of \$2.7bn went to East Africa, closely followed by North Africa with \$2.3bn. West Africa had disbursements of \$1.9bn, the RSA \$1.5bn, Southern Africa \$1.2bn and Central Africa approximately \$950m.

For the AfDB, the WBG and Japan, East Africa captured the highest disbursement shares, while for France, the EIB, and Germany, North Africa was the prime recipient. The EC and Canada disbursed most funds to Central Africa, while the UK did so to West Africa.

Looking at the regions from a sector perspective, commitments to the energy sector were most unevenly distributed, while for disbursements divergences were not that severe.

The energy sector – totalling a record of \$13bn commitments in 2013 – received the highest commitment shares in West and East Africa (\$5.5bn and \$4.4bn, respectively). Total energy disbursements in 2013 stood at \$3.9bn and focused on RSA, North Africa, and East Africa.

While ICT funding generally takes place on a very low level, most commitments to ICT infrastructure (\$163m or 38%) were made in West Africa, which also saw the largest share of disbursements (\$67m).

For multi-sector projects, funding is also comparably low with a total of \$1.5bn of commitments in 2013. Multi-sector disbursements in 2013 focused on RSA which received approximately \$145m or 35%. ■

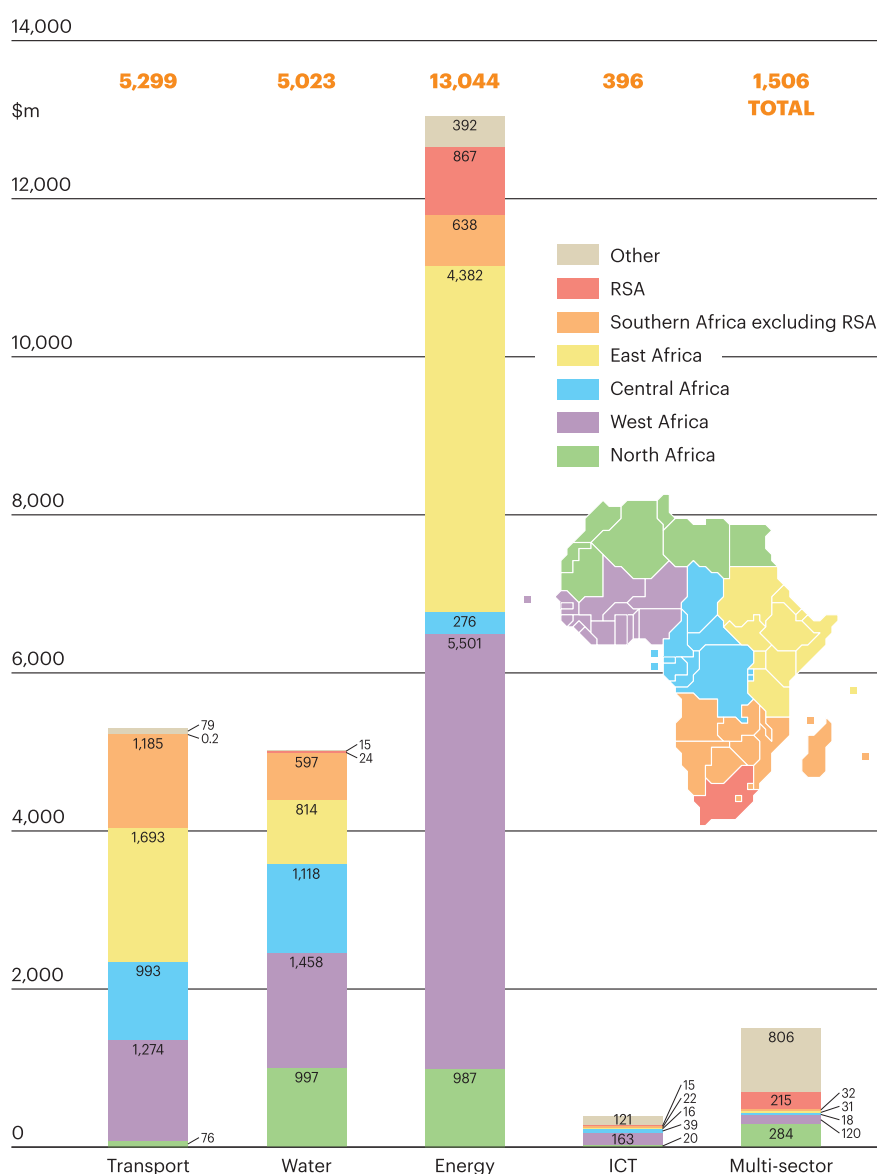


Figure 27
ICA members' infrastructure commitments by sector and region, 2013

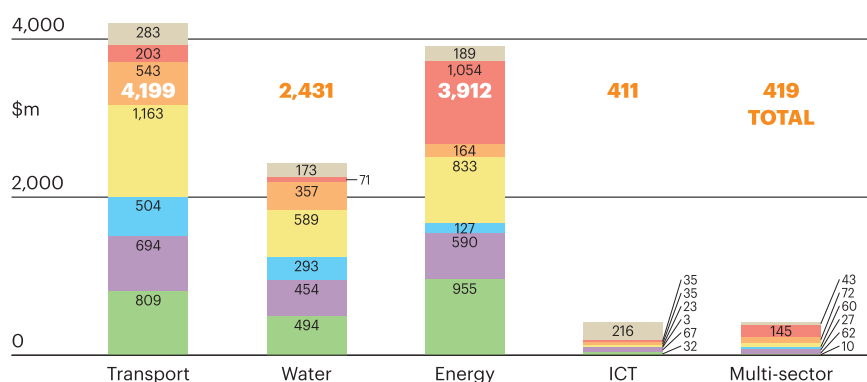


Figure 28
ICA members' infrastructure disbursements by sector and region, 2013

4.3 Trends in Commitments and Disbursements



Figure 29
ICA members' commitments by sector and region, 2010-2013

Overall ICA member commitments have decreased by an average 5% per year starting in 2010, the strongest year in the time period covered, when total commitments stood at \$29.1bn.

From 2010 onwards, commitments have first shrunk by \$17.2bn or 59% and since then increased by \$6.8bn (57%) in 2012 and \$6.6bn (35%) in 2013.

Regionally, commitments to West Africa experienced the strongest average growth rate of 53% between 2010 and 2013, reaching \$8.5bn in 2013 (up 158% from 2012).

Commitments to Central and East Africa rose by an average of 15% and 14% per year since 2010. Both regions claim record levels in commitments for 2013, with \$2.4bn for Central Africa and \$6.9bn for East Africa.

Commitments to Southern Africa increased by an average 2% per year over the same period. The regions with the greatest reductions in commitments were RSA and North Africa with compounded average

growth rates of -45% and -36%, respectively.

All infrastructure sectors have exhibited gains in commitments since 2010, except for the transport sector. Commitments to transport declined on average 8% per year since 2010, from \$6.9bn to \$5.3bn.

While multi-sector and ICT commitments attracted comparatively lower absolute levels of commitments (\$1.5bn and \$0.4bn), their compounded average growth rate has been the highest, at 23% and 10% respectively.

Total ICA member disbursements decreased by 11%, from \$12.7bn in 2012 to \$11.4bn in 2013.

Disbursements to Southern Africa recorded the highest increase in 2013, up 4% from \$1.1bn in 2012 to \$1.2bn in 2013.

Disbursements to the other regions remained more or less stable, except for RSA, which experienced a 42%

reduction in disbursements to \$1.5bn while Central Africa saw a 21% fall from 2012 levels to \$1bn.

Disbursements in 2013 decreased from 2012 levels across all sectors except for ICT and transport, which had growth rates of 69% and 3%, respectively. Energy disbursements declined by 18%, followed by multi-sector (-16%) and water (-8%).

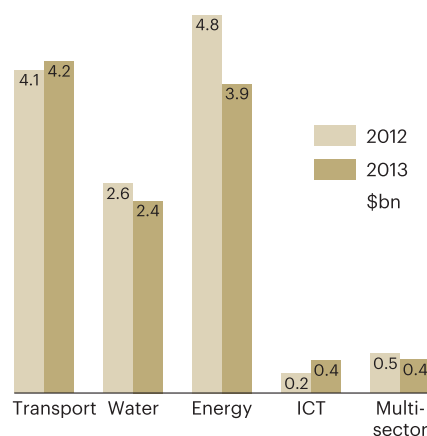


Figure 30
ICA members' disbursements by sector, 2012-2013

4.4 Disbursements – Completed Projects

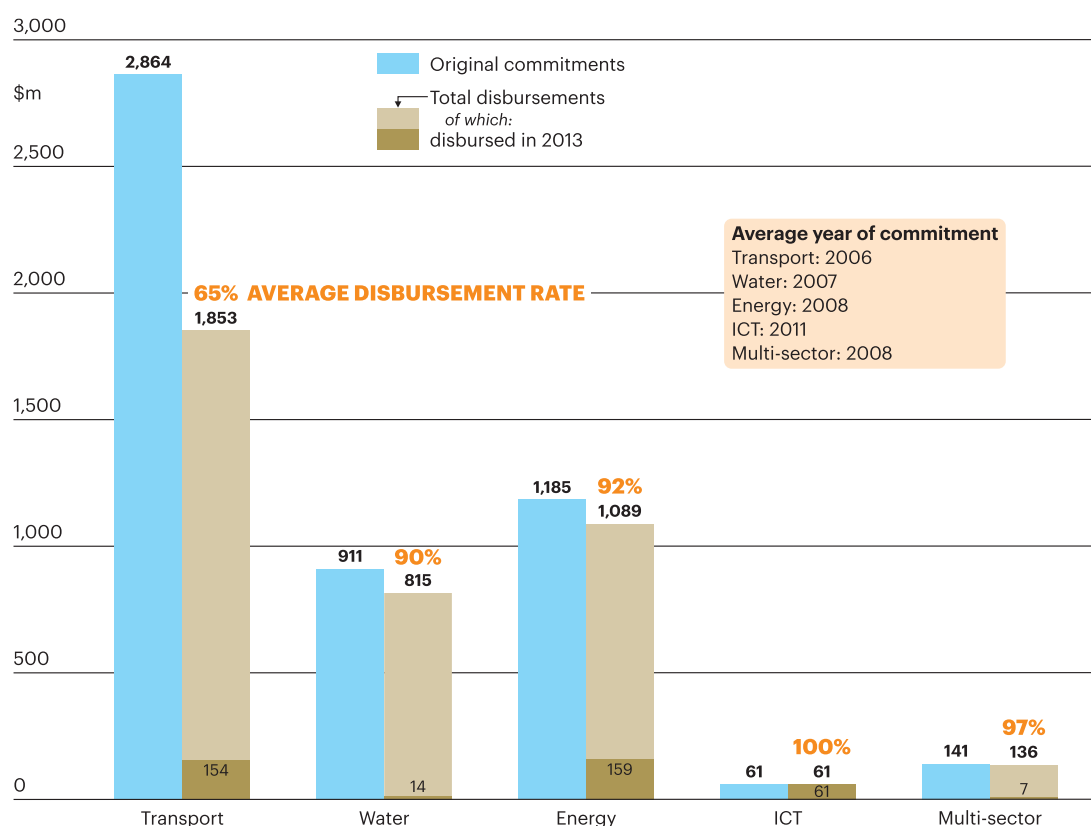


Figure 31
 Relation between commitments and disbursements for projects completed in 2013, by sector

For projects reported completed in 2013 by ICA members, the total value of disbursements was 77% of the total value of commitments to those projects, regardless of the year in which the original commitments were made. Thus 77% of the total amounts committed to those projects was disbursed over the life of the respective projects.

The transport sector had both the lowest disbursement rate and the largest share of commitments for projects completed in 2013. For projects completed in 2013 it had an average disbursement rate of 65%. This was followed by the water sector with 90%, energy with 92%, multi-sector with 97% and ICT with an impressive 100%.

ODA disbursement rates were generally higher compared to non-ODA rates, except for the ICT sector, where both stood at 100%. The transport sector had the highest discrepancy with a 97% ODA disbursement rate versus a 46% non-

ODA disbursement rate. The water sector had a 94% disbursement rate for ODA and 63% for non-ODA disbursements. The disbursement rate for ODA energy projects was 119%, while non-ODA projects disbursed only 79% of commitments. For multi-sector projects there were only ODA disbursements, representing 97% of original commitments.

Overall, DBSA, France, Germany, Japan, and the UK reported higher disbursements than in the previous year. AfDB, Canada, EC, EIB, WBG, and the US reported comparatively lower levels.

The lengthiest projects were in the transport sector, with an average project duration of eight years or an average initial commitment date of 2006. The shortest project durations were with the ICT sector (three years, or 2011 as the year of commitment). Even though the highest level of commitments and disbursements together and the longest project durations are found in the transport

sector, the hypothesis that bigger projects tend to experience longer disbursement delays cannot be confirmed. The duration of the largest 20 projects was about 2 years longer than for the 20 smallest projects, but overall no consistent pattern could be established.

ICA members identified, amongst others, the following factors causing delays in disbursements: insufficient project preparation or project readiness, delays in tender, cross-conditionality with co-financiers, procurement delays and delays in meeting conditions prior to disbursement.

The most important external reasons for delays in disbursements mentioned by ICA members were insufficient regulatory environments or sector reforms together with cumbersome national administrative procedures, environmental and social issues, and political developments including changing risk profiles of a country. ■

4.5 Trends in Regional Infrastructure Portfolios

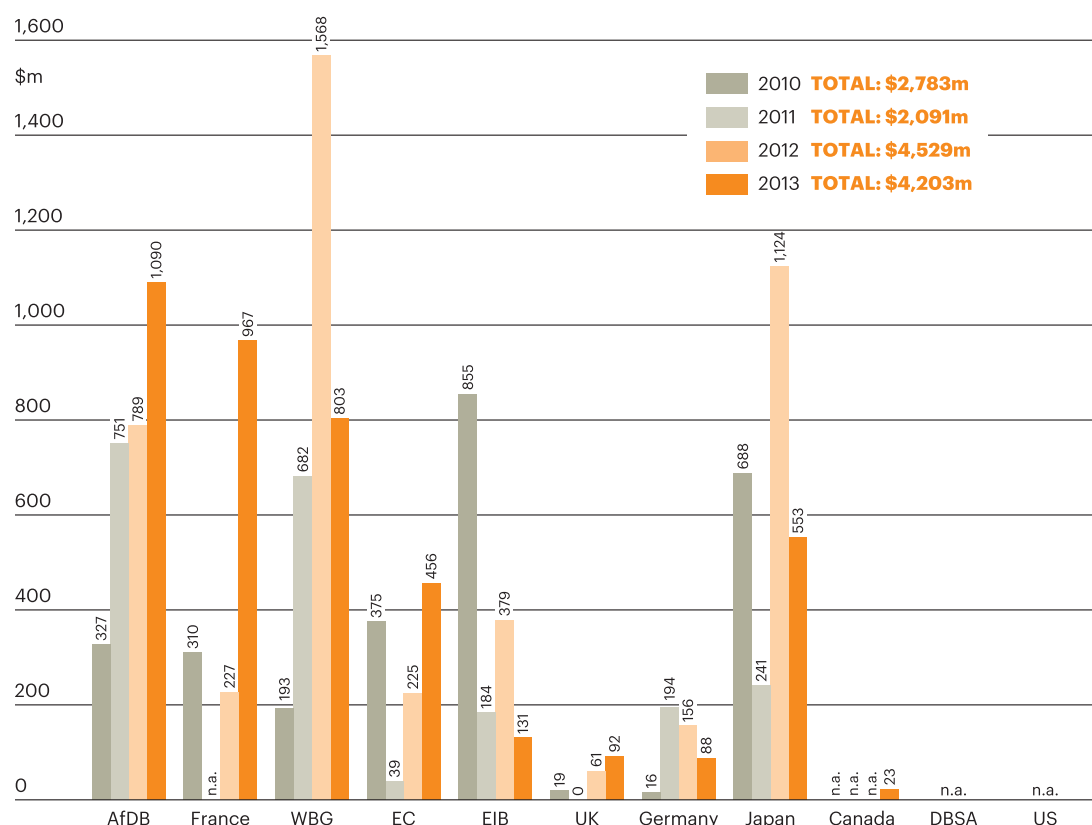


Figure 32
Trends in ICA members' regional infrastructure portfolios, 2010-2013

Until 2012, regional infrastructure commitments tended to follow the pattern of overall commitments. After experiencing a slump of 25% to \$2.1bn in 2011, they surged 117% to \$4.5bn in 2012. But in 2013, reported regional infrastructure commitments decreased slightly to \$4.2bn, down 7% from 2012 levels.

The institutions and countries that reported declining regional commitments were the WBG with a reduction of 49% from 2012 levels, the EIB (down 65%), Germany (down 43%), and Japan (down 51%).

The country reporting the steepest increase in regional commitments was France, which more than tripled its portfolio between 2012 and 2013 to a total of \$967m.

The EC approximately doubled its regional commitments to reach a record \$456m in 2013 while the UK and the AfDB reported increases of 50% and 38% respectively.

The steadiest increase amongst ICA members in commitments to regional projects is seen at the AfDB, with its portfolio continuously climbing from \$327m in 2010 to \$1.1bn in 2013.

From a sector perspective, the majority of regional commitments went to transport projects (\$2.3bn or 56%), followed by energy (\$1.4bn or 33%), water (\$188m or 4%), ICT (\$181m or 4%) and, finally, multi-sector projects (\$130m or 3%).

The share of pledges made to PIDA/PAP projects in relation to total regional commitments was 31% (\$1.3bn out of \$4.2m). In sectoral terms, transport had the highest proportion of PIDA/PAP projects with \$835m or 36%, closely followed by energy with \$442m or 32%.

While about \$26m or 20% of regional multi-sector commitments went to PIDA/PAP projects, the other sector ratios were negligible.

There appear to be significant differences between the sectors in which ICA members have invested on a regional basis and the sectors in which they want to invest in the future. In a survey of ICA members that asked them to list their favoured PIDA/PAP and other regional infrastructure projects that will interest their organisation to finance in the future (*see 7.2, page 57*), the water sector appears to be given greater priority than it appears from looking at ICA members' historic regional commitments.

ICA members expressed an interest in nineteen potential regional projects in the energy sector, thirteen in the transport sector and ten in the water sector compared with just one in the ICT sector and one multi-sector project. Water projects favoured by ICA members include the water component of the Fomi dam development, which includes a hydropower element but also entails

the Niger River being regulated to increase the low-flow in Guinea and Mali and to supply water for irrigation purposes and aspects of the Lesotho Highlands Water Project. Several ICA members have expressed interest in water sector projects based on Lake Victoria's water resources.

While only a few members have expressed an interest in multi-sector projects – the only one mentioned as a favoured potential investment is a multipurpose infrastructure project to adapt the Niger Basin to climate change – some large regional projects, particularly hydropower projects either have a water component or catalyse separate projects in other sectors.

The only target for ICA members looking to support initiatives with a regional, or in this case a continent-wide, impact in the ICT sector is the Panafican Satellite Communications, Inc. (PANAFSAT). The company's

mission is to bridge the digital divide and empower African citizens and businesses with cost effective, universal and high quality broadband services enabled by world class systems. The aim is to make Internet, Cloud and IT applications for education, healthcare and commerce, and vital online government services accessible and affordable in large areas in Africa, irrespective of location but especially in under and unserved areas.

Of the energy projects favoured by ICA members for future investment, the majority of these are hydropower projects.

Transport projects under consideration include several corridor projects as well as initiatives to realise the potential of hard infrastructure investments – for example WBG is contemplating support for regionally coordinated trade facilitation and competitiveness policy operations in the Sahel.

ICA members' regional disbursements in 2013 amounted to \$1.9bn of which \$1.2bn or 64% were attributed to the transport sector, \$341m or 18% to energy, \$211m or 11% to ICT, \$81m or 4% to water and \$43m or 2% to multi-sector projects.

The overall PIDA/PAP share in regional disbursements reached 36% or a total of \$688m. The share of PIDA/PAP disbursements per sector was again highest in the transport sector (\$629m or 52%), followed by energy (\$45m or 13%), and the water sector (\$9m or 1%). Disbursements to PIDA/PAP ICT projects remained rather low with \$4m or 2% of total regional ICT disbursements. PIDA/PAP multi-sector disbursements were insignificant ■

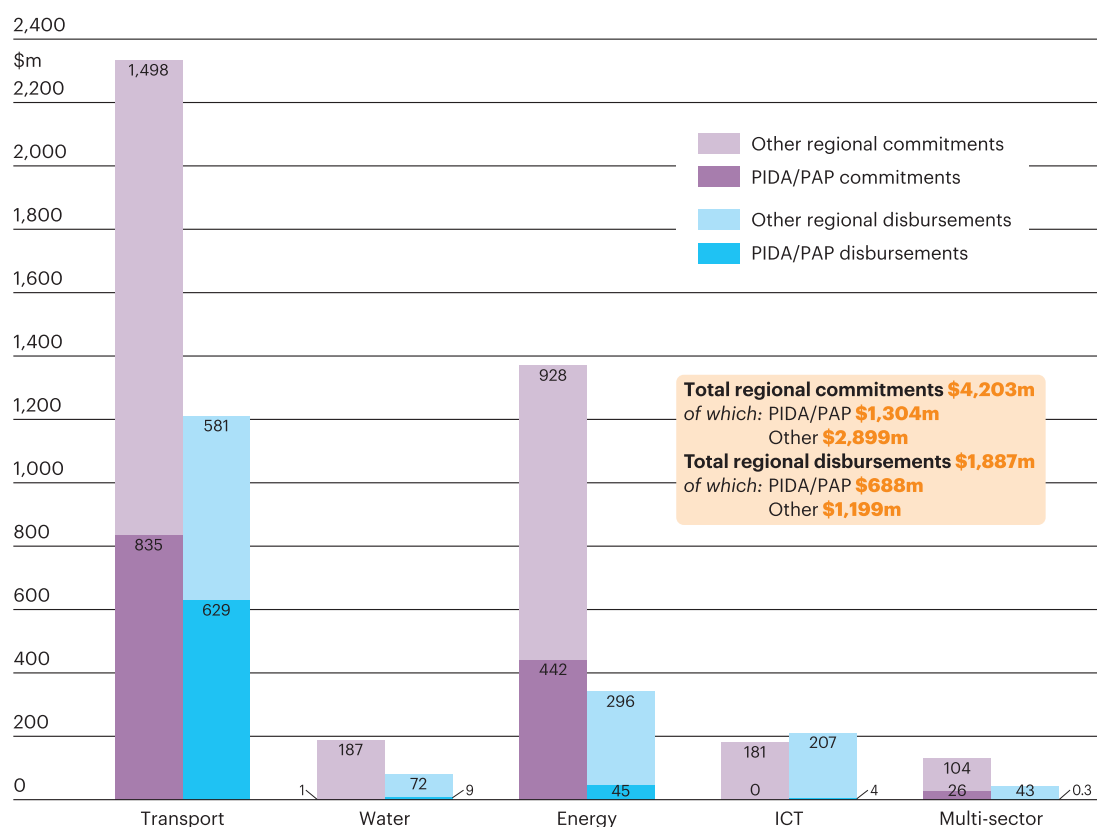


Figure 33
PIDA/PAP and other regional commitments and disbursements by sector, 2013

4.6 Hard and Soft Infrastructure



Figure 34

ICA members' hard and soft infrastructure commitments, 2013

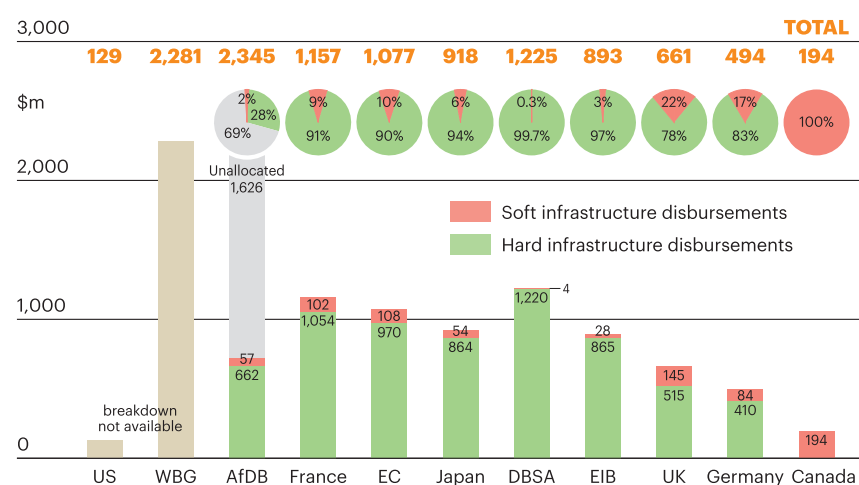


Figure 35

ICA members' hard and soft infrastructure disbursements, 2013

In 2013, the overall relation of hard to soft infrastructure commitments of ICA members was 90% to 10% (excluding unallocated amounts). Pledges to soft infrastructure totalled \$1.8bn.

Since Canada does not support hard infrastructure projects, it obviously reported the highest ratio of support amongst ICA members to soft infrastructure.

The UK, similar to the previous year, committed a relatively high share of its funds to soft infrastructure too, with \$256m or 24% of its total commitments.

The UK was followed by the AfDB (\$435m or 12%), the EC (\$163m or 10%), the WBG (\$357m or 8%, data partly incomplete), France (\$172m or 7%), the EIB (\$76m or 7%), and Germany (\$75m or 7%).

Japan committed around 4% and DBSA 1% of funds to soft infrastructure. For the US no breakdown was available.

In absolute terms, the largest commitment to soft infrastructure was by AfDB – with \$435m or about four times the amount it committed in 2012.

The WBG slightly increased its funding over the previous year to \$357m in soft infrastructure commitments in 2013.

The UK and the EIB approximately doubled their 2013 commitments to soft infrastructure to \$256m and \$76m, respectively, while France also considerably increased this type of funding to \$172m from \$100m in 2012.

The EC pledged about the same in 2013 as it did in 2012 with \$163m, while Germany's funding for soft infrastructure decreased from \$185m to \$75m. Japan also reported a lighter commitment to soft infrastructure of

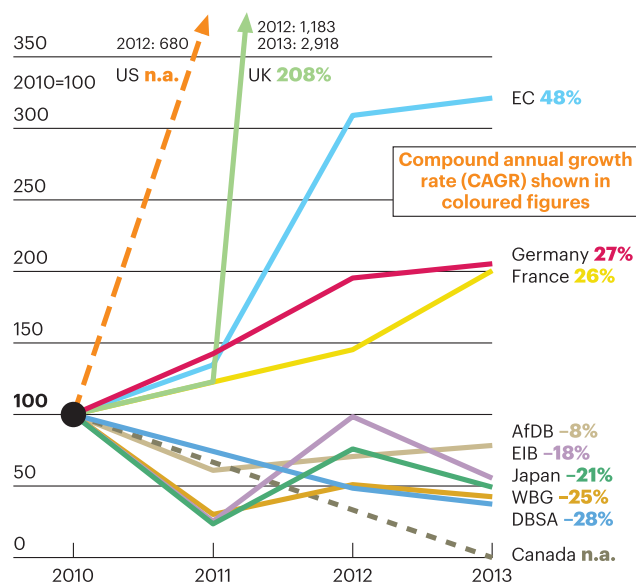


Figure 36

Index of ICA members' hard infrastructure commitment trends, 2010-2013

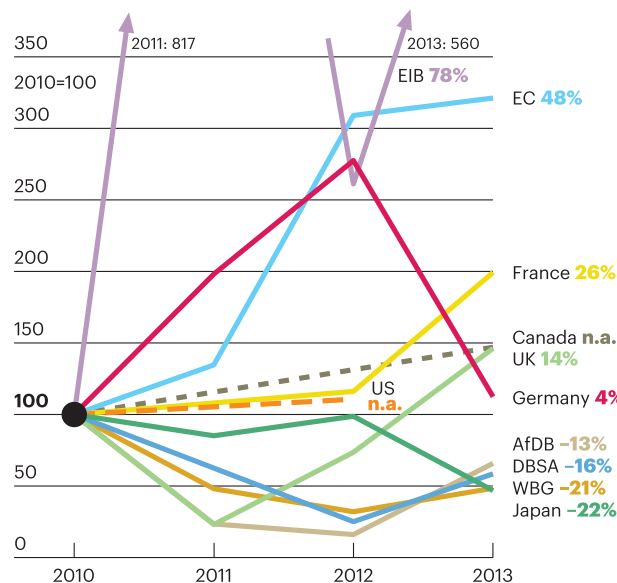


Figure 37

Index of ICA members' soft infrastructure commitment trends, 2010-2013

\$54m in 2013 compared with \$114m in the previous year.

Soft infrastructure disbursements amounted to \$772m in 2013 and mirrored the ratio of hard to soft infrastructure commitments at 89% versus 11%.

Apart from Canada with its 100% soft infrastructure portfolio, the UK reported 22% of soft infrastructure disbursements, closely followed by Germany with 17%.

The EC, France, and Japan committed shares of 10%, 9%, and 6% respectively to soft infrastructure. The EIB and the AfDB committed lower shares of 3% and 2% respectively.

Canada, the UK, the EC and France reported the highest absolute amounts of soft infrastructure disbursements ranging from \$194m to \$102m.

Over the period 2010-13, the UK reported for the second year running amongst ICA members the steepest growth path in commitments to hard

infrastructure, from \$28m in 2010 to \$812m in 2013 at an apparent compound average growth rate of 208%. This may be a product of under reporting in previous years.

In 2013, the UK's soft infrastructure commitments also picked up substantially from \$129m to \$256m, registering an average annual growth rate since 2010 of 14%.

Other ICA members displaying increased momentum in annual hard infrastructure growth since 2010 were the EC (48%), Germany (27%) and France (26%).

For average annual growth in soft infrastructure commitments since 2010, the EIB and the EC registered the fastest growth rates of 78% and 48%, respectively.

While France, UK, and Germany still had compounded average growth rates of 26%, 14% and 4% respectively, all other ICA members reported a declining trend. For US and Canada no time series data was available.

Of total soft infrastructure commitments by ICA members in 2013, 32% were dedicated to project preparation and 29% to capacity building in various forms. The remainder were committed for several other purposes, including research and evaluation.

While Canada focussed exclusively on project preparation, Japan, Germany and the EC emphasised capacity building, committing \$40m or 76%, \$56m or 76%, and \$81m or 50% respectively (see Figure 38, page 36).

France also dedicated the majority of its soft infrastructure commitments to project preparation (\$104m or 61%), while the EIB allocated \$20m or 27% to project preparation, \$4m or 6% to capacity building and \$52m or 68% to other specific purposes. ■

4.7 Project Preparation

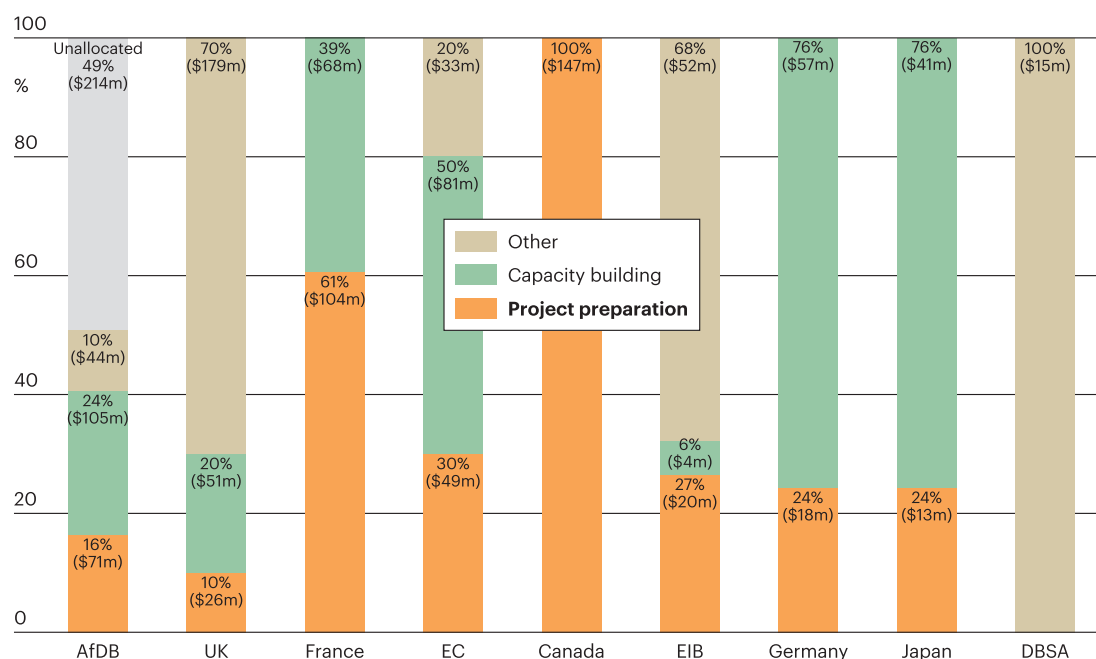


Figure 38
ICA members' soft infrastructure commitments by type, 2013

Among ICA members, the most used project preparation facility was the EU-Africa Infrastructure Trust Fund (EU-AITF), which is managed by the EIB and aims to increase investment in regional infrastructure in Sub-Saharan Africa by blending long term loans from participating financiers with grant resources from the European Commission and EU member states. It was used by all five European ICA members, the EC, EIB, France, Germany and the UK.

The AfDB, Canada, France and Germany, used the AWF which mainly supports the preparation of bankable water projects. AfDB, Canada and the UK used the NEPAD Infrastructure Project Preparation Facility (NEPAD IPPF) which provides grant resources for project preparation, developing partnerships for project implementation and promoting infrastructure projects and programmes. AfDB and the US used the Sustainable Energy Fund for Africa (SEFA) facility, which provides financial support to medium- and small-scale clean energy and energy efficiency projects.

The following project preparation facilities were each used by just one ICA member: EU Energy Facility; InfraCo Africa; Neighbourhood Investment Facility; the Fund for African Private Sector Assistance's Fund for Infrastructure Projects, AfDBSA Project Preparation and Feasibility Studies Facility; Private Financial Advisory Network, and the Africa Clean Energy Finance Initiative.

In terms of the technical difficulties and challenges in the project development cycle, ICA members said that establishing the enabling environment (ensuring the right attitudes, policies and practices with stakeholders) was the biggest challenge.

Project structuring (including but not limited to establishing roles, tasks and responsibilities, defining timelines, establishing quality control procedures, lines of communications and coordinating mechanisms) was seen as the next most challenging aspect of the project cycle followed closely by transacting (agreeing risks, rewards, roles and responsibilities amongst stakeholders).

These three difficulties and challenges were perceived as far greater than the three others ICA members contemplated. Of these, undertaking technical due diligence was considered the most difficult. This was followed by project identification and concept development while marketing the technical aspects of the concept or project was considered the least difficult or challenging process in the project development cycle.

It does however appear that most stages of the project development cycle present difficulties in some circumstances. One member said project identification and concept development was its most problematic stage in the cycle, even though all other members said it presented relatively few problems. Another member, unlike all the others, said that the hardest aspect was undertaking technical due diligence. The only stage of the project not considered particularly challenging by any of the members was marketing a concept or project to stakeholders.

In terms of the challenges presented making financial arrangements for

4.8 Strategic Outlook

Strategic considerations are changing for some ICA members while others anticipate no self-determined change in tack whilst recognising that the political and other forces driving their investment decisions as well as factors shaping a new paradigm in African infrastructure investment will shape what they do in the future.

Clearly the US strategy has changed substantially with the introduction of *Power Africa*, reflecting the view from Washington that energy development is a cross cutting issue with the potential to affect virtually all other efforts to alleviate various development challenges, including economic growth and health.

DBSA has also changed strategy. It used to support private sector projects but is now focused on sovereign projects with a current sectoral focus on transport, energy and water which the bank expects will continue in the immediate future.

No change of strategy is anticipated by Germany. Canada has not changed its strategy focused on private sector financing in recent years and is not likely to do so in the very near future but – in common with other ICA members – it does anticipate adapting to fit an evolving African infrastructure financing environment that will soon feature the AfDB proposed Africa50 fund and the World Bank proposed Global Infrastructure Facility and the

increasingly visible need for and exploration of different financing models.

Lending for infrastructure is expected to continue to increase in the coming years according to WBG, following the trend over the past three years during which IDA lending for African infrastructure has increased from \$3.5bn to \$6.7bn.

The IFC's increasingly holistic approach to catalysing private sector investment in African infrastructure includes medium to long term engagement in transformational infrastructure projects; developing projects from early stage to bankability via its InfraVentures Platform; financing mature and bankable projects and more intensive collaboration with IDA/IBRD and other DFIs.

Strategy drivers vary for different members. Poverty reduction is a key driver of DFID's strategy. This means it is primarily a grant funder of infrastructure in Africa with a strong poverty reduction mandate but notes an increasing focus on economic development to achieve poverty reduction as well as the provision of basic services. The majority of its infrastructure programmes are water and sanitation, but its focus on economic infrastructure is increasing.

Increasing the impact of the EU Development policies, a focus on inclusive and sustainable economic growth and the concentration of support on sectors and countries where it has the

greatest impact are at the core of the EC's strategy. It is defined in the Agenda for Change (COM2011-637), the EC's guiding strategy document for 2014-2020 actions. Under this strategy, the EC anticipates more of a blended approach – including interest rate subsidies, risk capital and technical assistance – to infrastructure financing.

The EIB expects a continued and consistent approach as per its mandate, with sustainable energy continuing as a priority. Investment decisions continue to be based on its three pillar methodology: consistency with EIB's mandated objectives, soundness of the operation, and additionality over market alternatives in terms of financial product, technical, structuring and sector contribution and standards and assurance.

AfDB Energy Department, which bases its investment decisions on social, economic and development outcomes and impacts, expects a continuing preference for regional projects or those with a regional dimension as well as projects with significant impacts on job creation. AfDB Private Sector will continue to base its decisions on risk profile and rates of return as well as economic and social development outcomes and impacts. It will continue to support private entities in projects with development impacts and economic outcomes provided the projects are feasible and financially viable to ensure sustainability. ■

projects, determining the financial structure of a project appears to present the most difficulties. These include identifying the full range of complementary financial stakeholders and establishing the financial risks, rewards, roles and responsibilities to be taken by different stakeholders.

Project and concept development, including undertaking pre-feasibility and feasibility studies, was considered the next most challenging aspect of making financial arrangements for projects.

Four ICA members considered financial structuring the most difficult

aspect of making financial arrangements while the same number of members considered project and concept development the most challenging part of this process.

The third hardest part of making financial arrangements for projects was considered to be the task aligning stakeholders' financial resources and requirements followed very closely by the process of reaching financial close.

The two least challenging aspects of making financial arrangements for projects were considered to be undertaking financial due diligence and promoting and selling the

financial aspects of the concept or project to stakeholders. ■

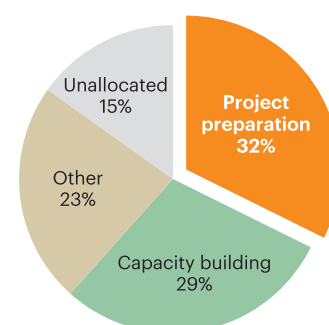


Figure 39

Soft infrastructure commitments by category, 2013

5. Other Public Sector Financing



5.1 Introduction

With few reported commitments to African infrastructure by countries such as Brazil, India, South Korea and Turkey, non-ICA member public funding for Africa's infrastructure development continued to be heavily dominated by Chinese investments in 2013. But with both China and the US adjusting their Africa strategies, change may be on the horizon with new public sector players coming onto the scene and fresh links being forged between multilaterals, governments and the private sector.

The long awaited \$100bn BRICS Development Bank and a reserve currency pool worth over another \$100bn could make a limited difference to the funding of African infrastructure, perhaps counterbalancing the current influence of Western-based lending institutions

and the dollar. The new bank will provide money for infrastructure and development projects in BRICS countries, making RSA a potential beneficiary.

US President Barack Obama's Power Africa initiative looks very likely to change the shape of infrastructure funding across Sub-Saharan Africa, and has already leveraged new external public sector finance with Sweden agreeing to commit \$1bn to the initiative.

Including the \$7bn of energy sector commitments contemplated elsewhere in this report, the US government, World Bank and businesses envisage investments of a combined \$33bn in Africa's economy, which would propel US investments to a position in a continent where trade and investment has become increasingly dominated by

China and Europe over recent years.

US government agencies will finance \$7bn in business exports and investments in Africa, while US companies have pledged \$20bn in deals with the continent. The World Bank, Sweden and private sources have pledged another \$12bn in funding for Power Africa, bringing the electrification program's total funding to \$26bn.

China's strategy moves include the AfDB and the People's Bank of China entering into the \$2bn Africa Growing Together Fund (AGTF) co-financing fund, with resources from the fund expected to be provided over a 10-year period and used alongside the AfDB's own resources to finance eligible sovereign and non-sovereign guaranteed development projects in Africa.

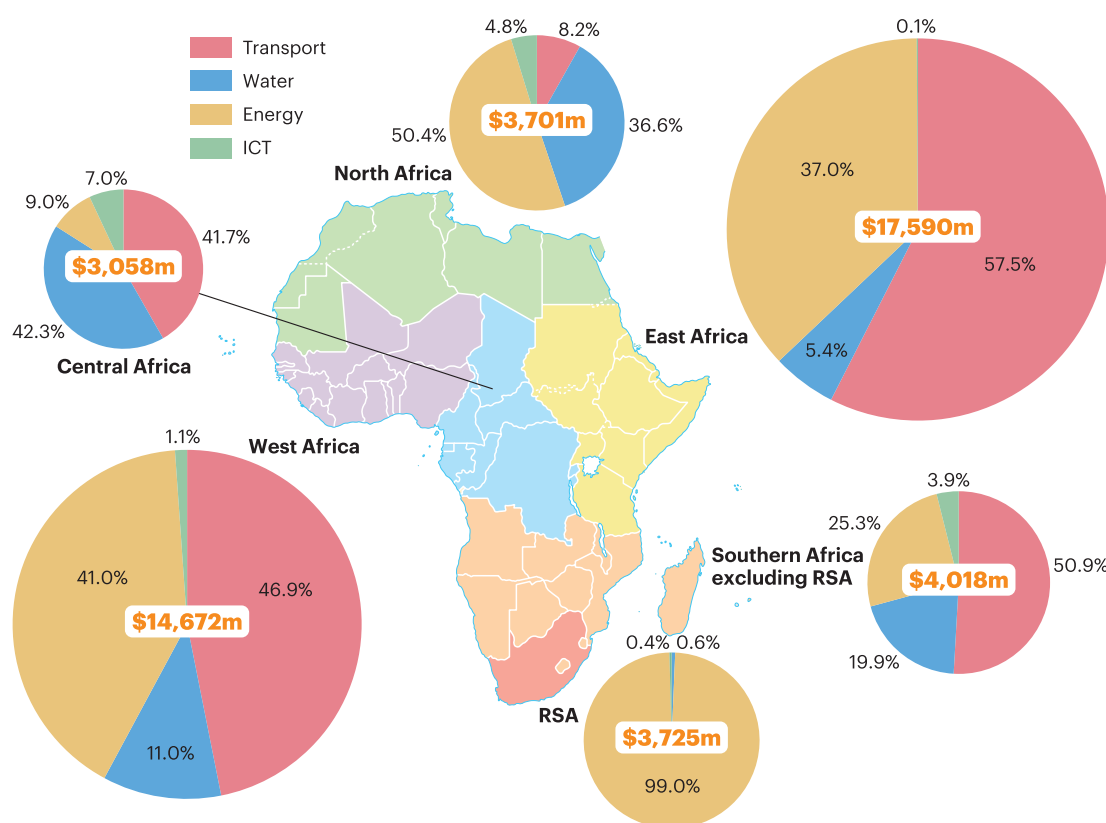


Figure 40
Total non-ICA commitments by region, 2013 (Arab Co-ordination Group, China, India, South Korea, non-ICA European countries, BOAD)

Comparisons have been drawn with the Nigeria Trust Fund, established by the AfDB and the Nigerian government from which, in the 2013 call for proposals, around \$38.6m was available for projects to be approved by AfDB. In comparison, the AGTF will enable an additional \$200m to be deployed on projects annually throughout Africa, on identical terms and conditions as for loans made by the AfDB itself to the same projects.

During Chinese Premier Li Keqiang's Africa tour in May 2014, which took in Ethiopia, Kenya, Nigeria and Angola, China announced an expansion of a credit line to \$30bn from \$20bn for Chinese projects in Africa and extended \$2bn to the China-Africa Development Fund (CADFund), a now \$5bn sovereign wealth fund that invests in the equity of Sino-African joint venture companies.

By the end of 2012, CADFund had already committed to \$2.4bn in 61

projects in 30 African countries, and had already disbursed \$1.8bn for 53 projects, but the additional funding announced in 2014 may not be all good news for Africa's infrastructure development.

CADFund's president, Chi Jianxin, said China has been looking to invest in different ways in Africa instead of focusing only on building infrastructure projects. The fund's additional \$2bn may more likely be directed towards Africa's agricultural and steel sectors and projects to boost industrial development.

The \$10bn additional credit line comes in the wake of the Chinese government apparently taking a more cautious approach to African investments. This would mirror falling Chinese foreign direct investment in Africa, which peaked in 2008 at \$5.5bn, declining to \$3.2bn in 2011 and \$2.5bn in 2012.

It may be that more external public

sector financing will come from countries with increasing FDI stock in Africa. But as UNCTAD's 2013 publication, *The Rise of BRICS FDI and Africa*, pointed out, Malaysia and South Africa at end- 2011 had more cumulative FDI stock in Africa than China.

Malaysia had FDI stock of about \$19bn, South Africa had \$18bn, China \$16bn and India \$14bn. But Malaysia does not play a significant role in Africa's infrastructure, preferring instead to focus on technical and administrative assistance and does not operate a substantial aid programme directed at infrastructure projects.

All of which suggests that external public sector funding for African infrastructure may be more a matter of policy rather than necessarily a product of trade or investment. ■

5.2 China

In 2013, Chinese lending to African infrastructure projects reached \$13.4bn, almost exactly the same figure as in 2012. Despite remaining steady over the past two years, public financing of infrastructure projects on the continent, most of which is administered through the Export-Import Bank of China and the China-Africa Development Fund, still accounts for substantially less than the \$14.9bn committed during 2011.

China committed around three-quarters of this funding – almost \$10bn – to transport projects. This represents a significant increase on 2012's \$6.2bn, equivalent to 42.3% of total commitments for that year, and a return to 2011's transport-focused lending, when China funded \$12.1bn-worth of projects in the transportation sector, equivalent to 81% of its total.

Of this \$10bn, two East African projects accounted for just over \$7bn

in loans. In August 2013, China lent the government of Kenya \$3.75bn to finance the construction of a railway linking Mombasa port with the capital, Nairobi. In October 2013, China contributed \$3.3bn towards the construction of a railway linking Addis Ababa, the capital of landlocked Ethiopia, with Djibouti's port-capital on the Red Sea.

Energy projects ranked second in the share of funding commitments, accounting for almost \$2.6bn, or roughly 20% of the total, substantially less than 2012's \$5.2bn. Water projects accounted for \$360m of funding. However, projects in the ICT sector, which had been allocated only 1% of 2012's total and no commitments during 2011, received \$424m in loans, or 3% of the total.

China did not make any commitments to North African infrastructure projects, as was the case in 2011 and 2012. At \$8.75bn,

and mainly owing to the two railway projects referred to above, East African countries received 62% of Chinese infrastructure funding. West Africa received the second largest share, with \$2.3bn, half of which went to airport construction in Nigeria. Southern Africa benefited from \$1.3bn, or around 10%, while Central African projects received \$539m, less than the \$645m received in 2012, and a substantial reduction on the \$10.2bn of 2011.

There has been a relatively even spread of Chinese infrastructure funding, excluding North Africa, over the past three years. During this period, China committed a total of \$41.7bn to infrastructure projects on the continent. Of these, East Africa received \$15.4bn, or 37%, Central African countries received \$11.4bn, representing 27%, while West African projects benefited from \$10.3bn, or 24%. At \$4.2bn, or 10%, Southern African projects received

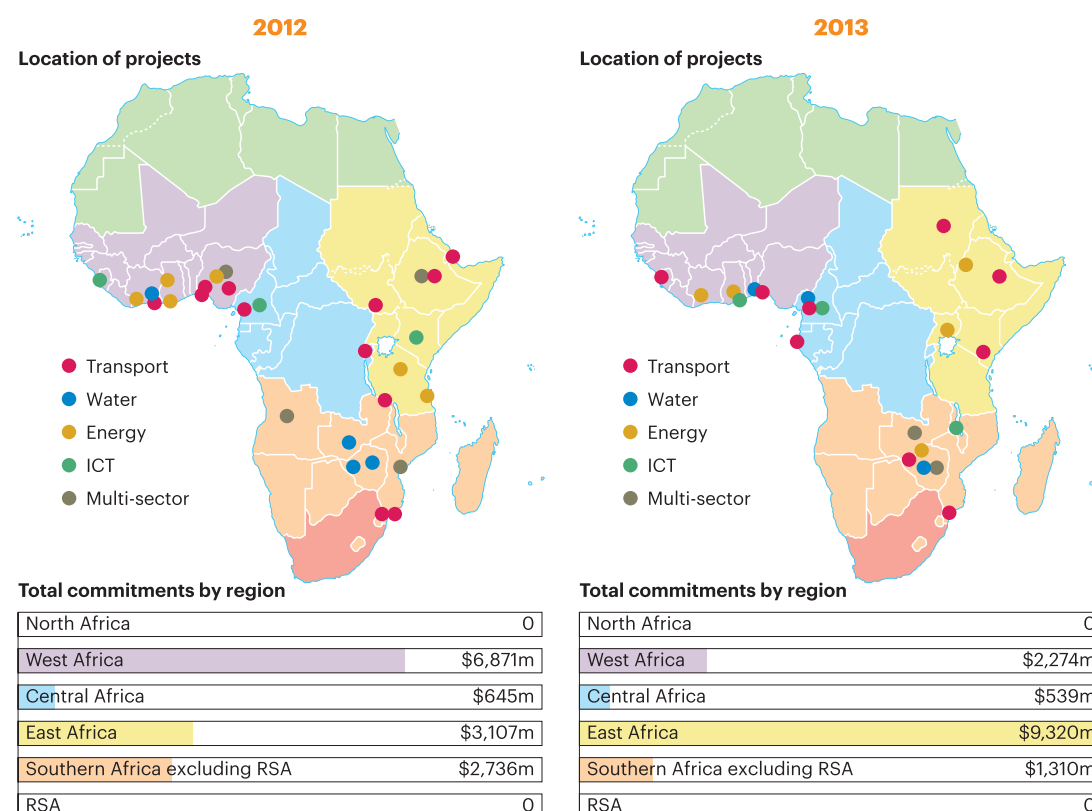


Figure 41
China: projects and commitments, 2012 and 2013

substantially less than the others over this period.

China is the world's largest net importer of oil and, historically, its funding in Africa has been directed towards oil-producing countries, as well as those that are richly endowed with mineral deposits. The ICA's reporting confirms the strength of lending to resource-rich countries. For example, during the past three years, Nigeria has received \$8.4bn of loans for infrastructure projects from Chinese public institutions. Similarly, Cameroon, also one of the continent's major oil producers, has received almost \$2.1bn.

But Chinese funding of infrastructure projects in Africa is not limited to resource-rich economies. It is increasingly directed to supporting the activities of Chinese firms on the continent, particularly construction companies. East African infrastructure projects provide

pertinent examples: the Ethiopia-Djibouti railway is being built by China Civil Engineering Construction Corporation (CCECC), while the 485km Nairobi-Mombasa railway is being constructed by state-owned China Roads and Bridges Corporation.

As well as supporting its own firms on the continent, Chinese investment in Africa is also adapting to take advantage of the rapid growth of a consumerist middle class, fostered by rapid economic growth. So while loans to resource-rich countries continue to form a prominent part of China's public investment portfolio in Africa, increasingly, other states with strong growth are also benefiting.

For example, Ethiopia, a country whose growth has remained steady at around 10% for the last decade, at \$4.3bn, received the lion's share of funding during 2013. ■

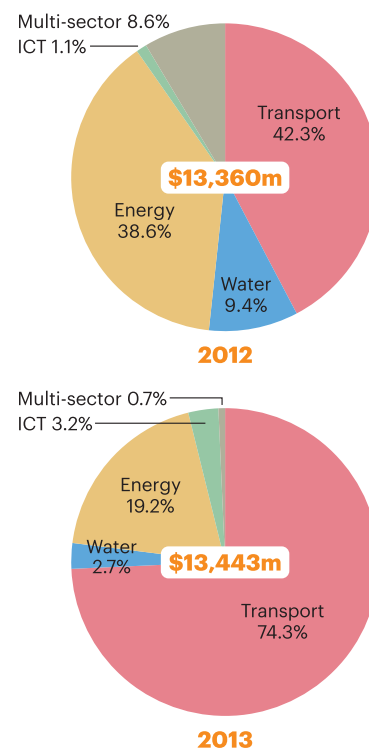
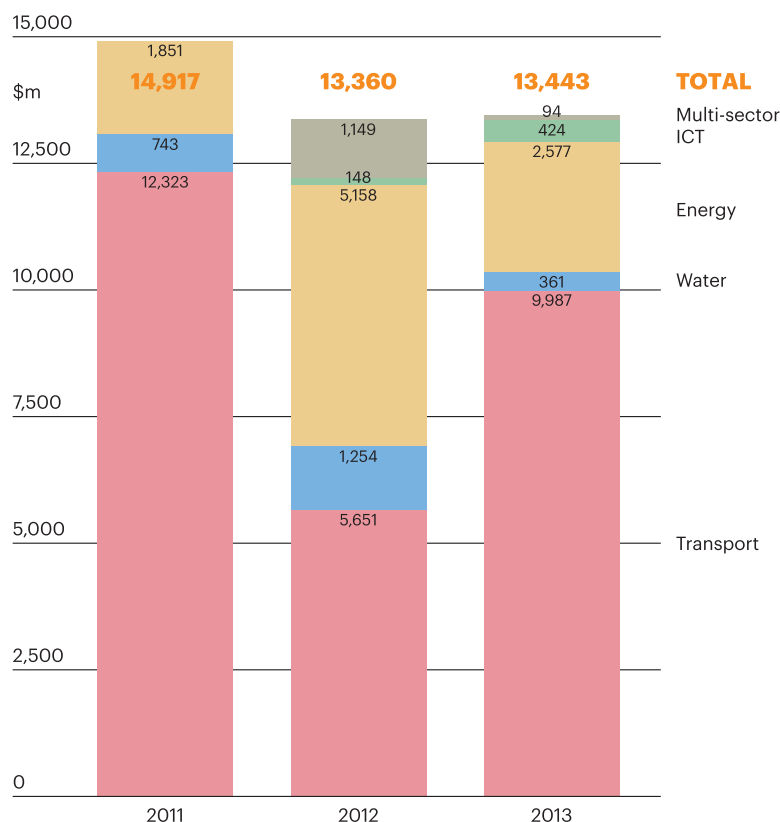


Figure 42
Chinese commitments by sector 2012 and 2013



Around three-quarters of China's infrastructure commitments to Africa in 2013 were made to the transport sector, with two railway projects in East Africa accounting for more than \$7bn in new commitments.

Figure 43
Chinese commitments 2011-2013

5.3 Arab Co-ordination Group

For 2013, total funding committed to infrastructure projects in Africa by members of the Arab Co-ordination Group reached almost \$3.1bn. This roughly represents a \$800m drop on last year's \$3.9bn total, but is consistent with the group's longer term lending; during 2011, the group lent \$2.9bn, and in 2010, it lent \$3.3bn.

North African projects accounted for just over 50% of total funding committed by the group for 2013, receiving \$1.6bn in loans. North African projects have consistently received the majority of funding over the past three years, benefiting from \$2.6bn in 2012 and \$1.2bn in 2011. Of this, \$878m went to energy projects and \$382m to transport, while water projects received \$359m. The group made one commitment to ICT infrastructure, a \$156m loan to modernise railway signalling in Egypt.

During 2013, East African recipients also featured prominently, receiving

just over \$700m, slightly more than 2012's lending, when East African countries received just over \$660m. Similarly, West African projects received \$637m from the group, a little more than the \$513m of 2012, and far more than the \$220m they received the preceding year. Relatively little funding went to projects in Central and Southern Africa, which received \$77m and \$44.2m respectively, roughly equivalent to the previous two years.

During 2013, energy projects received the lion's share of funding from the group, overtaking transport. Having been the recipient of 45% of the group's total funding during 2012, with \$1.8bn, energy projects made up some 42% of total funding during 2013, although this accounted for only \$1.3bn.

Transport projects again proved an important focus for the group, which lent just over \$1bn to the sector during 2013, equivalent to 33% of the total. Receiving \$570m of loans, water

projects accounted for just under 20% of the total, while only the one commitment referred to above went to the ICT sector.

As was the case during the previous four years of reporting, both the Islamic Development Bank (IDB) and the Arab Fund for Economic and Social Development (AFSED) contributed the most in loans. The former committed some \$1.6bn – almost 52% – of the group total. Of this, \$1.1bn, or 68.5%, went to North African projects, while \$381m, or 24%, went to West African projects. In terms of sectors, the IDB's commitments were relatively well-spread, excluding ICT. It contributed \$563m to transport projects, \$615m to energy and \$404m to water.

The AFSED made \$614m of commitments, substantially less than the \$962m it contributed during 2012. All of these, excluding a \$106m loan for dam construction in Sudan, went to North Africa.

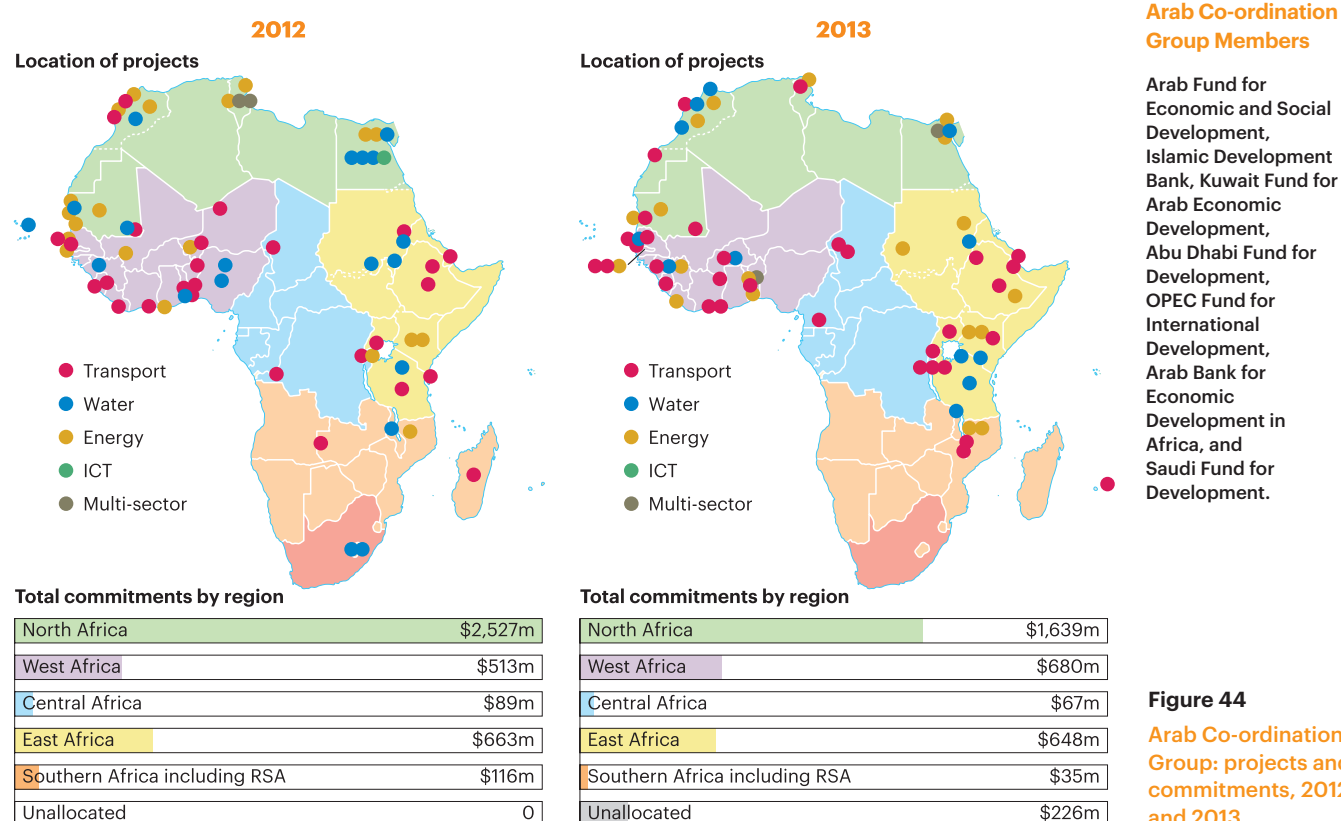


Figure 44

Arab Co-ordination Group: projects and commitments, 2012 and 2013

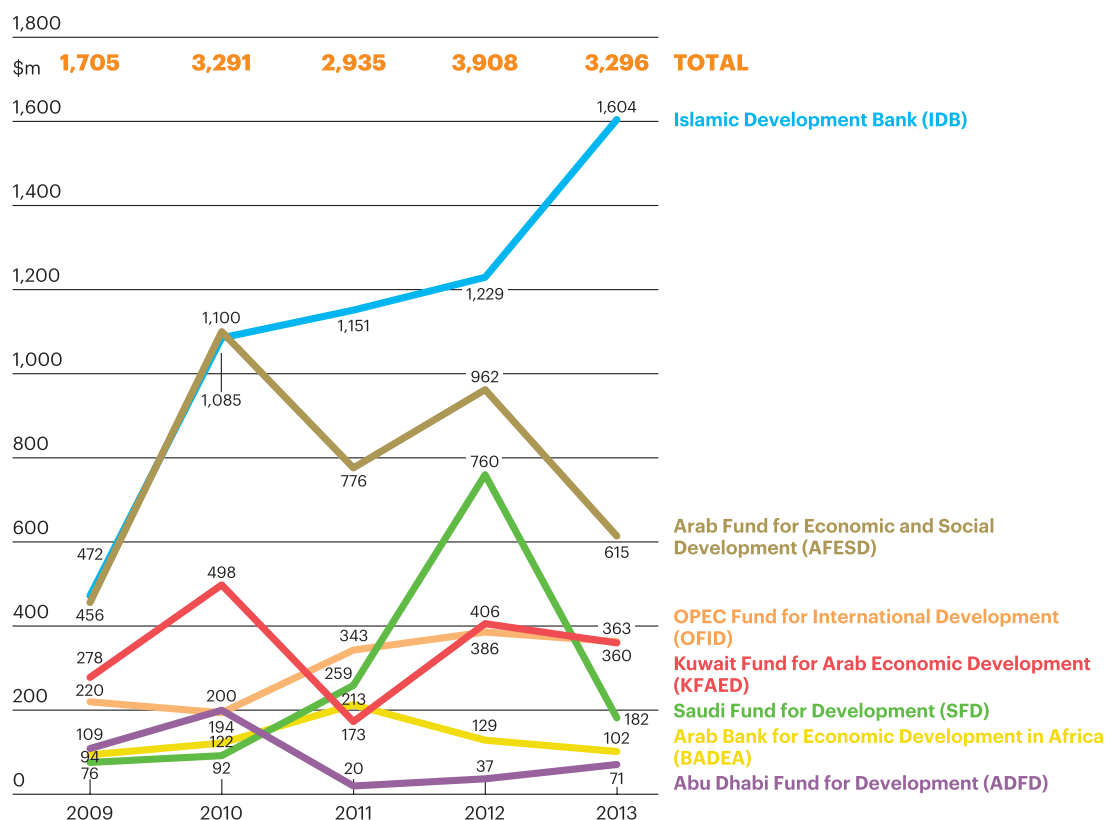


Figure 45
Arab Co-ordination
Group commitments
2009-2013

Consistent with preceding years, other members of the group tended to make smaller but more frequent loans during 2013. If contributions from the IDB and AFSED are included, many of which were larger loans of more than \$100m, the Group approved a total of 70 individual loans to infrastructure projects in Africa during 2013, with an average loan size of \$43m. Excluding the IDB and AFSED, the average loan size was just under \$20m.

The ICA's 2012 annual report pointed to the growing attractiveness of Islamic financing as an alternative to conventional funding sources in the aftermath of the global financial crisis. Increasingly, sub-Saharan African governments, particularly those whose countries have large Muslim populations, are turning to the Middle East for financing.

African governmental delegations to Middle Eastern countries in search of finance for infrastructure projects in their respective countries are now as

common as those to China, the most recent example of which was Kenyan President Uhuru Kenyatta's April 2014 visit to Qatar, resulting in the signing of a gas-to-power project agreement.

There are other signs that the strengthening of the Africa-Middle Eastern partnership is bearing fruit. In November 2013, Kuwait's Emir Sheikh Sabah Al-Ahmad Al-Sabah opened the third Africa-Arab Summit with the pledge that the Kuwait Fund for Arab Economic Development would provide \$1bn of loans to the continent over a five-year period.

Meanwhile, the IDB is expanding its connections in Africa, spreading Sharia-compliant financial products across the continent with new partnerships with local banks in Benin, Chad and Mali. ■

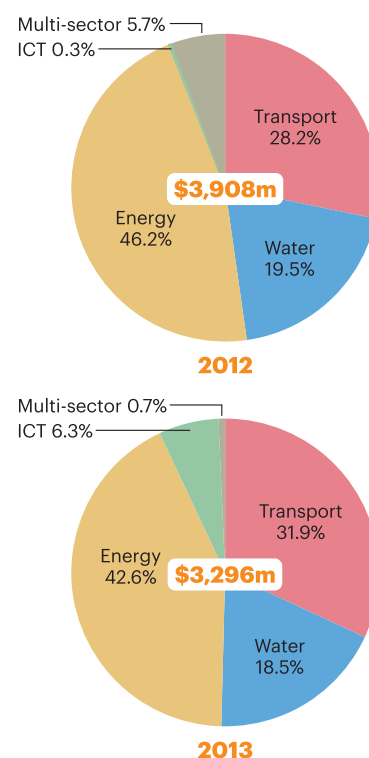


Figure 46
Arab Co-ordination Group commitments
by sector 2012 and 2013

5.4 European sources

European development finance institutions (DFIs) that are not ICA members made some interesting commitments to African infrastructure financing in 2013, despite being overshadowed in scale by the European ICA members.

In 2013, more than a third of the commitments (\$189m of \$512m) made to Africa by non-ICA European DFIs were channelled to infrastructure-related deals.

Leading the field, the highly active Dutch institution FMO committed \$198m in total, with \$69.1m allocated to infrastructure. Also noteworthy in 2013, Denmark's IFU committed \$36.2m to African infrastructure deals, which made up 85% of its total Africa commitments.

Leveraging private sector investment remains a key focus among European actors, with DFI-backed credit lines gaining traction. In January 2013, FMO launched a landmark partnership with the multilateral Africa Finance Corporation (AFC) to establish a \$15m project development facility, which will fund equity investments in African infrastructure projects under development.

The facility is managed by the AFC and will typically fund technical advisory services and third-party expenses for projects pre-financial close. FMO says that, by providing

early-stage development risk capital, which has traditionally been in short supply, key infrastructure projects will be brought to market.

The Africa Sustainable Energy Facility adopts a similar rationale. The facility, to which the International Finance Corporation (IFC) has contributed €30m and European Investment Bank (EIB) is potentially contributing €30m, targets investments in renewable energy and energy efficiency, and includes a South-South technology exchange between private sector actors. Currently in its pilot stage, the facility is East Africa-focused.

Austria's OeEB committed €2m to finance a support unit that will identify and facilitate investments, providing business development and advisory services to would-be developers.

The renewable energy industry continues to attract direct equity investment from non-ICA member DFIs. FMO committed funding to the project development costs of three projects launched as part of South Africa's Renewable Energy Independent Power Producer Procurement (REIPPP) programme: the 28MW Erika Energy solar project (\$7.5m), the 30MW Core Energy solar project (\$7.5m), and the 73.8MW Coria Investments wind farm (\$15m).

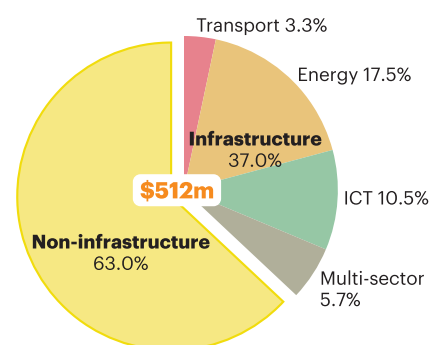


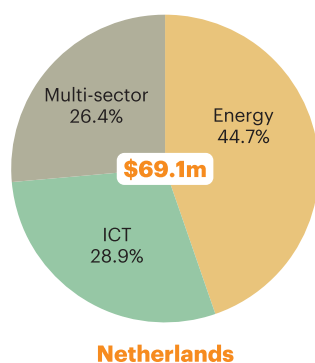
Figure 47

Total commitments to Africa for selected non-ICA European countries, 2013

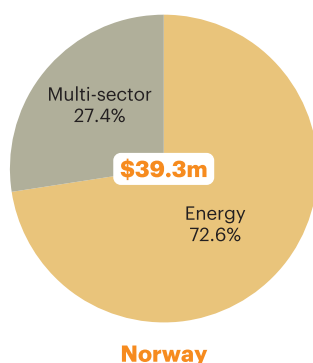
(Austria, Belgium, Denmark, Finland, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland)

Norfund also provided \$13.4m direct equity to renewable energy projects in South Africa. This included a \$1.3m commitment to the country's first commercial biogas waste plant, Bio2Watt, which will generate an estimated 35GWh of energy per year from organic waste.

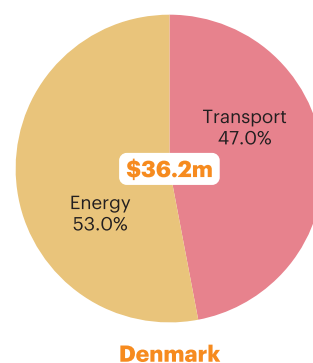
Adding to their energy-heavy portfolio, Spain's Cofides disbursed funding under its 2012 agreement with South Africa's Industrial Development Corporation (IDC), providing €5m for the construction and operation of Gestamp Solar's 20MW power plant in South Africa. The Cofides-IDC partnership is intended to promote Spanish-South



Netherlands



Norway



Denmark

Figure 48

Total infrastructure commitments for selected non-ICA European countries, 2013

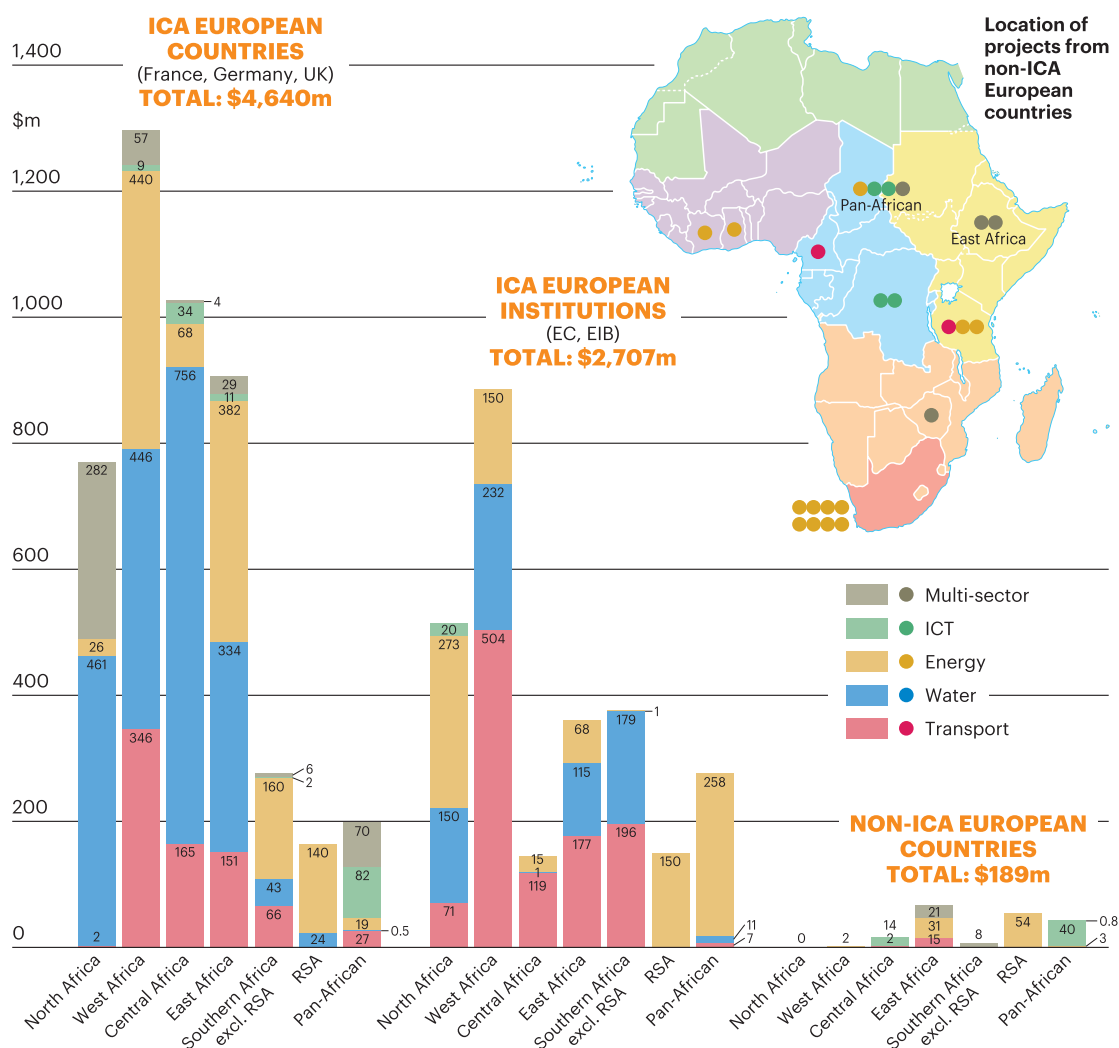


Figure 49
Comparison of 2013 commitments by selected European ICA members and non-ICA European countries.
(Austria, Belgium, Denmark, Finland, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland)

African joint ventures, for which Gestamp Solar is a pioneer.

Beyond renewable energy, some interesting commitments were made by non-ICA member European DFIs into other infrastructure sub-sectors. For example, Norfund provided a \$5m loan to the Equatoria Tower real estate project in South Sudan, matching the IFC's \$5m loan. In December 2013, Belgium's BIO signed a €14m deal to support the Helios Towers project in the Democratic Republic of Congo, representing its first major African telecoms transaction. And Denmark's IFU lent \$15.2m to APM Terminal's port infrastructure project in Kenya.

Although typically reserved for financial services investments, DFI-backed venture funds are also making some infrastructure investments.

The East Africa-focused Novastar Ventures, which closed at \$44m, received contributions from Norfund (\$10m) and FMO (\$10m), as well as from the UK Department for International Development's Impact Fund and several private investors. The fund has already made some infrastructure investments, including to Sanergy.

The winner of the *Financial Times*' 2013 Urban Ingenuity Award is a social enterprise providing sanitation

to slums in Nairobi, Kenya. The Fresh Life system operates on a pay-per-use basis, run by resident micro-entrepreneurs, with waste collected and transformed into organic fertiliser for sale to farmers.

The Swiss Investment Fund for Emerging Markets (Sifem) contributed to two Africa-focused venture funds in 2013; the Capital North Africa Venture Fund II (€8m contribution) and the Medu Capital Fund III (\$5m). Neither have made investments in the infrastructure sector, but Sifem has reported that deal flow is healthy and that the number of sector-specific funds, including in infrastructure and renewable energy, is growing. ■

5.5 African National Budgets for Infrastructure

National government budget allocations for infrastructure projects appear to be increasing, but the figures presented in this section should be viewed with some caution. Budget allocations may include external financing included elsewhere in this report while the amounts allocated to budgets may not be the amounts actually spent.

According to data collected** from the national budgets of 21 African countries, general expenditure budgets grew by a compound annual growth rate of 3% (3% CAGR) in 2011-13, while infrastructure budgets grew 8% CAGR over the same period.

Echoing trends reported in the Annual Report 2012, allocations for the energy sector again showed a growth rate across the 2011-13 period of 5% CAGR. Other sectors also grew rapidly. Infrastructure budgets for water and ICT experienced 11% and 7% CAGR, respectively.

While transport infrastructure budgets saw only modest growth rates of 1% across the reporting period, the sector consistently received the largest allocation in absolute terms, with an average yearly total allocation of \$17.1bn for our sample. Meanwhile, reflecting trends seen across this report, ICT consistently received the lowest levels of budgetary commitments, averaging \$685m annually through 2011-13.

Budget allocations for infrastructure appear volatile. Across all infrastructure sectors, budget allocations fell 4.2% from \$37.8bn in 2011 to \$36.2bn in 2012 before surging upwards in 2013, growing by 19.3% to \$43.2bn.

For some countries, anticipated expenditure volatility is even more pronounced. Data suggests that, in Zimbabwe, the annual infrastructure budget grew by 19.6% in 2012 before falling 59.5% in 2013. Meanwhile, in Rwanda's energy sector, annual budgetary allocations grew by 6.8% in 2012 before experiencing massive growth in 2013 of 164.4%.

In some countries, currency volatility may also have a significant impact on actual investments, since a large proportion of infrastructure spending is conducted in US dollars. In Ghana for example, while cedi denominated allocations to infrastructure grew by 62% CAGR during 2011-13, considerable exchange rate depreciation reduced the equivalent dollarised growth rate to only 24%.

But the 2013 data does indicate positive developments. In Angola, massive investment across all sectors was envisaged in the 2013 budget, particularly in transport and energy, which were allocated \$3.8bn and \$3.6bn respectively and contributed to a total infrastructure budget of \$9.8bn, more than four times larger than allocations made in either 2011 or 2012.

In West Africa, both Côte d'Ivoire and Mali saw large increases in their budget allocations to infrastructure from 2012, reaching \$1.2bn and \$795m respectively in 2013. For Mali the 2013 figure, while significantly above 2012, remains below 2011 levels (*see Figure 50 for overall trend*).

In terms of absolute national budget allocations, South Africa continues to dominate the continent. In the National Budget Speech 2013, finance minister Pravin Gordhan said financing of R827bn (\$78.6bn at 31 December 2013 exchange rates and equivalent to \$26.2bn per annum if spread evenly) on infrastructure projects over the next three years, to be drawn from tax revenues and state-owned enterprises.

Some countries in the sample apparently allocated a large proportion of their total budgetary expenditure to infrastructure in 2013. Repeating patterns identified in 2012, Cape Verde, Uganda and Botswana all allocated particularly high proportions.

Interesting patterns also emerged in government allocations to individual infrastructure sectors between 2011 and 2013. While water and ICT both received generally stable proportions of national infrastructure budgets, averaging about 20% and 3% respectively, transport and energy allocations accounted for high proportions of total infrastructure budgets at 41% and 37%, respectively.

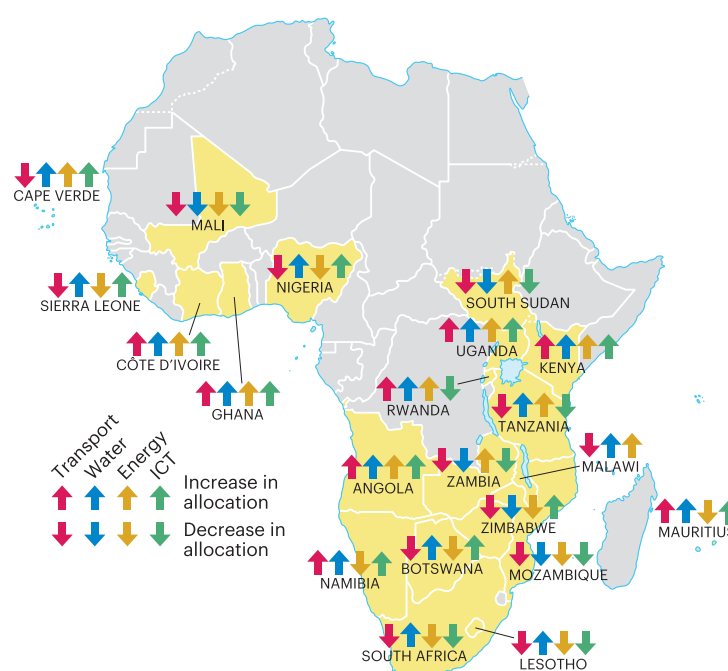


Figure 50
Trends in infrastructure allocation 2011-2013

Analysis of data from 21 African countries' national budget allocations indicates a very wide variation in planned infrastructure spending per capita and infrastructure budget allocations as a percentage of GDP.

In terms of African national government budget allocations for infrastructure per capita, our analysis indicates that, by this

measure, Botswana may be the country most committed to infrastructure development of those in the survey group while the country committing the most to infrastructure as a percentage of GDP appears to be Lesotho, followed closely by Cape Verde. As noted earlier, budget allocations in the survey countries may include external financing.

Of the countries surveyed, the average per capita spending on infrastructure is \$122 per capita, but the range is immense, from \$8.64 to \$548 per capita, with Botswana and South Africa at the top end of the range. *Figure 51* shows the 2013 budget allocations per capita to infrastructure in African national budgets.

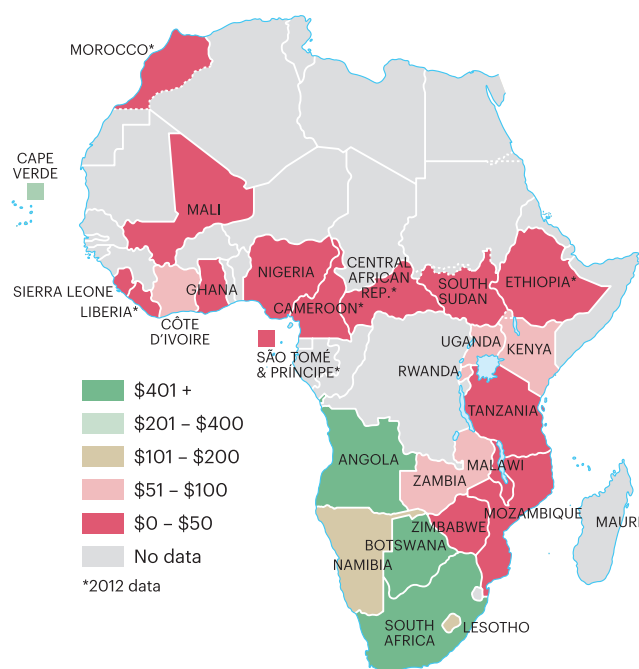


Figure 51

National budget allocations per capita, 2013

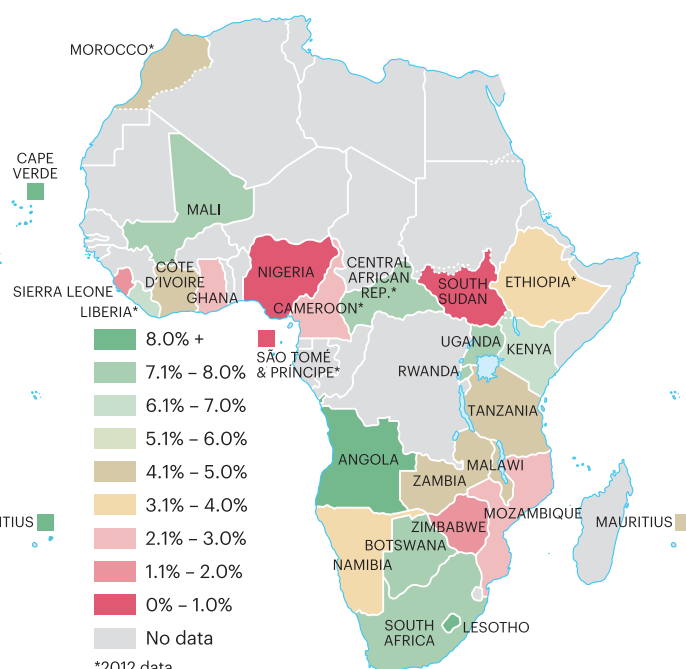


Figure 52

Percentage of GDP allocated to infrastructure in national budgets

** Data used is substantially sourced from direct contact with national ministries of finance and official documentation, including financial statements, Medium Term Expenditure Framework documents, and budget speeches.

In a minority of circumstances, data is sourced from respectable local

newspapers, where aforementioned documentation is unavailable. In most cases, figures represent yearly allocations of both capital and recurrent expenditure to relevant national programmes, government functions and ministries.

In some cases, revised allocations, estimated or calculated data has been

used. Such an expansive methodology reflects the inherently heterogeneous and inconsistent nature of the data.

Figures should be taken as purely indicative and represent the best-estimations of the ICA and may not, therefore, reflect actual government expenditure with complete accuracy.

Countries prioritised different sectors in their 2013 budget allocations. Mozambique, Botswana and Lesotho allocated \$216m, \$542m and \$118m respectively and all in excess of 30% of their infrastructure budgets to water and sanitation. Malawi, Namibia and Zambia each allocated over 70% of infrastructure expenditure to the transport sector, at \$116.8m, \$272.1m

and \$700.5m, respectively.

Ghana and Tanzania each allocated around 50% of their budgets to the energy sector. Though Ghana has previously allocated significant proportions of its infrastructure budget to energy (39% in 2011 and 37% in 2012), this represents a change of course for Tanzania, which only

allocated around 12% to energy in each of the two previous years.

During 2011-13 much less variance was exhibited between countries in the ICT sector. In 2013, with the exceptions of Zimbabwe, Sierra Leone and South Sudan, no other sample country allocated more than 10% of their infrastructure budget to ICT.

5.6 Other Sources of Finance

India

Indian public financing to African infrastructure projects, administered through the country's Export-Import Bank largely in the form of lines of credit, amounted to almost \$761m in 2013. This represents roughly a \$100m increase on 2012's \$667m.

However, while in 2012 some \$450m – or 60% – went to Africa's energy sector, during 2013, energy projects on the continent received only \$220m. Instead, transport projects received the bulk of Indian financing, amounting to \$450m, or 60% of the total committed. Water projects benefited from \$90m, substantially less than the \$255m received during 2012.

India's Ex-Im Bank lent no funds to North African projects during 2013. Instead, Southern African countries featured prominently, with funding going to water and transport projects in Mozambique, which received \$20m and \$150m respectively. It also committed \$178.5m to energy projects in West Africa, including solar electrification in Niger and improving Liberia's electricity transmission system, alongside a \$43m loan for a water supply project in Benin. In total, it made eight commitments during 2013, with an average loan size of around \$95m.

India looks set to continue making commitments of similar size in the medium term. It committed to

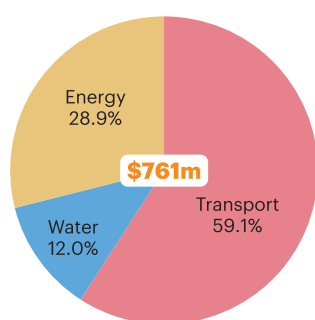


Figure 53
Total commitments by sector 2013

providing \$5.4bn in loans during an India-Africa summit in 2008, making an additional offer of \$5bn over a three-year period in 2011. India is set to host a third summit in 2014.

South Korea

In 2013, South Korea's Export-Import Bank, via its Economic Development Co-operation Fund, made a total of \$175.44m in two loan commitments to infrastructure projects in Africa. This contribution represents a significant reduction on 2012's contribution of around \$677m.

Both loans were to transport projects, with Mozambique's Nampula-Nametil city road receiving \$75.4m and Ethiopia's Modjo-Hawassa highway project receiving \$100m.

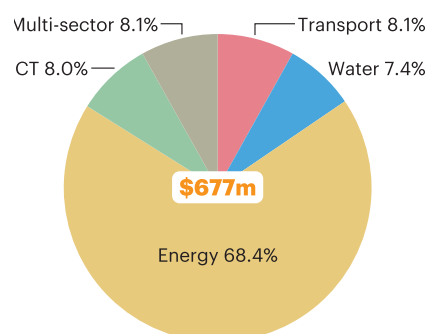


Figure 54
Total commitments by sector 2012

South Korea's funding of African infrastructure projects during 2013 is consistent with its public statements on the issue. In October 2012, the South Korean government pledged to provide some \$590m in loans and aid during the following two years, though not necessarily solely for infrastructure projects. As one of the global south's developmental success stories, the country says it can provide expertise and advice, as well as funding.

Brazil, Russia and Turkey

In 2012, Brazil's state development agency Banco Nacional de Desenvolvimento Econômico e Social

(BNDES) extended \$530m to African infrastructure projects, including a \$300m loan to the government of Mozambique to support infrastructure projects, including construction of the Nacala International Airport. However, the ICA's monitoring of financing trends on the continent could find no evidence of Brazilian public support for African infrastructure projects during 2013.

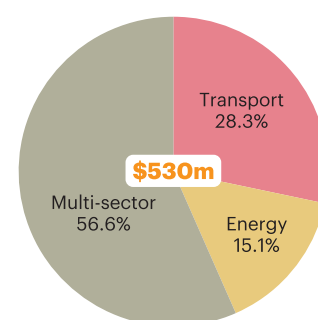


Figure 55
Brazil: Total commitments by sector 2012

Neither did Russia or Turkey provide loans to African infrastructure projects during 2013. The ICA's 2012 annual report pointed to the strengthening of an Afro-Russian dialogue, but this has yet to yield concrete financial assistance. However, there is evidence that Russian companies are expanding their interests on the continent. During early June 2014, a Russian consortium, led by RT Global Resources and including VTB Capital and Tatneft alongside three other firms, submitted proposals for the construction of a Ugandan refinery, a project of vital importance for the region.

The ICA's 2012 annual report pointed to the expansion of the Turkish International Co-operation and Development Agency's presence on the continent, although the organisation provided no loans to African infrastructure projects during 2013. ■

5.7 Regional Development Banks

Africa's regional development banks committed \$2.2bn to Africa's infrastructure in 2013. They have the potential to make a substantial commitment to closing the continent's infrastructure deficit through mobilising financial resources from capital markets on more affordable terms.

In some cases, such as the East African Development Bank (EADB), the fact that regional governments hold equity and are represented on a bank's board by ministers of finance means the banks are particularly in tune with local needs.

Increasingly, Africa's regional development banks are benefitting from capital injections, allowing them to fulfil their potential in terms of facilitating infrastructure development on the continent.

The EADB serves as a case in point, having received \$24m from the African Development Bank in January 2013, aimed at strengthening its balance sheet and improving its international credit rating.

Funding for infrastructure projects featured prominently among the continent's regional development banks' lending during 2013. EADB directed some 42% of its total expenditure towards infrastructure projects, whilst 53.6% of Banque Ouest Africaine de Developpement (BOAD)'s commitments for the period went to infrastructure projects.

ECOWAS Bank for Investment and Development (EBID) also continues to commit to infrastructure projects in the West African region. Between December 2012 and September 2013, EBID funded just over \$60m of infrastructure projects in its region of operations. This is consistent with the Bank's activities during 2012, during which it lent \$63m, some \$39m of which was directed towards energy projects, with the remainder to transport projects.

The Development Bank of Southern Africa (DBSA), an ICA member and wholly owned by the South African state, made \$1.2bn in commitments to energy, transport, ICT and multi-sector projects in Southern Africa. This compares with the \$1.5bn recorded in 2012 when the most substantial commitments were directed towards the energy sector. DBSA provided \$1.1bn in loans and \$15m in equity investments in 2013.

Meanwhile, BOAD was similarly active in infrastructure projects, with commitments totalling \$876m.

The bulk (\$672.1m) of BOAD's 2013 commitments went towards transport projects. BOAD directed some \$547.2m, towards 17 separate road projects in West Africa. A total of \$192.1m of commitments went to the energy sector, with water and sanitation projects receiving a relatively small amount of \$12.1m.

Côte d'Ivoire's utility, CI-Energies benefitted from \$27m for the partial funding of the rehabilitation of transmission and distribution infrastructure. The bank directed \$73m towards seaports and some \$52m to airports. BOAD also made two equity investments in the energy sector of \$10m in the African Renewable Energy Fund (AREF) and \$800,000 in Ivorian independent power producer Ciprel.

Following the AfDB's capital injection in January 2013, EADB approved some \$34.8m of infrastructure loans to projects in its member countries of Uganda, Rwanda, Kenya and Tanzania during 2013. This is substantially more than in 2011, when it lent \$11.5m to infrastructure projects in the region. ■

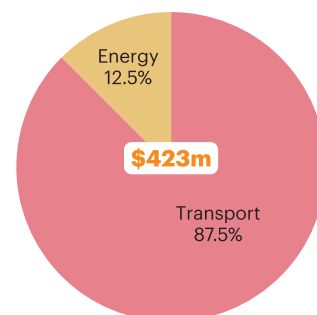


Figure 56

Total DBSA commitments by sector, excluding RSA, 2013

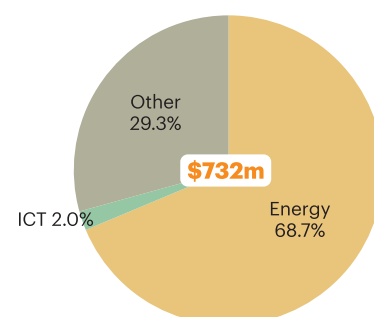


Figure 57

DBSA commitments to RSA by sector, 2013

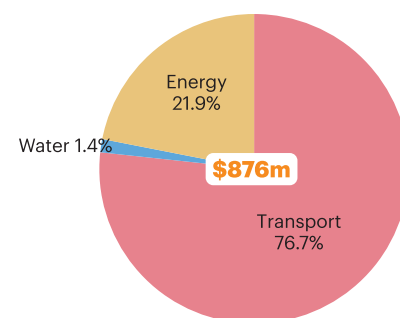


Figure 58

Total BOAD commitments by sector, 2013

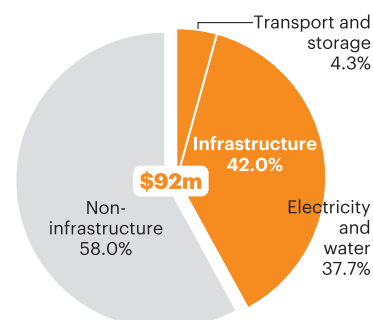


Figure 59

Total EADB commitments (infrastructure and non-infrastructure) by sector, 2013

6. Private Sector Financing



6.1 Introduction

The focus of private capital committed to African infrastructure projects has broadened in 2013. In 2012 the private sector concentrated on energy projects in Morocco and South Africa. In 2013, South Africa's burgeoning renewables sector remained attractive with financial close reached on projects worth more than \$2bn while two OCGT power projects attracted nearly \$1bn.

Elsewhere in Africa's energy sector, TAQA of the UAE ploughed \$440m into Ghana's 330MW Takoradi 2 thermal power expansion project; Omnicane Holdings of Mauritius has a 25% stake in the \$200m Kwale sugar plantation in which 75% of the equity is held by Pabari Family Investment Trusts of Australia while KEPCO of Korea said it would invest \$407m in the coal fired 1320MW Egbin power plant in Nigeria.

The private sector also focused on Nigeria's transportation sector in 2013,

with the Onne Port expansion and Lekki Deep Seaport projects attracting \$2.9bn and \$1.5bn respectively. Local company, Deep Offshore Services Nigeria Limited, is leading the Onne Port expansion and looking to attract some foreign investment in this project.

The \$1.5bn Lekki Deep Seaport features private capital provided by a Singaporean investor, the Tolaram Group with public sector stakes held by Nigeria's federal government via the Nigerian Ports Authority (NPA) and Lagos State Government.

Lekki Ports LFTZ Enterprise, a PPP, would operate the seaport under a 45 year concession commencing 2011, after which it reverts to the federal government.

Final negotiations to establish the value of land Lagos State Government is contributing in exchange for its equity may impact on the initial

shareholding in which fund providers Tolaram Group and NPA would respectively take 61.5% and 20% stakes with Lagos State Government holding 18.5% of the equity.

The port will compliment Lekki Free Trade Zone, which was created in 2002 with a vision of a deepwater seaport that was formalised in a 2009 masterplan. The project is expected to be completed in 2017. \$800m out of the project cost would be funded through debt financing while the balance would be contributed by equity.

Round 3 of South Africa's REIPPP programme took place in 2013, attracting 93 bids offering a capacity of totalling 6,023MW, far more than the 1473MW required. Seventeen projects offering 1,456MW received preferred bidder status, including seven wind projects (787MW); six PV projects (435MW); two CSP projects (200MW); one waste-to-power project (18MW) and one biomass project (16MW).

6.2 PPI Projects Database

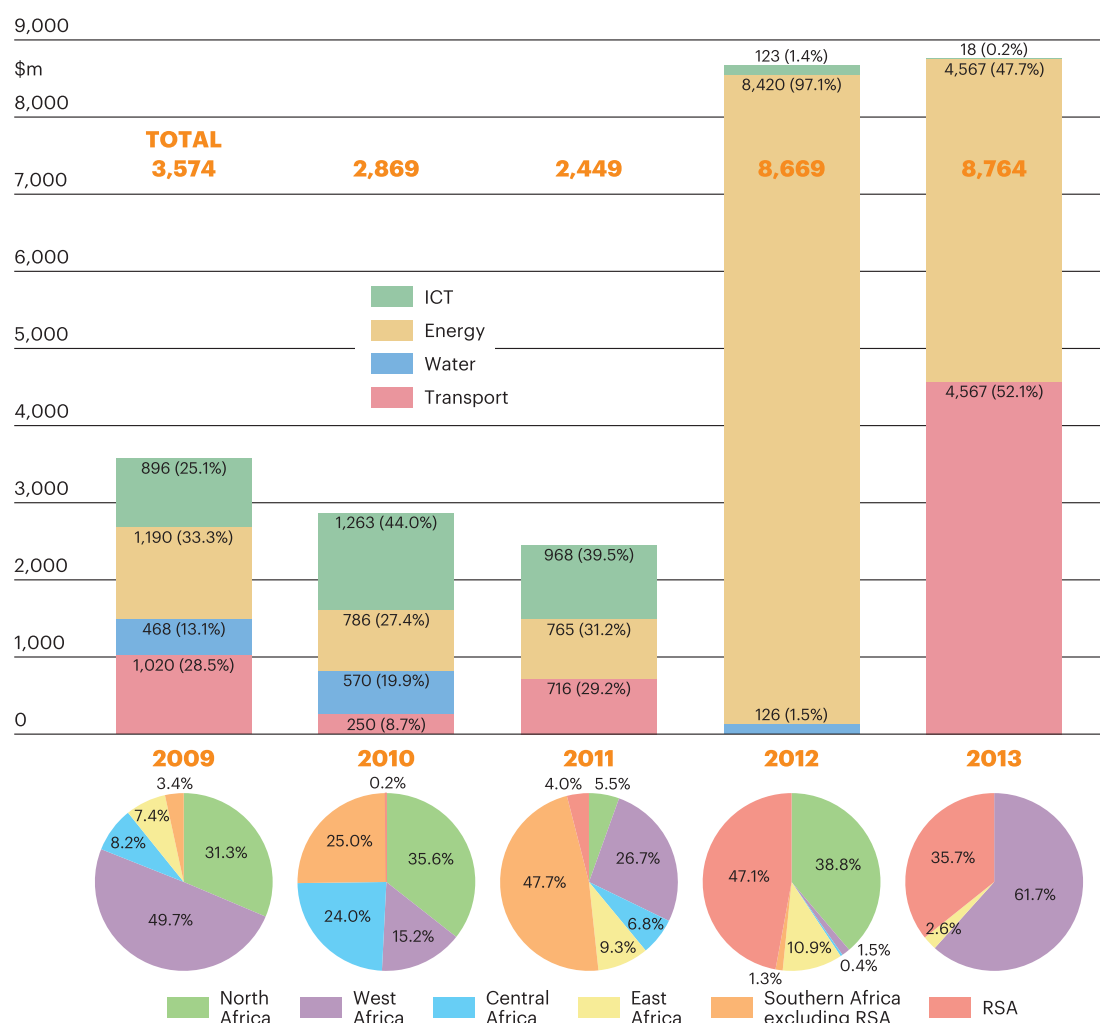


Figure 60
PPI Projects Database: Total private investment by sector, 2009-2013 (top), and private investment by region as a proportion of total investment, 2009-2013 (bottom)

Bidders in round 3 came substantially under the tariffs quoted in round 2, by 46% and 27% for solar PV and wind power respectively, taking advantage of falling prices for capital equipment for these technologies. Awarded projects will receive guaranteed 20 year PPAs from Eskom.

Non-South African larger developers featured strongly. Enel Green Power of Italy was awarded six projects and is using corporate finance for its six projects. Other preferred bidders have leveraged South Africa's advanced capital markets to secure Rand-denominated debt finance. Across all rounds, 86% of debt financing has now been raised domestically. ■

PPI Database sees increase in transport investment

The Private Participation in Infrastructure (PPI) Projects Database, a joint product of the World Bank's Infrastructure Economics and Finance Department and the Public-Private Infrastructure Advisory Facility (PPIAF), shows a small increase in total private sector investments in African infrastructure from \$8.67bn in 2012 to \$8.76bn in 2013 (see Figure 60, above).

In 2013 transport and energy projects together attracted commitments of \$4.56bn and \$4.17bn respectively, compared with 2012, when the majority (\$8.42bn) of investments were made in the energy sector. Water and telecoms (the database looks at telecoms rather than ICT) attracted only \$18m in three new projects. Telecoms investors focused on existing projects, investing \$7.62bn in existing mobile networks.

Just 22 projects closed in 2013, the same level recorded in 2010, and lower than the 5-year high of 34 projects that reached financial closure in 2012. Lessons may be learnt from examination of successful strategies employed in 2013 to leverage private sector investments in Nigeria's ports and South Africa's renewables sector.

Nine energy projects from round 2 of South Africa's Renewable Energy Independent Power Producer Procurement (REIPPP) programme reached financial close in 2013 while a new cohort of preferred bidders in round 3 were announced in the same year.

The table in Annex 3 shows the mix of solar, wind, biomass, waste-to-power and hydro projects that reached financial close in the year. ■

6.3 Private Sector Survey: Investment Considerations

Respondents to the 2013 ICA Survey of Private Sector Investors were asked for their main considerations when deciding to invest in an African infrastructure project (see *Figure 61*).

The top three considerations were project feasibility, country / political risk, and profitability, in respective order of importance. One investor commented that while these considerations are not Africa-specific, they are “deal-stoppers”.

Beyond the main considerations outlined in *Figure 61*, respondents did highlight some additional factors. Opportunities to “expand the company’s footprint in other African countries” were considered important, while other respondents said the “enthusiasm” and “culture” of local partners should be considered.

A collection of risks were identified that investors must mitigate in order

to secure financing for an infrastructure project in Africa (see *Figure 62*). Respondents found the various risks to be relatively equal in terms of importance, with credit / payment risk considered marginally more important than other risks.

Lesser important factors were security risks and human resource issues. Existing infrastructure was not considered to be an important risk factor in securing financing for an infrastructure project.

Respondents were also asked what specific strategies they had employed to mitigate against these risks (see *Figure 63*). While there was broad consensus over what risks exist, there appears to be more variation concerning how they are mitigated.

Due diligence was highlighted as the most commonly used strategy, particularly to mitigate against

partner risk and potential corruption. Economic and market instability appears to be the hardest risk to mitigate, though investors still felt that due diligence played an important role.

Robust contracts have also been consistently utilised by investors to mitigate risk, which explains why sovereign guarantees were used less often than might be expected for infrastructure investments. Less than two in five respondents had previously used sovereign guarantees.

Almost half of respondents had used up front payments, escrow accounts, credit insurance or letters of credit to mitigate specifically against credit/payment risk. This is particularly important in light of the fact that credit/payment risk was considered the most important risk that investors face when seeking financing for infrastructure projects in Africa. ■

Figure 61
Top considerations
when deciding to
invest

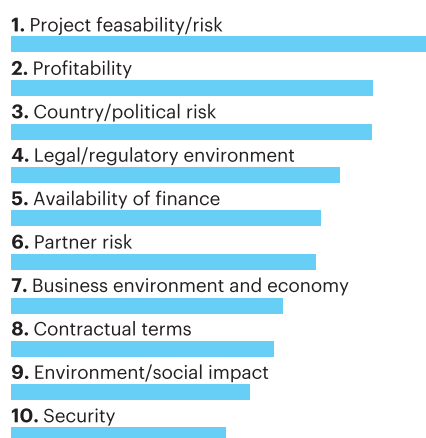


Figure 62
Risks that must be
mitigated in order
to secure financing



Figure 63
Measures used to
mitigate risks

6.4 Private Sector Survey: Project Preparation Challenges

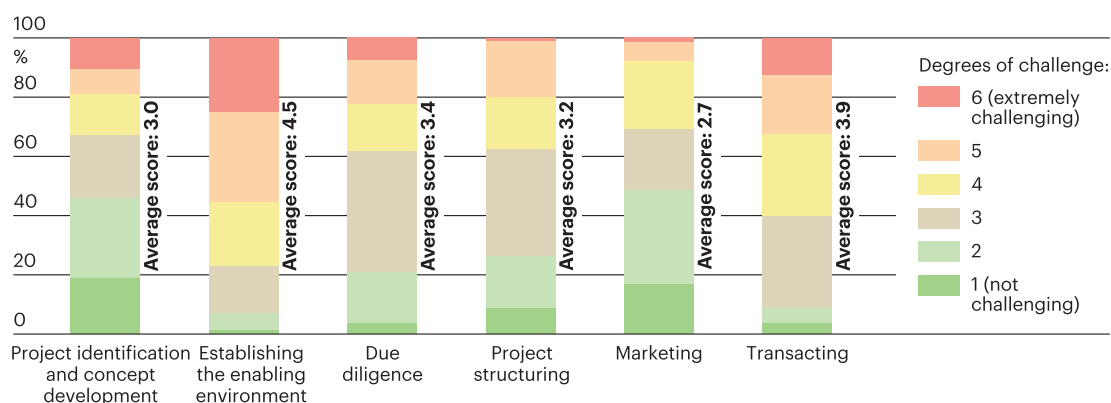


Figure 64

Challenges in implementing infrastructure projects

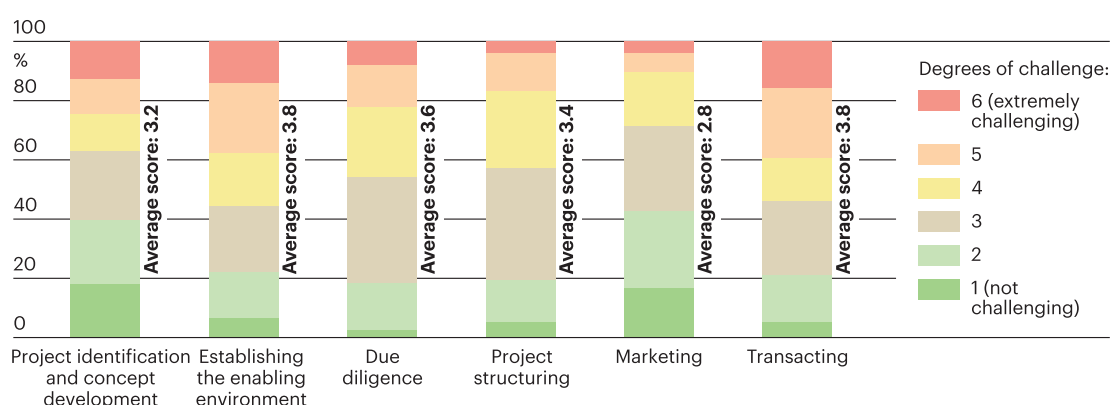


Figure 65

Challenges in organising finance

The challenges posed by the stages of project preparation in general, and financing in particular, were ranked by respondents to the ICA Survey of Private Sector Investors (see Figures 64 and 65). Respondents also identified what they perceived to be the causes of bottlenecks in project preparation.

The sequential stages of project preparation and arranging finance for projects were: project identification and concept development, establishing the enabling environment, due diligence, project structuring, marketing, and transacting.

Concerning project preparation in general, “establishing the enabling environment” was considered the most problematic phase in the process – earning an average score of 4.5, where 6 is extremely challenging, and 1 is not challenging at all.

“Project identification and concept development” and “marketing” were considered to be the least problematic stages. This is particularly interesting in light of the fact that respondents

identified project feasibility as the main consideration when deciding whether to invest in African infrastructure (see Section 6.3). This suggests that there is no shortage of potential projects in Africa, but progressing projects is a different matter given difficulties raising early stage funding.

Concerning challenges faced specifically when organising financing for African infrastructure projects, respondents found the transacting stage to be most problematic. The stages of organising finance were however found to be relatively equally problematic. On average, the challenges were rated 3.3, on a scale of 1 to 6.

Respondents considered finance to be the most severe bottleneck in project preparation. Offering insight into why this is the case, one established investor said “if its debt financed, the lender will need to assess all of the other factors such as corruption, inaccurate data, security, and so on”.

There was also relative consensus

among respondents that the availability of early-stage funding is a particular bottleneck in project preparation, since, as one respondent commented, there are “not enough private equity or strategic investors willing to invest pre-financial close”.

Corruption and a lack of transparency, as well as inadequate regulatory environments, were also considered major bottlenecks. These factors relate to low institutional capacity, which was also perceived to be a challenge. ■

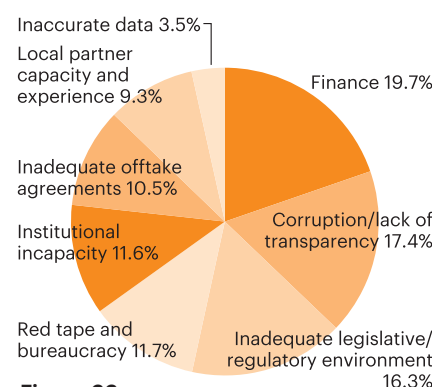
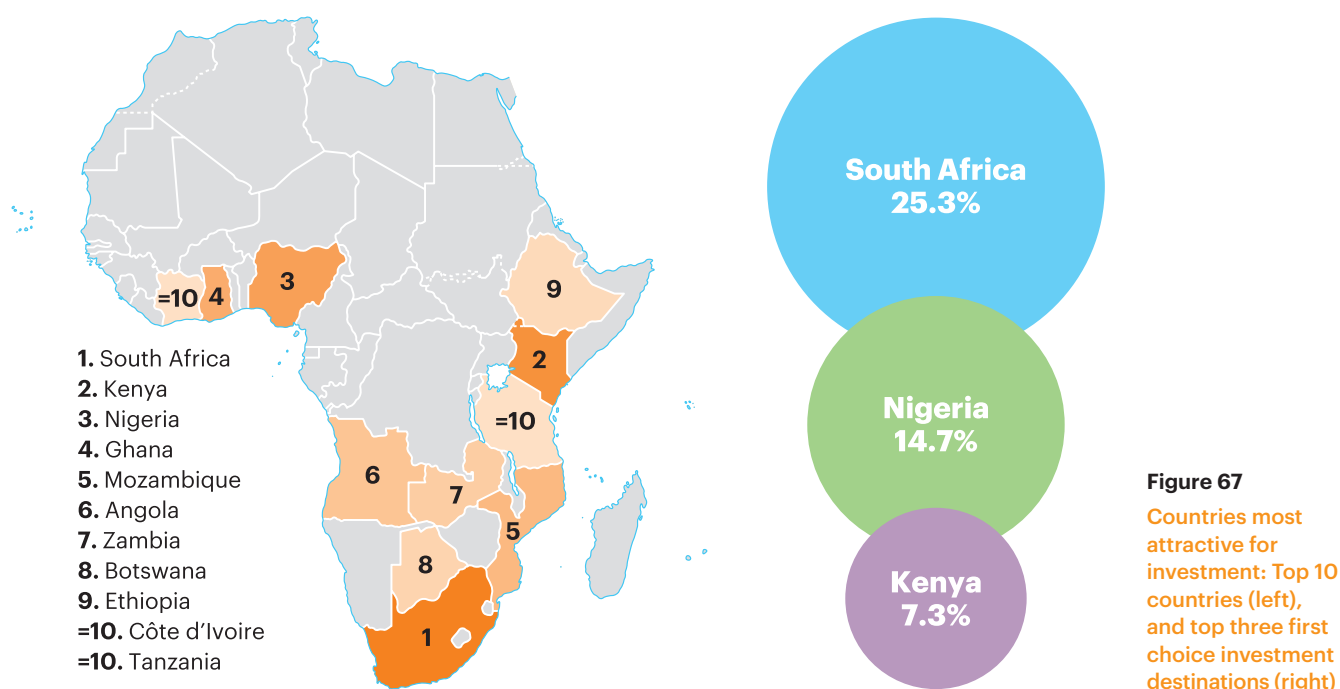


Figure 66

Most important factor causing bottlenecks in project preparation

6.5 Countries Most Attractive for Investment



Respondents to the ICA Survey of Private Sector Investors were asked to rank, in order, the five African countries they considered the most attractive for investment (see Figure 67).

South Africa scored the highest average ranking, and was consistently considered the top most attractive country for investment. Kenya and Nigeria earned the second and third highest average rankings, respectively.

Nigeria was however considered the top most attractive country for investment almost twice as often as Kenya. This reflects the fact that Kenya was commonly ranked as investors' second or third most attractive country for investment, but rarely the first choice.

Unsurprisingly, investors consistently ranked the more established markets higher than the developing markets, which explains South Africa's popularity. The perceived ease of doing business in South Africa is reported by

investors to be an important factor in rating its attractiveness.

Kenya's attractiveness to investors seems to be a result of its economic and political stability, relative to other African countries. An established investor explained how Kenya's "vastly growing middle class [and] educated population" also made it attractive. Another respondent said that its "security and good governance" was most important.

Nigeria's high ranking is unexpected, especially given that it did not even feature in the 'Top 10 Most Attractive Countries' in the 2012 ICA Survey of Private Sector Investors. Respondents naming Nigeria as the most popular country for investment were overwhelmingly in the power sector, which suggests the recent reforms (see page 60) are viewed positively among the investor community.

Market size is another important factor. One investor explained Nigeria's attractiveness as "purely due to the potential scope and

magnitude of doing business there". Another said the "developing middle class and entrepreneurship" made it an attractive country. It also appears that respondents saw the existing infrastructure deficit in Nigeria as an opportunity for investment.

South Africa, Kenya and Nigeria ranked markedly higher than other countries. Among the rest of the top 10, the average rankings were very close. This appears to reflect the fact that, while there are some fundamental determinants, different investors ultimately look for different things when assessing a country's attractiveness.

Adopting a regional perspective, southern African countries were, on balance, ranked significantly higher than countries in other regions. The collective ranking of southern African countries was around 40% higher than the collective rankings of both east and west African countries. North and central Africa were considered to be by far the least attractive regions among survey respondents. ■

6.6 Private Sector Survey: Market Trends

The ICA Survey of Private Sector Investors provides insight into the general financing trends among investors. In terms of the different types of financing used, the majority of respondents, around 55%, had not used donor finance. Project finance and corporate finance had both been used in almost equal measure (see Figure 69).

In terms of revenue, the majority of established investors reported an increase in the revenue earned from African infrastructure in 2013 compared to 2012 (see Figure 70). Less than 12% of investors noted a decrease in revenues in 2013.

Plus, the vast majority of respondents (over 88%) expect their African infrastructure portfolio to expand over the next five years (see Figure 71). Less than 10% anticipate that their portfolio will decrease over the same time frame.

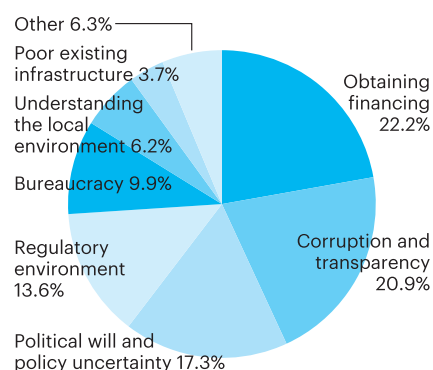


Figure 68

Greatest challenge facing private sector participants

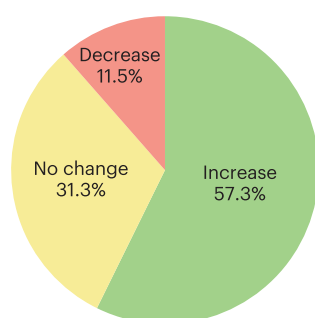
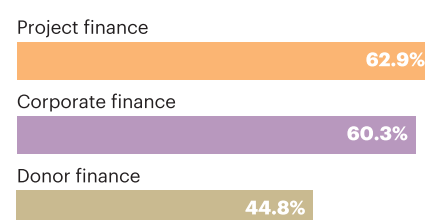


Figure 70

Revenue from African infrastructure: change from 2012-2013

Investors also anticipate that their internal rate of return will increase beyond the rates that are currently being earned (see Figure 72). The majority of established investors reported that their internal rate of return on existing projects was between 15% and 20%. Interestingly, the majority of investors (both prospective and established) anticipate that for future projects, an internal rate of return of between 16% and 25% is most likely. Most investors did however agree that this assessment was dependent on multiple different factors.

Finally, respondents were asked what they considered to be the single greatest challenge facing private sector participants in African infrastructure projects (see Figure 68). The majority (over 22%) considered obtaining financing to be the biggest challenge. Corruption was also perceived to be a significant issue, with 20% labelling it the biggest challenge. ■



(Some companies indicated use of more than one type of finance)

Figure 69

Use of project finance, corporate finance and donor finance

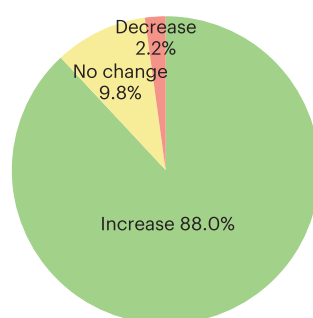


Figure 71

African portfolio intentions over the next five years

Private sector views on bottlenecks and challenges:

"DFIs take way too long to move forward"

"There are hundreds of good looking projects out there but if early stage funding is not available to progress them, they will remain good looking projects and not get off the starting grid"

"other than finance, institutional incapacity is probably the biggest bottleneck"

"capacity of local partners and their experience"

"lack of clear policies on infrastructure asset management"

"everything takes so much time to conclude"

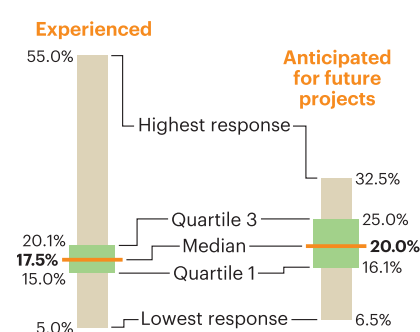


Figure 72

Internal rate of return on African infrastructure investments, anticipated and actual

7. Regional Infrastructure Projects



7.1 African Priorities

ICA members committed 52% of their funds to the energy sector including the \$7bn committed by the US to its Power Africa initiative. Energy projects also dominate the rankings shown in the ICA Members' Top Ten Future Investments (*see box on page 57*), all of which aim to have regional impact.

Clearly energy is a priority from a regional perspective, mainly due to the massive hydropower potential in some countries but Africa's water resources also provide the foundation for regional infrastructure projects in other sectors in which ICA members are taking a keen interest.

The Lake Victoria Regional Transport Project aims to stimulate marine transport on the lake by rehabilitating up to six ports on its shores and introducing a fleet of modern and purpose built freight vessels, to be owned and operated by private sector investors and operators. The three main ports are Kisumu in Kenya, Mwanza in Tanzania, and a port in

Uganda. Other secondary ports in Tanzania and Uganda could also be included as the project develops. Several ICA members, including AFD, AfDB, KfW, the EU-Africa Infrastructure Trust Fund (EU-AITF) and EIB are interested in projects within the Lake Victoria Water and Sanitation Programme.

Another initiative shaped by geography rather than political boundaries involves rehabilitating Rift Valley Railways, a 2,352km railway linking Kenya and Uganda, which is a key transportation network for East Africa. Investors in a \$110m equity package for Africa Railways Limited (ARL) to facilitate this work include Citadel Capital (\$40m), the IFC African, Latin American and Caribbean Fund (\$20.2m), FMO (\$15m), DEG (\$14m), Proparco (\$14m) and the IFC (\$10.1m). The equity investment supplements \$164m in debt financing committed by seven financial institutions, including KfW.

Large regional projects in the energy

sector include the Côte d'Ivoire – Liberia – Sierra Leone – Guinea (CLSG) electricity Interconnection, in which ICA members AfDB, EIB, EU-AITF and KfW, are collaborating with the governments of Côte d'Ivoire, Liberia, Sierra Leone and Guinea. The CLSG project involves the construction of about 1,400 kilometres of high voltage (225 kV) line connecting the national networks of the four countries. It will see the building of 11 sub-stations and two regional control centres.

Probably Africa's most ambitious and longstanding plan to realise the continent's hydropower potential remains the Inga III hydropower project, which encouragingly, despite its history of setbacks and difficulties, still ranks as high as third in ICA members' top ten favoured investments. At a cost reckoned at around \$12bn, it would provide a 4,500 MW capacity run of river hydropower station on the Congo River with eight turbines. The regional case for making

Inga III happen is compelling, as are the arguments for private sector involvement. South Africa and miners operating in the DRC are expected to be major customers. Current plans also propose a power line that would stretch more than 5,000km, from the project to South Africa, through Zambia and Namibia.

Collaboration already exists amongst ICA members, with AFD, AfDB, EIB, DBSA and the World Bank, prepared to facilitate the preparatory stages for the project, but around \$9bn more is needed and private sector participation is much needed. There have been reports of more potential funding from the US with a USAID expression of interest while the Financial Times reported in 2013 that the Chinese had approached the US to talk about collaboration to help Inga

III happen. So while the roadblocks to completion remain, for what is probably Africa's longest contemplated infrastructure project, it appears some momentum and undimmed enthusiasm may yet remove them.

ICA members and other institutions are also collaborating to help realise the regional potential of the River Congo's water resources. GIZ is implementing the Transboundary Water Management in the SADC Programme. In their roles as co-financing agencies, the Australian Agency for International Development (AusAID) and DFID are making significant contributions. The programme aims to tap DRC's water surplus to help even out water shortages in South Africa. Elsewhere it addresses changes in water availability in Angola as its expansion

of agricultural land use in the headwaters of various rivers impacts on downstream water availability as well as the challenges and opportunities in Namibia for water recycling and desalination.

Regional infrastructure projects may increasingly be multi-sector on the basis that a developing location needs all kinds of infrastructure, and a move towards multi-sector projects is evident in ICA members reporting a fivefold increase in such projects in 2013 compared with 2012. Corridor developments are likely to fit with this thinking, and projects such as the Development of the Beira-Nacala Multimodal corridors remain amongst those most favoured by some ICA members according to their 2013 reporting. ■

7.2 PIDA/PAP and Other Regional Priorities

A survey of ICA members asked them to list their top ten PIDA/PAP and other regional infrastructure projects that will interest their organisation to finance in the future.

Hydropower projects in the PIDA/PAP list rank in all top four positions. Top of the list is the 145MW Ruzizi III project to share power among Rwanda, Burundi and DRC followed by the Lesotho Highlands Water Project (LHWP) that aims to produce power for Lesotho and export to South Africa. Inga III ranked third in the survey while the 1,500MW Mphamda-Nkuwa project to export power to the SAPP ranked fourth.

The Fomi hydropower project also appeared in ICA members' favoured top ten regional investments ranked eighth equal. It includes measures to irrigate water supply for Mali and regulate the flow of the Niger River and would benefit the nine Niger River Basin countries (Guinea, Benin, Burkina Faso, Cameroon, Chad, Côte d'Ivoire, Mali, Niger and Nigeria) by increasing agricultural opportunities and providing additional hydropower capacity.

Lake Victoria Water & Sanitation ranked fifth in the survey, the highest position for a non-PIDA/PAP project and the only one focused entirely on the water sector, although the LHWP and Fomi projects do

have water components. Projects in the Beira-Nacala Multimodal Corridor developments ranked the sixth most favoured potential future investments.

Three transmission projects feature in ICA members' top ten favoured future investments. The North-South Power Transmission Corridor ranked seventh. It would provide an 8,000km line from Egypt through Sudan, South Sudan, Ethiopia, Kenya, Malawi, Mozambique, Zambia, Zimbabwe to South Africa.

The 225kV Ghana-Burkina Faso-Mali Interconnection Project ranked eighth equal alongside the OMVG Power Transmission project, which would provide an interconnection loop between Senegal, Gambia, Guinea-Bissau and Guinea and include 1,709km of 225kV power transmission line and 15 high and medium voltage substations. The OMVG sub-region has almost 6,000MW of hydro-generation potential, a substantial amount of which is in Guinea. ■

ICA Members' Top Ten Future Investments

Project	Sector	Region	Est cost
Ruzizi III Hydropower	Energy	Central	\$644m
Lesotho Highlands Water Project	Water/ Energy	Southern	\$2.51bn
Inga III Hydropower	Energy	Central	\$6-10bn
Mphamda-Nkuwa Hydropower	Energy	Southern	\$2bn
Lake Victoria Water & Sanitation	Water	East	\$190m (phase 2)
Beira-Nacalal Corridors (PIDA selected projects only)	Transport	Southern	£450m
North-South Power Transmission Corridor	Energy	East, Southern	\$6bn
Fomi Hydropower	Energy/Water	West	\$384m
Ghana – Burkina Faso – Mali Interconnection	Energy	West	\$171m
OMVG Power Transmission	Energy	West	\$270m

Projects in blue are non-PIDA/PAP projects

8. Economic Impact of Infrastructure Financing



8.1 Economic Growth Trajectories

Africa's economic growth trajectory remains favourable according to the latest African Economic Outlook (AEO), the annual publication jointly prepared and published by the AfDB, the OECD Development Centre and the United Nations Development Programme (UNDP).

It says that in 2013, Africa maintained an average growth rate of about 4% compared with 3% for the global economy. But growth prospects could be made even brighter in economies where the cost of poor infrastructure can be reduced.

Excluding South Africa, the continent's growth is impeded by a lack of adequate infrastructure, according to the AEO.

The report estimates that transport prices are anywhere from 50-175% percent higher in Africa than global averages and eat up more than 20% of foreign export earnings while ports and rail links are overcrowded and in some countries roads are impassable.

Despite these impediments, growth trajectories look very promising, especially in some less developed regions. Growth in sub-Saharan Africa was 5% in 2013 and is projected to be 5.8% in 2014. Excluding South Africa, growth was 6.1% and 6.8%, respectively. East and West Africa (including low income countries) each recorded growth rates in 2013 of 6% or above, substantially exceeding that of upper-middle-income countries in North and Southern Africa at below 3% according to the AEO.

The critical question is how much steeper could Africa's growth trajectories be with world-class infrastructure. Certainly Africa's businesses could compete globally on a level playing field with first rate infrastructure, but a variable set of other factors would almost certainly need to be addressed for businesses to be truly competitive, so infrastructure projects that truly and demonstrably result in economic growth may need to

be set in the context of a suite of projects or multi-sector initiatives.

Examples of this include JICA initiatives that emphasise the coupling of human resource development with infrastructure projects to stimulate economic growth. In Kenya, JICA and the ministry of agriculture established the Smallholder Horticulture Empowerment Project (SHEP) in 2006 to encourage smallholder farmers to improve their business skills and enable them to reliably transport their goods to market.

SHEP helped participants conduct market surveys, grow profitable horticultural crops and provided training on agricultural techniques, financial management, gender mainstreaming and rural road maintenance. Participants in the project demonstrated that the average income of targeted farmers almost doubled from the equivalent of around \$255 in 2007 to \$544 in 2009.

Economic Growth Trajectories

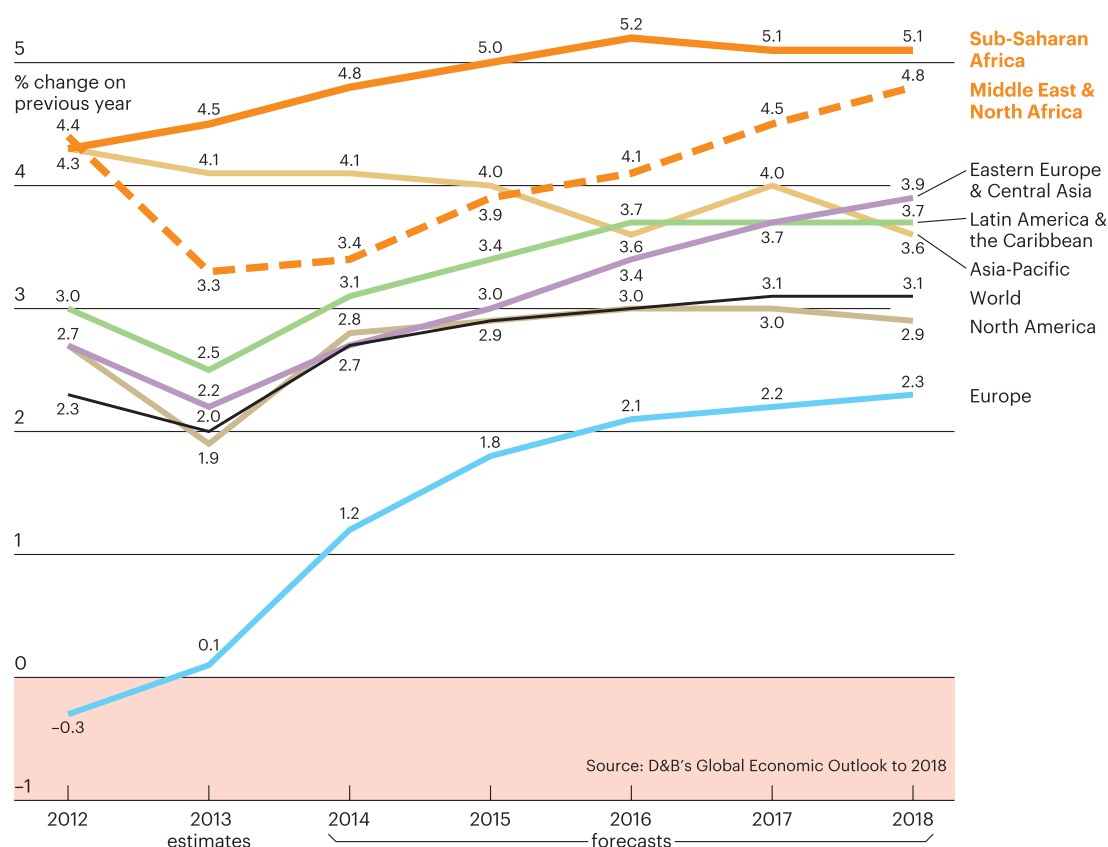


Figure 73
Economic global economic outlook to 2018

The AEO reckons Africa's lack of adequate infrastructure reduces productivity across the continent by as much as 40% but points to the Lamu port project in Kenya as an example of initiatives coming onstream that could help reduce this disadvantage.

The project aims to increase regional trade and export potential in Kenya, South Sudan and Ethiopia and features several infrastructure and industrial developments, including a 32 berth deep-water port; 1,300 kilometres of crude oil pipelines; more than 1,700 kilometres of new highways and almost as many kilometres of new railway; new airports and an oil refinery.

Meanwhile, the Kenya Electricity Generating Company Limited is seeking \$5bn in project funding to increase power capacity by some 3,000 MW by 2018.

In South Sudan, which relies on overland transport from ports in Kenya which often adds upwards of

\$9,000 in transportation costs for a single standard container, several innovative initiatives are now underway to improve overland connections and create new pipeline routes to more efficiently bring goods into and out of the country.

The disadvantages faced by countries vary widely. According to 2012 World Bank data, the cost to export a 20-foot container is \$2,055 in Kenya, \$1,680 in Lesotho and \$1,531 in South Africa, while it is only \$737 in Mauritius and \$500 in China. North Africa's better developed infrastructure and proximity to Europe means it has a more competitive export costs, of just \$577 in Morocco for a 20-foot container.

Similarly, export time-to-market from Kenya, Lesotho and South Africa are two-to-three times that of Morocco. In many African ports, cargoes can sit around for around two weeks, compared to under a week in Asia, Europe and Latin America.

There are upsides that are improving the prospects for growth trajectories. Telecommunications are improving in many African countries and strongly associated with economic upgrading in global value chains. Mobile phone networks have expanded rapidly in Africa, now reaching an estimated 80% of the population compared with just about 2% in 2000.

Africa is using mobile technology to innovate, with East Africa becoming the first region in the world to offer entirely mobile-phone-based money transfers.

Internet connections have greatly improved as well since East, Southern and West Africa were connected to subsea cables in the late 2000s.

Expanding nationwide electricity generating capacity should continue to be a priority in terms unleashing Africa's extractive industries potential and creating viable manufacturing operations, all of which require reliable power supplies. ■

9. The Impact of Government Reforms

Nigeria's Power Sector Privatisation



After decades of endeavours to increase power generating capacity via one vertically integrated state-owned utility, Nigeria has taken the bold step of empowering the private sector to boost electricity supplies. In the largest privatisation process in Africa's history, the state has sold all its federally owned generation and distribution assets to the private sector. Despite reservations in some quarters that such a vast undertaking was too ambitious, the process of privatising generation and distribution successor companies, with some key interventions via DFID's Nigeria Infrastructure Advisory Facility II, ran smoothly.

By the late 2000s it had become clear that the state-owned, vertically integrated Power Holding Company of Nigeria (PHCN), which was responsible for generation, transmission and distribution, was inadequately prepared or financed to maintain and refurbish federally owned power plants, which operated at less than 50% capacity and

accounted for the vast majority of Nigeria's installed generation. PHCN was also making very little progress repairing and expanding the transmission grid as well as distribution networks. Despite licensing a vast number of independent power producers (IPPs), nearly all of these floundered, thus diminishing the chances of Nigeria reaching its targeted 40,000MW of installed capacity by 2020. It was deemed necessary to unbundle PHCN to provide short-term gains.

Bidding for the seven generation companies and 11 distribution companies which previously formed PHCN began in 2011, with the process concluding with their full transfer into private hands in 2013 in a sale totalling \$3.3bn. Although the process was slightly behind schedule, it was considered a major achievement.

Only the sale of the Afam power plant proved problematic, albeit in a way that underlined Nigeria's commitment to probity in the privatisation process. After it was

discovered that one of the shortlisted bidders was beneficially owned by a former power minister, the bidding for Afam was immediately cancelled and restarted from scratch.

As with many recent investments in Nigeria, indigenous firms dominated the bidding, and the local capital and financial markets have been instrumental in providing financing – indicating growing local acceptance and recognition of infrastructure as an investment asset base. Generation assets were won by some major Nigerian names such as Transcorp, Forte Oil and Taleveras, while distribution companies were purchased by some lesser known local entities.

A few international companies were successful, including Zambia's Copperbelt Energy, India's Tata Power and Korea's Kepco. The sale of distribution assets also continued the trend of state governments investing in private sector ventures, with the governments of Rivers, Cross River, Akwa-Ibom and Bayelsa states



grouping together to purchase the Port Harcourt distribution company.

Substantial improvements are required to bring Nigeria's transmission systems up to scratch. While the Transmission Company of Nigeria (TCN) remains state owned, it is now under private sector management. While local firms were awarded generation and distribution assets, policy makers opted for technical experience over nationality when licensing Nigeria's transmission grid, awarding a three-year management contract to Canada's Manitoba Hydro International (MHI). But debate among lawmakers as to the suitability of MHI to manage TCN led to the contract being prematurely terminated in November 2012, only to be quickly reinstated. Such a contract termination reflects ICA's recent research findings that there is a continued perception by international/private sector investors that there are risks inherent in, and associated with, investments in African infrastructure. With the reinstated contract, MHI has pledged to increase

transmission capacity by 40% during its three-year mandate.

It had been anticipated that the radical reshaping of the power sector would inevitably impact on the power market. So the authorities instituted new policy and regulatory reforms to establish measures to create and underpin a new market that works. A critical part of these reforms was the creation of a Transitional Electricity Market and a creditworthy offtaker, the Nigerian Bulk Electricity Trading Company (NBET).

With a capitalisation of \$800m and the recipient of a World Bank Partial Risk Guarantee (PRG), NBET is a 'creditworthy' bulk power trader which will act as an intermediary between the new cohort of generation and distribution companies. NBET will purchase from generation companies and sell to distributors without any fear of non-payment. The intention is that the company becomes a temporary player during the transitional phase, its success measurable by how long it takes the

market to render NBET irrelevant.

A further round of privatisation is planned for generation assets built and owned by the Niger Delta Power Holding Company (NDPHC). These projects are in various stages of completion, and bidders have already been shortlisted. The NDPHC privatisation process has fallen behind its original timeline and may ultimately feature fewer power plants changing hands than originally envisaged. But despite sometimes having to scale back ambitious targets, Nigeria's power sector privatisation appears to be a major step in the right direction and should boost the prospects of IPPs becoming established and sustainable features in a newly liberalised sector.

However, it is early days yet to measure the effects of power sector privatisation and reform. If the outcome of a similar intervention in the telecoms sector is replicated, there should be a resultant increase in service delivery, reliability and long-term sustainability of the power sector. ■

Unlocking Africa's Infrastructure Opportunities



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In recent years, several innovative financing instruments and structures have emerged to enable the financing of African infrastructure projects that might not have otherwise reached financial close or rated bankable using conventional and standardised financing models.

In South Africa, following the lead of larger cities such as Johannesburg, Cape Town and Ekurhuleni, Tshwane Municipality issued its inaugural bonds in March 2013. Aimed at diversifying funding streams for capital expenditure on infrastructure projects, the two municipal bonds, which offered fixed yields of 9.11% and 10.20% at maturity in 2023 and 2028 respectively, cumulatively raised R1.39bn.

Local currency mechanisms are being explored in other countries. In September 2013, the International Finance Corporation (IFC) through the Pan-Africa Domestic Medium Term Note Programme, became the first non-resident issuer of kwacha-denominated bonds in Zambia.

Dubbed 'Zambezi', the bond issuance, which yields 15% at maturity in 2017, leveraged the IFC's triple-A credit rating to secure 150m kwacha from an order book of 700m kwacha, equivalent to an oversubscription of 4.8 times. Backed by such high demand, bond issuances of this kind increase liquidity in domestic capital markets and provide access to long-term, local currency finance for emerging private sector participants.

In Ethiopia, after the 6,000MW Grand Ethiopian Renaissance Dam project struggled to reach financial close by conventional means, state-utility Ethiopian Electric Power Corporation issued Africa's first infrastructure project bonds. Backed by government guarantee, these bonds were exclusively and intensively marketed, mainly to Ethiopian citizens and the diaspora, to raise \$4.8bn for the project (which is part of PIDA). Harnessing diaspora funding represents a major opportunity.

African governments can also look to harness their natural resources.

Building on the success of commodity-backed loans, such as Ghana's use of cocoa bean resources to secure financing from China Eximbank for the 400MW Bui Dam power project, commodity-linked bonds could provide lower-risk debt structures for export dependent economies. By linking yields to export prices, commodity-linked bonds enable governments to hedge their issuances against volatile international commodity markets.

African Solutions and Co-Financing

Initiatives for Africa-centred capital mobilisation for infrastructure development on the continent are gathering momentum. Mobilising African investors is central to the innovative Africa50 Fund, described by African Development Bank (AfDB) president Donald Kaberuka as a "simple concept adopted after 12 months of preparation, based on the mobilisation of African savings to finance African infrastructure".

"For a long time, we have relied on external financing to fund our

infrastructure. Now is the time for the AfDB to mobilise sovereign African savings – currently estimated at \$1,000bn – to build the Africa of tomorrow,” he told the 49th Annual Meetings of the AfDB in Kigali in May 2014. According to the AfDB president, the ultimate goal is to take the Africa50 initial equity capital – which is also open to foreign investment – to \$1bn.

The emergent private debt market is a growing feature in Africa’s infrastructure development. In 2009, the Infrastructure Crisis Facility Debt Pool (ICF – DP) platform was formed as part of the Private Infrastructure Development Group (PIDG), to provide direct financing to qualified infrastructure projects originated by international financial institutions in emerging economies (including Africa) that cannot obtain commercial financing or re-financing for existing loans as a consequence of the global financial crisis and the tightening of commercial bank lending.

ICF – DP seeks to act as a catalyst for significant co-financing opportunities by providing flexible and rapidly deployable capital. In 2012, ICF – DP committed \$26.7m to the 125MW Sendou Power Project in Senegal. This commitment was entered as a bridge to enable the project closing to occur before certain critical contractual deadlines expired. The AfDB, as mandated lead arranger for the project, had experienced difficulties attracting lenders to the syndicate due to country and commercial risks, and the ICF loan was important to complete the syndication.

Mezzanine finance (debt backed by equity-based options as opposed to conventional asset-backed bank lending), although perceived by some actors as a ‘riskier hybrid model’, is increasingly emerging as an application in financing infrastructure projects on the continent. Mezzanine funding has been used to finance Kenya’s new crop of independent

power projects (IPPs), including the 90MW Rabai project, which reached financial close in 2008 including a mezzanine loan of €5.6m with a tenor of just over 15 years from the Emerging Africa Infrastructure Fund (EAIF). Mezzanine finance (including a contribution by the EU-AITF to close the financing gap) is also used in the 300MW Lake Turkana Wind Power Project, which aims to provide reliable, low-cost wind energy to Kenya’s national grid.

South African funds, including Vantage Capital, African Lion, Old Mutual and Makalani Holdings, continue to dominate the continent’s mezzanine debt market. Vantage completed arrangements in Ghana with Genser Energy in April 2013 to commit \$30m of mezzanine capital to the company. Primarily intended for the completion of the 90MW Chirano IPP, which will supply power to Kinross’ Chirano gold mine concession, the investment also enables Genser to commercialise offshore gas reserves through the development of an LNG terminal.

A standard African mezzanine financing model has not yet been settled, however, and it may be that the inherent flexibility sought by investors into Africa means the shape of this type of funding will continue shifting to suit the needs of specific investments.

Indicating a probable shift in its approach to African infrastructure investment, China is also embracing new financing mechanisms. Through the People’s Bank of China, the Chinese government has partnered the AfDB to establish the \$2bn Africa Growing Together Fund (AGTF). AGTF aims to provide new flexibility to China’s investments, which have traditionally been bilateral agreements with governments, and will provide co-financing to strategic infrastructure investments.

To support the implementation of innovative financing structures, stakeholders are utilising a range of

risk mitigation instruments and strategies. Partial risk guarantees (PRGs), such as the African Development Fund’s €20m Lake Turkana Transmission Line Delay PRG, protects private participants from sovereign or parastatal risks, including political force majeure risks, regulatory uncertainty, currency conversion risks and devaluation.

Credit enhancement mechanisms such as partial credit guarantees (PCGs), are allowing multilateral institutions to augment Africa’s bond issuances and loan applications with Triple-A credit ratings and repayment backstops. In South Africa, the IFC and the Development Bank of Southern Africa co-issued a PCG covering 40% of Johannesburg’s 2004 municipal bond principal (R1bn). This supports the development of local financial markets while also opening up the continent to dedicated investment grade investors.

Partial capital cost support and subsidisation, like that offered by the PIDG Technical Assistance Facility’s Viability Gap Funding (VGF) programme, is also a possibility. Targeting critical infrastructure, such as a solid waste management facility in Kampala, Uganda, VGF mechanisms provide cost-reducing grants to promote private sector engagement in circumstances where low financial returns undermine projects with high economic returns. As opportunities for innovative private sector funding mechanisms and structures grow, VGF structures may be required to ensure that vital infrastructure projects receive finance.

Innovative financing approaches have mobilised African infrastructure projects that might not have otherwise happened, while the impact of potentially substantial new forces such as the Africa50 Fund and China’s new investment paradigm may catalyse yet more innovative financing techniques. ■

Catalysts For Infrastructure Development



Simandou project, Guinea. Copyright © 2014 Rio Tinto.

Extractive industries are infrastructure dependent, often relying on extensive networks of railways, ports and power so that export markets can be reached and reserves exploited.

Historically, extractive industries have adopted an enclave approach to infrastructure development, creating just enough capacity to meet their captive demand. However, recent investment in Africa suggests that this enclave approach is beginning to change.

The African Union's Africa Mining Vision, adopted by heads of state in 2009, makes the case for using the extractive industries as catalysts for social and economic development, and infrastructure is a fundamental component of this plan. According to the vision, mutually beneficial projects can address Africa's immense infrastructure deficit as well as extractive industries' onerous infrastructure needs.

Extractive industries can drive infrastructure development directly, through multi-user shared resource projects, or indirectly, by anchoring multi-project developments. Both scenarios are gaining traction among governments and companies in Africa.

Direct catalysts

Multi-user shared resource infrastructure is beginning to replace the captive resource infrastructure that has long characterised Africa's extractive industries. Shared-use schemes can benefit governments and companies.

- For governments, there are multi-billion dollar opportunities to capture economic multipliers by securing access to resource industry infrastructure. The 'communal' use of high-profit resource industry infrastructure opens up the potential for lower return industries, which are unable to justify (or afford) infrastructure investment on their own.

- Often geographically remote resource deposits require complex and costly infrastructure for their development, production and evacuation. Brokering resource exploitation deals in which the cost of infrastructure is shared makes previously stranded resources more bankable.

These benefits are secured according to the economies of scale principle: the larger the project, the lower the cost per unit. Lower unit costs boost asset productivity, which represents savings for all users.

For example, the profit margins of mining operations are highly sensitive to power generation costs. By generating more power than their operations require, extractive companies can reduce cost per kWh and sell excess power on to third parties, including state utilities.

Anglo American's planned 450MW Khanyisa plant in South Africa will employ this strategy. The plant will

run off waste coal from the Kleinkopje colliery, powering Anglo American's own operations and helping to address South Africa's national power shortage. The company estimates that the plant will secure inward foreign investment of around \$900m, as well as create local jobs and introduce new technology to South Africa.

It will not be viable for extractive companies to become infrastructure providers in every scenario. But there are a number of ways in which shared-use resource infrastructure can be structured.

- One such option is to develop projects as public-private partnerships, as in the case of the Port of Ehoala in Madagascar, where Rio Tinto's ilmenite export operations share facilities with cruise liners, container ships and refrigeration vessels to catalyse tourism and agriculture.

- Alternatively, governments and companies can run brownfield projects under shared-use agreements. The Simandou iron ore project in Guinea, for example, includes a 650km railway to be shared between the mining company, passenger and other freight trains. Ownership is to be divided between private users and the government, with operatorship awarded to a third party.

However, shared-use resource infrastructure remains complicated. Making projects bankable for both host countries and extractive companies require financial arrangements that balance initially high capital injections with long-term usage costs and volatile commodity prices, while also navigating information asymmetries and competing timescales.

Indirect catalysts

Investment by extractive industries to indirectly catalyse infrastructure

development is another viable option. Under the 'development corridor' methodology, a company becomes the 'anchor client' upon which an entire infrastructure project can be underwritten, as in the cases of Vale in the Nacala Development Corridor in Mozambique and Rio Tinto in the Southern Guinea Growth Corridor.

Vale's Moatize coal mining project, which anchors the multi-user, multi-project Nacala transport infrastructure corridor, is popularly lauded as an African development success story. Launched in 2013, the infrastructure assets are designed to realise the socioeconomic potential in Mozambique and its landlocked neighbours by connecting industries to export markets.

Hoping to replicate this model, the Southern Guinea Growth Corridor focuses on identifying opportunities to catalyse the rail, port and communication links used to support the extraction of Guinea's rich bauxite and iron ore deposits, and ignite broader economic growth in surrounding areas. Initial estimates put the potential long-term additional output from the corridor at up to \$3bn a year, which is almost half of Guinea's current GDP.

Projects such as these employ the economies of scope principle: by building multiple projects, the average cost per unit is reduced, thus improving asset productivity. For example, building a pipeline can help facilitate the creation of roads along the same route because the path has been cleared – a strategy that is being utilised in Kenya's Turkana-Lamu development as part of the regional Lamu Port-South Sudan-Ethiopia Transport (LAPSSET) project.

Outside of mega-corridor developments, however, extractive companies can still anchor projects to encourage infrastructure investment.

- Power consumers in the extractive industries can catalyse investment in independent power projects by signing creditworthy power purchase agreements to boost projects towards financial close. The Banda gas-to-power plant in Mauritania, for example, aims to serve the mining industry as well as national grids in Mauritania, Senegal and Mali.

- Outside of the power sector, the Ncondezi coal project in Mozambique acts as an anchor customer to telecommunications service provider Vodacom, whose coverage now serves communities 10km around the Ncondezi tower.

The benefits of mutually beneficial, appropriately structured infrastructure are clear and, beyond the economic dividends, serve to establish long-term relationships between host countries and extractive companies. Anglo American and BHP Billiton's eMalahleni water reclamation plant in South Africa is one example of how mutual infrastructure has embedded the mine and its workers within local communities. The plant, which treats underground water from Anglo American's mining operations in the Witbank coalfields, supplies 12% of the city's water. The gypsum byproduct of the plant is used to make bricks, which stimulates local employment and contributes towards affordable housing.

Including extractive companies in infrastructure developments, directly or indirectly, can increase the complexity of projects, and the progress on many of the aforementioned projects has taken years and, in some cases, decades. However, with billions of dollars of investments flowing into economies, extractive industries can evidently play a central role in addressing Africa's infrastructure deficit. ■

Lake Turkana Wind Power



Lake Turkana Wind Power (LTWP), a 310MW project near Marsabit town in northern Kenya, provides an example of how collaboration between international developers and financiers can catalyse challenging infrastructure projects.

A flagship project of Kenya's developmental blueprint, Kenya Vision 2030, upon completion in 2017, LTWP should greatly reduce the cost of producing electricity in Kenya and boost the country's installed generation capacity by some 20%. However, despite the evident importance attached to its success, project development, as ever with large-scale renewables projects in Africa has been far from easy, and has taken a patient eight years of preparation before financial close.

One reason obtaining financial close has been challenging is the sheer scale of the project. Requiring installation of 365 wind turbines over a 40,000 acre tract of land in one of Kenya's most remote areas, plus construction of a 430km transmission line and 200km access road, the LTWP project presents considerable engineering and logistical challenges to developers. With so much that could potentially go wrong, a collaborative approach from a variety of international investors and development finance institutions has served to bring confidence to the project and spread investment risks amongst stakeholders.

LTWP already benefits from truly international backing in terms of its developers. The consortium was initially formed in 2005 by a group of European developers and partner companies, comprised of UK-based Aldwych, Dutch renewables company KP&P BV Africa, Danish wind systems manufacturer Vestas, the Finnish Fund for Industrial Cooperation, the Industrial Fund for Developing Countries, the Norwegian Fund for Developing Countries and US-based Sandpiper Energy.

So the consortium brings a wealth of financing and project management experience to LTWP, but the success of the venture has not always been certain, as it endeavoured to involve international financiers. In this respect, LTWP's prospects substantially improved when the African Development Bank (AfDB) took a lead in terms of project finance, approving a \$152m financial package in April 2013, and providing a partial risk guarantee to mitigate delays in construction of the transmission line.

AfDB confidence in the project encouraged other investors to provide support, and in March 2014, LTWP signed agreements worth \$687m with a group of international development finance institutions, comprised of the European Investment Bank, South Africa's Standard Bank, Nedbank, Dutch Development Bank FMO, France's Proparco, the East African

Development Bank, PTA Bank, Danish Export Credit Agency EKF, Triodos Bank and Germany's DEG. The Dutch government also has provided a €10m grant for the project, whilst the EU-Africa Infrastructure Trust Fund also provided support in the form of a €25m subsidised facility. In addition, the project has been adopted by Barack Obama's Power Africa initiative, and in June 2014 the US Overseas Private Investment Corporation signed guarantees worth up to \$250m for the project.

The success of the project is hugely important for Kenya. It is expected to be finished in 2017, and upon completion, LTWP is expected to produce electricity at Ksh9/kWh, or €0.0752/kWh, significantly lower than the current cost of generating electricity in the country. It is also anticipated that the project will save the country around €150m/year in foreign exchange costs as the government will be able to reduce the amount it spends on imported fuel.

LTWP is also of vital importance to the growth of the renewables industry across the rest of Africa, demonstrating that with collaborative support from international developers and financiers, large-scale renewable energy projects can be realised, at the same time lowering the cost of electricity across the continent. ■

Annex 1 – Group Definitions

Group Definitions

ICA Members

The governments and development agencies of all G8 countries:

Canada, France, Germany, Italy, Japan, Russia, , UK, and US.

Republic of South Africa (all G20 countries are eligible for membership).

As well as:

African Development Bank Group, Development Bank of Southern Africa (DBSA), European Commission, European Investment Bank (EIB), and the World Bank Group.

Participants as observers in ICA meetings:

AU Commission, NEPAD Planning and Co-ordinating Agency, and Regional Economic Communities.

Arab Co-ordination Group

Arab Bank for Economic Development in Africa

Arab Fund for Economic and Social Development

Islamic Development Bank

Kuwait Fund for Arab Economic Development (KFAED)

OPEC Fund for International Development (OFID)

Saudi Fund for Development

Multilateral Development Banks

African Development Bank Group, European Investment Bank, World Bank Group.

Regional Development Banks

Central African States Development Bank (CASDB), DBSA, an ICA member), EBID, EADB, West African Development Bank (WADB)

Annex 2 -Data Notes

1.General remarks

In general, it should be noted that the ICA member commitments and disbursements should be viewed in perspective of the respective institutional background. While, for example, DBSA provides nearly 100% non-ODA loan-based funding, the UK, the EC and Canada are pure ODA grant funders which means that their funding volumes are naturally much lower.

2. Exchange rates

The exchange rates used for conversion into US Dollars are the averages of the last three months of the respective reporting period and original currency as reported in the publicly available African Development Bank Financial Information (<http://www.afdb.org/en/documents/financial-information/exchange-rates>). For ICA members the following exchange rates were used:

1US\$ = 0.650460092
AfDB Unit of Account (UA)

1US\$ = 0.733018814
Euro (EUR)

1US\$ = 0.61662069
British Pound (GBP)

1US\$ = 1.045155166
Canadian Dollar (CAD)

1US\$ = 10.17003247
South African Rand (ZAR)

1US\$ = 100.5145357
Japanese Yen (JPY)

3. Soft infrastructure

As mentioned by some ICA members, the distinction of hard and soft infrastructure is sometimes difficult to make and might therefore not be fully accurate. Also the judgement of whether a part of the project is dedicated to capacity building or project preparation can sometimes be a challenge.

Therefore, the following explanations have been added by the ICA Members:

For the UK, “other soft infrastructure” comprises research, monitoring and evaluation, and other purposes. The EIB captured “support to project implementation” under this category which included monitoring of the first stages, assisting with the supervision of works, incentive or premium payment design such as feed-in tariffs.

The EU-AITF as part of the EIB characterised a grant as “capacity building” when it supported both, project preparation and capacity building. When a grant supported “project preparation”, and/or “capacity building” and “other” it has been reported as “other”.

No distinction into soft infrastructure categories has been provided by AfDB OITC, the WBG and the US.

The US stated, though, that under the Power Africa Initiative the main focus is on soft infrastructure by providing technical assistance to African host-country governments, utility operators, capacity building and advisory services through the installation of transaction advisors in some of these countries, while they also work on policy reform and enabling business environments to increase private investment.

4. Project specific information

Information on projects completed in 2013 was provided by France, the EC, German KfW and GIZ, the EIB and the EU-AITF, AfDB ONEC, AfDB OITC, Japan, Canada, the WB and the IFC, and the US.

Projects committed in 2013 were provided by France, the EC, German KfW and GIZ, the EIB and the EU-AITF, AfDB ONEC, AfDB OITC, AfDB OWAS, Japan, the WB and the IFC, and the US.

The top ten project pipeline is based on data provided by France, the EC,

German GIZ, the EIB, AfDB ONEC, AfDB OWAS, the WB and the IFC.

5. Qualitative data

Qualitative data for section 4.4 is based on information by France, the UK, the EC, KfW, DEG and GIZ, the EIB, AfDB OWAS, AfDB ONEC, and the WB.

Data related to qualitative aspects of project preparation was provided by France, the UK, the EC, KfW, DEG and GIZ, the EIB, AfDB OWAS, AfDB ONEC, the WB, and the US.

6. Other specific ICA member data notes

AfDB

Overall AfDB data consists of data gathered from the Energy, Environment and Climate Change Department (ONEC), the Transport & ICT Department (OITC), the Private Sector Department (OPSM) and the Water & Sanitation Department (OWAS) including the African Water Facility (AWF).

AfDB – OWAS stated that its soft infrastructure disbursements for 2013 are estimates. Furthermore, the AWF commitments and disbursements were originally denominated in Euros and that a conversion rate of 1:1.18 was used to convert them into UA. Since the AWF share could not be disentangled from the rest of the AfDB – OWAS data, its contribution is slightly overestimated.

EC

The EC stated that consolidation of their 2013 interventions is not yet final which could result in small discrepancies between the figures provided for this report and their own annual report. Also, the EC regional commitments (including PIDA/PAP projects) might be slightly underestimated since some relevant regional projects implemented at national level could not been included in the reporting.

France

AFD's strategic considerations can be drawn from the AFD annual report.

Germany

Overall German data consists of data gathered from KfW, DEG and GIZ. Since KfW stated that the figures provided by them do not include funds which are managed on behalf of other donors under delegated cooperation agreements, their contribution is likely underestimated.

The same is true for GIZ which, in the context of PIDA/PAP, reportedly provided several one-time advisory services of 40,000EUR each that have not been included

It also seems that the multi-donor funded initiative "Energising Development" (<http://endev.info/>) for which GIZ has been commissioned to act as the lead implementing agency has not been included.

EIB

Overall EIB data consists of data gathered from the EIB and the EU-AITF which is managed by the EIB.

US

US data for 2013 incorporates the recent presidential "Power Africa" Initiative and is not comparable to previous years for several reasons. Commitments and disbursements include estimates and they are based on a different dataset compared with previous years in order to accommodate reporting on the 2013 calendar year. Commitments contain only those contemplated in the Power Africa initiative as well as OPIC activities for the energy sector and USTDA activities for the other sectors. Disbursements consist of USAID and USTDA data only. Project level data comprises information from USAID, MCC, and USTDA. This means that the levels of commitments as well as funding of regional projects – for the US and for ICA members as a whole – are undervalued in this

report while US non-ODA data are not contemplated. US disbursements are likely undervalued. The US data provided should therefore be treated with caution as it does not reflect the full picture.

WBG

Overall WBG data consists of data gathered from the World Bank (WB) and IFC.

The IFC stated that its definition of "completed" projects refers to those with undisbursed balances declining to zero in the calendar year of 2013, excluding cancellations. They include debt and equity disbursements while disbursements to IFC InfraVentures projects, in which IFC contributed to project development costs at the early-stages of a project, are not included.

IFC also noted that for the purpose of this report it restricted its definition of "other regional" projects as projects involving funding of assets that are/are expected to be located in more than one African country. Besides "other regional" projects so defined, IFC also finances projects within individual countries that are expected to generate significant cross-border benefits.

Other data

African National Budgets for Infrastructure

Data used in the production of these figures is primarily sourced from direct correspondence with national ministries of finance, official documentation, including financial statements, Medium-Term Expenditure Framework (MTEF) documents, and budget speeches. In a minority of circumstances, data is sourced from respectable local newspapers, where aforementioned documentation is unavailable.

In most cases, figures represent yearly allocations of both capital and recurrent expenditure to relevant national programmes, government

functions and ministries. However, in some cases, revised allocations, estimated or calculated data has been used. Such an expansive methodology reflects the inherently heterogeneous and inconsistent nature of the data. Figures should be taken as purely indicative and represent the best-estimations of the ICA and may not, therefore, reflect actual government expenditure with complete accuracy.

Annex 3 - REIPPP projects closing finance in 2013

Project name	Capacity	Location	Operating Company	Technology	Shareholders	% Private	Investment (\$ m)
Bokpoort CSP Plant	50MW	Northern Cape	ACWA Power Solafrika Bokpoort CSP Power Plant (RF) Proprietary Limited	Wind, Onshore	ACWA Power (40%, Saudi Arabia); Kurisani Youth Development Trust (5%, South Africa); Lereko Investments (25%, South Africa) Others (30%)	100	382.47
Linde Solar PV Plant	40MW	Linde, Northern Cape	Scatec Solar SA	Solar, PV	Scatec (100%, Norway)	100	386.1
Chaba Wind Farm	21MW	Grahamstown, Eastern Cape	Chaba Wind Power	Wind, Onshore	Électricité de France (100%, France)	100	36.25
Waainek Wind Farm	24MW		Waainek Wind Power	Wind, Onshore	Électricité de France (100%, France)	100	46.39
Gouda Wind Farm	138MW	Drakenstein, Western Cape	Blue Falcon 140 Trading Proprietary Limited	Wind, Onshore	Acciona (51%, Spain); Aveng Limied (29%, South Africa); Others (10%); Soul City Institute (10%, South Africa)	100	271.1
Grassridge Wind Farm	59.8MW	Cradock, Eastern Cape	Grassridge Wind Power	Wind, Onshore	EDF Energies Nouvelles SA (100%, France)	100	109.4
Neusberg Hydro Electric Plant	10MW	Orange River, Kakamas, Northern Cape	Kakamas Hydro Electric Power	Hydro, Small	Hydro Tasmania (33%, Australia); Industrial Development Corporation (33%, South Africa); Old Mutual (33%, South Africa)	100	56.0
Amakhala Emoyeni Wind Farm	138MW	Bedford, Eastern Cape	Cennergi Proprietary Limited	Wind, Onshore	Exxaro Resources (50%, South Africa); Tata Enterprises (50%; India)	100	410.38
Sishen Solar PV	74MW	Dibeng, Northern Cape	Windfall 59 Properties	Solar, PV	Acciona (51%, Spain); Aveng Limited (29%, South Africa); Others (10%); Soul City Institute (10%; South Africa)	100	238.8
West Coast One Wind Farm	94MW	North of Cape Town		Wind, Onshore	Investec (34.5%, South Africa); Kagiso Tiso Holdings South Africa (20%, South Africa); Others (2.5%); SUEZ (43%, France)	100	213.4

Annex 4 - Acknowledgements

2013 ICA Survey of Private Sector Investors

The ICA would like to thank the following organisations for their support and co-operation in promoting the 2013 ICA Survey of Private Sector Investors:

African Arguments (Royal African Society)

<http://africanarguments.org>

Africa-Australia Infrastructure Conference

<http://africaaustraliaconference.com>

African Energy

www.africa-energy.com

Africa & Middle East Trade Ltd

<http://ametrade.org>

Business Council for Africa

www.bcafrica.co.uk

CBL-ACP

www.cblacp.eu

ESI Africa

www.esi-africa.com

European Business Council for Africa and the Mediterranean

<http://ebcam-eu.eu>

Netherlands-African Business Council

www.nabc.nl

Norwegian-African Business Association –

<http://norwegianafrican.no>

US Chamber of Commerce – Africa Business Initiative

www.uschamber.com/africa

