Project preparation – options for change

Discussion note prepared for the second meeting of the Infrastructure Consortium for Africa, 19-20 June, Addis Ababa.

I. Introduction

The aim of this short note is stimulate the Consortium's thinking on the future architecture of project preparation. Although a number of project preparation facilities exist, many operate on a global basis – the totality of their respective portfolios in Africa is small. How do we scale up our operations on the Continent to increase the flow of bankable projects? Three options are presented that could individually, or collectively, be supported to help deliver this mandate. This note does not make links to issues connected to infrastructure provision, for example, risk mitigation instruments, governance, capital markets etc. Clarity on roles and responsibilities will be important to ensuring that existing, and new mechanisms of support to project preparation, are effective and supply results.

II. Options – on-going and new challenges

Baseline information sharing

A user guide to existing project preparation facilities is being prepared jointly by the Consortium Secretariat and PPIAF (PPIAF have committed $73,000). The guide will help improve access to project development funding.

Option 1: Collaboration of existing facilities

A trial collaboration, led by the NEPAD Unit at the African Development Bank, between four[1] existing facilities, is underway. There is sufficient 'overlap' in the individual scope of each of these facilities, to ensure a complete package of support for a given project, to enable it to be taken from inception to financial closure.

Trial projects are being selected by the facilities in consultation with RECs. A report on progress will be made to the Consortium meeting at the end of 2006. Consideration should then be given to widening the scope of the collaboration, to include the small number regional project preparation units, being set up by some RECs, which by then should be fully operational. If this collaboration is successful and it is to continue to provide a steady flow of projects ready for financing, then significantly more resources will be needed. This is particularly the case in the upstream area, an area we might term "bankability packaging" i.e. help with legal/regulatory reform, project scoping and pre-feasibility.

[1] IPPF; DBSA/AfD; DevCo; PPIAF

Option 2: "One-stop-shop"

A "one-stop-shop" approach would provide the full range of project preparation services to enable projects to be taken from inception to financial closure. It could be either:

1. A virtual "one-stop-shop" which sees existing facilities working together in a fully co-ordinated way. This would be an extension of collaboration, and would involve the mandate of each facility being restricted to a given part of the project preparation cycle i.e. cancelling overlap and being very clear about who does what.

2. A new facility housed under one roof, acting as a central resource for all Member States. Advantages include, reduction in transaction costs, concentration of limited capacity in one place, and a clear focal point for funding and applications for funding. This would naturally involve the merging of all existing facilities. NEPAD's IPPF housed at the AfDB and the AfD/DBSA fund at the DBSA have taken the first step[2] towards formalising their co-operation, with the possibility of pooled funding when the AfD/DBSA fund's mandate ends on 2007. African led, this could represent the seed of a "one-stop" facility.

The scope of both the IPPF and AfD/DBSA would need to be expanded to accommodate this bigger role. Money and, importantly, dedicated specialist staff capable of taking a taking a proactive and innovative approach, would be needed to make it effective and capable of delivering. This would require a big commitment from donors and Member States, in particularly resources for "bankability packaging". The new facility would also have to consider whether it serves only public funded projects and PPPs (as is the case with the IPPF), or would also entertain pure private sector projects (as AfD/DBSA fund currently allows).

Option 3: Performance Partnership

This output-based solution takes its lead from Partnerships UK (PUK), a Public Private Partnership (PPP) set up to deliver infrastructure, and other public services in the UK.

Although there are different types of PPP, most are characterised by:
- outputs, defined by the public sector and delivered by the private sector i.e. the burden of responsibility to deliver rests with the developer;
- long-term relationships between the public and private sectors;
- private sector invested capital is placed "at risk" to the long-term performance in public sector delivery;
- fixed-price contracts (except for agreed indexation for general inflation)

With sound underlying principles, the UK experience is being increasingly adapted and applied to suit other developed and developing countries[3].

[2] Midrand meeting, 28-29 March 2006
[3] Many countries have taken the lead from the UK in helping to develop their own PPP programmes, for example, Brazil, China, Australia, Canada, Chile, Mexico, South Africa, Malaysia, Taiwan, Italy, France, Germany and Japan.

Advantages of the approach include:
- improved value-for-money. For example, lead time to implementation is reduced as the private sector is given the task of finding the most cost-effective mixture of investment inputs, which deliver the required public service outputs. Such a model would therefore not have to satisfy individual donor procedures.
- private sector capital is at risk, not the Government's;
- sustainability, as by entering into long-term contracts with the private sector, Governments are duty bound to make regular contracted payments;
- reform, of both the public and private sectors in terms of building new capacity, new skills, resources; and new ways of working;
- transparency – long-term contracts (where procurement is transferred to the private sector) create a high degree of transparency in the true cost of delivery public services;
- stimulation of local markets

Although we should be cautious, such an approach could be adapted to suit the African continent. The IFC has recently signed a memorandum of understanding with PUK that will foster greater collaboration, the South African Treasury has a PPP unit set up with help from PUK, and PPIAF is exploring with the NEPAD Secretariat the quantitative methodology to this type of approach. The UK experience shows that a large central resource of specialist staff is needed (PUK has around 50 staff, lawyers and project financiers, dedicated to supporting the UK market alone). It would be quite a challenge to set up a unit with similar skills dedicated to Africa, but, what good would increased funding for project preparation be if the approach we took did not look to address some of the fundamental issues raised by this kind of approach?

III. Shared responsibilities

Funding

Donors (bilateral and multilateral) currently provide most of the funding for project preparation, and are responsible for the majority of facilities which currently exist. Given the scale of the resources needed (typically 3-5 % for each project), this money can not, and should not, come from donors alone. Member States, where projects originate and are owned, should also provide resources. NEPAD and the RECs should play a role in communicating this to Member States. If Member States had their own money at risk, this would help facilitate legal reforms, and other bureaucratic and institutional bottlenecks, which currently impede some projects.

Criteria

Robust criteria could be developed and agreed before projects are considered for support. Project implementation is ultimately the responsibility of Member States - ownership is key. Often projects given over to NEPAD or directly to donors for support, do not appear in country plans – there is no "home" for the project and line ministries therefore have no sole responsibility to deliver. The situation is further complicated for regional projects and where the project within a given country rests with more than one line ministry. Ownership should be a pre-requisite to support[4]. A strong “one-stop-shop’ facility with multi-donor backing could provide support to help enforce collective decisions – an issue that would be mitigated if Member States provided their own resources for project preparation.

Risk

If the flow of developed projects is to be increased, donors and Member States must provide more money to the upstream end of the project lifecycle, where the biggest gap exists. As typically only one-third of projects reach financial closure, this means all partners must be willing to put more of their money at risk to failure, and non-visible outputs. PPIAF is the only fund fully dedicated to providing technical assistance to the early stages of project preparation and has a budget of $6.6m for 2006, for the whole of Africa.

IV. Agreement 19 June

The meeting should aim to agree:

1. That project preparation is a shared responsibility between donors, RECs and countries.

2. On the need for a “one-stop” facility – should this be “virtual” or housed under one roof?

- if virtual, are current facilities prepared to accept new mandates?
- If housed under one roof, where would this be?

3. What should be the timetable for setting up a “one-stop-shop” – if agreed

4. What should be the level of target funding?

5. Do we need to develop an output based ‘performance partnership’ facility for Africa – this may, or may not, be linked to a “one-stop-shop” facility.

[4] The IPPF and AfD/DBSA fund agreed in Midrand that in future projects without owners would not qualify for support.