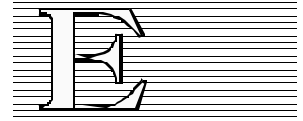




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**Scaling up Regional Infrastructure in Africa
Draft Policy Brief
20 March 2007**

SCALING UP REGIONAL INFRASTRUCTURE IN AFRICA
Draft Policy Brief prepared by UNDP
Preliminary draft for discussion
20 March 2007

Context and Background

1. Sub-Saharan Africa comprises many countries with small populations, many of them landlocked. Since countries' immediate neighbors tend to be among the most important trading partners, regional ties need to be strengthened across the continent through regional infrastructure and policy cooperation, both of which are critical for economic growth and poverty reduction. Likewise, regional strategies are required to contain desertification and biodiversity loss, and manage transboundary watersheds, of which Africa has the largest number in the world. Meanwhile, Sub Saharan Africa suffers from very poor regional infrastructure, as illustrated by the following statistics:

- Moving 1 ton of maize from Iowa to Mombasa, 13,600 km, costs USD 50. Taking that same ton of maize from Mombasa to Kampala, 900 km, costs USD 100. Similarly, the average cost to move 1 ton of fertilizer 1000 km in the USA is USD 15, in India is USD 30, while in Sub Saharan Africa is USD 100, double if the truck returns empty.
- Less than 8% of the rural population has access to electricity in Sub Saharan Africa, as compared to 51% of the urban population¹.
- Despite a high potential for hydropower, Ethiopia has a mere 43 m³ of water per person per year of storage capacity compared with 6,000 m³ in the USA and 5,000 m³ in Australia.²

Key Projects in NEPAD Infrastructure Short Term Action Plan (STAP): Their Potential Role in Economic Development and Funding Opportunities

Key Projects

2. The NEPAD STAP identifies key regional infrastructure projects. These projects are classified in terms of their potential role in economic development, their implementation stage, and/or preparation stage. Ten of such projects have been identified as the "Flagship NEPAD" projects³.

3. To obtain the status of "Flagship" a project needs to present a high potential role in economic development, possible to be fast-tracked; and support both a regional approach to infrastructure provision and regional integration. Additionally, for some of these projects the

¹ The Energy Challenge for Achieving the Millennium Development Goals, *UN-Energy*, New York, 2005.

² Human Development Report 2006. Beyond Scarcity: Power, Poverty, and the Global Water Crisis, *UNDP*, New York, 2006

³ NEPAD Infrastructure Short Term Action Plan (STAP): Review of Implementation Progress and the Way Forward, *NEPAD*, 2004

bottleneck for implementation has been political reasons, and NEPAD's is seen as a potential lock breaker. They also need to be initiatives that offer solutions to regional policy, regulatory or institutional blockages to regional infrastructure activities; and that respond to the involvement of the private sector in infrastructure and service provision. The Flagship Projects identified in the STAP can be generally classified in four categories, namely⁴:

- Facilitation: The projects that fall under this category are the Facilitating road transportation, ICT Policy and regulatory framework at the regional level, Power pools (Western and Southern Africa, etc.), Nile Basin Initiative, and the Implementing the Yamoussoukro Decision project.
- Studies: Such as the Greater Inga Integrator study
- Capacity Building: Establish regional linkages for African Energy Commission, Capacity building for RECs; and
- Investment Projects: Such as the West Africa Gas Pipeline, and the COMTEL

Funding Opportunities

4. A key issue for large infrastructure projects is the funding. As recommended by the UN Millennium Project⁵ and the Commission for Africa⁶ increased development assistance is required to develop regional infrastructure across the continent. Development partners have since established the Infrastructure Consortium for Africa as an initiative to help mobilize additional resources to meet the urgent infrastructure needs of Africa. Some examples of traditional funding opportunities for the sector are:

- General Infrastructure: The G8 and the Organization for Economic Co-operation and Development (OECD) countries made a commitment at the April 2005 Africa Partnership Forum meeting to increase their focus on infrastructure development. In the past five years the African Development Bank (AfDB) and the World Bank have increased priority to projects under the STAP. The International Development Association (IDA) and the African Development Fund (ADF) have successfully replenished the soft loan / grant windows of the World Bank and AfDB, respectively.
- Water Resources: The European Union Commission has established the European Union Water Facility. This initiative has already provided support to the preparation of action plans for integrated development of 5 priority river basins in Africa, namely the Volta, Niger, Lake Chad, Lake Victoria, and Senqu/Orange. The AfDB has provided support to 7 river basins in which action plans have been developed, this is, the Senegal, Niger, Lake Chad, Nile, Congo, Zambezi and Okavango river basins.

⁴ NEPAD Infrastructure Short Term Action Plan (STAP): Review of Implementation Progress and the Way Forward, NEPAD, 2004

⁵ Investing in Development, *Millennium Project*, New York, 2005

⁶ Our Common Interest, Report of the Commission for Africa, *Commission for Africa*, London, 2005

5. Additionally, many new financing tools and mechanisms have appeared in the last two decades. These new tools incorporate a new philosophy on the approach to infrastructure financing, and thus they are decentralized, incentive-based and draw on the resources and capabilities of both public and private actors.

6. Two characteristics that large infrastructure projects have in the region are their multi-country and pro-poor nature. Both have financing implications.

- **Regional/multi-country projects:** These projects are often difficult to implement due to the level of coordination and cooperation among governments and donors, since most donors cannot lend to regional entities.
- **Pro-Poor projects:** This type of projects requires special financing considerations for the provision of infrastructure in very poor areas. Targeted subsidies (for connections and/or social protection) are one example of such considerations.

7. Some examples of the new financing tools emerged are the following:

- Blending of financial instruments: Involves the use of multiple instruments, coming from multiple sources, such as the World Bank Group, regional development banks, bilateral donors and private sector. Typically, a blending of financial instruments involves equities, MIGA guarantees, and IBRD, AfDB, or IDA loans or credit.
- Public-Private Partnerships: The term Public Private Partnership (PPP) describes a collaboration between the public sector and the private in service delivery and participation on infrastructure projects. Pending implementation challenges typically involve tariff setting and adjustment, regulatory independence or dispute over contractual provision.

8. There is not one type of PPP, as can be seen in the following table, but depending on how responsibility is allocated for asset ownership, operations and maintenance, capital investments, and commercial risk, different models can be defined.

Table 1 Description of different approaches to Public-Private Partnership (PPP)

Approach	Asset Ownership	Operation & Maintenance	Capital Investment	Commercial Risk	Contract Duration
Service Contract	Public	Public/private	Public	Public	1-2 years
Management Contract	Public	Private	Public	Public	3-5 years
Lease	Public	Private	Public	Shared	8-15 years
Concession	Public	Private	Private	Private	25-30 years
Build Operate Transfer (BOT)	Public and Private	Private	Private	Private	2-30 years
Divestiture	Private or public and private	Private	Private	Private	Indefinite or limited by license

9. The key tests that need to be met by any successful service delivery model are:
- Efficiency of service delivery: Which delivery mechanism makes most efficient use of scarce resources and avoids wastage of water resources?
 - Financing: How will capital and operating costs be financed to close the revenue cycle of the provider while at the same time ensuring equitable provision of water services to the poor?
 - Cost of contracting: Which service delivery model imposes the lowest contracting cost?
 - Sector-Wide Approaches (SWAs): SWAs have been relatively rare in the infrastructure area (as compared to the social sectors), in part because they are often difficult to implement due to operational safeguards and fiduciary constraints.

The Way Forward

Main Opportunities

10. The implementation opportunities differ by sector, as it is well highlighted in STAP. Even though in the case of the infrastructure projects presented in the document many of the challenges have to do with transboundary coordination and collaboration and harmonization of policies, the opportunities range on the design of the appropriate scale of the project, and therefore the appropriate implementation mechanisms, including the financing. By sector they can be described as:

- Roads: The regional projects on central corridors have been identified, and some of the links are being built. The implementation opportunities mainly lie on identifying proper sources of financing.
- Energy: The main opportunities in this sector lie in the area of appropriate and innovative project financing.
- ICT: ICT has been identified as one of the key interventions for poverty reduction. A lot of investment is being done in ICT, and the participation of the private sector is large and dynamic, according to the STAP. Some of the implementation opportunities lie in the regulatory arena, where governments determine the playing field for the private actors, in particular on how the poorest layer of the population of the region will be provided access to the service.
- Water: The approach being followed in this area is sectoral rather than one of Integrated Water Resource Management (IWRM), or of transboundary water management, with very few exceptions. Thus, one of the key implementation challenges is to determine the appropriate size of the regional collaboration entity to make it efficient.

11. This situations poses implementation challenges at many levels for the water sector. It limits the accessible financing mechanisms for any given subsector, since synergies are lost. It also makes agreeing on projects difficult given that the dilemma of upstream/downstream issues is difficult to solve without a comprehensive framework.

Recommended Actions

- NEPAD should take advantage of the synergistic nature of regional infrastructure to explore and secure funding from alternative sources as well.
- Focus on the implementation of those projects where the bottlenecks are mostly political, but not financial.
- Provide pro-active support for capacity development of regional entities needed to manage transboundary infrastructure.
- Provide pro-active support for capacity development of regional entities needed to manage transboundary water resources.
- RECs should take a transformational approach to projects and programmes.

Issues for Consideration

- What are the appropriate scale/size regional projects that are not defined yet?
- What level of participation is the private sector going to have, and how is this going to be determined at a regional level?
- How are the financing mechanisms going to be determined? If regional entities cannot borrow, how are the regional safeguards going to be determined so that the outcomes of the projects are achieved (i.e. road corridors?)