Tunnels of Funds

Overview of the Assessment of Project Preparation Facilities for Infrastructure in Africa

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

Sponsors of the Assessment

The Infrastructure Consortium for Africa helps improve the lives and economic well-being of Africa's people through encouraging, supporting and promoting increased investment in infrastructure in Africa, from both public and private sources. The Assessment of Project Preparation Facilities for Africa was commissioned by the Secretariat of the Infrastructure Consortium for Africa (ICA) and funded by a grant from the ICA Trust Fund (see page 9 for details of the full assessment).

The assessment forms part of the Infrastructure Action Plan prepared by the Multilateral Development Bank Working Group on Infrastructure for the G20. It also responds directly to the G20 High Level Panel on Infrastructure (October 2011), which recommended that 'the size and range of project preparation facilities should be reviewed, with the view to restructuring them on a more sustainable basis including the provision of additional resources if needed. Greater emphasis should also be placed on the ability to recover the costs of project preparation. This would allow grants and public funding to be used more selectively and effectively.'

This overview, prepared by the ICA, is drawn from the independent assessment prepared and led by Cambridge Economic Policy Associates (CEPA), a London-based economic and finance advisory firm (www.cepa.co.uk), in association with Nodalis Conseil, a French consultancy firm specialising in the development and management of infrastructure, utilities and public services (www.nodalis.fr). While care has been taken to ensure the accuracy of the information in this assessment, CEPA makes no representations, warranties or covenants with respect to its accuracy or validity.

Infrastructure Consortium for Africa
www.icafrica.org/
November 2012

Overview of the assessment of project preparation facilities for infrastructure in Africa

Africa's considerable infrastructure gap must be addressed if the continent is to sustain its high rates of economic growth. One main bottleneck for infrastructure in Africa is the availability of long-term debt finance, where the needs are substantial. But another is the lack of well-packaged bankable projects. Project preparation facilities (PPFs) for infrastructure are thus an essential part of the broader project preparation landscape.

The road ahead is less than smooth. The international credit environment is tight, especially for long-term debt to finance infrastructure. And most traditional G20 donors that have funded PPFs, largely with grants, face tighter budgets. So more of the burden of funding project preparation will likely fall on African governments, cost-recovery mechanisms – and on new sources from other G20 countries.

Not much has been known, however, about PPFs for African infrastructure – except that they face great challenges of reconciling different national legal systems and approaches, different international agreements and regulations, and huge requirements for human and financial resources.

That is why the G20 asked the Infrastructure Consortium for Africa (ICA) to assess the state of infrastructure PPFs for Africa, particularly with a focus on public-private partnerships (PPPs), private sector projects and large transformative regional projects.

The Assessment of Project Preparation Facilities for Africa sheds considerable light, more systematically than ever before, on the project preparation space and what it means for the future of African infrastructure.

Few PPFs focus on African infrastructure, most of them for later stages in the project cycle

Of 67 identified potential and so-called project preparation facilities, only 17 really focus on infrastructure projects in Africa, and only 12 are active.

Diverse in their focus on different types of projects and support to different project cycle activities, the majority of these main PPFs are far from homogenous. Most focus on later stage project cycle activities, where there is a good alignment with the operations and capabilities of most host institutions.

By contrast, support for early stage project origination is more limited and far from systematic.

Early stage support focusses on identifying and working up different project concepts and determining the elements of the enabling environment that need to be in place for the project to obtain financing. The later phases involve the more detailed technical design, financial and legal structuring, environmental and other impact assessments and execution of the project (Table 1).

TABLE 1 PROJECT CYCLE PROCESSES, ACTIVITIES AND KEY OUTPUTS

PROJECT CYCLE PHASES	PROCESSES	DETAILED ACTIVITIES	EXAMPLES OF REQUIRED OUTPUTS
Early stage Concept development	Project identification and concept development	Sector planning, project identification and screening	Sector policy papers Project concept notes Prefeasibility reports
	Establishing the enabling environment	Identifying legal / regulatory / institutional and other impediments and rectifying them	Laws Regulations Allocation of responsibilities
Mid to late stage Feasibility, structuring and transacting	Due diligence	Detailed financial, legal, engineering, environmental and social appraisals	Reports that validate and develop concept further
	Project structuring	Detailed financial and legal structuring	Financial models Legal documentation
	Marketing	Promotion of the project and assessment of private sector interest	Detailed project description / information memorandum Road shows / conferences
	Transacting	Procuring and negotiating project documentation	Bid documentation Signed, negotiated project documentation

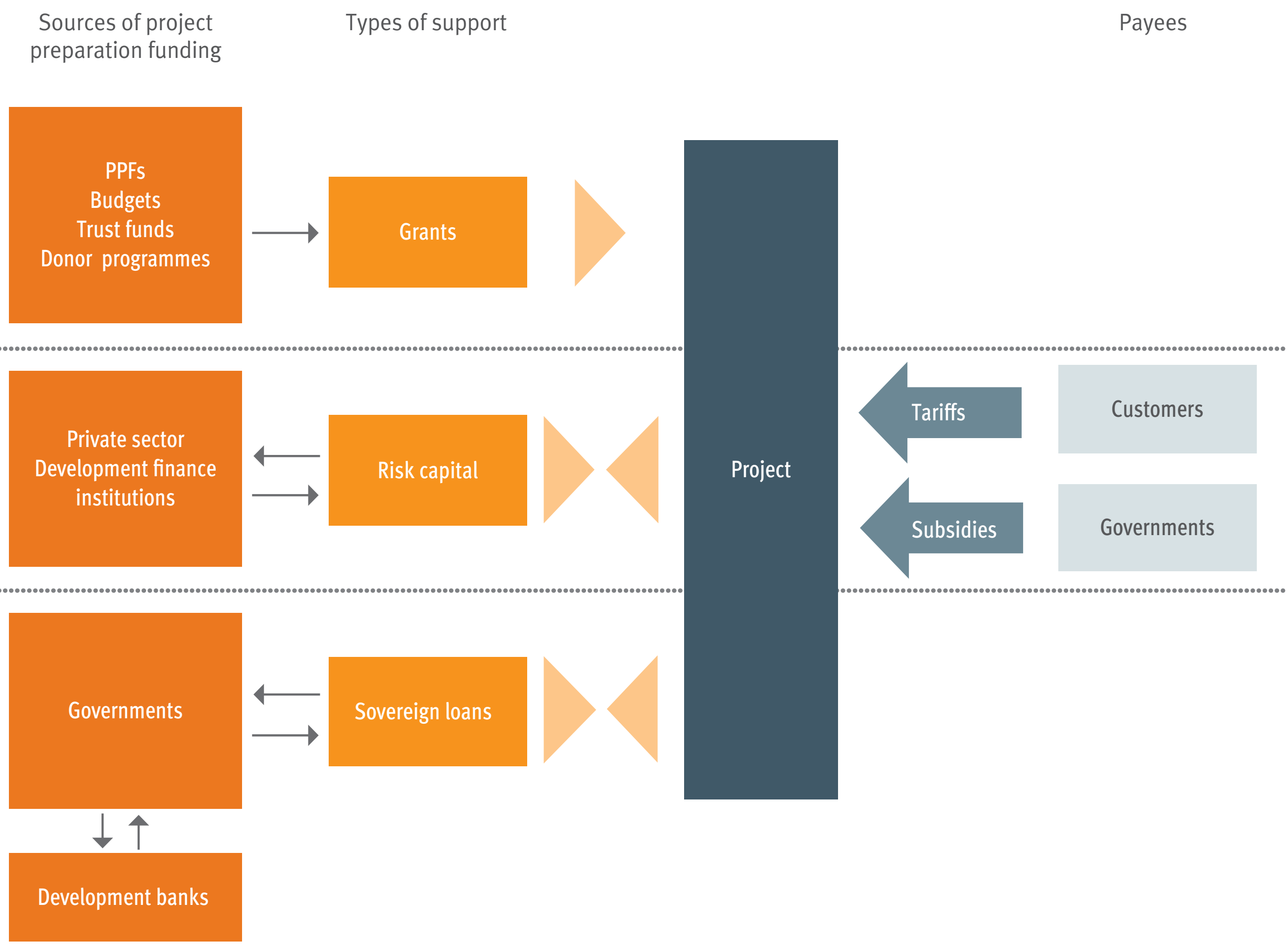
PPFs are part of a broader project preparation financing landscape

The provision of support by different PPFs to early, mid and later phases of the project development cycle has become known as the ‘tunnel of funds’ approach to project preparation.

PPFs are just one source of funding for project preparation (Figure 1). Other important sources include the development funds of the multilateral development banks (MDBs) and European Commission, MDB loans, development agency–funded programmes, national budgets, bilateral trust funds held at MDBs, and the private sector. Of the total, PPFs are likely to account for perhaps 20–30%.

Task managers at MDBs typically draw on several sources to fund project preparation, not just the PPF that the MDB hosts.

FIGURE 1 SOURCES OF FINANCIAL RESOURCES FOR PROJECT PREPARATION



Funding for PPFs rose considerably from 2005 to 2010, but appears now to be declining

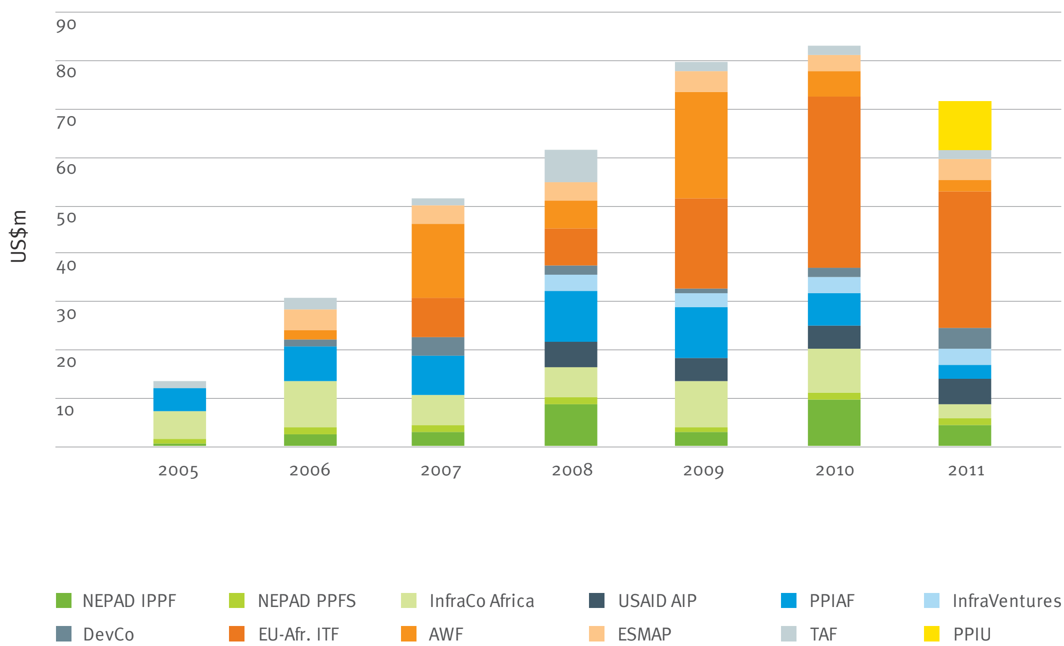
The value of commitments from PPFs to project cycle activities in Africa grew from just over US$10m in 2005 to over US$80m in 2010, reflecting international policy focussing donor attention on African infrastructure in the wake of the 2005 Gleneagles summit (Figure 2). Spending peaked in 2009–2010, with a drop back in 2011 to 2008 levels. This may reflect the delayed impact of reduced donor spending commitments in the wake of the financial crisis. (Please keep in mind that the data are far from complete and comparable.)

The EU-AITF has dominated since its formation in 2007, committing an estimated US$35.5m to project preparation in 2010 alone. The PPIAF maintained a steady flow of annual commitments of around US$8m through 2011. The AWF committed close to US$22m at its peak in 2009. And InfraCo Africa committed about US$7m annually over the period.

The PPIAF has committed close to US$40m on project-specific support, but it is by and large the only major source of funding for government-originated PPPs. Of all project-specific funding, only about one-quarter has been committed to private sector–originated projects (by InfraCo and InfraVentures), covering relatively few projects. USAID AIP, though proportionately small, is the main source of funds for governments in directly negotiated transactions, with its support limited to the energy sector.

The 17 core facilities have about US$190m yet to be committed to infrastructure projects. These funds are widely distributed among facilities. Based on previous trends, that is roughly enough to support about three years of activity. Put another way, it is enough to provide project preparation to one US$4bn transformative project, if project preparation costs are assumed modestly at 5% of the total project value.

FIGURE 2 ESTIMATED ANNUAL FLOWS BY PPF, 2005–2011



Gaps in project preparation are wide for private sector projects, for transformative regional projects and for early stage PPPs

The study mapped the support provided by different PPFs for different phases of the project cycle against different types of infrastructure project (Figure 3).

There are two gaps in support for private sector–originated projects: for governments negotiating with sole-sourced private sector sponsors, and for private sector sponsors who have obtained the rights to develop projects and have undertaken early stage development work at their own risk.

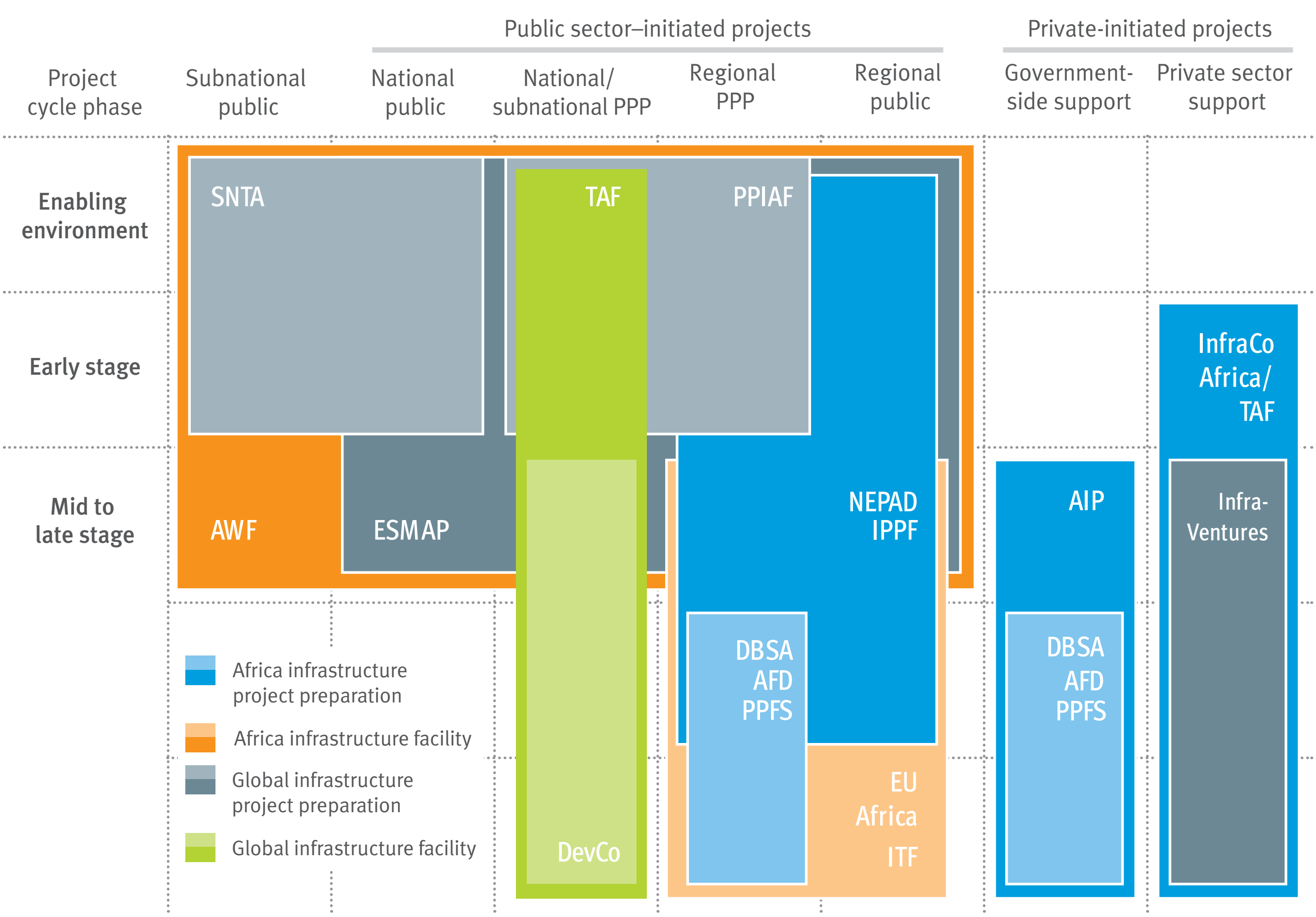
The first gap is major, given that a significant number of PPPs in Africa are initiated in this way, due in part to the limited ability of public sectors to develop bankable projects. Arguably, therefore, the ability of government to draw down on funds to allow it to be properly advised would be useful.

Private developers wishing to raise third-party donor support are, on the whole, limited to working in joint ventures with entities such as InfraCo Africa and InfraVentures. This may not be a bad thing for developers that lack the competencies to take a project to market. But other developers may lack not the competency but just the financing to do so.

Transformative projects – those of US$1bn or more – are largely in the power and transport sectors. They include hydropower and the connecting high-voltage transmission projects, as well as transport corridors – road, rail and ports. These projects, typically with cross-border dependencies, make them regional. Given their scale and complexity, they have significantly greater project preparation requirements across the project cycle than most projects.

The preparation of such projects currently is greatly under-resourced. Task managers in institutions seeking to support such initiatives spend considerable effort tracking down different sources of funding to take such projects forward. And under-resourced project preparation leads to delays and misfires and eventually higher investment costs.

FIGURE 3 MAPPING OF KEY PPFS



PPFs could be more relevant and effective if co-ordinated through a tunnel of funds approach – but to deliver they must go beyond mere co-ordination

While it is often possible to raise project preparation funding from a range of different sources, this is ad hoc at best; support needs to be much more systematic as well as more comprehensive, especially if large projects are to be brought to financial close more quickly.

To be more efficient and effective, there needs to be much more co-ordination among PPFs and their hosting institutions around a tunnel of funds approach, involving greater sharing of information and more co-operative behaviour based on demonstrated success factors and best practice (Table 2). PPFs also need to interface with other aspects of the donor architecture, including development fund resources. This is especially so for large transformative projects, which cannot be developed solely by PPF resources. For such projects, PPF funds should facilitate initial project development activities with such other resources used for much of the 'heavy lifting'.

PPFs closely integrated into host MDB operations, focussed mainly on later stage support, should be able to operate efficiently with fairly lean management structures.

While the scale of their resources on each project may need to be considerable, this should be provided, at a minimum, in the form of redeemable grants, which can be repaid by projects at financial close, so that scarce flexible funding can be recycled.

PPFs that are more open and focussed on early stage support need implementing capabilities consistent with this role. The fact that management resources for these activities need to be proportionately larger relative to total funding than with MDB-integrated PPFs focussed on later stage support suggests that there should be only a small number of such PPFs. But they should have an open access policy for execution, including that by other MDBs and donor agencies.

Regional economic community (REC)–based PPFs would likely be more efficient if focussed on specific priority initiatives (such as transport corridors) rather than being generic facilities. They would form the links between RECs, national governments responsible for execution and project financiers.

TABLE 2 PPF SUCCESS FACTORS / BEST PRACTICE

TYPE OF PPF MODEL	KEY FEATURES	SUCCESSES	ISSUES	REQUIREMENT FOR SUCCESS / BEST PRACTICE
MDB-integrated (e.g. EU-AITF; DevCo; EIB-DBSA; AFD-DBSA)	Exclusive use by hosting entity Largely focused on later stage activities (closer to financing)	Later stage, systematic support Links to financing	Addressing up front project cycle requirements not popular with hosting entity Lack of recovery of grant resource	Low-cost implementation needs to be linked to access to strong execution skills
MDB-hosted (e.g. PPIAF; NEPAD IPPF; AWF)	Execution by third parties	Strong engagement with recipients	Lack of implementing capacity / lack of cost-effectiveness Poor execution / project sponsorship	Strong implementing capability to engage with clients Better use of hosting organisation's task managers (where available) as well as qualified third party resources
REC-hosted (e.g. SADC; ECOWAS; PPIU)	REC is the hosting entity	Limited to date	Lack of required implementing skills, combined with poor execution	Clear focus on a limited set of activities Access to sources of project finance
Outsourced (InfraCo Africa; USAID AIP)	Execution undertaken by third party entity	Market-based incentive structures	Access to investment and late stage capital	Access to finance and expertise, for both later stage activities and to reach financial close

PPFs should focus on specific activities and change their business models to meet market demand

PPFs will need to operate, to a greater or lesser extent, while recognising the priority objectives of African national and regional governments. The Programme of Infrastructure Development for Africa's Priority Action Plan (PIDA PAP), with its 51 regional projects and programmes, presents a major future challenge from a project preparation perspective, which goes well beyond the resources of the existing PPFs. Their project preparation requirements will largely need to be funded by mainstream IDA, EDF and ADF resources, as well as by budgetary support from African regional and national governments.

The key questions are how these challenges can be addressed using the existing PPFs and other tools, and what needs to change to improve effectiveness. A further question is how future support is to be funded, given the constraints facing the budgets of many traditional donors.

The conclusion is that better focus and co-ordination, along with other themes of greater transparency and openness, are the best approach, with a 'run-down' of resources by existing PPFs. For future funding, however, there should be no replenishing of any PPF or setting up of new ones in the absence of a strong case for doing so. This should take into account conformity with the best practice for different PPF models.

With gaps identified in several areas, the initial focus should be on trying to address them through working with several of the key existing PPFs, which should become the main focus of future funding. In particular, it is important that there is a concentration of resources on a limited number of PPFs providing early stage support, because of the proportionately higher management cost requirement.

These focussed PPFs would cover the main current and future support requirements (Table 3). But they will need either to alter (typically focus) their activities or in some cases to change and improve their operations. This would include leadership and syndication support. Greater specialisation would create greater interdependencies for most facilities and a consequent need to co-ordinate better in a tunnel of funds.

It is clearly preferable to work with existing institutions as far as possible, but if the foregoing recommendations fail to deliver the desired results within an acceptable timescale, for whatever reasons, other options will need to be considered. These would include creating a new entity—or transforming an existing facility—that could address the gaps not covered by existing entities, as well as providing wholesale or co-funding to other successful PPFs.

TABLE 3 FOCUSSED PPFS

AREAS OF FOCUS, INCLUDING ADDRESSING GAPS / LACK OF COVERAGE	CORE FACILITIES AND ACTIONS NEEDED
Screening public sector regional projects to establish best sequencing and initial project development activities	**IPPF**: but requires a significant overhaul / transformation into a strategic management unit to be more effective in this role
Public sector origination of PPP projects / addressing project-specific enabling environment issues	**PPIAF**: but requires a greater on-the-ground African presence
Developing private sector–originated projects	**InfraCo Africa**: ideally requires an ability to work directly with project developers
Providing later phase support for regional projects	**EU-AITF**: as is, but potentially greater use of redeemable grants, particularly for PPPs
Supporting public sector on sole-sourced projects	**DEVCo**: but consider PPIAF if IFC unwilling to do so, or new facility
Implementing capacity for specific regional projects	Restructure REC funds as **Initiative Implementing Units** (IIUs)

The G20, the ICA, African stakeholders and private lenders and investors should share responsibility for moving project development and PPF reforms forward

Many recommendations – particularly those involving significant changes in behaviour – may go to the heart of not only individual PPFs, but often their host institutions' business models. To facilitate meaningful engagement and to deliver positive outcomes, a high degree of sponsorship by individuals with the influence and power to engage with the relevant institutions will be required.

Given the diversity and fragmentation of PPFs, a PPF Network could, at fairly limited cost, formalize the relationships between them. Based in Africa, it would include global, regional, national and sub-regional facilities as appropriate. The ICA is well placed to help move this agenda forward in partnership with other stakeholders.

In addition to establishing a PPF Network, a potential mechanism would be to turn the existing Reference Group of key donors from the study, together with key African stakeholders and interested partners in the G20 and private sector, into an implementation Task Force, supported by the ICA Secretariat. Sequentially, this task force would agree on funding for the informational measures recommended and for establishing the PPF Network, which would be the main implementing vehicle for many of the informational and behavioural actions (Table 4). It would also take the lead responsibility for structural actions, specifically those of the main focussed PPFs.

PPF Network Working Groups could be established to deal with specific behavioural issues. The process could also lead to re-engagement with the High Level Panel as an advisory group or sounding board for ideas. Individual PPFs would also need to be engaged, to the extent that they would be affected by the proposed changes. Individual Task Force members would need to act as a conduit to the specific PPFs either housed within their institutions or funded by them.

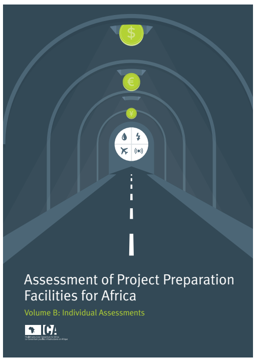
TABLE 4 SUMMARY OF RECOMMENDATIONS

CATEGORY / RESPONSIBILITY	RECOMMENDATIONS
Informational (ICA Secretariat to take forward)	Capture PPF cost, performance and other data more systematically Investigate the role of other sources of project preparation funding Set up a PPF Network (PPFN) to assist implementation of recommendations
Behavioural (PPFN to lead delivery)	Greater syndication of PPF funds to increase reach – avoids needs for costly restructuring Allow execution by third parties so grant funds flow where they are most needed Greater use of redeemable grants to assist recovery of mid-to-late stage support to improve the sustainability of PPFs focusing on these activities
Structural (Expanded Reference Group, including G20 Members as appropriate)	Re-focus REC-based PPFs on specific initiatives (e.g. transport corridors) rather than running 'generic' PPFs, which lack the scale to be effective Support for transformative projects: PPFs should provide flexible, quick draw-down catalytic support for large regional projects, in advance of ADF / EDF / IDA resources Initially seek to deepen resourcing and address gaps through selected leading / focus PPFs, rather than creating a new facility – but reconsider if solutions cannot be found through existing PPFs

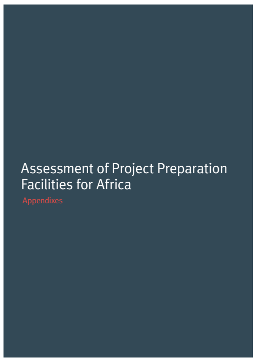
Feedback and engagement

The ICA Secretariat actively encourages your feedback and engagement on the Assessment – this is vital if the Assessment is to maintain its relevance and deliver the necessary project preparation transformation required for Africa. The full Assessment can be downloaded from www.icafrica.org. If you have comments on the contents or would like to engage with the ICA on its recommendations, please contact Peter Fernandes Cardy, p.fernandescardy@afdb.org.

Volume A presents the main findings and recommendations from the assessment



Volume B assesses the relevance and effectiveness of 17 African and global facilities



The **Appendixes** provide background material on the different facilities approached, PPFs elsewhere, African case studies, and individuals and institutions interviewed during the study

Abbreviations

Abbreviation	Description
ADF	African Development Fund
AFD	Agence Française de Développement
AIP	Africa Infrastructure Program
AITF	Africa Infrastructure Trust Fund
AWF	African Water Facility
CEPA	Cambridge Economic Policy Associates
DBSA	Development Bank of South Africa
DevCo	Infrastructure Development Collaboration Partnership Fund
ECOWAS	Economic Community of West African States
EDF	European Development Fund
EIB	European Investment Bank
ESMAP	Energy Sector Management Assistance Program
G20	Group of Twenty
ICA	Infrastructure Consortium for Africa
IDA	International Development Association
IFC	International Finance Corporation
InfraVentures	Global Infrastructure Project Development Facility

Abbreviation	Description
IPPF	Infrastructure Project Preparation Facility
MDB	Multilateral development bank
NEPAD	New Partnership for Africa's Development
PAP	Priority Action Plan
PIDA	Programme for Infrastructure Development in Africa
PPF	Project Preparation Facility
PPFN	Project Preparation Facility Network
PPFS	Project Preparation Feasibility Study
PPIAF	Public Private Infrastructure Advisory Facility
PPIU	Project Preparation Implementation Unit
PPP	Public-private partnership
REC	Regional economic community
SADC	South African Development Community
SNTA	Subnational Technical Assistance
TAF	Technical Assistance Facility
USAID	U.S. Agency for International Development

The main findings

- Most of the PPFs that support African infrastructure are focussed on later stages of the project cycle
- PPFs are part of a broader project preparation funding landscape, including resources from MDB credit advances, bilateral donor programmes and budgetary commitments
- PPF commitments rose considerably from 2005 to 2010, but appear now to be declining
- The greatest gaps in project preparation support are for private sector–originated projects, for transformative regional projects and for early stage government-originated PPPs
- PPFs could be more relevant and effective if they co-ordinated through a tunnel of funds approach
- PPFs should focus on specific activities where they can develop core competencies and change their business models to better reflect market demand
- The assessment draws out some key messages for facility design in different contexts, not least the challenges of undertaking early stage, recipient-executed project preparation and the implications for management resources and the scale of total financial resource requirements
- The G20, the ICA, African stakeholders and private lenders and investors should share responsibility for moving forward project development and PPF reforms