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

Annual Report
Overview

2007

About the ICA

The Infrastructure Consortium for Africa (ICA) was launched at the G8 Gleneagles summit in 2005. Leading African organisations and aid donors attended the inaugural meeting in London on 6 October 2005.

The Consortium's mission is to help improve the lives and economic well-being of millions of people across the African continent through support to scaling up investment for infrastructure development from both public and private sources. Many African countries lack the essential building blocks of economic progress – roads and railways (which are well maintained), access to electricity, the internet and mobile phones and water for drinking and production and sanitation.

The ICA also works to help remove some of the technical and political challenges to building more infrastructures and to better coordinate the activities of its members and other significant sources of infrastructure finance, such as China, India and Arab partners.

The ICA is supported by a small secretariat hosted by the African Development Bank. Members include the G8, World Bank Group, African Development Bank Group, European Commission, European Investment Bank and Development Bank of Southern Africa.

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Infrastructure Consortium for Africa (ICA) Annual Report, Overview, 2007

Table of Contents

Acronyms

AfDB	African Development Bank
ADF	African Development Fund
AER	Aid Effectiveness Review
AFD	l'Agence Française de Développement
AICD	Africa Infrastructure Country Diagnostic study
AUC	African Union Commission
CAR	Central African Republic
CDB	China Development Bank
CDC	Central Development Corridor
CDF	Comprehensive Development Framework
CEMAC	Economic and Monetary Community of Central Africa
CPIA	Country Policy and Institutional Assessment
DAC	Development Assistance Committee (OECD)
DBSA	Development Bank of Southern Africa
DFID	Department for International Development
DRC	Democratic Republic of Congo
EASSy	Eastern Africa Submarine System
EC	European Commission
ECOWA	The Economic Community of West African States
EDF	European Development Fund
EIB	European Investment Bank
EPA	Economic Partnership Agreement
EU	European Union
EXIM	Export-Import
GDP	Gross Domestic Product
GEF	Global Environment Facility
GtZ	Gesellschaft für Technische Zusammenarbeit
IBRD	International Bank of Reconstruction and Development
ICA	Infrastructure Consortium for Africa
ICT	Information and Communication Technology
IDA	International Development Association
IFC	International Finance Corporation
ITU	International Telecommunication Union
JICA	Japan International Cooperation Agency
JBIC	Japan Bank for International Cooperation
KfW	Kreditanstalt für Wiederaufbau
LIBOR	London Interbank Offered Rate
MCC	Millennium Challenge Corporation
MDG	Millennium Development Goal
NBI	Nile Basin Initiative
NEPAD	New Partnership for Africa's Development
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OMVG	The Gambia River Basin Development Organisation
PFI	Private Finance Initiative
PPI	Private Participation in Infrastructure
PPIAF	Public-Private Infrastructure Advisory Facility
PPP	Public-Private Partnership
PROPARCO	Promotion et Participation pour la Coopération économique
REC	Regional Economic Community
SADC	Southern African Development Community
SSA	Sub-Saharan Africa
SSATP	Sub-Saharan Africa Transport Programme
TWRM	Transboundary Water Resource Management
UAE	United Arab Emirates
UDEAC	Union Douanière des Etats d'Afrique Centrale
UEMOA	West African Economic and Monetary Union
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNICEF	United Nations Children's Fund
USA	United States of America
US$	United States Dollar
WHO	World Health Organisation

OVERVIEW

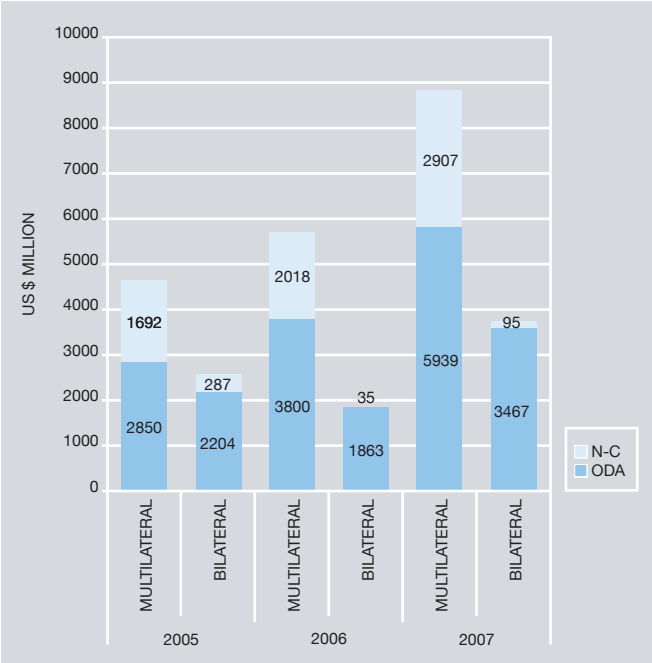
i. Good infrastructure plays a leading role in economic development. Most African countries recognise the need for good and efficient infrastructure and are increasingly allocating more of their domestic budgets to roads, railways, power generation, airports, water storage and distribution and cables that allow access to the internet.

ii. The Africa Country Infrastructure Diagnostic (AICD) study estimates that annual infrastructure investment needs in Africa to be in the region of $40 billion per year, with maintenance and operating costs also costing a further $40 billion per year.

This 2007 ICA Annual Report has six main chapters:

iii. **Chapter 1** ***Africa's Infrastructure Needs*** looks at the investment needs, current trends and key policy issues in each of the infrastructure sub-sectors. In the water sector the report finds a shortage of well prepared river-basin water resource projects ready for financing and few well functioning cross-border water institutions. Progress against the UN Millennium Development Goal of halving the proportion of people without access to water and sanitation remains severely off track in many countries.

iv. Introducing greater efficiencies into the existing transport network is important to help mitigate against the full impact of high fuel prices and to improve trade and regional integration. Effective institutions and reform are as important as new infrastructure to ensuring better maintenance of networks and to stimulating more private sector investment.



ICA commitments to infrastructure projects in Africa 2005 – 2007 (US$ million)

v. Africa is in the midst of an energy crisis with a chronic shortage of electricity supply in at least 25 countries in Sub-Saharan Africa. Investment needs in the sector are around $25 billion per year (around 60% of total needs across all sectors). Removing borders through expansion of international transmission lines, greater trade and stronger regional bodies, will expand generating capacity and help to reduce overall capital and operating costs. The inefficiency of many of Africa's energy utilities generates substantial hidden costs - tackling this issue must be the highest priority in national energy programmes.

vi. There is not a major public or private funding gap to allow greater access to mobile telephones and to lay cables between countries to enable access to the internet. Governments need to provide the necessary policy framework for the private sector to meet its full potential.

vii. **Chapter 2** ***ICA Member Support in 2007*** reports that total commitments by ICA members to infrastructure projects in Africa reached **$12.4 billion in 2007** – this was an increase of 61% over the $7.5 billion committed in 2006.

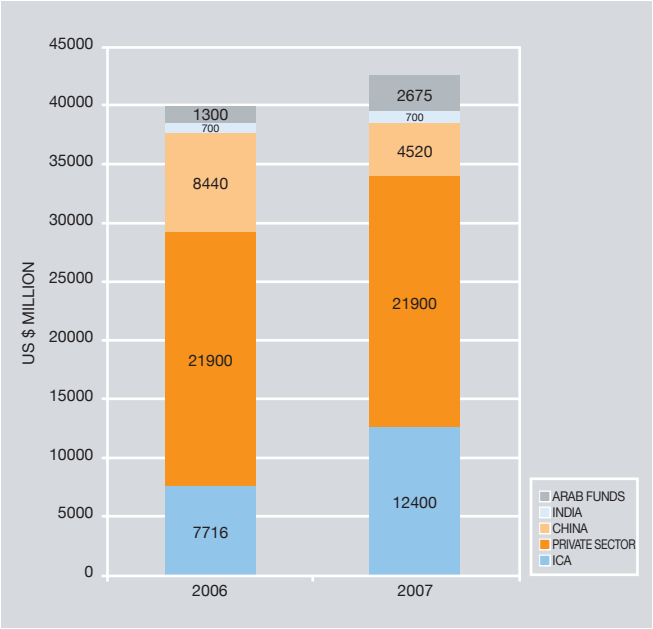
viii. Multilateral commitments increased by 50%, whilst bilateral commitments rose by 86% from $1.9 billion in 2006 to $3.56 billion. Multilaterals are still responsible for the majority of ICA commitments - 71% (75% in 2006)

ix. Official Development Assistance (ODA) commitments to infrastructure in sub-Saharan Africa increased by 59% to reach $8.17 billion.

x. Record replenishments of multilateral funds (IDA, ADF and EDF), along with the launch of the EU-Africa Infrastructure Trust Fund in 2007 will guarantee that the upward trend in ICA commitments to the sector will continue.

xi. **Chapter 3** ***Distribution of ICA member support*** analyses the distribution of commitments towards regional infrastructure and the water, energy, transport and ICT sectors. ICA support to projects which are regional in nature is strong and a growing. $2.8 billion[1] represents a 23% share of total ICA commitments and an increase of $1.9 billion from $900 million in 2006.

xii. Total ICA commitments to the water sector were $2.9 billion in 2007, an increase of 60% from the $1.8 billion committed in 2006 Commitments to sub-Saharan Africa increased substantially from $1.4 billion in 2006 to $2.2 billion in 2007 – a rise of 58%.



The big picture - minimum external financial support to African infrastructure in 2007

xiii. ICA members, led by the World Bank and the African Development Bank, have responded to Africa's energy crisis – the sector receives the most amount of ICA finance. Total ICA commitments to the energy sector were $3.9 billion in 2007, a rise of around 60% from 2006. $3 billion of those commitments were concentrated in SSA.

xiv. The transport sector received $3.6 billion an increase of $400 million from the $3.2 billion committed in 2006. Multilateral commitments dominated - $2.8 billion (78%) in 2007, with the EU and World Bank were the most significant with commitments of around $1 billion each.

xv. **Chapter 4** focuses on the role being played ***China, India and Arab Partners*** in Africa's infrastructure development. Commitments by China, India and Arab partners are estimated at $4.5 billion, $700 million and $2.6 billion respectively in 2007.

xvi. Large scale rail and hydropower projects dominate China's portfolio and are therefore complimentary to support from ICA members, which in the road and water sectors are more concentrated on roads and water and sanitation projects.

xvii. Coordination with China, India and Arab partners is a growing area of activity for the ICA. Staff exchanges and work on joint projects are underway between the World Bank and China EXIM Bank and between the AfDB and China Development Bank.

xviii. **Chapter 5** ***Private Sector Investments*** reports that Africa received a minimum of $20 billion from the private sector in 2007. Although around 50% of these investments will have been in North Africa and many more in South Africa the trend for the continent is upwards.

xix. There is a growing trend towards the use of Public-Private Partnerships (PPPs) with several governments setting up specialist units. A clear policy framework, a legal system that ensures contracts are effective and enforceable, a long-term investment plan are all critical factors to ensuring a successful PPP programme. All of this needs strong political commitment over the long-term with civil servants with the right skills to set up and monitor programmes. Given these conditions a significant rise in the number of PPPs should not be expected in the short-term.

xx. African countries can attract and use more private money if they significantly reduce red tape and other regulatory impediments to private sector activity. Although progress has been made in recent years, sub-Saharan Africa still lags behind other parts of the world.

xxi. Raising debt and equity capital to finance projects in Africa remains a challenge. With few exceptions, local capital markets in Africa are currently not suited to financing infrastructure although they offer the best solution to long-term sustainable infrastructure financing.

xxii. **Chapter 6** ***Trends*** considers the impact and opportunities of rising economic growth rates, higher levels of external finance, high demand for commodities, increased fuel and food prices, changing weather patterns and population growth and urbanisation. It finds that Africa is receiving in excess of $40bn per year for infrastructure from external sources.

[1] *This figure is an underestimate since the EC could not fully report on commitments to regional projects for 2007*

TRENDS

This chapter highlights current trends which Africa is experiencing and which will have an impact on both infrastructure priority setting and on the amount of money available on the continent to finance investments.

Increased Economic Growth

Economic activity in Africa is estimated to have risen by 5.7% in 2007, and is expected to remain high, at 5.9% in both 2008 and 2009 according to the African Economic Outlook for 2007/2008 [60]. The outlook for much of Africa continues to be favourable with highest growth registered by the oil exporting countries. A significant increase in ODA to Africa, driven largely by debt relief, increasing flows of foreign direct investment, high commodity prices and greater macroeconomic stability have all contributed to this positive economic outlook.

The World Bank's report '*African Development Indicators, 2007*' points to wide variations between countries and highlights three distinct groups of countries:

- The big oil-exporting countries
- Those with expanding, diversified economies
- And those which have few natural resources, are conflict-prone and are experiencing slow or no growth

Increased connectivity to regional and global markets through deeper regional integration offers the best solution to some of the unique challenges resulting from these variations.

Countries in Africa with high economic growth are turning to international capital markets to raise funds for infrastructure projects. Ghana became the second country on the continent outside of South Africa to sell an international bond in September 2007, raising $750 million. Gabon's first $1 billion bond sold in December 2007 and was priced to pay 8.2% interest. It is expected that more countries such as Nigeria, Zambia, Kenya and Uganda will follow the example of Ghana and Gabon and raise funds for road, rail and power projects.

Rising Levels of External Infrastructure Finance

Based on analyses for this report, the chart 6.1 shows that in **2007 Africa received a minimum $40 billion of external financial support to its infrastructure sector from all sources**. It is most likely that estimates of the levels of private sector investment to the sector and investments from emerging economies other than China and India are both underestimated due to the difficulty of capturing all data.

Chart 6.1 The big picture - minimum external financial support to African infrastructure in 2007

[60] *Report jointly prepared by the AfDB, OECD and the United Nations Economic Commission for Africa (UNECA)*

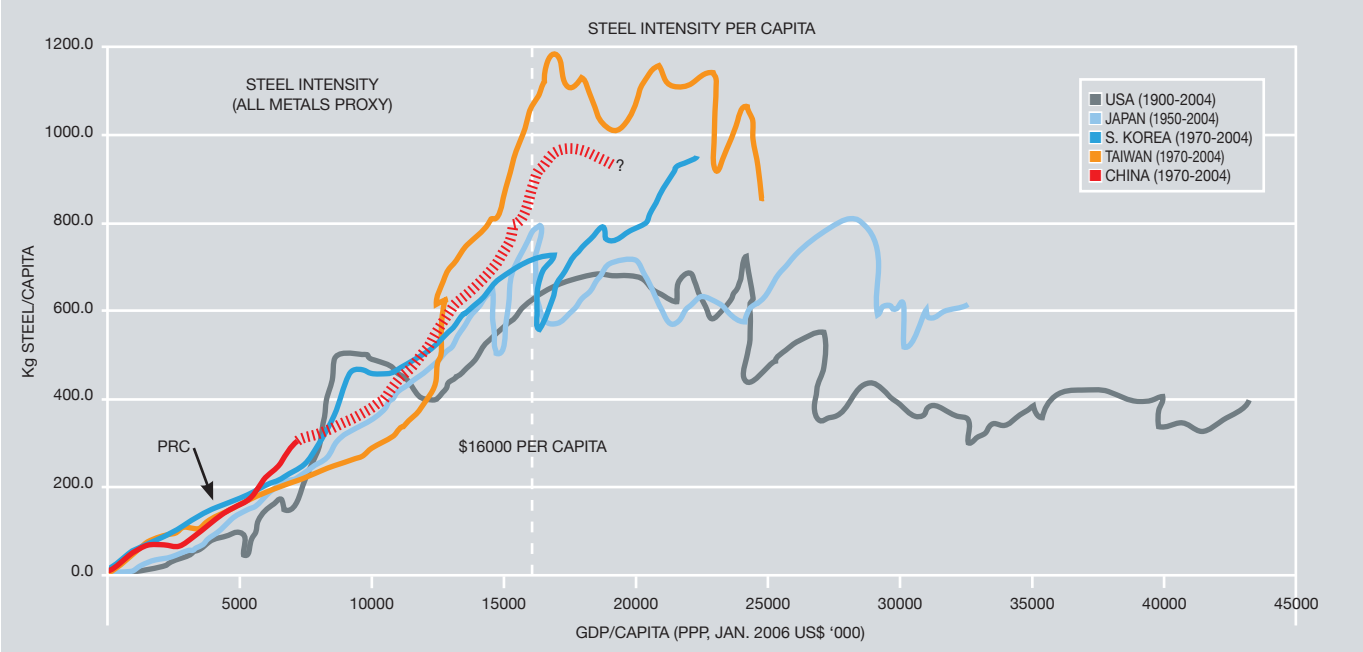
High Demand for Commodities

Economic activity between Africa and Asia is booming and is a major factor in the many of the high growth rates seen across the continent and the higher rates of investment in infrastructure. How long will the boom last? Figure 6.2 [61] a graph of steel intensity [62] versus GPD/capita offers some clues. The intensity (or demand for steel) tends to fall off once basic national infrastructure is in place and most domestic markets have been developed and penetrated. Growth from then on tends to be in services accompanied by a falling proportion of employment in manufacturing, as evidenced by mature economies such as the USA and Japan.

The graph appears to indicate that, at around $16,000/capita the metals intensity of GDP growth tends fall off. Given that China is only at about one-third up this high intensity phase, that India is at about a third that of China, and given that together these countries have a combined population approaching three times that of the developed countries, then it would be reasonable to assume that the current global high metals intensity phase could continue for roughly another 30 years.

Other Asian countries, not included in this estimate, are also following China and India's model of offering infrastructure in exchange for mineral and other concessions. For example, in Congo-Brazzaville a Congo-Malaysia-Korea Consortium, a venture including the Korean Railroad Corporation and Korean steelmaker POSCO, is to build a $4bn railway 1,500km from Brazzaville to Ouésso in eastern central Congo in exchange for oil, natural gas, iron and mining concessions. Burgeoning middle classes in Asian countries with rising incomes and purchasing power are also increasingly buying Africa's light manufactured products, its back-office services, tourism facilities and telecommunications [63].

Chart 6.2 China's demand from commodities



Increased Fuel and Food Prices

The high price of oil is a unique opportunity for African oil producers to use their windfall gains to speed up development. Whilst the pace of spending has to be commensurate with the economies' capacity to absorb large additional spending programs, some countries will be able to afford to finance their own infrastructure needs allowing grant donors to focus on supporting social sectors.

[61] *MINTEK, 2007*

[62] *Steel intensity is the amount of steel used per unit of gross domestic product, reflecting the demand for steel*

[63] *China and India Go to Africa, H Broadman, Council on Foreign Affairs, 2008*

The negative effects of high oil and food prices on economic activity will be equally felt by oil importers as well as exporters.

The transportation sector will be the most vulnerable to high oil prices in African countries given that the majority of goods are transported by road. Landlocked countries far from the coast will suffer more as costs to the movement and supply of goods increase. High fuel cost is also making electricity more expensive as around 20% of Africa's installed power generation capacity is now delivered by diesel-powered generators. The cost of building infrastructure will also increase as commodity prices and the cost of transporting them around the continent to construction sites increase.

Food riots triggered by high food prices have pushed global hunger onto the political agenda. The current crisis has highlighted the fragility of the world's food system and their vulnerability to shocks. Food prices are predicted to remain high for years to come. Irrigation is rare except in only a handful of African countries and its rate of expansion has been slowing for years. Making better links between the agriculture and infrastructure sectors will be needed to increase irrigation which is key to production in the face of reduced rainfall and higher temperatures in parts of the continent. In addition, reliable power supply is required to add value to agricultural products through processing and cold storage and an efficient road network to transport goods to markets or international ports.

Changing Weather Patterns – Towards Climate Proof Infrastructure

African countries and development partners are at an early stage of trying to understand and plan for what might be the main impacts of more climatic variability. Most infrastructures in Africa continue to be built based on assumptions that the future climate will be similar to that of the past. Doing things differently will add an additional layer of complexity to Africa's development challenges and an additional layer of cost.

Climate change is already threatening vital infrastructure such as road and rail networks, water and energy systems. In the water sector lower annual rainfall in some parts of the continent reduced the power supply capacity of hydroelectric dams and could in future reduce the water supply necessary for cooling of coal-fired power stations. Coastal and inland flooding, related to excess rainfall, is also a risk for road, rail and air networks. This is particularly so for the several small island states in the continent.

Infrastructure represents such a major investment that it is important to build it to cope with future changes. The cost implication for African governments and their development partners will be significant. Recognition of the risks associated with climate change is a valuable first step towards better planning of new infrastructure investments and mitigating potential damage to existing infrastructure.

Population Growth and Urbanisation

The dramatic increase in urban populations will mean continued strong demand for basic infrastructure such as power, electricity, water and related services, as well as transportation networks.

Africa's population stood around 924 million in 2006. It is projected to reach 1.4 billion in 2025 and 2 billion in 2050. And urbanisation is increasingly becoming a reality on the African continent with more and more rural people moving into the cities mainly to find employment. According to the AfDB, 12-13 million Africans will leave their rural homes and move to urban areas in 2008. Many migrants find crowded roadways, overused public transportation systems, inadequate water and sanitation services, and a lack of affordable housing.
Modern legislative and planning frameworks to ensure economic planning and development will need to be an essential area of focus for African governments.

CONCLUSIONS

1. Progress has been made on bridging the financing gap

• **Africa countries received a minimum of $40 billion in external financial support to infrastructure in 2007.** This compares well with the $40 billion estimated by the AICD which concluded that Africa needs minimum investments of $40 billion per year and another $40 billion being required for maintenance and operation.

• **Commitments by ICA members reached $12.4 billion, an increase of 61%** from the previous year. ODA commitments to sub-Saharan Africa increased by 59%. Multilateral institutions have continued to play a dominant role, responsible for 70% of total ICA commitments. The water and energy sectors received the major share of new commitments. Water commitments increased by 43%, energy by 62%.

• Record replenishments of multilateral funds (IDA, ADF and EDF), along with the launch of the EU-Africa Infrastructure Trust Fund in 2007 will guarantee that the upward trend in commitments to the sector will continue.

• **Non-OECD countries are now a major source of finance – Chinese commitments alone are estimated to be a minimum of $5.2 billion in 2007.** Large scale rail and hydropower developments dominate China's project portfolio and could therefore be considered complementary to support from ICA members. Although some still question the use of proper social and environmental standards it should be noted that it is African Governments in the driving seat - the terms of deals will to a large extend reflect government's internal capacity.

• Demand for Africa's commodities from emerging economies will continue for the foreseeable future. It is **important that African countries invest the proceeds from commodities-stimulated growth** into sustainable development, which will include infrastructure.

2. Africa's power crisis continues to demand urgent attention

• More generation capacity is needed to address Africa's chronic shortage of electricity supply. Investment needs in the sector are roughly $25 billion per year. Improving the performance of energy utilities would free up more money for badly needed new investment and to upgrade existing infrastructure.

• Regional solutions through expansion of international transmission lines, greater intra-country trade and stronger power pools are important to reducing capital, maintenance and operating costs and improving energy security.

3. Action is required now to prevent what might become 'Africa's water crisis'

• Increased rainfall variability due to changes in the earth's climate has made water management and its sustainable use a more pressing problem. Negative effects of these changes are already been experienced in Africa. More water storage facilities need to be built to help smooth out seasonal variations of water supply.

• Regional cooperation between countries needs to improve through increased support to River Basin Organisations.

• Irrigation currently plays a minor role in African agriculture. One silver lining to high food and fuel prices that are affecting many poor people is that home-grown solutions will be more attractive. **Higher food prices could usher in a new era of high agricultural production** with higher land rents in productive areas used to maintain rural transport links.

4. A greater emphasis on regional solutions is needed

• **African Governments need to speed up decision making and Ministries of Finance allocate resources to preparing and financing regional infrastructure projects.** Helping to sell the benefits of regional infrastructure is important yet some Regional Economic Communities and the NEPAD Secretariat often do not receive the annual financial backing pledged by their members.

• Political will and getting the incentives right are key to increased trade and competitiveness, lower energy costs and sustainable water access. The politics of security and monopoly power often provide incentives to maintain the current status quo.

• In response to NEPAD priorities, an increasing share of ICA commitments, from 5% in 2005 to over 23% in 2007, are devoted to funding regional infrastructure.

• **A lack of projects prepared to a stage where they are ready for financing continues to be a significant bottleneck to building new infrastructure** – there are simply not enough of them either for public, private or public-private financing. Too often support to project preparation is seen as an issue for donors. Countries need to commit money and people with the right the legal, technical and financial skills, to develop their own projects

5. The returns to reform and increasing the efficiency of existing infrastructure are high

- **Effective institutions and reform are as important as new infrastructure to ensuring better maintenance of networks and attracting more private sector finance.** In the roads sector, a combination of road funds and road agencies deliver better road conditions and competition in the mobile phone market has lowered prices and expanded access. Technical improvements in the ports sector, for example, will only yield a fraction of their potential without institutional reform.

- More efficient infrastructure will lower costs, free up domestic finance for investment and encourage more outside investment. It is also an important component of helping to mitigate the full impact of food and fuel price rises

- **The prospects for more public-private financing arrangements are good**, though a large jump in the number of these deals should not be expected any time soon. Donor finance will be needed to continue to support African efforts in legal, judicial and regulatory reforms. Where political and regulatory risk remains high Governments can still attract the private sector with performance-type contracts to improve the performance of public operations.

- **Most of the new investment needed for cables to connect African countries to the internet and to increase mobile phone coverage can be met by the private sector.** Technological innovation and liberal policies witnessed so far in the mobile phone sector will be required in the area of broadband if similarly impressive rates of growth are to be recorded. Completing intra-regional and international connectivity is a quick-win with potentially high economic dividends.

- **Public and private users are willing to pay for quality of service** which will require the move to market pricing where conditions allow. Commercialisation of parts of Africa's road network, in particular in areas of high demand such as urban centres and high demand highways must be seen a way of ensuring sustainability. Governments need to ensure a fair deal for customers and a level playing field for all private parties.

- Innovative financing structures in some sectors, such as the duel tariff arrangements involving long-term public subsidies, will need to become a common feature if increased private sector investment is to become a reality.

6. Significant additional spending will be required on urban infrastructure

- **Urban infrastructure in many of Africa's cities is already under strain** and the rate of urbanisation is set to increase.

- **Governments must ensure that they put in place modern legislative and planning frameworks.** Private sector finance will be available if the investment conditions are right whilst the use of targeted government subsidies will be needed to ensure that the urban poor are not marginalised.

- Death by road accidents is Africa's hidden killer. African Governments and ICA members should consider adopting the recommendation from the Global Commission for Road Safety to allocate 10% of road construction budgets to safety.

7. More joint-working will deliver results faster

- **ICA members are working well together** on project co-funding, which could be more effective through routine sharing of project pipelines. More work is needed on harmonisation of procedures and common standards. **Cooperation with China, India and Arab partners is a growing area of activity for the ICA.**

- **Better project prioritisation** by African stakeholders, in particular Regional Economic Communities and other specialised regional institutions based on sound economic and social considerations would help to better focus donor and private sector financing and improve coordination.

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http://www.icafrica.org/en/