



Assessment of “African Infrastructure Project Preparation Facilities - Lessons Learned and Best Practice”

REPORT

December 2015

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	Acknowledgments	ii
	Table of Contents	iii
	Abbreviations	v
	Executive Summary	vi
CHAPTER 1	BACKGROUND AND MOTIVATION FOR THE STUDY	1
1.1	Background	1
1.2	Overall objective of the study	2
1.3	Structure of the study	2
CHAPTER 2	BACKGROUND TO PPFs-MODAS OPERANDI	3
2.1	Introduction	3
2.2	Work of PPFs	3
2.3	Modus operandi of PPFs	4
2.4	Differences in modus operandi of PPFs	8
CHAPTER 3	BEST PRACTICE AND LESSONS LEARNT FROM PPFs	9
3.1	Introduction	9
3.2	Best practices of PPFs in financing preparation of projects	9
3.3	Key lessons for PPFs	18
CHAPTER 4	TRIGGERS, SUCCESS FACTORS & CHALLENGES FACED BY PPFs	27
4.1	Introduction	27
4.2	Triggers of project preparation	27
4.3	What can trigger project preparation	28
4.4	Success factors of success stories	30
4.5	Lessons from success stories	31
4.6	Challenges contributing to failure of PPFs	33
CHAPTER 5	INFORMATION SHARING AMONG PPFs	36
5.1	Introduction	36
5.2	Information sharing	36
5.3	Current level of information sharing	36
5.4	Different model options for exchange of information	38
CHAPTER 6	PPFs RESOURCES & FINANCING GAP	41
6.1	Introduction	41
6.2	Resources available for project preparation	41
6.3	Project preparation finance resource gap	42
CHAPTER 7	CONCLUSION AND POLICY RECOMMENDATIONS	43
7.1	Conclusion	43
7.2	Policy recommendations	43
7.3	Action plan	45

LIST OF TABLES

Table 1	Project Preparation Facilities	47
Table 2	Typical financing models for PPFs	13
Table 3	Success stories of PPFs	30
Table 4	PPFs - Information sharing on pipeline of projects	37
Table 5	PPFs - Resources available for project preparation	41
Table 6	Action plan for PPFs	46

LIST OF FIGURES

Figure 1	Phases on Project Preparation	4
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ANNEXES

ANNEX 1	Project Preparation Facilities currently operating in Africa	46
ANNEX 2	Template for information sharing	53
ANNEX 3	Action plan for PPFs	55

ABBREVIATIONS

AFD	Agence Française De Development
AfDB	Africa Development Bank
CoI	Conflict of Interest
COMESA	Common Market for Eastern and Southern Africa
CRDF	Climate Resilient Infrastructure Development Facility
DBSA	Development Bank of Southern Africa
DFI	Development finance institution
EAC	East African Community
EAC	East African Community
ECOWAS	Economic Community of West African States
EIB	European Investment Bank
EU	European Union
G20	Group of Twenty
GDP	Gross Domestic Product
GPOBA	Global Partnership on Output-Based Aid
HLP	High Level Panel
ICA	Infrastructure Consortium for Africa
ICT	Information and communications technology
IISS	International Infrastructure Support System
IRR	Internal Rate of Return
KfW	Kreditanstalt für Wiederaufbau [German Development Bank]
MDB	Multilateral development banks
NEPAD	New Partnership for Africa's Development
NPV	Net Present Value
OPPs	Operating Policies and Procedures
PAP	Priority Action Plan
PIDG	Private Infrastructure Development Group
PIDG TAF	Private Infrastructure Development Group Technical Assistance Facility
PMU	Project Management Unit
PPF	[Infrastructure] Project Preparation Facility
PPFN	Project Preparation Facility Network
PPIAF	Public-Private Infrastructure Advisory Facility
RECs	Regional Economic Communities
SADC	Southern African Development Community
SADC PPDF	SADC Project Preparation Facility
SADC STAP	SADC Short Term Action Plan
SEFA	Sustainable Energy Fund for Africa
SIF	Sustainable Infrastructure Foundation
VfM	Value for Money
WSP	Water and Sanitation Program

EXECUTIVE SUMMARY

1. Context and objectives for the study

1.1 This study by the Infrastructure Consortium for Africa is an assessment of African Project Preparation Facilities (PPFs) on the basis of lessons learnt and best practice. The study reviews 18 PPFs currently focusing on project preparation in African countries and one EU blending facility with a significant share of project preparation and for which data was currently available. For simplicity, they will be referred to as 19 PPFs.

1.2 The 19 PPFs covered by the study are:

1. U.S. Trade and Development Agency (USTDA)
2. Climate Resilient Infrastructure Development Facility
3. PIDG Technical Assistance Facility
4. Public Private Infrastructure Advisory Facility
5. DBSA EIB Project Development and Support Facility
6. AFD DBSA Project Preparation and Feasibility Study
7. African Water Facility
8. NEPAD Infrastructure Project Preparation Facility
9. Global Partnership for Output-Based Aid (GPOBA)
10. Facility for Euro-Mediterranean Investment & Partnership Trust Fund
11. DEVCo
12. African, Caribbean and Pacific - European Union Energy Facility I
13. African, Caribbean and Pacific - European Union Energy Facility II
14. DBSA Development Fund
15. Water and Sanitation Programme
16. SADC PPDF
17. Infrastructure Investment Program for South Africa
18. EU-Africa Infrastructure Trust Fund (EU-AITF)
19. Sustainable Energy Fund for Africa (SEFA).

1.3 The study assesses the following aspects of the selected PPFs

- Their work, and in particular the differences in their modus operandi and the reasons for these differences;
- Best practice and lessons learnt;
- Main triggers and success factors, as well as challenges faced;
- Current levels of information-sharing particularly on project pipelines and an appropriate model for sharing such information;
- Current level of resources available for PPFs as well as the financing gap.
- Roadmap for networking.

2. Main findings

Very few PPFs follow all best practice principles, which include having:

- (a) clear objectives and a focused strategy;
- (b) a self-sustainable financing model (though not all the facilities were set up to be self-sustainable);
- (c) excellence in portfolio management;
- (d) cost-efficient and value-adding advisory services; and
- (e) stringent governance and accountability framework.

Failure to adopt and follow these best practices may have contributed to the poor performance of most of these facilities¹.

2.1 *Work of PPFs and differences in Modus Operandi*

The study found that almost all the PPFs meet their mandate, which entails carrying out the work of taking projects from concept to contract award, including project definition, feasibility analysis, deal structuring and transaction support.

The study also found that in carrying out the various tasks identified above, the modus operandi of PPFs differ. This is mainly attributed to (i) lack of clarity of mandate about their operations and development outcomes, (ii) different sources of capital, which give rise to different demands from funders, (iii) small and fragmented facilities, and (vi) host arrangements.

2.2 *Triggers, success factors and challenges*

The study found that the main triggers which lead to PPFs undertaking project preparation activity include: enabling environment; viability of funding/paying for user environment; political commitment; policy stability; infrastructure gap and roadmap; lack of skills and capital; and local knowledge.

The study also found that for the few relatively better-performing PPFs, this has been due essentially to good operational modalities. These include: good governance; ownership and contribution of capital by the owners to the facility; good management of sources of funds; and efficient and effective operational principles. This involves facility operations being applied on a commercial basis, every investment undertaken by the facility being “additional” to ensure that it draws-in private investment, the cost structure being lean and cost effective, and the PPF’s systems and processes being geared towards ensuring value for money for every investment.

The study also found that the poor performance of most PPFs is mainly attributed to factors such as: a lack of financial and human resources; a broad mandate but low level of resources; small and fragmented facilities; institutional arrangements with most of the facilities being hosted by development banks; a lack of a clear strategy and planning; and a lack of financial sustainability and information sharing model frameworks.

¹ Failure to follow these principles could be attributed to a number of factors some of which include nature of the facilities and how they were created. For instance, some of these facilities like EU-AITF were not created to be financially sustainable.

2.3 *Best practice*

Adopting best practice is key. To this end, it is important that all the facilities work on this crucial issue by adopting the following key principles of best practice:

- Clear objectives and a focused strategy;
- A self-sustainable financing model;
- Excellence in portfolio management;
- Cost-efficient and value-adding advisory services;
- Stringent governance and accountability.

The study found that very few PPFs have adopted, or follow, such best practice.

2.4 *Current levels of information sharing*

While the majority of the PPFs analysed show information about their pipeline of projects through their websites and databases, the sharing of project information with other PPFs, donors, MDBs and the private sector is fragmented and lacks detail. Most of the information shared is limited to the title of the project, the sponsor, the component of the project being funded, the budget allocated and the project's status. There is a need for PPFN members to adopt a framework model which will fully enable the sharing of information, taking into account the potential risk factors of sharing such information with key stakeholders. One such model is the Project Preparation Facilities Hub.

2.5 *Financing gap for infrastructure projects*

Access to project preparation finance is one of the most important issues that has been identified by the G20, MDBs, and ICA members. PPFs with access to adequate financial resources are likely to be more effective than those without such access. The study found that, for the 19 PPFs with data available, a total of US\$1.116bn uncommitted funds were available for infrastructure project preparation. Assuming that 10% will be applied by all the PPFs as the cost of project preparation, and taking into account the total investment in infrastructure from four African RECs, there is a financing gap of nearly 96%.

3. **Recommendations**

The general recommendations of this study are as follows:

- The corporate governance of PPFs should be strengthened by developing common guidelines (such as operational guidelines) and ensuring that the members of the network adopt them. The network should also encourage the shareholders of the facilities to broaden the ownership to include both recipient countries and other strategic development partners to the extent compatible with their governance structure.
- PPFN should enhance the effectiveness of PPFs in achieving their mandates and objectives by ensuring that the mandates are clearly linked to the strategies of recipient countries and RECs, if these institutions are to contribute to financing

infrastructure project preparation. In addition, these facilities should place emphasis on providing value-added advisory services.

- PPFs' capital should be adequate and member countries, development banks and the private sector should contribute to the resources of the PPFs. The PPFs should develop and adopt a funding model which will contribute to their sustainability.
- To the extent possible, PPFs should adopt best practice and strengthen operational modalities.
- The PPFN should facilitate the development of a harmonised and coordinated framework for PPFs on the sharing of project information by developing a harmonised platform for information sharing.
- The network should assist PPFs to improve their financial performance, as well as their operational and management efficiency, by developing common operational guidelines and an M&E framework.
- PPFN and ICA should also develop capacity building programmes which will enhance the skills of PPF officials.

Chapter 1

Background and motivation for the study

1.1 Background

The mission of the Infrastructure Consortium for Africa (ICA), established at the 2005 G8 Gleneagles Summit (UK), is to strive to increase finance for sustainable infrastructure development in Africa, to help improve the lives and economic well-being of Africa's people. It encourages, supports and promotes increased investment in infrastructure from both the public and private sectors.

The ICA's membership comprises the G8 countries and five multilateral and financial institutions - the African Development Bank, the European Investment Bank, the World Bank Group, the European Commission and the Development Bank of Southern Africa. The ICA recently opened membership to G20 countries, and South Africa joined the ICA in 2013. Membership on the African side is led by the African Development Bank (AfDB) which also acts as the host institution of the ICA Secretariat. The African Union Commission, the New Partnership for Africa's Development (NEPAD) and the Regional Economic Communities, although not members of the Consortium, take part in ICA meetings as observers.

A key component in supporting and promoting increased infrastructure investment is project preparation. This spans the inception of a project concept through project feasibility to support for the transaction and execution of project documents. Particularly important in the process is bringing to the market projects that will attract and secure investors. This is an especially acute need in Africa given its relatively shallow capital markets and the existence of development banks which are still embryonic (ICA, 2012 Report).

There is currently an inadequate flow of bankable projects to the market. Indications are that a major constraint on infrastructure development in Africa is an insufficient flow of bankable projects to appease the available capital.

A lack of adequate project preparation funding and alignment for infrastructure has been recognised by both the G20, through its High Level Panel on infrastructure, and the multilateral development banks (MDBs), in their Action Plan, as a key constraint to infrastructure development and growth in Africa. The G20 reports that the support provided by Project Preparation Facilities is highly fragmented, while according to the MDBs a large number of facilities are not aligned (MDB Working Group, 2011).

Given the scale and importance of the infrastructure challenges in developing countries, the Development Working Group (DWG) of the G20 requested the Infrastructure Consortium for Africa (ICA) to investigate this issue further. The ICA commissioned a study on the assessment of Project Preparation Facilities (PPFs) in Africa. The key objective was to establish, where possible, ways of coordinating, rationalising and consolidating PPF activities so as to improve their overall performance. Following the study, a report published in November 2012 made a number of recommendations which included the establishment of a PPF Network (PPFN) by the ICA (ICA, Study 2012).

The recommendation was endorsed in 2013 and the PPFN was established in June 2014. Subsequently, the operating procedures of the network, and activities for 2015, were

approved by the network members. These activities included an assessment of the “Best practices and lessons learnt on African Infrastructure Project Preparation Facilities”.

ICA has requested the services of a consultant to assist in conducting this assessment and to produce a report whose findings will be discussed at the next PPFN meeting scheduled to take place on the margins of the ICA Annual Meeting, 16-17 November 2015, in Abidjan, Ivory Coast.

1.2 The overall objective of the study

The overall objective of this study is to assess the African Project Preparation Facilities on the basis of best practice and lessons learned.

The specific objectives of the evaluation are to:

- Assess the work of PPFs and in particular the differences in their modus operandi and the reasons for these;
- Identify the best practice and lessons learned in financing the preparation of infrastructure projects;
- Analyse the main triggers and success factors of PPFs as well as the challenges faced;
- Identify the current level of information sharing particularly on project pipelines, challenges or gaps;
- Design a model for information sharing among PPFs, particularly in relation to project pipelines;
- Assess the level of financing resources of PPFs as well as the financing gaps faced by these facilities; and
- Make recommendations with regard to how the identified best practice and lessons learned could be used to enhance the efficiency of PPFs. The recommendation should include a proposal on regular exchange of information and what format and frequency that should take

1.3 Structure of the study

This study is divided into seven chapters:

Chapter 1 provides a general description of the aims method of the study;

Chapter 2 reviews the modus operandi of the facilities and analyses any differences that might exist and the reasons why;

Chapter 3 documents best practice and lessons learned from PPFs in supporting the preparation of infrastructure projects.

Chapter 4 discusses the main triggers and success factors of PPFs, and looks at the challenges they face in their day to day operations;

Chapter 5 reviews the current levels of information sharing, particularly on project pipelines and proposes an appropriate model framework for sharing such information;

Chapter 6 reviews the level of financial resources at PPFs and their financing gaps PPFs;

Chapter 7 summarises key lessons and concludes.

Chapter 2

Background on Project Preparation Facilities - modus operandi

2.1 Introduction

Project Preparation Facilities are development finance instruments used as a means to guarantee a sustainable supply of bankable, investment-ready projects. As articulated by Rohde (2015) these instruments can generally be defined as the processes that provide technical and financial support to project preparation activities (with greater emphasis on the financial aspect). The principal goal of project preparation activities is to develop a project to a point where it attracts sufficient interest from other investors. The World Bank estimates that, within any major infrastructure project, the cost of project preparation will be between 5% and 10%.

Different PPFs have also been known to have different definitions of ‘project preparation’ (see Appendix 1). The main difference is whether the first stage – creating an enabling environment – is seen as part of the project preparation (and therefore can be funded) or as a prerequisite for successful project preparation.

The landscape of PPFs is diverse and fragmented. Apart from being focused on different sectors, PPFs might have (for example) a regional focus or concentrate on a specific project preparation stage. Furthermore, there are different hosting arrangements. Many PPFs are hosted by MDBs, but some are hosted by other institutions, regional economic communities (RECs), or nations (ICA Study, 2012).

One of the main intentions of this study is to assess the work of PPFs and in particular the differences in their modus operandi and the reasons for these differences, with the aim of extracting key lessons learned and best practice. This is discussed in the context of the role these facilities can play in the realisation of regional infrastructure development strategies.

2.2 Work of Project Preparation Facilities

Project preparation entails any aspect of the work required to take projects from a concept to a contract award, including project definition, feasibility analysis, deal structuring and transaction support. It can also extend to creating an enabling environment and post-signing/implementation support activities.

Key activities and outputs addressed through project preparation by PPFs include:

- Designing and establishing the laws, regulations, policies and institutions needed to support and enable a project’s (or broader sector’s) development and ongoing operation (this include PPFs such as PPIAF which support mainly upstream activities);
- Defining the need for the project, scoping the desired outputs and establishing the project’s prioritisation relative to competing demands;
- Conducting a cost-benefit analysis to establish the project’s feasibility;
- Developing project financing options and risk allocation to attract the right mix of finance; and
- Translating plans into tangible agreements through procurement and tendering processes that ultimately conclude with financial close.

This work requires input from a wide range of disciplines, including the legal, policy, engineering, environmental and financial sectors. Preparation activities can be broadly divided into upstream/early stage and downstream/late stage activities (Figure 1).

Figure 1. Project preparation phases & work for PPFs

Project Preparation	1	Enabling environment	<ul style="list-style-type: none"> • Designing legislation and regulatory approaches. • Reforming policy and institutions. • Building capacity and consensus to support a project. 	Upstream
	2	Project definition	<ul style="list-style-type: none"> • Prioritising projects. • Identifying project outputs and project champions • Conducting pre-feasibility studies • Preparing actions plans and terms of reference 	
	3	Project feasibility	<ul style="list-style-type: none"> • Conducting environmental, technical, social, and economic studies. • Performing financial modelling. 	
	4	Project structuring	<ul style="list-style-type: none"> • Structuring project finance • Designing legal entities • Evaluating public vs. private options • Marketing project and assessing private sector interest 	Downstream
	5	Transaction	<ul style="list-style-type: none"> • Developing and conducting bid processes • Drafting contracts • Negotiating financial and legal terms 	
	6	Project implementation	<ul style="list-style-type: none"> • Monitoring and evaluating project performance • Conducting tariff reviews • Renegotiating or refinancing project 	

2.3 Modus operandi of Project Preparation Facilities

A large number of institutions are involved in the preparation of infrastructure projects in Africa but few address downstream project preparation alone. A small number focus on upstream activities only while the majority of them tackle the entire process of project preparation (see Table 1a for more details). PPFs may be country specific, regional, continent-wide or global. They have a range of institutional arrangements and cover both publicly and privately financed public infrastructure. They are funded and/or managed by the MDBs, bilateral aid agencies and other financing institutions from donor countries or non-government organisations. As countries develop they also become willing to borrow for projects whose primary purpose is to provide funds for the preparation of investment projects.

The study review covers 18 PPFs that are more formally established and whose principal current purpose is to prepare infrastructure projects in Africa. It also includes the EU-Africa Infrastructure Trust Fund, an EU blending facility with a significant share of project preparation activity. These 19 PPFs were selected because, as well as being operational

facilities, they have readily available information on the pipeline of projects. PPFs thus include formal sources of finance, such as funds that are used to prepare projects, and are entities whose main activity is project preparation.

The set of PPFs that support project preparation in Africa and for which data was readily available are set out in Annex 1, Table 1. The table presents the PPF model structure, the mandate, areas covered, phases supported, type of financing, beneficiaries of resources, type of projects supported and size of the facility.

Several features are worth noting with regard to the PPFs:

2.3.1. Size of Project Preparation Facilities

At the end of 2014, the PPFs in the study reported a total capital of US \$2.4bn and a combined committed portfolio of US \$1.59bn. As shown in Table 1 (Annex 1), the largest share in terms of resources (US\$841m) was held by the EU-Africa Infrastructure Trust Fund, the main objective of which is to leverage other investment through grants, followed by the Global Partnership on Output-Based Aid (GPOBA) at US\$286m. The lowest ranked PPF in terms of resource value is DBSA EIB Project Development and Support Facility with a resource value of roughly US\$7.5m.

This trend in resource values partly reflects the failure of most of the PPFs currently operating in Africa to fulfil their mandate of supporting project preparation. This also shows that as at the end of December 2014 available resources for project preparation among the 19 PPFs amounted to US\$1,116bn.

2.3.1.1 Implication of the size of PPFs

The fact that most of the PPFs covered in this study are relatively small in terms of resources available for project preparation has a number of implications for project preparation. These include:

- The projects financed may be very small and spread over a number of projects and activities. Based on the available figures from four African Economic Communities [COMESA US\$54bn covering the period starting 2013²; EAC US\$68-100bn for the period 2015-2025³. ECOWAS US\$42.3bn for the period 2013-2025⁴, and SADC US\$64bn for the period 2013-2017⁵] with a total required combined investment for infrastructure of US\$234.2bn, US\$25.5bn would be required to cover the cost of project preparation. This is based on the assumption that the total cost of project preparation is capped at 10%⁶ as urged by the World Bank. This figure translates into a financing gap of US\$24.9bn (97.6%) for the four major African RECs; and
- There is a need for PPFs' owners to examine the possibility of merging some of the PPFs or, if this presents a challenge, work closely with each other on identified

² COMESA Regional Key Economic Infrastructure Projects (2013)

³ Jacques Nel. (2015) Exploring infrastructure investment in EAC, Reuters (2014)

⁴ ECOWAS (2013) REG_Infrastructure Development.

⁵ Southern African Development Community STAP 2013

⁶ 10% is based on the assumption that costs for project preparation in Africa are high while in other regions it could be as low as 5%

projects so that they can create a critical mass and make sure that the limited resources available are most advantageously used.

2.3.2 Funding model

The study found that about 18 of 19 PPFs covered in this study secure funding from several sources, with bilateral donors being the most common source. Two-thirds of the PPFs are funded by bilateral donors while a few, such as USTDA and CRIDF, obtain their funds from a single donor. One interesting point is that most of these facilities are donor-driven.

2.3.2.1 Implications of the funding model

The fact that almost all the PPFs covered in this study are majority-funded by donors may imply the following:

- The lack of strategic partners (for most PPFs, recipient member countries and RECs) may lead to a shortage of adequate resources, potentially undermining one of the key critical success factors of the PPF, which is financial sustainability;
- The failure on the part of the PPFs to secure funding from other sources, particularly African countries and development banks, could lead to the absence of a political space to prepare projects that African countries deem important for their development.

2.3.3 Mandate of PPFs

PPFs have been established with a wide range of developmental mandates. Some have a relatively narrow and specific mandate relating to the sector or activity they are expected to support, while other facilities have broader mandates that are formulated in general terms to allow them to cover a broader range of infrastructure projects. The study found that 15 of the 19 PPFs have broad mandates..

2.3.3.1 Implication of broad mandate of PPFs

While almost all the PPFs reviewed have broad mandates, they have limited resources available to them. This could lead to failure on the part of the PPFs to fulfil their developmental mandate of effectively preparing infrastructure projects from concept up to financial closure, as available resources may not make it possible for them to cover all the preparation phases.

Another danger is interference by both African countries and donors in the operation of the PPFs⁷. This could arise from PPFs' mandates not being very clear, thereby resulting in management asking owners of the facilities for clarity. If this is not properly checked, it might lead to the drifting and/or shrinking of the original mandate, and ultimately failure by the owners to monitor and evaluate the PPFs.

2.3.4 Financing model of PPFs

In practice, PPFs have developed and adopted different financing business models to carry out their operations. All PPFs provide financing through grants, and six do so through a

⁷ A good example is SADC PPF

combination of grants, equity and other cost contribution arrangements. The study also finds that one PPF in the survey provides financial support through second-tier (or wholesale) operations, while 18 provide support through first-tier (or direct) financial support to beneficiaries. Furthermore, the study also finds that only just over half of the sampled PPFs support public private partnership arrangements.

2.3.4.1 Implication of the financing model

One of the main criticisms of existing PPFs is their lack of financial sustainability – a shortcoming attributable to two factors: heavy reliance on grants and public funds, and inadequate recovery mechanisms for project-preparation expenses. Accordingly, PPFs should endeavour to recover project-preparation costs from the project owner or incoming concessionaires, ideally with a reasonable margin to offset losses from unsuccessful projects. This would be more applicable to those projects which involve the PPP arrangement. Facilities dealing wholly with the public sector, however, would require a grant model with regular “top-up” funds from donors and governments⁸. The top-up (replenishment) should be planned in advance and agreed upon by all donors. Failure to implement measures to ensure that costs are recovered or replenishment is agreed may ultimately risk the failure of the facilities.

2.3.5 Phases and areas supported

Almost all of the PPFs are involved in the core activities of concept development, feasibility study and project delivery planning, whilst a few of these facilities were found to be involved in downstream activities (see Table 1a). In addition, the study found that most PPFs operate across a range of countries. 11 of the 19 PPFs covered in this study operate at a regional level, seven operate at the sub-regional level and the remaining one addresses only a single country (South Africa). With respect to sectors covered, the study found that PPFs address a large range of sectors and that only a few of them focused on a single sector or a few sectors, with almost half operating across all of the sectors described.

The fact that the majority of projects supported by the PPFs are cross-border contributes to their complexity and the need for more financial resources for their preparation. This also means that PPFs should attach more weight to the enabling environment phase where designing legislation and regulatory approaches, reforming policy and institutions, and building capacity and consensus to support the project is carried out. Failure to do this risks contributing to the poor performance of PPFs.

2.3.6 Institutional arrangements / host organisation

The study found that out of the total of 19 PPFs, 15 were hosted by development banks, while two were hosted by regional economic communities and the remainder by private institutions. Based on the findings of this study, it appears that the institutional arrangement model where the Project Management Unit is managed by the private sector and established MDBs, performs better in terms of the number of the projects supported which have reached financial close.

⁸ For grant model to work more effectively, it should be designed in such a way that recipient should be made to contribute a certain portion of the resources so as to encourage ownership and also minimise the issue of moral hazard.

2.3.6.1 Implication of the host organisation

The fact that the majority of the PPFs are funded by donor and MDB money has contributed to the institutional arrangements where these facilities are generally hosted in development banks. As a result, the functioning of each PPF is influenced by the policies and competencies of the host institution (ICA, 2012).⁹ Overly bureaucratic procurement policies can slow the pace of preparation work and make facilities less responsive to the needs of prospective project sponsors and developers. It is important to consider the hosting of these facilities under the umbrella of infrastructure development funds, at least for those development banks that have an infrastructure development fund instrument.

2.4 Difference in modus operandi

Among the 19 project preparation facilities covered in this analysis, the study found that there are a number of differences in their modus operandi. These differences include:

- Beneficiary, i.e. some of the PPFs were found to support public private partnership initiatives while others did not;
- Some of the PPFs offer loans and recover both the principal and costs while others offer grants only; the EU-AITF offers grants for TA, interest rate subsidies and investments as well as repayable financial instruments;
- There are also some PPFs which only support projects at either sub-national, national or regional level;
- Differences were also found in the phases supported. The study found that the majority of the PPFs support upstream preparation phases, and that only a few support downstream phases, where risk is relatively lower and better mitigated. The downstream activities tend to be less resource intensive and align better with the interests of many facilities (eventual project lending through MDBs). Consequently PPFs that focus on early-stage activities have relatively higher expense-to-commitment proportions, of between 20% and 30% of funds (ICA, 2011:70).

These differences in modus operandi can be attributed to some of these factors: (i) lack of clarity of mandate of PPFs about their operations and development outcomes, (ii) different sources of capital - giving rise to different demands from the funders on what should be funded, (iii) small and fragmented facilities, and (iv) host arrangements.

Chapter 3

Best practice and lessons learned from PPFs in financing the preparation of infrastructure projects.

3.1 Introduction

Understanding what differentiates successful PPFs from failures is crucial to enable Project Preparation Facility Network members to mitigate problems faced by their PPFs. Drawing on extensive work carried out by the World Economic Forum, and the ICA, the study has

⁹ While the majority of the facilities are hosted by the MDBs and maybe influence by the institutions, there are a few other facilities which although hosted by these MDBs have their own procedures for project implementation. Examples of these facilities include EU-AITF and SADC PPDF.

identified best practice that can help leaders successfully design and implement such facilities more effectively. In addition to embracing this best practice, sponsors, more especially public leaders and donors, must address another critical but often overlooked driver of success - the creation of an environment that allows the PPFs to succeed. This includes securing the right management expertise within the government and employing policies that support the growth of a robust private sector so that partners in both sectors have the right skills to make the PPFs work.

3.2 Best practice in financing the preparation of infrastructure projects

This section describes in detail the five key best practices for improving PPFs, as developed in multi-stakeholder consultations by the World Economic Forum (2015) and its partners from governments, development banks, infrastructure industries and the financial services industry, and the ICA 2011 study on PPFs. The five best practices which are also outlined in Tables 1a and 1b, when incorporated into the design and operations of a PPF, are said to improve utilisation of the limited resources available for project preparation, help to tap into additional sources of funding, and help to make the preparation more efficient and sustainable.¹⁰ The best practices for the success of PPFs include the following:

3.2.1 Clear objectives and a focused strategy (relevancy)

The strategic objectives of a PPF are often not clearly defined, or are misaligned with those of various stakeholders. This lack of focus causes a suboptimal allocation of preparation resources and inhibits certain funders from contributing across projects, sectors and countries. An ideal PPF should allow no space for vagueness¹¹, and should have clearly defined strategic objectives - for example, a broad objective to develop bankable projects in the transport sector, or a specific objective to develop projects in water and sanitation that would improve the lives of the people.

Such clear strategic objectives should be reflected within the PPF's strategy. The strategy should differentiate the PPF, and should define the resource allocation accordingly (i.e. to the specific sector, project type, project size and geography) in order to ensure that proficiencies are created and embedded. For example, the strategy might leverage privileged relationships and exceptional transport-sector expertise to become 'the project-preparation facility of choice' for transport projects in a region. In that way, it could achieve scale synergies and embed experience for the long term.

In defining a strategy, the PPF also needs to decide whether to target financially attractive project developments, or rather those that are economically or socially important but financially unviable. PPFs that are sponsored publicly and/or by development banks should concentrate on the latter type, or on those that are only marginally feasible financially, in order to avoid crowding out the private sector. Furthermore, the PPF strategy would need to determine whether to focus on solicited and/or unsolicited project development processes. For solicited project development, the PPF's focus would typically be on the public sector whenever it seeks access to expert skills and funds for planning, pre-feasibility studies and transaction advisory. In the case of unsolicited project

¹⁰ Africa Strategic Infrastructure Initiative

¹¹ For instance, in a number of cases there is a lot of vagueness in most of the objectives of the PPFs in so far as the actual intervention of support to project development is concerned. For more details see Table 1a.

development, the PPF would lead a private-sector development effort in cooperation with government where required.

Another important consideration is the PPF's stance on recovery, i.e. the business model and type of payback envisioned which should be appropriate for the type of projects. The project must have a cash flow from which to recover, otherwise PPFs may become an obstacle to implementation. At one extreme there is the not-for-profit or "aid organisation model" with no-cost recovery, while at the other extreme there may be a "venture capital model", owning an underlying equity stake in the project and expecting preparation-cost recovery with variable margins (WEF 2014 report).

For a good example of a PPF with a clearly defined vision and strategy, and aligned success criteria and business model, consider the case of InfraCo Africa, a privately managed company, established by the Private Infrastructure Development Group (PIDG).

InfraCo Africa, part of the PIDG Group of facilities which benefits from EU-AITF grants and other grant sources, is an early stage project developer, founded in 2004, with a geographic focus on sub-Saharan Africa.¹² To date, InfraCo Africa has committed \$43.4m to developing 12 projects, of which \$17.3m has been invested in five projects which have reached financial close. These five projects are expected to mobilise a total of \$678m of private investment commitments. The majority of this has been in the energy sector, but the company has also done noteworthy work in agribusiness and urban transport. InfraCo Africa is supported by DGIS (Netherlands), SECO (Switzerland), BMF (Austria) and DFID. DFID's share of funding to date is 40% (\$20.3 m).

InfraCo Africa uses donor capital to address market failures relating to private-sector infrastructure development, and mobilises investment by demonstrating that commercially viable deals are possible. InfraCo Africa does this in three ways:

- By financing teams of project developers and by providing on-the-ground experienced support;
- By investing directly in a project where a local developer requires additional early-stage financing, and would benefit from the experience and financial leverage that InfraCo Africa can bring; and
- By investing in projects at financial close to demonstrate commitment and build the confidence of other investors and lenders.

InfraCo Africa operates according to a clearly defined strategy that explains its scope and activities, and ensures appropriate focus:

- Geographic scope: InfraCo Africa prioritises projects within least developed countries (LDCs), other low-income countries and fragile countries in Sub-Saharan Africa. Recent investments have been made in Cape Verde, Ghana, Kenya, Nigeria, Senegal, South Sudan, Uganda and Zambia; and
- Sector scope: InfraCo Africa deals mostly with energy and power projects (about 60%), transport (about 25%), and water and other projects (about 15%).

¹² See <http://www.infracoafrica.com/about.asp> for more information on InfraCo Africa.

Success factors for InfraCo Africa mean not simply achieving financial returns but also having a sustainable development impact. Success is measured against a framework of criteria agreed with PIDG and InfraCo Africa's donors to ensure sustainable impact.

For instance, InfraCo for Africa obtains value for money by advertising, and also uses research to widen the field of potential service providers. The dependence on recycling funds from successful investments for new activities provides strong incentive for InfraCo Africa to maximise competition in the supply of services that it procures. It also has in place panels of advisors that were established through competitive processes. InfraCo leverages its resources 15x (i.e. the facility mobilises \$15 of investment for every \$1 spent on project preparation and development). In addition to these success factors, InfraCo involvement in any project is based on the principle of additionality. This means that the facility involvement in any project should bring something extra, whether in relation to financing, design innovation, or host-government capacity and policy.

Although most of the resources for InfraCo operations are supplied by donors, its business model is such that it recovers development expenses from the private sector at the point where private investment is mobilised, so that funds can be reinvested into new development projects. This business model has contributed greatly to the financial sustainability of the facility.

From the point of view of non-financial resources, InfraCo develops projects using its in-house teams and makes strategic use of external advisers for technical, legal, financial and environmental capacity when required.

Other examples of PPFs with clear objectives on project preparation as outlined in Annex 1 include:

- FEMIP, a facility created with the aim to assist FEMIP partner countries and private promoters to better prepare, manage and supervise their investment projects. It also aims to improve the quality and development impact of its investments, and to strengthen the management capacities of promoters;
- NEPAD IPPF, a facility that aims to assist African countries, Regional Economic Communities (RECs), specialised infrastructure development agencies and related institutions to prepare high quality, viable regional infrastructure projects; and
- DevCo, a facility created to assist African countries, Regional Economic Communities (RECs), specialised infrastructure development agencies and related institutions to prepare high quality, viable regional infrastructure projects in energy, water, transport, and ICT, which would be ready to solicit financing from public and private sources.

For PPFs who need to develop and define clearer objectives, those contained in Table 1a may prove helpful, but further work is required to update and provide more detail. This further analysis needs to link to the approach for monitoring.

3.2.2 Self-sustainable financing model (sustainability)

Although many of the PPFs were not created to be sustainable, one of the main criticisms of existing facilities is their lack of financial sustainability – a shortcoming attributable to two factors: heavy reliance on grants and public funds, and inadequate recovery

mechanisms for project-preparation expenses.¹³ Accordingly, a PPF should endeavour to recover project-preparation costs from the project owner or incoming concessionaires, ideally with a reasonable margin to offset losses from unsuccessful projects.

An alternative to preparation-expense recovery is the institutionalisation of regular “top-up” funds for the PPF by donors and government. The top-up model is based on the notion that as the PPFs extend grants to projects, the resources become depleted. The donor countries meet together periodically to replenish those resources. Such increases in resources are called replenishments, and most occur on a planned schedule ranging from three to five years. If these facilities are not replenished on time, they will run out of resources and have to substantially reduce the levels of grants provided for project preparation.

While this type of funding is good for many developing countries who cannot fund project preparation, its effectiveness is contested. Many academic studies of aid effectiveness typically examine the effects of aid provided to developing countries, including both bilateral aid and multilateral aid. With bilateral aid, most donor resources go directly to projects in developing countries. Similar to multilateral aid, PPFs, like the MDBs, pool money from different donors and then provide money to fund projects in developing countries.

The results of studies into the effectiveness of bilateral and multilateral aid are mixed, with conclusions ranging from (a) aid is ineffective at promoting economic growth¹⁴ to (b) aid is effective at promoting economic growth¹⁵ and (c) aid is effective at promoting growth in some countries under specific circumstances (such as when developing-country policies are strong).¹⁶ The divergent results of these studies make it difficult to reach firm conclusions about the overall effectiveness of aid which donors may provide to PPFs through institutionalised top-ups.

In addition, the lack of uniformity between donors does not help. Each has their own strategy, reporting structure and, understandably perhaps, national objectives. This is a failing that is, of course, not unique to infrastructure spending.

Despite the mixed result from empirical evidence, it should be noted that the use of grants reduces the sustainability of most PPFs and arguably creates a degree of moral hazard. This is because free resources are rarely treated with the same degree of care as repayable resources, either by PPFs or recipients. Moreover, and especially for later stage project development, it is not clear why the project should be subsidised when it can repay at least a proportion of the costs involved.

¹³ It must be emphasised that the lack of financial sustainability may have been contributed by the financiers who have created these facilities not to financially viable. To this end, it might be worth exploring this issue further with donors so that all the facilities they support are created on the understanding they need to be financially sustainable.

¹⁴ see William Easterly, “Can Foreign Aid Buy Growth?,” *Journal of Economic Perspectives*, vol. 17, no. 3 (Summer 2003), pp. 23-48.

¹⁵ E.g., see Carl-Johan Dalgaard and Henrik Hansen, “On Aid, Growth, and Good Policies,” *Journal of Development Studies*, vol. 37, no. 6 (August 2001), pp. 17-41.

¹⁶ E.g., see Craig Burnside and David Dollar, “Aid, Policies, and Growth,” *American Economic Review*, vol. 90, no. 4 (September 2000), pp. 847-868.

Proponents of aid argue that, despite some flaws, at its core it serves vital economic and political functions. It is also argued that not providing assistance is simply not an option; they argue it is the “right” thing to do and part of “the world’s shared commitment to human dignity and survival.”¹⁷ These proponents typically point to the use of aid to provide basic necessities to the world’s poorest countries. Additionally, proponents argue that, even if aid has not been effective at raising overall levels of economic growth, it has been successful in dramatically improving the standard of living in developing countries over the past four decades.

As mentioned in section 3.2.1, serious consideration should be given to the PPF’s model and recovery type, i.e. the business model and the type of payback envisioned. The three main options are to operate: (1) a not-for-profit or “aid organisation model” with no-cost recovery; (2) a “social business model” and simple at-cost recovery for preparation expenses only; and (3) a “venture capital model” that requires recovery-plus-return (a margin), or that involves an underlying equity stake in the project, expecting preparation-cost recovery with variable margins.

The various expense-recovery types influence incentives differently in terms of optimising preparation costs, refining the quality of the project preparation and serving the public interest. Table 2 illustrates three typical models, with five recovery types and a relative assessment of incentives.

Table 2: Typical financing models for PPFs

Model	Recovery Method	Recovered Amount
Grant	No recovery made	None
Social Business	Recovery made at cost	Preparation cost
	Recovery made at cost plus margin	Preparation cost + fixed margin
Venture	Variable performance	Preparation cost + variable margin
Capital	Equity plus interest and investment	Preparation cost + interest and initial invest

Source: World Economic Forum

For the “no-recovery” type (where no expenses are recovered), the “at-cost” type (where the project expenses are simply recovered as incurred), and the “cost-plus” type (where a fixed margin is paid on top of preparation expenses), the PPF has limited incentive to optimise preparation costs and quality, but would have higher public interest incentives.

In the case of the PIDG facilities which follow the social business model, most of these have an element of financial sustainability mechanism built into in their operational system. For instance:

DevCo

The partnership under this facility is open to participation by official donors or international organisations agreeing to make a contribution to the Partnership’s Fund (“Donors”). The donors are not requested to contribute to core funding, which uses resources from reflows from success fees recouped from DevCo funded projects. Each

¹⁷ Jeffrey Sachs, The End of Poverty: Economic Possibilities for Our Time (Penguin Books, 2006), p. xvi.

participating donor's fund is held in individual Non-Core Trust Funds. Funds are drawn upon in line with the PIDG Operating Principles, with account taken of any expenditure restrictions to particular regions, sectors, or themes as agreed with the donor within the scope of the partnership. This facility is financially sustainable because 6% of resources are from profit generated and flow back to the facility.

In the "variable-performance" type (where recovery includes preparation costs and a variable margin), the margin could depend on predetermined performance indicators for project-quality design indicators such as high consumer benefits and/or high internal rates of return, for example. One of the risks here is that the PPF may manipulate the business case or model assumptions, especially when the underlying project-performance metrics are defined too narrowly, which lowers the incentive of public interest.

Finally, in the "equity-plus" recovery type, which can easily be applied to Sustainable Energy Fund for Africa (SEFA), the preparation costs could be converted into equity. The PPF would either retain an equity stake or sell off some (or all) of the equity to a sponsor upon financial close. With such an equity stake, the PPF would invest preparation costs in the hope of developing the project to a viable tender, so the PPF would have strong incentives to optimise preparation costs and quality as well as to increase investors' appetite for the project. The risk here is that public welfare may suffer: to increase the equity value and private-sector interest, the PPF would be tempted to design the project and the related concession to be as lucrative as possible, which could involve, for example, unreasonably high user charges, to the detriment of the public. That said, this potential conflict can be mitigated in many ways, including formal public scrutiny.

In all the recovery types mentioned, the PPF has an incentive to shorten the period of preparation, in order to convert effort into benefit as soon as possible. However the form of repayment - cash versus equity - could also make a difference to incentives. With equity, the PPF's interests are typically aligned with those of the incoming investors, as the PPF continues to have a stake in the project. The PPF would participate in the asset's upside potential (and its downside risk), and if it held equity for an extended period, it would earn a steady income during the asset's operation phase. Moreover, the PPF might find it easy to sell, at a later date, the equity stake of an already operational asset.

One drawback to the equity-based recovery model is its negative effect on the PPF's cash flow; funds would be locked in for an extended period. Cash recovery, in contrast, allows the PPF an immediate preparation-expense recovery, though it reduces the long term alignment of incentives with incoming investors.

To address this dichotomy, one solution might be a hybrid recovery solution for the PPF. One that aims to recover preparation expenses with a yield for its investors, while taking an equity stake (the "venture capital model" and "variable performance" recovery type), is PIDG, the parent company of PIDG TAF. This facility offers grants, loans and equity, while operating on a commercial basis.

One best practice for PPFs to recover preparation expenses is to "lend" convertible preparation debt to the project vehicles, and then be repaid after successful preparation and financial close.¹⁸ If the preparation costs (debt) cannot be repaid immediately, the costs can

¹⁸ A convertible note is a hybrid, part debt and part equity: it functions as debt until, at some point in the future, it may convert to equity at a predefined rate. Convertible debt is typically secured from the same

be converted into equity; in other words, investors or the PPF will enjoy the potential upside of conversion into equity, while protecting themselves against the downside by means of cash flow from the recovery of preparation costs at financial closure. This equity position could potentially be sold to another developer or held for the long term (acting as collateral for preparation-cost recovery).

3.2.3 Excellence in portfolio management (effectiveness of PPF)

Given the high-risk nature of project preparation, some projects in any portfolio will probably fail to reach tender and/or financial close. So an infrastructure PPF requires a strategy to minimise such failures, as well as a portfolio of projects that can absorb and offset losses by securing adequate returns from successful projects (particularly those based on the “social business” and “venture capital” models). The portfolio needs to be optimised, and the main instruments for that purpose are strategic asset allocation, smart project selection and active portfolio management. Accordingly, a PPF needs exceptional expertise in portfolio planning and capital allocation, and in project due diligence, as well as in performance measurement and project monitoring.

The challenge is to allocate funds optimally and apply a complete-portfolio approach to project preparation investment. Every potential investment should be evaluated in terms of its contribution to the total portfolio and its likelihood of proceeding to tender. The evaluation must be in line with the PPF’s objectives and strategy, and must mitigate risks as far as possible. The variables to be considered include (but are not limited to) time to delivery, required development investment, the cash flow profile, estimated success rates, the project risk factors and the PPF’s operating costs.

To optimise a project’s preparation and to avoid wasting project & preparation resources, a PPF should adopt a ‘cascade approach’. Full project preparation involves many aspects, so the process should be split into a number of stages. At each stage, the studies should become more detailed and will therefore be more expensive. To minimise rework and wastage, a project idea should pass a stage-gate review only if it meets predefined criteria (aligned to standardised sector-specific requirements)¹⁹.

While all PPFs apply this procedure to a certain extent, the trend should be encouraged, as not all projects have the potential to pass the test. Consequently, some project ideas will fail the stage-gate reviews, so the overall number of candidate projects in the portfolio will decrease at each preparation stage. The main benefit of such a cascaded approach is that unfeasible projects are identified early in the process, avoiding or reducing the wastage of project preparation resources. Stage-gate reviews also ensure that stakeholders, including local agencies, understand what a project requires to be viable and to progress.

An essential part of portfolio management is the close monitoring of each project in the PPF’s portfolio. This requires a continuous loop of communication and flow of information, and is formalised in regular project-status reviews and reports. The monitoring reveals any deviations from budgetary or scheduling norms, and allows rapid corrective action to be taken. It also provides frequent updates on key emerging risks, and on preparation-team performance. Based on such monitoring, the PPF should be flexible in

investors and venture capitalists that fund equity deals, and is usually used for smaller rounds of financing at the early stages.

¹⁹ For example in the EU-AITF this task is performed by the financiers and the donors.

reassessing individual projects, especially when conditions change or new information comes to light. A PPF would also be required to actively monitor its cash and project positions relative to its investment policy and strategy. The end result of such monitoring is likely to be more projects reaching financial close.

3.2.4 Cost-efficient and value-adding advisory services (Efficiency)

A further example of best practice for PPFs is to ensure that project preparation is conducted to a high standard, at reasonable cost, and within a reasonably short time. To reduce wastage of resources and achieve efficiency gains, an operating model with lean processes and a strong central function to facilitate portfolio-wide collaboration and synergies should be adopted. If possible, the PPF should leverage the capacities, knowledge, skills, experience and resources of its host organisation. For example, the SADC PPDF opted to be incorporated as a separate legal entity from DBSA, with its own lean processes and leadership, but it has an agreement that gives it access to the banks' expertise and resources as and when required. There is a similar relationship between EU-AITF and EIB.

Additional cost efficiencies could be achieved by outsourcing various non-essential services, with negotiated agreements through professional procurement – especially if scale is achieved. And by adopting standardised templates, tools, systems and requirements where appropriate, the SADC PPF could make additional savings without sacrificing on quality.

As the model of PPF strives for cost and process optimisation, it would need to accept and adapt to innovative approaches and technology. New digital platforms, for example, can improve knowledge sharing and cooperation, and might reconfigure project-preparation methods in the future. Consider, as one example among many, the project-preparation platform being developed by the International Infrastructure Support System (IISS) of the Sustainable Infrastructure Foundation, in partnership with 8 MDBs (AfDB, AsDB, BNDES, DBSA, EBRD, IaDB, IsDB, and WBG).

IISS is an online project-development tool that aims to operate with the help of sub-sector specific templates, accelerating and enhancing project preparation by collecting, harmonising and sharing information on projects. Such tools can serve either as an input into the project-selection process or as a means of updating and attracting potential investors throughout the preparation process. While this model supports information sharing, it is still at the pilot phase and it is too soon to draw any conclusions about its effectiveness and sustainability.

Although efficiency in project preparation is important, it should not be prioritised over quality. Resources spent on project preparation are usually well spent, as a well-prepared project pipeline offers an impressive value proposition. For governments, an improved pipeline increases the number of viable infrastructure projects that proceed to completion, and a well-designed project typically reduces construction costs, overruns and operating costs. But better-prepared projects also have benefits for other stakeholders: better value for users, reduced project risks for investors and increased opportunities for private sector businesses.

3.2.5 Stringent governance and accountability

A prerequisite for any competent PPF is a stringent governance structure to avoid a conflict of interest which may allow a private sector participant in the project preparation gaining unfair advantage over other private investors interested in the project. The PPF would also need mechanisms to oversee the public agencies involved in the project preparation processes, and make them accountable for projects achieving financial closure.

One of the key incentives for private sector parties to participate in project preparation is the opportunity of securing business later on, perhaps by providing goods or services during the construction phase, or by winning the concession to operate the asset. So private sector engagement in the project preparation process may lead to a conflict of interest, generally when the time arrives for tendering. Such a conflict could take one of two forms. During the project preparation, the company might obtain information that gives it an undue advantage in the tendering process. Or the company might be able to influence the technical design in a way that increases its chances of winning the tender or that maximises its profits while the contract is in force.

The PPF should address any potential conflicts of interest proactively within its structure and processes. Several ways of reducing the risk exist. One key requirement is to erect fail-safe 'ethical walls' between PPF investors and the PPF itself. This is achieved in practice through a three step process:

- Identify

The first and most important step involves familiarisation with situations which could lead to a potential conflict. For organisations that have specific responsibilities in relation to the management of conflicts, this will often require formal searches at the beginning of a given transaction to identify potential issues. For other transactions, it is a matter of identifying potential conflicts during the due diligence process. Sometimes it is not possible or practical to identify a conflict until it becomes imminent. The important thing, once real or potential conflicts are identified, is that they are dealt with appropriately;

- Avoid

Once a potential conflict of interest is identified, it is important to consider whether it can be avoided. It is also advisable to have mechanisms in place to facilitate the avoidance of conflicts. Internal conflict policies are invaluable tools to assist a PPF to avoid (or otherwise manage) conflicts;

- Disarm

Sometimes a conflict arises that cannot be managed by identification and avoidance procedures alone. Conflicts can sometimes be managed through disclosure of the nature of the conflict to the affected parties and obtaining their consent to the management of that conflict in a particular manner. For example, there are techniques available for putting into place appropriate information barriers or other separation arrangements. While these measures are fairly common and are generally acceptable means of managing conflicts, they are not fail-safe. It is therefore important to adequately supervise and monitor these arrangements to ensure that they remain effective.

The PPF could also, for example, target a wide variety of PPF investors, and thereby limit the influence of any one stakeholder on the project. Alternatively, it could restrict the investor base, and allow only financiers to participate (rather than construction, equipment or operating companies).

The PPF, through its governance structure, should avoid cumbersome reporting and approval processes which might come as a result of having many layers at which the PPF management may need to operate. Some PPFs, for example, are hosted by RECs, which may have a board of governors, a board of trustees, a steering committee, a host institution and more layers. Such cumbersome structures may contribute to a wastage of resources.

3.2.6 Internal rate of return and net present value

Internal rate of return (IRR) is the discount rate often used in capital budgeting that makes the net present value of all cash flows from a particular project equal to zero. Generally speaking, the higher a project's internal rate of return, the more desirable it is to undertake the project. As such, IRR can be used to rank several prospective projects a PPF is considering. Assuming all other factors are equal among the various projects, the project with the highest IRR would probably be considered the best and would be undertaken first.

On the other hand the project's economic rate of return (ERR) expresses the relation between the sum of the economic value of its benefits and its costs.²⁰ It can also be described as the return on the investment, and the World Bank has typically expected an ERR of 10% or higher from its projects in the economic sectors²¹. The difference between cost-effectiveness as it is defined and an ERR is that an ERR measures benefits in terms of their economic values (ideally at competitive market prices) while cost-effectiveness measures benefits in terms of the donor's willingness to pay for them.

3.3 Key Lessons for PPFs

The best practice lessons that can be learned by all members of the Project Preparation Facility Network are discussed below and they cover key areas on relevancy, effectiveness, governance, efficiency, adequacy and sustainability. The lessons include at least one brief case study per best practice. It should also be emphasized that the purpose of this analysis is not to critique individual PPFs, but rather to identify issues that need to be addressed at a policy level. The analysis draws on the information on PPFs provided in Table 1a and 1b.

3.3.1 Relevance

Relevance is the extent to which the objectives and design of a facility are consistent with infrastructure challenges.

In considering whether the PPFs currently operating in Africa are oriented to addressing infrastructure needs, it is noted that although the number of bankable projects developed by the PPFs are relatively few, the facilities make a wide range of contributions to the preparation of infrastructure projects implemented with development assistance. Based on available information, the following observations are made:

²⁰ Specifically, the ERR is the discount rate at which the discounted sum of benefits minus costs is equal to zero.

²¹ For more details see Paul Clement: Journal of Multidisciplinary Evaluation (JMDE:2) ISSN 1556-8180

- Ten of the PPFs cover all priority sectors, and only nine target a specific sector. As shown in Table 1a, facilities such as the CRIDF, W&SP, ACP-EUEF, and SEFA focus on particular sectors (including water and sanitation, energy and renewable energy activities respectively). It must be noted that whilst most PPFs cover a wide range of sectors their resources are limited for such a broad mandate;
- The analysis also shows that the sectors analysed in this study are relevant to the countries and the communities they support. The sectors that the PPFs cover (see Table 1a) are consistent with the areas that have been identified in regional economic infrastructure master plans like PIDA, and many other regional economic communities.

One example of a PPF which demonstrates relevance is DevCo. DevCo was established by the PIDG in 2003 to identify and structure infrastructure project opportunities in developing countries so as to make them both attractive to potential private sector investors and lenders, and economically acceptable to host governments and consumers. DevCo was established as a trust fund with the World Bank/IFC, aiming to operate under market conditions. It focuses on ‘pioneering transactions’ in difficult economic and political environments in the water, energy and transport sectors in DAC list I and II countries.

In terms of relevancy, DevCo objectives are well aligned to those of PIDG. DevCo’s model is to support the IFC’s Transaction Advisory Department on transactions that bring the private sector into the delivery of infrastructure services in developing countries, where there is still a large infrastructure gap that private investors and operators can help to fill. In these countries, governments still need transaction advice and they regard IFC as the right institution to provide it, but are financially constrained and cannot pay for IFC’s services. DevCo also supports projects that governments prioritise, such as Kigali Bulk Water Supply Project and Zanzibar power of Tanzania.

3.3.1.1 Lessons on the issue of relevance

Whilst almost all the facilities carry out activities which are relevant to infrastructure project development, challenges still remain on the issue of aligning the strategic plans of most of the PPFs with the infrastructure master plans of recipient countries and regional economic communities.

3.3.2 Effectiveness

Effectiveness is the extent to which the desired outcomes are achieved and this is ideally judged by two criteria;

- the extent to which projects prepared by PPFs have met their development goals including outcomes for communities, support for national economic development and making best use of the private sector; and
- the level to which PPFs have adapted over time in response to lessons learned from prior experience.

A detailed review of individual projects prepared by the PPFs has not been undertaken in the current review, so it is not possible to address the criteria in detail. However, an attempt has been made to come up with the ratio which could show the effectiveness of the

PPFs in meeting the broad objective for which these facilities were created - i.e. developing a pipeline of bankable projects.

- Out of the total of 19 PPFs covered in this study, only six had a relatively significant number of projects they support go on to be implemented [GPOBA (46.9%), NEPAD IPPF (49.2%), PIDG-TAF (50%), USTDA (51%), EU-AITF (61.4%), and DevCo (62.3%)]. The remaining 13 PPFs have supported most of the projects that do not reach financial closure. In this analysis, it was not possible to establish the extent to which this performance is the result of factors such as sub-optimal projects entering the project preparation process, poor preparation under the guidance of the PPFs or other factors that lead to a change in the acceptability of the project. Nor was it possible to determine if the rate for the PPFs differs from that of other development agencies. It is a matter that is worth further investigation;
- Based on these findings, it is safe to state that most PPFs appear not to meet their mandates as most of the projects supported do not go on to be implemented. This shows the difficulties faced by these facilities in developing a pipeline of bankable projects;
- In interpreting this, it may be relevant to note that for some of the facilities covered in this study their level of effectiveness could be attributed primarily to the activities they support. For instance PPIAF, DBSA EIB, FEMIP and DBSA Fund primarily support upstream activities and consequently this could be the reason why the financial close of most of the projects supported is low.

Two examples which illustrate the effectiveness of PPFs:

EU-AITF

In the context of the Gleneagles Declaration on Africa emerging from the 2005 G8 summit and the EU Council's adoption of an EU Strategy for Africa (December 2005)²², the EU and its African counterparts initiated a Partnership for African Infrastructure. The EU-Africa Infrastructure Trust Fund is an instrument of this Partnership. Funding support for eligible projects can take four different forms:

- interest rate subsidies: the provision of a lump-sum to a participating lender (i.e. the financiers appointed by the donors) to enable the lender to make long-term loan finance available at reduced interest rates. The subsidies are granted so as to avoid market distortions;
- technical assistance: this includes funding preparatory work for eligible projects, such as environmental impact assessments, project supervision and targeted local technical and administrative capacity building;
- direct grants for project components which have substantial demonstrable social or environmental benefits, or which can mitigate negative environmental or social impacts; and

²² http://www.eu-un.europa.eu/articles/en/article_5453_en.htm

- insurance premiums, i.e. initial-stage funding of insurance coverage necessary to launch infrastructure projects.

The projects supported by the AITF may be implemented by public or private entities, or entities with mixed public-private capital. In terms of effectiveness, AITF has performed relatively better than other PPFs covered in this study with 61.4% of the projects supported reaching financial close. This has been partly attributed to the use of blended grant-loan financing for projects, which enables long-term financing for sustainable projects; this model is strongly supported by African governments. African ownership and project sustainability over the life of the project are therefore guiding principles of EU-AITF support. In addition, blended financing requires one or more of the EU-AITF eligible financiers to invest in the project through a loan or other financing.

DevCo

DevCo is another good example of a facility which has been effective in developing a pipeline of bankable projects. It has achieved a good result with 62.3% of the projects supported reaching financial close. DevCo is effective primarily because of its fund management style. This is simple and requires little staff time, minimising transaction costs.

The applications for funding are prepared by the IFC Task Manager, cleared by the IFC Programme Manager and sent to the PIDG PMU. Once reviewed and cleared by the PIDG PMU, it is forwarded to the applicable PIDG donors for review. The PIDG members then have a 10-day non-objection, approval period from the date of receipt. DevCo reports to the PIDG donors through the PMU. The combination of simplicity and quick availability makes DevCo unique and effective among the traditional trust funds available to IFC. Once the PIDG members approve a project, implementation proceeds. Each DevCo-supported project has a Task Manager responsible for the coordination and management of the client and the transaction process.

3.3.4 Efficiency

Efficiency is indicated by the time and cost of preparing projects. This can be lengthy. As indicated in Table 1b, it appears that it typically takes a little over two years from the time a project enters the project preparation process to its approval for implementation. In the absence of other data, this study uses the average number of projects per year that a facility can develop to bankability stage as a proxy for efficiency. There are no readily available benchmarks to determine if this is unreasonable, except to point out that when a project takes too long to prepare, this has the potential to escalate associated costs, including changes in personnel (and hence a risk of changes in project focus and ‘project memory’), escalation of project implementation costs and loss of economic benefits from delayed project implementation.

Examples of facilities which have performed relatively well in managing time and costs are PPIAF and EU-AITF. As shown in Table 1b, PPIAF has managed to develop projects reaching financial close at a rate of approximately 14 per year, while EU-AITF has management fees of 4%, which is relatively low compared to other PPFs analysed in this study. For instance, for managing the Trust Fund, the EIB has been granted a standard

payment equal to 4% of the aggregate amount of contributions effectively made available to the fund. This fee is intended to cover in full the cost of managing the Trust Fund.

3.3.5 Adequacy

Adequacy is taken to be the sufficiency of the resources available to the PPFs to perform their tasks.

Limited information could be obtained to indicate the adequacy of PPF resources. In most of the PPFs, with the exception of EU-AITF and those hosted by the World Bank, financial resources appear to be inadequate for current project preparation tasks. This position is supported by comparing the level of the resources required for project preparation to the resources currently available amongst the 19 PPF reviewed in this study.

3.3.6 Sustainability

Sustainability relates to the extent to which PPFs are self-financing and can generate their own resources to support their activities.

While some PPFs, like EU-AITF and other donor-supported facilities, were not created to be financially sustainable, it is noted that sustainability of these facilities is critical if they are to continue supporting the development of the pipeline of bankable projects without fearing that one day donors will not provide the resources. The analysis of the 19 PPFs shows that while there is little recovery of the cost of project preparation from project owners, at least five of the facilities have the mandate to recover some of the costs. Examples of facilities which include elements of cost recovery or cost contribution arrangements in their mandates include:

- NEPAD IPPF- In June 2002, at the G8 Summit in Kananaskis, the Prime Minister of Canada announced Canadian commitments in support of the Africa Action Plan, the G8 response to NEPAD, including initiatives related to infrastructure development. The African Development Bank (AfDB) was assigned a leadership role in the provision of intellectual and technical support to the NEPAD Steering Committee in infrastructure development, and prepared a NEPAD Infrastructure Short Term Action Plan (STAP). This programme formed the foundation of the NEPAD Infrastructure Project Preparation Facility (NEPAD-IPPF), with start-up capital of Can \$10 million funded by the Canada Fund for Africa (CFA) established at the AfDB²³.

The facility, which was officially launched in 2004, has its mandate assisting “African countries, Regional Economic Communities (RECs) and related institutions to prepare high quality and viable regional infrastructure projects and programmes, develop consensus and broker partnerships for their implementation with the long-term goal of reducing Africa's economic marginalisation by ensuring

²³ Communiqué issued at the ninth summit of the Heads of State and Government Implementation Committee (HSGIC) of the NEPAD, Kigali, Rwanda, 14 February 2004.

sustainable regional economic development and integration through cooperation among African countries, donors and the private sector.”²⁴

The facility is a grant provision financing mechanism, managed by the AfDB. It has independent legal status, but is established by a contractual agreement between the AfDB and CFA. The management of the facility is within the scope of AfDB operations. [This type of facility is typical of the on-lending and on-grant provision of funds by numerous bilateral donors as well as multilateral and regional development finance institutions.]²⁵ Besides offering grants, recipient countries or sponsors are required to contribute a minimum of 5% of the total cost of the proposed preparatory activity for all NEPAD-IPPF supported operations.

The actual contribution levels of project promoters, sponsors and beneficiaries is determined during approval and demonstrate the commitment of the recipient. While the minimum cost contribution of 5% appears to be relatively small, it offers a basis for ownership on the part of the sponsor as well as the basis on which more costs can be recovered in the event that the project reaches financial close.

- The second example is that of DevCo. In June 2003, a Memorandum of Understanding was signed between the IFC’s Private Sector Advisory Service Department (PSAS) and the UK Government’s DFID to establish DevCo Advisory, a project development facility. The objective of the facility is to support the IFC’s privatisation advisory work in infrastructure in developing countries, including the SADC region. DevCo Advisory is, effectively, an extension of the IFC’s existing PSAS and primarily finances the costs of specialist consultants working to help prepare infrastructure projects for private sector investment in poorer countries.

DevCo Advisory is set up as a multi-donor facility, and is managed by the IFC. It is a subsidiary department of the IFC through which donors provide capital into a trust fund, which aims to encourage capital to be invested into projects that potentially carry relatively greater risk than would be financed by private international investment firms. Upon finding a suitable opportunity, the IFC’s in-house staff members seek and prepare the mandate proposals. The proposals generally include specialist consultants who are chosen to drive the mandate forward. The staff input fee will integrate both full staff costs plus overheads.

The retainer fee is adjusted dependant on the investment appetite of the recipient country. The success fee from the final bidder meets the remaining balance. DevCo Advisory is therefore responsible only for the costs of the non-recipient country consultants, and the IFC covers its own cost inputs. DevCo also receives a guarantee from the IFC that in the case of riskier projects that do not reach completion (by no fault of their own), donors will underwrite the success fee only to the level of the retainer fee; this ensures that retainer fees are kept reasonable.

²⁴ “NEPAD – Infrastructure Project Preparation Facility (NEPAD-IPPF), Information Note to countries, Regional

Economic Communities and Specialized Organizations”, African Development Bank, December 2003.

²⁵ These include European Investment Bank facility managed by South Africa’s Industrial Development Bank.

One key lesson from this arrangement is that, just like USTDA, the mandate of DevCo allows for a retainer and a success fee; other PPFs could emulate this practice, ensuring that any deals coming to fruition include project preparation expenses plus a success fee in the costs taken to financial closure.

- The third example is USTDA, which has a success fee programme for some projects, requiring them to pay back the grant upon implementation. However, this success fee programme covers a minority of the projects, and it is restricted to projects that are conducted on a sole-source (or non-competitive) basis. The success fee requirements are typically applied only to the US entity involved in the project, not the host country project sponsor.

Statistical analysis of USTDA's data shows that there is a strong direct relationship between host country project sponsor cost sharing arrangements and project success. However, analysis of ten years of USTDA's data shows that projects with success fee requirements achieved lower levels of success than projects without these reimbursement requirements. Accordingly, USTDA balances cost sharing and success fee requirements with careful consideration to specific project needs in order to optimise the likelihood of success.

- The final example is that of SEFA. This facility is aligned with AfDB corporate priorities, which support the transition to inclusive and green growth in particular by promoting access to cleaner, modern, affordable and reliable energy services. SEFA is also aligned with the Sustainable Energy for All Initiative (SE4All), and its African Hub which supports preparatory, sector planning and capacity building activities. SEFA provides resources through three financing components:

(a) Project preparation grant

SEFA provides financial and technical assistance which facilitates the preparation and pre-investment activities of commercially viable private sector small-to medium-scale renewable energy and energy efficiency projects. The grants are provided on a cost-sharing basis to fund specific preparation activities, from feasibility studies to financing agreement to ensure financial close. This support is expected to enhance project bankability and enable sponsors to leverage the required equity and debt financing for successful implementation.

(b) Equity investment

The equity financing component provides start-up or growth capital and managerial know-how for renewable energy and energy efficiency projects administered by small and medium sized entrepreneurs and developers. This component acts as a finance enabler, in addition to providing the developer equity, supplying technical capacity building in relation to project design, structuring & execution, and optimising capital structure to ensure the sustainability and financial viability of underlying projects. SEFA equity capital is administered by the African Renewable Energy Fund (AREF), a pan-African Private Equity Fund.

(c) Enabling environment grant

This component supports public sector activities, especially those that create an enabling environment for private sector investment in sustainable energy in Africa

- The key lesson on the issue of sustainability of PPFs is that they can be adversely affected by donor priorities and developing country capacity. While funding for most facilities is generally secured for a reasonable period in the first instance, and replenishment commitments have been achieved in a number of instances, this does not guarantee that the goodwill of donors to fund PPFs will continue as long as the gap of infrastructure projects remains. While changes in donor priorities can result in significant changes in the funding available to a PPF, those facilities that include the cost recovery or cost sharing model in their mandate stand a better chance to continue their operations in the event that donors have to scale down their support.

Furthermore, with the exception of South Africa, the majority of African countries face huge challenges in providing funding for project preparation. In view of this, recipient countries or sponsors should be encouraged to contribute to the facilities so that they can demonstrate commitment and also minimise the danger of moral hazard which occurs when one party can take more risks because it is protected, while the other one bears the cost burden.

3.3.7 Stringent governance and accountability

PIDG has a novel structure. It is a partnership established by contract between member governments which agree to collaborate to achieve a common purpose. Overall governance is set by the Governing Council on which each PIDG member is represented. Below the Governing Council there is a PIDG Trust and eight separate PIDG facilities each of which addresses, in different ways, the different constraints holding back private infrastructure investment.

In order to ensure stringent management and accountability, the Governing Council has agreed on common rules, which are set out in Operating Policies and Procedures (OPPs) and a Code of Conduct. These ensure that the behaviour and action of all involved in the PIDG comply with the values and standards set by its members. The Governing Council determines the overall strategy and policies and oversees performance of the PIDG facilities. The Chair's Office provides the executive function of the Governing Council, and the Programme Management Unit (PMU) serves as its secretariat and as the principal interlocutor between the Governing Council and its facilities.²⁶

It is also important to note that for other programmes and facilities which are hosted by MDBs, like the World Bank, the MDB may perform some financial or administrative roles, and may also perform one or more operational or partnership support roles. The policies and procedures that apply to trust funds may also vary, depending on the trust fund type. These policies and procedures are therefore determinants in the governance and

²⁶ The Chair's Office consists of three representatives of PIDG member governments plus the Special Counsellor and a small number of senior advisers from the private sector. It is authorised to take certain decisions between Council meetings.

accountability structure of the trust fund. Examples of such facilities include GPOBA, which is strictly governed by standard WB reporting and procedures including the application of WB environmental and social safeguard policies on both Window 1 (TA) and 2 (Lessons Learnt) and Window 3 (Subsidies) projects. These principles are set out clearly in the GPOBA operating principles. These filter down to project documentation and project screening and are clearly evident in the GPOBA application form which must be completed for all proposal requests for GPOBA assistance.

A key lesson on stringent governance and accountability is that while some PPFs have performed relatively better in this area, the issue of variation in the operational procedures still remains. It is important that members of PPFs develop common operating guidelines which will enhance the performance of all the facilities currently operating in Africa.

Chapter 4

Triggers, success factors and challenges faced by Project Preparation Facilities

4.1 Introduction

Many donors actively support Project Preparation Facilities. In addition to the enabling environment, donors underline the importance of the project preparation stage, stressing in particular the role of Project Preparation Facilities (PPFs) in increasing the stock and the quality of bankable infrastructure projects. The G20 HLP also emphasised this point. Further, some donors create their own project preparation funds, which usually serve to support their domestic companies.

Most multilateral PPFs provide financing and technical co-operation to all sectors of infrastructure, particularly to projects in Africa; but there are some PPFs that are only active in one sector, for example, the Water and Sanitation Project Facility hosted by the World Bank and the Norwegian Project Development Facility, which supports the preparation of renewable energy projects.

This chapter reviews the main triggers and success factors of PPFs as well as the challenges for cases of failure, if any. The aim of the analysis is not to critique individual PPFs, but rather to identify general, more systemic features that need to be addressed at a PPFN as well as at PPF levels. The assessment draws on the information on PPFs listed in Table 1 of Annex 1, case studies and discussions with officials of selected PPFs.

4.2 Triggers of project preparation

It is a well-known fact that Africa's infrastructure deficit is acute. According to World Bank estimates, US\$93 billion will be required annually from 2012 through to 2020 to close the continent's infrastructure gap. Historically, traditional sources of finances (e.g., national governments, the private sector, official development assistance, and so on) have contributed approximately US\$45 billion annually (Estache & Garsous, 2012). This leaves a deficit of US\$48 billion per annum. Numerous highly visible initiatives are underway to address this deficit and these include:

4.2.1 PIDA's Priority Action Plan (PAP)

At the continent-wide level, the Programme for Infrastructure Development in Africa (PIDA) has developed a Priority Action Plan (PAP) to help achieve development objectives and to bridge the infrastructure gap. The plan comprises 51 priority regional projects across four sectors and totals US\$7.5 billion annually over nine years (US\$68 billion from 2012–2020). PAP is the result of rigorous analytical and time-consuming consensus-building efforts deployed over more than 18 months (PIDA, 2011).

4.2.2 SADC's Regional Infrastructure Development Master Plan (RIDMP)

Additional efforts are underway at the regional level as well. For example, the Southern African Development Community (SADC) countries have come together to develop a regional infrastructure development master plan (RIDMP). The plan extends beyond the PAP in the information and communication technology (ICT) and water sectors. Overall, the short-term portion of the plan, made up of projects to be implemented from 2013–2017, totals US\$64 billion; approximately half (US\$33 billion) appears to be incremental to PAP

(SADC STAP, 2013). As indicated in section 2.3.1.1, other African RECs also have huge investment gaps for infrastructure e.g., COMESA has an investment gap of US\$54.0 billion for the period starting 2013; EAC needs between US\$50 and 100 billion for the period between 2015 and 2025; and ECOWAS requires US\$48.4 billion for the period between 2013 and 2020.

4.2.3 National initiatives

Clearly, the infrastructure gap will not be addressed solely through regional projects, and much of the incremental expenditure will need to occur at national and municipal levels. For example, the South African government, which historically has constituted a sizable proportion of infrastructure expenditure in Africa, has plans to increase annual expenditure by 39% relative to the last two years. The country's infrastructure pipeline, including projects in progress and being considered, is approximately US\$320 billion, with 25% of this in progress and financed, and the remainder still under assessment.

In a best-case scenario, these collective initiatives could reduce the infrastructure deficit by as much as half. In reality, the net incremental impact will likely fall well short of this depending on the proportion of projects found not viable and/or bankable, and abandoned.

4.3 What can trigger project preparation?

Project preparation begins in many different ways in organisations and the process which triggers the project may frequently generate a considerable amount of curiosity from project sponsors as well as PPFs. Several basic triggers need to be in place for the project to be initiated, including:

4.3.1 Enabling environment:

Infrastructure assets not only have large upfront costs but also have a long life and are immobile. The upside payoff is largely limited by design capacity (and in some cases, by inflation-adjusted tariff structures as well), and thus the payback depends on a predictable and long-term cash flow. This, in turn, depends on established, transparent, and stable regulatory and legal systems, with clear laws and regulations to implement project preparation based on internationally accepted norms. Given the upfront costs, a high degree of confidence is required so that the preparation process is fair and contracts are not susceptible to costly renegotiations or cancellations. Enabling legislation as well as credible and political regulatory bodies need to be established.

4.3.2 Viability funding / pay-for-use environment

Many projects have high socio-economic benefits (such as employment, productivity, connectivity or poverty alleviation) but uncertain cost recovery based on existing tariffs, user fees, income levels, and forecasted usage. In some cases, public sector resources are required to make these projects financially viable. In other cases, financial viability cannot be achieved only through public funding, but will depend on fees that are cost reflective, the effective collection of fees, and the establishment of a pay-for-use culture.

4.3.3 Political commitment

Strong, broad-based, and consistent political support is critical for driving infrastructure development. In some cases, this may mean the political will to implement measures to

increase user charges and combat under collection of tariffs. In other cases, it may be a matter of ensuring the government bureaucracy is accountable, effective, and efficient in planning, coordinating, executing, and monitoring, so that unnecessary delays relating to issues such as land acquisition, licenses and permits, connecting existing infrastructure and so on are minimised (World Bank, 2013).

4.3.4 Policy stability

This is probably the largest political risk, especially as it relates to ensuring subsidies on user fees or ensuring that cost recovery mechanisms are not abruptly altered or removed. Climate change subsidies provide a good example of how policy and associated regulations can accelerate investment activity, but can subsequently lead to a rapid slowdown once economic support is reduced or removed, potentially leading to significant losses for investors dependent on these subsidies.

4.3.5 Infrastructure gap and roadmap

It is evident that many governments and indeed regional economic communities in Africa do not adequately translate the need for high-level estimates of expenditure required to support (and catch-up) with the growth in population, GDP, trade and so on, into an infrastructure roadmap that articulates infrastructure gaps and the government's long-term priorities and commitments. As a result, project identification and origination are ad hoc and reactive in nature, dampening infrastructure supply at the point of origin. Furthermore, without an infrastructure roadmap, political support through the preparation phase is more susceptible to wane as competing priorities arise and stakeholders change.

Developing a clear infrastructure roadmap therefore has the added benefit of helping to stimulate investor interest. Investors crave transparency and certainty and seek to understand a government's infrastructure plans beyond a political cycle. An infrastructure roadmap can signal political commitment to infrastructure over the long term and heighten investor interest.

4.3.6 Lack of skill and capacity

Both government and private sector actors face a skills and capacity shortage. The preparation (as well as implementation) of infrastructure projects requires various specialised skills ranging from technical and engineering to environmental, legal, financial, and negotiation. Even when the private sector overcomes this, the bottleneck shifts to government bodies in the form of delayed decision making and approvals, lengthy negotiations and inadequacies in contract and performance management (which can also result in the public sector getting locked into fiscally unsustainable contracts that are subsequently cancelled). The skills and capacity shortage is at the root of the entire spectrum of issues discussed above, from policy development, through to planning, preparation, and execution (World Bank, 2013). To this end the ICA and the PPFN should consider developing capacity building programmes which will help enhance the skills of the officials working in government and PPFs. In addition to these donors, MDBs and member countries should also consider setting up technical support under PPFN/ICA which will facilitate this task.

4.3.7 Local knowledge

PPFs may have local knowledge which they might use to execute the projects more smoothly. Such local knowledge will also help the project preparation facilities to rapidly mobilise, as well as quickly disburse, resources to the project.

4.4 Factors of success stories

A close review of the PPFs currently focusing on Africa shows that a number of these facilities have performed relatively better compared to the rest. Table 3 shows that out of the total of 19 PPFs analysed in this study, six have supported projects which have reached financial close with a success rate of between 46.9% and 62.3%.

Table 3: Success stories of Project Preparation Facilities

	Project Preparation Facility	Date Created	Number of Projects Supported	Number of Project Financial Closure	% of Projects with Financial Close	Infrastructure Sectors Supported
1	CRIDF	2013	25	7	28.0	Water
2	PIDG TAF	2003	98	49	50.0	All sectors
3	PPIAF	1999	1000	86	8.6	All sectors
4	DBSA EIB Dev. Facility	2010	0	0	0.0	All sectors
5	AFD DBSA PPF	2003	40	12	30.0	All sectors
6	AWF	2004	72	22	30.6	Three
7	NEPAD IPPF	2004	61	30	49.2	All sectors
8	EU-Africa ITF	2007	70	43	61.4	All sectors
9	GPOBA	2003	113	53	46.9	All sectors
10	The FEMIP Trust Fund	2005	49	0	0.0	All sectors
11	DevCo Advisory	2004	53	33	62.3	Three
12	ACP-EU Energy Facility II	2009	65	0	0.0	Energy
13	DBSA Dev Fund	2001	0	0	0.0	Two
14	ACP-EU Energy Facility I	2002	74	0	0.0	Energy
15	SADC PPDF	2008	3	0	0.0	All sectors
16	IIPSA	2013	0	0	0.0	All sectors
17	WSP	1979	22	-	-	Water
18	USTDA	1981	3,881	1,979	51.0	All sectors
19	SEFA	2011	20	0	0	Energy

Source: ICA Fund Finder as at 21.12.2015, the threshold for success is 50% projects reaching financial closure, responses from questionnaires, and database of PIDG TAF, PIDG 2014 Annual report.

4.5 Lessons from success stories

There are a number of lessons that can be drawn from success stories of project preparation facilities, and one is from the Private Infrastructure Development Group (PIDG).

4.5.1 Governance

The PIDG was established under a Memorandum of Understanding which was adopted by its original members [UK Department for International Development (DFID), Netherlands Directorate General for International Cooperation (DGIS), Switzerland State Secretariat for Economic Affairs (SECO) and Swedish International Development cooperation Agency (Sida)].²⁷ Subsequently the members have adopted a constitution and a code of conduct which govern how the PIDG operates.

The supreme oversight body of the PIDG is the Governing Council which consists of a representative from each PIDG member. The Governing Council sets the overall strategy of the PIDG and makes decisions on operational issues which affect the PIDG as a whole. Decisions of the Governing Council are made by consensus either at the PIDG biannual meetings or by telephone conference or email. Sub-groups of the Council are formed for each facility comprised of representatives of the members who are funding it.

The Governing Council is supported by the Programme Management Unit (PMU) which functions as the secretariat for the PIDG, is the central contact point for the PIDG, coordinates activities between the PIDG members and the individual facilities and plays a pivotal role in strategy formulation, implementation and business development. The PMU team also offers support to the PIDG members in discharging their responsibilities as members of the Governing Council and as sponsors of individual facilities. The PIDG PMU function is contracted out to a service provider, currently CA Legal.

4.5.2 Ownership

The PIDG members invest in the majority of the PIDG facility through the PIDG Trust, an independently managed trust, which allows flexibility in operations. The PIDG Trust's principal trustee is SG Hambros Trust Company Limited, a professional trustee services provider based in the UK. The PIDG Trust, whilst the shareholder of record, performs an administrative fiduciary function, and the trustees do not have any discretion in relation to the investment activities. This means that PIDG members, through the Governing Council and supported by the PMU, exercise their shareholder rights. The trust fund structure enables PIDG members to supply their funding in a flexible manner and to react quickly and flexibly towards changing market needs.

²⁷ Currently the membership of PIDG is made up of eight and it include: Austrian Development Agency; Australian Government Department of Foreign Affairs and Trade; Netherlands Development Finance Company (FMO) UKaid; Federal Department of Economic Affairs, Education and Research; International Financial Corporation; KfW Entwicklungsbank; Netherland Ministry of Foreign Affairs; and Swedish International Development Agency.

4.5.3 Management and sources of funds

The facility is managed through an outsourced contract with a private facility management company that is overseen by the board. The management company is chosen through open competition. The facility is run as a commercial company within the parameters set by the board and with an incentive structure designed to deliver against the donors' (i.e. shareholders') priorities.

At the facility level, funding from the PIDG donors can be supplemented with funding from private financial institutions and public Development Finance Institutions (DFIs). Further funding from third parties is achieved at the project level.

4.5.4 Operational modalities

4.5.4.1 Commercial vs. non-commercial

PIDG activities are generally operated commercially through public-private partnerships structured as carefully designed private companies with independent boards of non-executive directors. These are predominately private sector individuals with a detailed understanding and experience of both the operations of the underlying vehicles and the policy objectives of the PIDG members. The boards have a responsibility for ensuring that the management companies deliver on the strategic goals set by the PIDG members. At present the boards are not sufficiently diverse but recent appointments have started to address this. The chair of each board is responsible for regular reporting to the members, usually through quarterly meetings.

4.5.4.2 Additionality of the intervention

The PIDG has strong additionality as it occupies a unique space within the international aid architecture, due to its focus on partnering with the private sector, geographical focus on less developed countries and its ability to deliver multiple instruments depending on need.

The Board of each PIDG is accountable for ensuring that each of that facility's investments must be "additional" to ensure that it is attracting in, and not crowding out, private investment.

4.5.4.3 Cost effectiveness in delivery of development outcomes on the frontier

Sector: The PIDG has a well-diversified portfolio with the largest sector, energy, forming 77.5% of its portfolio, followed by industrial infrastructure at 9.3%, telecoms constituting 6.4%, Agri-infrastructure 5.1%, transport 0.5%, and urban development infrastructure 0.1% (PIDG, 2014 Annual Report). The PIDG has started diversifying further into housing, industrial infrastructure, mining and agribusiness.

Instruments: PIDG has a range of instruments including early stage debt financing, project development, technical assistance from other facilities like EU-AITF, bespoke guarantees, capacity building and advisory services.

4.5.4.4 Value for money

PIDG's systems and processes are geared towards ensuring value for money in delivering the multiple objectives of leveraging private sector capital and achieving development impact in the most effective and efficient way. Key aspects of PIDG's impact assessment and delivery systems which help ensure ongoing value for money include:

- a) **Credit Committee:** PIDG Facility has a Board of Directors and a Credit Committee to review and approve all project proposals. The Credit Committee undertakes an in depth assessment of the underlying credit of the borrower to assess the risk of financial loss for each investment and ensure that overall portfolio quality is maintained. This is particularly important given that a number of the facilities have strict financial performance obligations as a result of the private sector financing that is leveraged-in to support the facilities themselves. At the same time, the Board ensures that reputational risks are managed as well as ensuring that the facilities work to their development impact targets.
- b) **The Management of PIDG Facility** is incentivised via the remuneration arrangements to ensure commercial viability of the facilities, fast and efficient project preparation and achievement of development objectives within the terms of the contractual service agreements that govern the management of the facilities. This requires financing the most cost-effective measures and thus provides an intrinsically built incentive to ensure value for money.
- c) **Form of financing:** Donor funds are provided to the PIDG Trust and Facility as capital, and not as grants, so that the PIDG Trust retains ownership of the companies and is responsible for ensuring compliance with their approved operating policies and procedures.
- d) **Monitoring Systems:** The PIDG PMU estimates the impact of projects in advance and then verifies and tracks these through a system of post-completion monitoring. With strong direction from DFID, the PIDG PMU has developed wider development impact indicators, which it has incorporated in this framework.

4.6 Challenges contributing to the failure of PPFs

Project preparation encompasses a range of activities from the origination of a concept to attracting partners and finance. Project preparation is a key element, including due diligence over issues such as cost recovery and whether the project is appropriate to meet demand, within a given governance and technical capacity. Project preparation is often not thorough enough, resulting in poorly designed projects that fail to achieve poverty reduction or economic development. Once preparation of infrastructure projects has been initiated through various triggers and success factors, it is important to pay attention to common issues that constrain effective project development – because these challenges have the potential to derail the whole process. These challenges include:

4.6.1 Lack of financial resources

PPFs are facing severe financing constraints, both for financing project preparation, as well as for their operations. The ICA (2012) notes that financing for project preparation is often mobilised in an ad-hoc manner with no clearly agreed upon replenishment plans for

financial resources²⁸, and support is not comprehensive. Furthermore, the performance of PPFs is often judged by the amount of financing that they are able to disburse to projects, regardless of the external variables that are beyond their control. Non-disbursement results in their not being able to access additional financing, even if their financing portfolio is committed. This limited funding pool hampers their overall project delivery capability, results in delays and can result in a situation where they can neither finance new projects, nor proceed with their current projects.

4.6.2 Broad mandate

One of the key constraints of PPFs with limited financial resources is that they may cover several sectors, geographies and project preparation stages - a situation which might lead to projects not being adequately funded. Specialisation based on one or more of these parameters would allow PPFs to intensively develop their scarce resources with specific sectoral and functional knowledge. This would allow for institutional cross-learning to be transferred from one project to the other, as there would be similarities between the projects supported by the facility. It would also mean that fewer technical experts would be needed and economies of scale could be applied, such as standardised sector-level documentation to be prepared for each project preparation stage.

4.6.3 Institutional arrangements

The majority of the PPFs are funded with donor/development bank money. As a result, these facilities are generally hosted in development banks and facility functioning is influenced by the policies and competencies of the host institution (ICA, 2012:14). Overly bureaucratic procurement policies can slow the pace of preparation work and make facilities less responsive to the needs of prospective project sponsors/developers. Conversely, policies that provide facilities and consultants with some flexibility may see improvements in the speed of project development.

4.6.4 Lack of human resources

Most of the facilities are often inadequately resourced and the resources that they do have available do not produce the appropriate documentation to take a project to the bankable stage.

4.6.5 Small and fragmented PPFs

The structure of PPFs in Africa may be described as being fragmented and uncoordinated, with too many facilities with inadequate funds to achieve minimum efficient scale (MES). As a result, many are too small to be effective. As a result, there is not enough funding for individual facilities to have significant impact in their region (Leigland and Roberts, 2007). This fragmentation persists despite the fact that the facilities often undertake similar activities. This raises concerns about the effectiveness of certain facilities as they may lack the necessary economies of scale to deploy their resources in an impactful manner. Further, the vast array of facilities coupled with the requirement that project preparation be co-financed by other means (including other facilities) points to a possible coordination problem.

²⁸ For instance under SADC PPDF, there are no agreed plans between SADC and Donors to replenish the facility.

4.6.6 Lack of clear strategy and planning

Some of the existing PPFs have no clear strategy or long-term planning: they often simply distribute funds without setting objectives appropriately, and rarely add value in the form of providing additional advice or developing extra capacity within public agencies. In addition, PPFs rarely leverage private-sector expertise - expertise that could significantly improve the design of projects or help in stress-testing assumptions during project development.

4.6.7 Lack of financial sustainability model

Most PPFs analysed in this study do not recover preparation expenses and therefore face the risk of discontinuing operations when their initial funding is depleted. As a consequence, there is little opportunity for internalising long-term experience gained or scalability. In addition, they are typically dependent on donor funding or public funds (often one-off contributions), and the governments, donors and development bank funds involved are all subject to budget constraints. According to a recent report by the World Bank (2013), this represents a serious obstacle to the implementation of most PPFs.

4.6.8 Bureaucratic and lengthy processes

Finally, as PPFs are often public-dominated, they are subject to bureaucratic and lengthy processes, which further inhibit a project's development.

Chapter 5

Information sharing among PPFs

5.1 Introduction

Given the sheer volume of project preparation effort required and capacity constraints hindering efforts to address it, PPFs should question the need and value of competing with one another for mandates, and should instead explore partnership opportunities to make the best use of available resources. Many PPFs employ generalist models, seeking mandates in all sectors and across the value chain within each sector (though not necessarily across all project preparation phases). Instead, they could work together to map sector needs and opportunities, evaluate their internal capabilities, experience and relationships, and develop complementary value propositions for project sponsors. This could involve sharing information on different opportunities and working together by dividing project work by phases. Sharing information would help the PPFs to confront common challenges and issues, and find solutions.

5.2 Information sharing

A large proportion of the underlying analysis for feasibility, due diligence and strategic options is conducted by external service providers on a project-by-project basis (often paid for with technical assistance funding). These reports contain a broad scope of information that could be relevant beyond a single specific project or PPF, including information on demand drivers, risks, the regulatory landscape, experience in other countries, unit costs and so on. In an age of open access, where raw information is rapidly being commoditised, this intelligence could be made public (even if to a limited audience) to avoid duplicating efforts and to reduce costs for future project preparation. As demonstrated by ICA initiatives, there may even be an opportunity for PPFs to establish a common fact base or inventory of reports for greater access to useful information.

5.3 Current level of information sharing

Despite recent progress made on sharing information through Fund Finder and regular meetings of the PPFN, sharing of information on project preparation still presents many challenges. PPFs have no common exchange platform where capital providers (lenders, investors, donors, and developers) can easily engage with project sponsors, whether public or private. There is also no standard presentation template for projects and information to assess financial sustainability is generally difficult to obtain. Finally, setting-up investment consortia involves an increased level of complex negotiations.

Similarly, project sponsors also face challenges in finding market partners for the development of their infrastructure projects. The preparation and suitable presentation of project-related information takes considerable time and effort and reaching out to the market and exploring investor interest is resource intensive.

Table 4: Project Preparation Facilities Information Sharing of Pipeline Projects

	Project Preparation Facility	Is inf. Shared?	If yes, what kind of information is shared?
1	CRIDF	Yes	Opportunistic
2	PIDG TAF	Yes	Project name, facility type, amount committed, status, country
3	PPIAF	Yes	Opportunity, nature of opportunity available, stage & potential scale
4	DBSA EIB Dev. Facility	No	None so far
5	AFD DBSA PPF	No	None so far
6	AWF	Yes	Only project appraisal reports
7	NEPAD IPPF	Yes	Preparatory activities, strategic context, activity output & development impact, Recipient & executing agency, and current status
8	EU-Africa Inf. Trust Fund	Yes	List of projects approved, sector covered, scope of work, agency responsible, and amount approved
9	Global Partnership Output Based Aid	Yes	Activity type, Sector, Recipient, Cost of project, approval date, and status
10	The FEMIP Trust Fund	Yes	Agency, location, brief description of project, proposed EIB finance, procumbent, and status
11	DevCo Advisory	Yes	Project name, facility type, amount committed, status, country
12	ACP-EU Energy Facility II	Yes	Name of project, component being funded, Status, and recipient
13	DBSA Dev. Fund	No	None so far
14	ACP-EU Energy Facility I	Yes	Name of project, component being funded, Status, and recipient
15	SADC PPDF	No	None so far
16	<u>IIPSA</u>	No	None so far
17	Water and Sanitation Program	No	No data base was found

Source: Various PPF websites

In summary, Table 4 shows that the current paradigm for PPFs is one of high market fragmentation and high information asymmetries. These characteristics generally impede the growth of the pipeline of bankable projects and limit the potential for their financial closure. The table above shows that 11 of the PPFs named share information, and that these facilities have databases in which they keep information about the projects. While this is commendable, the initiative to share information still falls far short of what the investor or PPFs would wish for.

This study reviews other initiatives on the sharing of the pipeline of projects with a view of learning, as well as coming up with a model framework which could aid African PPFs share information more effectively.

5.4 Different model options for exchange of information

There are a number of ways through which PPFs can exchange information. These include conferences, forums and websites. The following section reviews some of these models.

5.4.1 ICA Project Preparation Fund Finder

This model is based on an online database with important information on project preparation facilities, funding and services. It is designed to help project promoters, managers and financiers locate funding to lead their projects to financial close. The Fund Finder also provides a unique location for facilities to market their products, along with key project preparation statistics and information on what is available for the African continent.

5.4.2 International Infrastructure Support System (IISS)

IISS is another model which has been developed to assist with information sharing on project preparation facilities²⁹. This project management tool was pioneered by the Asian Development Bank and is now led by an MDB-appointed executing agency called Sustainable Infrastructure Foundation (SIF). This is an internet-based platform designed to promote project preparation of infrastructure and make information available to other PPFs operating in the market, potential investors and donors on a global scale. The platform supports public, private, and public-private partnership (PPP) projects, and it enables electronic connections between project sponsors, capital providers and expert advisors worldwide.

The system provides countries with templates for the preparation of projects and it has features that enable project teams to collaborate online through the process of project preparation, including the sharing of documents. The platform also includes enabling features for sharing information with investors and the public. It has gained the support of multilateral development banks, development finance institutions, international organisations, companies and long-term investors.

5.4.3 ICA Knowledge Centre

The Knowledge Centre is an electronic data-base of documents, reports and publications about Africa infrastructure, offering and posting documentation in the key areas of energy, transport, water, ICT and general infrastructure. The Knowledge Centre is free of charge and aims to make the latest studies, reports and research on African infrastructure available to a wider public, including ICA members, African partners, infrastructure experts, investors, researchers, decision-makers and the general public. This sharing of knowledge not only promotes the research being done by ICA members and other international organisations, but also advances the development of African infrastructure by helping to avoid the waste of valuable resources due to duplication of studies, and by enhancing the overall quality of reporting.

5.4.4 Forums

Besides the use of websites and platforms, the PPFs could also use various forums, such as investment conferences, as a means through which information on the pipeline of projects can easily be exchanged among the PPFs as well as disseminated to key stakeholders

²⁹ International Infrastructure Support System (IISS), <http://login.sif-iiss.org>

(potential investors and donors). This is important as the system encourages one-to-one exchange of information.

5.4.5 G20 Global Infrastructure Hub

The Global Infrastructure Hub is an initiative muted by the G20 to increase quality investment by developing a knowledge-sharing platform which addresses data gaps and develops a consolidated database of infrastructure projects connected to national databases. The role of the Hub is expected to include:

- Knowledge network: the Hub will develop an online information source of currently-financed infrastructure programmes, collect best practice materials and draw together a loose network of academics and professionals;
- Data gaps: the Hub will propose a standard set of operational data to be collected on new projects, with the OECD also proposing a research agenda for data gaps in long-term investment;
- Project database: the Hub will work with existing providers (such as the International Infrastructure Support System) to find the best possible project pipeline in a single, open source database;
- Quality of projects: the Hub will develop and promote voluntary codes on procuring quality infrastructure; and
- Capacity building: the Hub will act as a convening body between public and private sectors to promote successful actions.

5.4.6 Proposed model of sharing information (PPF Hub)

As indicated in the preceding section, developing a successful pipeline of infrastructure projects is complex and challenging, and requires key stakeholders to get many things right across the infrastructure lifecycle - from project selection, preparation and delivery through to fostering an enabling environment for investment. Increasing governments' capability in this regard, and increasing standardisation and comparability across markets, is critical to increasing private investment in infrastructure.

Although a wealth of information and support on leading practices is available globally and locally it is fragmented, often overwhelming, and is seldom integrated into real decision-making processes and practices. At the same time, there is limited quantitative data to track or benchmark the performance of projects, policies, and supporting agencies.

While several organisations are currently exploring initiatives to improve information sharing, no one organisation is addressing all necessary elements, and their distinct mandates make co-ordination difficult. One way to overcome these issues is by establishing a Project Preparation Infrastructure Hub that would collect, develop, and promote the adoption of leading practices across the infrastructure life-cycle, with the objective of increasing the pipeline of bankable infrastructure projects, improving the productivity of infrastructure investments, and accelerating the development of infrastructure as an asset class.

In order to operationalise the Hub, the network of PPFs (the PPFN) should:

- Carry out an audit of the existing pipeline of project data;
- Agree with the private sector and donors as to which areas of data are important;
- Prioritise the data gaps on the basis of a return on effort basis;
- Plan data acquisition studies to start filling the gaps;
- Agree on funding for completing the data gap; and
- Once the data gap has been completed, use current ICA Fund Finder as a basis to develop the harmonised platform for information sharing.

To this end, similar to the functionality of IISS, the envisaged Model of Sharing Information (PPF Hub) functionality will be an internet-based platform designed to promote project preparation of infrastructure and to make information available to all stakeholders.

Chapter 6

PPFs' resources and financing gap

6.1 Introduction

One of the main challenges for project preparation has been the issue of lack of adequate resources to fund various activities on project development. The ICA finds that approximately \$190 million in the active PPFs is available for project preparation. Its estimates further suggest that remaining available funds would cover another three years of project preparation, given the historic trend (ICA, 2012:11). Four years later, this study finds that US\$1.1 billion was currently available from 19 PPFs for project preparation in Africa. The huge difference in the available funds could be attributed to the difference in the sample size and time difference between the two studies. The study finds that the resources available are considerably lower when one considers the investment required to fund infrastructure in the four African RECs and the fact that between 5-10% of this total investment is required to prepare projects. This chapter discusses the financial resources required for project preparation and to bridge financing gaps.

6.2 Resources available for project preparation

For the 19 PPFs with data available, a total of US\$1.116bn uncommitted funds was available for infrastructure project preparation [ICA Fund Finder 2015 <http://www.icafrica.org/en/fund-finder/the-fund-finder/> (Accessed on 24 December 2015), and questionnaire responses]. This represents about 41% of the total size of the 19 PPFs.

Table 5: PPFs-Resources available for project preparation

	Project Preparation Facility	Facility Size US\$ Mn	Amt Cmit US\$ Mn	Amt Paid US\$ Mn	Amt Avail US\$ Mn
1	CRIDF	39.0	24.0	11.0	15
2	PIDG TAF	30.0	19.0	11.4	11
3	PPIAF	286.0	259.0	228.0	27
4	DBSA EIB Dev. Facility	7.5	0.5	-	7
5	AFD DBSA PPF	12.0	9.3	8.1	2.7
6	AWF	178.0	112.0	61.0	66
7	NEPAD IPPF	50.5	35.8	21.4	14.7
8	EU-AITF	1,076	663.4	135.1	412.6
9	GPOBA	29.5	23.9	21.5	5.6
10	The FEMIP Trust Fund	38.2	42.2	-	-4
11	DevCo Advisory	74.5	41.4	40.2	33.1
12	ACP-EU EF II	200.0	98.5	98.5	101.5
13	DBSA Dev. Fund	130.0	-	-	130
14	ACP-EU Energy Facility I	220.0	198.0	-	22
15	SADC PPDF	18.0	3.5	-	14.5
16	IIP for South Africa	120.0	-	-	120
17	Water Sanitation Program	51.2	-	46.9	51.2
18	USTDA in 2014	99.5	54.3	-	45.2
19	SEFA	90.0	49.1	-	40.9
	Total	2,749.9	1,633.9	683.1	1,116.0

Source: ICA Fund Finder 2015 (Accessed on 24 December 2015) & questionnaire responses

The resources available are also fragmented with the bulk of them concentrated among the PPFs operating at global and regional levels.

6.3 Project preparation finance resource gap

At face value, the total of US\$1.116bn might appear significant to support project preparation of infrastructure projects in Africa. However when one considers how much total investment is required to fund infrastructure projects in the four African RECs i.e., COMESA (US\$54.0bn)³⁰, EAC (between US\$50bn and US\$100bn), ECOWAS (US\$48.4bn), and SADC (US\$64bn)³¹, a total of US\$234.2 billion, it becomes apparent that the amount required to fund project preparation is huge. Assuming that project preparation costs represent approximately 10% of the total project value of investment, this would translate to US\$23.42bn as the total financial resources required to fund project preparation in Africa and in particular the four RECs. This figure dwarfs the total amount currently available among the 19 PPFs reviewed in this study. There is, in effect, a financing gap of over 95% for project preparation alone.

³⁰ COMESA Regional Key Economic Infrastructure Projects (2013)

³¹ SADC STAP (2013)

Chapter 7

Conclusion and policy recommendations

7.1 Conclusion

The preceding chapters analysed lessons learned by, and best practices of, African infrastructure Project Preparation Facilities (PPFs) by (i) assessing the work of PPFs and how these are carried out, (ii) documenting the best practices of PPFs in financing preparation of projects, (iii) carrying out an assessment of the main triggers and factors (of the success stories) as well as the lessons learnt from any failings by the PPFs, (iv) carrying out an analysis of the level of information sharing as well as developing the model framework for such sharing, and (v) assessing the level of resources available for project preparation among the identified PPFs as well as discussing the financing gap. The 19 PPFs covered in this study were included in the sample based on the availability of data on the following key areas: mandate, institutional arrangement, area of work covered, phases of project preparation supported, size of the facility, type of financing model, number of projects supported and those reaching financial closure.

The results show that, although PPFs are important and have contributed to the development of a pipeline of infrastructure projects, they lag behind in terms of meeting their developmental mandate of creating a pipeline of projects as well as contributing to bridging the financing gap of infrastructure projects. There is room for improvement in terms of best practice, capitalisation, sharing of information on pipeline of projects, and capacity of the institutions to take projects from concept development up to financial closure. Furthermore, the limited resources available and information asymmetry contribute to the low level of performance of these institutions.

By adopting best practices and sharing information on the pipeline of projects, PPFs currently operating in Africa could contribute more successfully to infrastructure development while helping to improve the development of the pipeline. For the PPFs, the main challenges that need to be tackled are to have a clear and focused mandate, resource mobilisation, capacity and political support through not only political statements but action. Equally important is the sharing of information on the pipeline of projects and, in particular, on common issues affecting them. As indicated in other chapters of this report, PPFs could contribute more effectively to infrastructure development if their capacities were enhanced.

7.2 Policy recommendations

The following recommendations focus on measures to increase the capabilities of PPFs as part of an overall strategy to improve their effectiveness.

7.2.1 Modus operandi

To ensure that the work carried out by the PPFs bears fruit, it is important that PPFs focus operations on their niche position. In addition, despite differences in the modus operandi of the facilities reviewed, it is also important that support is geared towards backing PPPs. Furthermore, in order to facilitate financial sustainability, PPFs should consider seriously offering loans and guarantees, and even taking equity in the projects they support.

7.2.2 Best practice

To improve their performance, it is important that all PPFs adopt the following key principles of success:

- Clear objectives and a focused strategy;
- A self-sustainable financing model;
- Excellence in portfolio management;
- Cost-efficient and value-added advisory services; and
- Stringent governance and accountability.

A Board of Governors or other oversight body should also ensure that these principles are included in the documents establishing the PPF.

7.2.3 Triggers, success factors and challenges

Whilst it is gratifying that PPFs are not short of triggers which have resulted in more of the projects applying for resources, it is however worrying to note that there are very few success stories among the PPFs on which lessons can be drawn. Below are some of the success factors which have contributed to PIDG's success and which members of the PPFN should make an effort to consider. These include:

- Running of the facility based on good governance principles;
- Ownership arrangements which contribute to independence of management and flexibility of operations, with shareholders that perform an administrative fiduciary function;
- Management of the facility through an outsourced contract with a private facility management company overseen by the Board;
- Resources supplemented with funding from the private sector and development banks; and
- Commercial running of the facility based on additionality, cost efficiency and value for money.

7.2.4 Challenges

To help ensure that the PPFs succeed, they need to work hard to mitigate the identified challenges. This should be carried out through:

- The PPFN developing a framework on resource mobilisation based on either (a) "Social Business model" and simple at-cost recovery for preparation expenses only or (b) a "venture capital model" that requires either recovery-plus-return (a margin), or involves an underlying equity stake in the project, expecting preparation-cost recovery with variable margins;
- Reviewing the mandates of PPFs, to streamline them in line with the available resources;
- The merging or consolidation of small fragmented PPFs. This would lead to the better management and rationalisation of limited resources to support project preparation;
- The development by the PPFs of clear strategies (with support from the ICA and its members); and

- The streamlining of PPF operations, in order to avoid or reduce bureaucratic and lengthy processes.

7.2.5 Current levels of information sharing

A quick scan of the PPFs analysed in this study shows that the level of exchange of information is not as limited as originally envisaged, as most of the PPFs have been sharing the pipeline of their projects through their various websites and databases. The problem, however, is that the model of information sharing among the PPFs, donors, MDBs, and the private sector is fragmented and lacks detail.

Most of the information shared related to the title of the project, sponsor, component of the project being funded, budget allocated, and status. In the case of the ICA platform, information on various research programmes is also shared among the PPFs. Fund finder is also a good initiative through which potential sponsors of project preparation can find the potential source of funding among the PPFs. Based on this, members of the PPFN should consider adopting the Proposed Model Framework on Information Sharing (Project Preparation Facilities Hub).

In addition to the proposed PPF Hub, the PPFN should also consider introducing an annual investment forum through which PPFN members, donors, and the private sector could meet to exchange information and share ideas on issues of common interest.

The network should also adopt the common template which could be used by all members to populate information of the project. For more details on the proposed template see Annex 2.

7.3 Action plan

The Project Preparation Facilities which are currently operating in Africa have not performed well in meeting their mandates. As indicated in the preceding sections, the poor performance of these facilities can be attributed to a number of factors:

- Bureaucratic and lengthy processes;
- Lack of clear and focused objectives;
- Lack of self-sustainable financial models;
- Lack of cost-efficient and value additional advisory services.

In additio, the operational modalities of the facilities are fragmented and they also lack a harmonised framework on information sharin.

Based on the above problems and the findings of the study, the action plan in Table 6, Annex 3, foresees a situation where the mandates of the PPFs are clarified and governance enhance. This would serve to assist the PPFs to leverage other private sector resources and recapitalise and enhance their operations within the framework of a well-structured system.

Annex 1

Project Preparation Facilities currently operating in Africa

Tables 1A and 1B provide a summary of a selection of the key project preparation facilities operating in Africa. The table focuses on facilities that support projects in the four main infrastructure sectors.

Table 1A. Project Preparation Facilities

Facility name	Description	Focus area						Hosted by	Business Model based on.	Size in US\$ Mn	Sector	Geography
		1	2	3	4	5	6					
Climate Resilient Infrastructure Development Facility (CRIDF) http://www.southsouthnorth.org/climate-resilient-infrastructure-development-facility-cridf/	Champions climate resilience by catalyzing and mobilizing a range of projects that increase the ability of communities, policymakers and planners to predict, manage and mitigate climate extremes.	x	x	x	x	x	x	Implementing Agency	Grant	38.0	Infrastructure, and water and sanitation	SADC
PIDG Technical Assistance Fund http://www.pidg.org/	Builds local capacities and the ability of public and private sector clients to attract private capital to infrastructure financing.	x	x	x	x	x	x	PIDG	Grant (Linked), and Co-financing from both private and public is encouraged	30.0	All sectors	Global
Public-Private Infrastructure Advisory Facility (PPAIF) http://www.ppiaf.org/	Provides technical assistance to governments on strategies and measures to tap potential of private involvement in infrastructure, and identifies and disseminates best practices.	x	x	x				World Bank	Grant (Unlinked), and co-financing from the recipient government and other sources is encouraged	286.0	All sectors	DAC and all recipient countries
Development Bank of Southern Africa / EIB Project Development and Support Facility http://www.dbsa.org/	Aims to advance preparation, implementation and operation, and promote sustainability, of viable projects.	x	x	x				DBSA	Grant	7.5	Transport, and water and sanitation	South Africa
AFD DBSA PPF http://www.dbsa.org	Main goal is to: (a) promote partnership between AFD and DBSA, but also with others	x	x	x	x	x	x	DBSA	Grant	12.0	All sector	Africa

	investors, (b) finance NEPAD projects, and (c) enable the implementation of NEPAD Projects												
African Water Facility http://www.afdb.org/awf/en/	Initiative to mobilize resources to finance	x	x	x			x	AfDB and African Ministers' Council on water	Cost contribution	178.0	Water and Sanitation	Africa only	
NEPAD IPPF http://www.nepad.org/	Assist preparation of high quality, viable regional infrastructure projects			x	x	x		African Development Bank	Cost contribution	14.7	All sectors	Africa	
EU-AITF www.eu-africa-infrastructure-tf.net/	Aims to increase investment in infrastructure in Sub-Saharan Africa by blending long term loans from participating financiers with grant resources.		x	x	x	x	x	European Investment Bank	Grant	1,076.3	All sectors	Africa	
Global Partnership for Output-Based Aid http://www.gpoba.org/	Increases access to basic infrastructure and services through output based Aid	x	x	x	x	x		World Bank	Grant (Linked), Co-financing	286.0	All sectors	Global	
FEMIP Trust Fund http://www.eib.org/	Supports activities up stream of projects such as policy, legal, regulatory and institutional reform, sector development	x	x					European Investment Bank	Grant (Linked)	38.0	All sectors	FEMIP Mediterranean partner countries	
DevCo Advisory http://www.ifc.org/ifcext/psa.nsf/content/Devco	Supports transactions in the poorest nations to increase private sector involvement in infrastructure services		x	x	x	x		IFC	Grant (Linked), and reflows	74.5	All sectors	Poorest nations by DAC classification	
ACP-EU Energy Facility I http://energyfacilitymonitoring.eu/	Provide affordable, accessible energy for the African, Caribbean and Pacific region	x	x	x	x	x	x	European Commission	Grant (Unlinked)	220.0	Energy	African, Caribbean and Pacific	
Development Bank of Southern Africa Development Fund http://www.dbsa.org/	Aims to address human institutional and financial capacity constraints to rural and urban development	x	x	x				DBSA	Grant (Linked)	130.0	Transport, and water and sanitation	South Africa	
ACP-EU Energy Facility II http://energyfacilitymonitoring.eu/	Provide affordable, accessible energy for the African, Caribbean and Pacific region	x	x	x	x	x	x	European Commission	Grant (Unlinked)	200.0	Energy	African, Caribbean and Pacific	
Southern Africa Development Community Project Preparation Development Facility (SADC	Provide technical assistance in infrastructure project identification, preparation and	x	x	x	x	x		DBSA	Grant	18.2	All sectors	SADC Member States	

PPDF) http://www.dbsa.org	feasibility studies with a view to presenting bankable projects to investors and lenders.												
Infrastructure Investment Programme for South Africa (IIPSA) http://www.dbsa.org	Support the implementation of the government's infrastructure programme and address the constraints to infrastructure development in South Africa and in the Southern African Development Community (SADC) Region.		x	x	x	x	x	x	DBSA	Grant	120	All sectors	South Africa
The Water and Sanitation Programme http://www.wsp.org/	Gives impartial advice to governments on improving access to water and sanitation facilities	x	x	x	x	x	x	World Bank	Grant (Linked)	51.2	Water and sanitation	All except for ECA	
U.S. Trade and Development Agency http://www.ustda.gov/	Supports project preparation and partnership building activities that assists with the development of sustainable infrastructure in emerging markets.	x	x	x	x	x	x	US Trade and Development Agency (Standalone)	Grant and also has success fee program which is restricted	99.5	General infrastructure, Energy, Transport, and ICT	Global	
Sustainable Energy Fund for Africa http://www.afdb.org/	Facilitate Project Preparation for Small and Middle size private sector projects in Renewable Energy and Energy Efficiency	x	x	x	x	x	x	AfDB	Grant and Equity (cost contribution)	90.0	Renewable Energy (RE) and Energy Efficiency (EE)	Africa	

Source: ICA and PPIAF, User Guide (2006), Questionnaires, Annual Reports, and data bases.

Table 1B. Project preparation facilities

<i>Facility name</i>	<i>Relevancy</i>	<i>Effectiveness</i>	<i>Efficiency</i>		<i>Adequacy</i>		<i>Sustainable</i>
			<i>Ratio of Mgt, cost to commitments</i>	<i>Time it takes for project to reach financial close</i>	<i>Finance</i>	<i>Human</i>	
Climate Resilience Infrastructure Development Facility (CRIDF) http://www.southsouthnorth.org/climate-resilient-infrastructure-development-facility-cridf/	Supports SADC actions or projects that better enable people – particularly the poor – to predict, manage, or mitigate the impacts of extreme climate events through the delivery and improved operation of infrastructure interventions.	Has successfully closed 28% of projects	-	Approximately 4 projects per year	No	No	No capacity to self-finance
PIDG Technical Assistance Fund http://www.pidg.org/	Provides funding to the PIDG facilities, to support capacity building and help scope potential investment opportunities.	Has successfully closed 50% of projects	-	Approximately 4 projects per year	Yes	Yes	No capacity to self-finance
Public–Private Infrastructure Advisory Facility (PPIAF) http://www.ppiaf.org/	Focused on public and PPP regional projects, and PIDA priority projects	Has successfully closed 8.6% of projects	Allowed up to 15% management fee	Approximately 14 projects per year	Yes	Yes	No capacity to self-finance
Development Bank of Southern Africa / EIB Project Development and Support Facility http://www.dbsa.org/	Aims to advance preparation, implementation and operation, and promote sustainability, of viable projects.	Has successfully closed 0% of projects	-	Nil	No	No-but could draw on experience of DBSA and EIB teams	No capacity to self-finance
AFD DBSA PPF http://www.dbsa.org/	Providing grants to Promoters to advance preparation studies and other studies for eligibility; Priority projects that have a high probability of implementation and attracting financing	Has successfully closed 30% of projects	-	Nil	No	No-but can draw on experience of DBSA	No capacity to self-finance.
African Water Facility http://www.afdb.org/awf/en/	Support mobilization of resources for water and sanitation in Africa by contributing to the	Has successfully closed 30.6% of projects	-	Approximately 2 projects per year	Yes	Yes	Currently no capacity to self-finance, but has capacity to do so due to its reflow

	improvement of water resources governance, increasing water wisdom, meeting urgent water needs and strengthening the financial base for the desired water future.						
NEPAD IPPF http://www.nepad.org/	Support African countries, Regional Economic Communities (RECs) and related infrastructure development institutions, to prepare high quality, viable regional infrastructure projects in energy, trans boundary water resource management, transport, and ICTs, which can solicit financing from public and private sources	Has successfully closed 49.2% of projects	24.5%	Approximately 3 projects per year	No-relative to mandate	Relative to challenge No	Currently no capacity to self-finance, but has capacity to do so due to its reflow
EU-AITF	Main objective is to support the achievement of strategic objectives of the EU-Africa Infrastructure Partnership through targeted funding to bridge the infrastructure gap in sub-Saharan Africa	Has successfully closed 61.4% of projects	4%	Approximately 6 projects per year	N/A	N/A	No capacity to self-finance (not designed to be sustainable).
Global Partnership for Output-Based Aid http://www.gpoba.org/	Provide increased access to reliable basic infrastructure and social services to the poor in developing countries through the wider use of Output Based Aid (OBA) approaches.	Has successfully closed 46.9% of projects	-	Approximately 5 projects per year	-	-	No capacity to self-finance, however co-financing is accepted
FEMIP Trust Fund http://www.eib.org/	Support private sector development via the financing of studies and technical assistance measures and the provision of private equity in the Mediterranean Partner Countries of the EU.	Has successfully closed 0% of projects		Nil	-	-	No capacity to self-finance

DevCo Advisory http://www.ifc.org/ifcext/psa.nsf/content/Devco	Supports infrastructure transactions in the poorest countries by providing funding for expert consultants to prepare projects for private investment.	Has successfully closed 62.3% of projects	DevCo's expense-to-commitments ratio is average compared With other PPFs	Approximately 3 projects per year	Yes-has access to sufficient funding and can draw on additional TA funds from PIDG TAF.	Yes –has strong in-house team of transaction advisors.	Approximately 6% of resources sourced from profits and reflows back to the facility (could be sustainable)
ACP-EU Energy Facility I	Contribute to the increased access of adequate, affordable, sustainable energy services to the poor in economically and socially disadvantaged areas.	Has successfully closed 0% of projects	-	Nil	No-relative to its mandate	No-relative to its challenge	No capacity to self-finance
Development Bank of Southern Africa Development Fund http://www.dbsa.org/	Aims to address human institutional and financial capacity constraints to rural and urban development	Has successfully closed 0% of projects	-	Nil	No-relative to its mandate	No-but can draw on experience of DBSA	No capacity to self-finance
ACP-EU Energy Facility II	Established with the aim to co-finance projects on increasing access to modern and sustainable energy services for the poor in African, Caribbean and Pacific (ACP) countries, especially in rural and peri-urban areas.	Has successfully closed 0% of projects	-	Nil	No-relative to its mandate	No-relative to its challenge	No capacity to self-finance
Southern Africa Development Community Project Preparation Development Facility (SADC PPDF)	Provide technical assistance in infrastructure project identification, preparation and feasibility studies with a view to making the projects bankable and attractive to investors.	Has successfully closed 0% of projects	Mgt fee is 10% of which 51.4% ratio is for committed funds.	Nil	No-relative to its mandate	No-but can draw on experience of DBSA	No capacity to self-finance
Infrastructure Investment Programme for South Africa (IIPSA)	The main purpose is to contribute to the promotion of essential infrastructure investments in South Africa and in the SADC Region in various sectors, which serve the needs of the final	Has successfully closed 0% of projects	-	Nil	No-relative to its mandate	No-but can draw on experience of DBSA	No capacity to self-finance

	beneficiaries, while promoting sustainable growth and action on climate change						
The Water and Sanitation Programme http://www.wsp.org/	Support poor people in obtaining affordable, safe, and sustainable access to water and sanitation services.	Has successfully closed 0% of projects	-	-	-	No-but can draw on experience of WB	No capacity to self-finance
U.S. Trade and Development Agency http://www.ustda.gov/	Main purpose is to help build the infrastructure for trade, match U.S. technological expertise with overseas development needs, and help create lasting business partnerships between the United States and emerging economies.	Has successfully closed 51% of projects	In 2015 Mgt fee was 23%	Approximately 60 projects per year	No	No- but contracts out the technical project work	Though facility does not recover cost, does have capacity to sustain itself
Sustainable Energy Fund for Africa http://www.afdb.org/	Support sustainable private-sector led economic growth in African countries through the efficient utilization of presently untapped clean energy resources	Has successfully closed 0% of projects	Mgt fee stands at 8.2%	Nil	Yes	No-but can draw on experience of the Bank	Though facility does not recover cost, does have capacity to sustain itself

Source: ICA and PPIAF, User Guide (2006), Questionnaires, Annual Reports, and data base

Notes:

- All 19 PPFs carry out activities which are relevant to infrastructure project development, but the extent to which the strategies of these facilities are linked to those of countries and RECs is not clear.
- Six of the PPFs have developed projects which have reached financial close of between 47% and 62%.
- With the exception of EU-AITF which has a 4% management fee to the total capital, most of the facilities on which data was available had relatively high management fee rates.
- Only nine of the PPFs were able to develop at least one bankable project per year.
- Only six of the PPFs were found to have adequate financial resources, while four had adequate human resources for project preparation.
- Although all the PPFs analysed in this study are not financially sustainable, five of the facilities do have the capacity to sustain themselves.

Annex 2

Template for information sharing

In order to facilitate information sharing on the pipeline of projects, this template could serve as a basis for populating critical information which might be valuable to all key stakeholders.

<ul style="list-style-type: none">○ Title of Project
Name of the project e.g. Kazungula bridge
<ul style="list-style-type: none">○ Project Summary
Brief description of the project; this should include the objectives and what it intends to achieve.
<ul style="list-style-type: none">○ Project Location
Clearly state where the project is located e.g., Development Bank and country
<ul style="list-style-type: none">○ Project Value
State the actual investment value of the project in US\$
<ul style="list-style-type: none">○ Project Status
Clearly state the current status of the project e.g. is it still at the stage of sourcing funds, phase 1, 2, or 4?
<ul style="list-style-type: none">○ Existing Partners and Commitments
State the parties which have committed to the project. For instance it could be two PPFs should have committed to the project to finance activities of phase 1 and 2 only.
<ul style="list-style-type: none">○ Request from Additional Partners for the following work
<ul style="list-style-type: none">• Development partners - strategic investment• Off-take agreements - technology packages/ license agreements
<ul style="list-style-type: none">○ Responsible Institution
PPIA or PIDG and their phone numbers
<ul style="list-style-type: none">○ Contact Details
Indicate the name, position, phone number, and email address

Annex 3:

Table 6: Action plan for PPFs

	Objective	Activity	Output	Responsibility
1	Strengthen Corporate Governance of PPFs	<ul style="list-style-type: none"> • PPFs and governments develop common guidelines. • Promote broader ownership of PPFs to include strategic partners such as investment banks and recipient countries. 	<ul style="list-style-type: none"> • Model guidelines for PPFs on the ownership structure and broad charter developed and adopted by member states 	Member state, PPFN
2	Enhance effectiveness of PPFs in achieving their mandates and objectives.	<ul style="list-style-type: none"> • Review mandate and role of the PPFs regularly • Develop an integrated planning and performance management framework for PPFs 	<ul style="list-style-type: none"> • Mandate and roles of PPFs reviewed and harmonised. • Model framework for performance measurement of PPFs developed 	Member state, PPFN Member state, PPFN
3	Improve resource mobilisation and capitalisation of the PPFs	<ul style="list-style-type: none"> • Develop a model framework which will ensure adequate funding for PPFs' operations. • Cost recovery model should also be formulated and introduced to all PPFs. 	<ul style="list-style-type: none"> • Funding model of PPFs developed. • Cost recovery model formulated and established. • Pricing model for members of PPFN developed and adopted by PPFs. 	Member state, PPFN Member state, PPFN Member state, PPFN

4	Facilitate development of a harmonised and coordinated framework for PPFs on the sharing of information on pipeline of projects	<ul style="list-style-type: none"> • Develop a framework for PPFN on the sharing of information. 	<ul style="list-style-type: none"> • Conduct an audit of the existing pipeline of project data. • Develop a harmonised platform for information sharing on pipeline of projects 	<p>PPFN, ICA</p> <p>PPFN, ICA</p>
5	Improve financial performance, and operational and management efficiency of PPFs.	<ul style="list-style-type: none"> • Develop common guidelines for the PPFs. • M&E framework developed. 	<ul style="list-style-type: none"> • Common guidelines developed and adopted by PPFN members • PPF M&E framework developed 	<p>PPFN, ICA/member countries</p> <p>Member state, donors & PPFN</p>
6	Best practices for PPFs	<ul style="list-style-type: none"> • Develop common guidelines for the members of PPFN. 	<ul style="list-style-type: none"> • Common guidelines on best practices developed and adopted by PPFN members. 	<p>PPFN, ICA/Member countries</p>
7	Capacity building support to PPFs	<ul style="list-style-type: none"> • Capacitate PPF officials in key areas of project preparation. • Set up research and development functions. • Develop collaboration and exchange programmes for PPFs' officials 	<ul style="list-style-type: none"> • Specific programmes on governance, risk management, project development etc. • Research units put in place by the PPFs • MoUs between PPFs 	<p>PPFN, ICA/Member</p>

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