

# **Barriers to Regional Project Pipelines: A synopsis of concerns**

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## Contents

Acronyms.....	3
1. Introduction.....	4
2. Methodology.....	4
3. Overview of barriers to a vibrant project pipeline.....	4
3.1 Financial.....	5
The ‘right’ finance.....	5
China.....	6
Role of public finance.....	6
3.2 Political.....	7
Project prioritisation and ownership.....	7
Sovereign debt.....	8
3.3 Regulatory.....	8
3.4 Institutional.....	10
3.5 Technical.....	10
Megaproject risks.....	10
Unsolicited bids.....	11
Project preparation.....	11
3.6 Way forward for pipeline development.....	13
4. Central Corridor – Best practice.....	13
4.1 Background.....	14
4.2 Process.....	14
4.3 Current situation.....	16
4.4 Why the Central Corridor can be used as the benchmark for other corridors.....	16
4.5 Replicating this process further requires the following:.....	17
Time considerations.....	17
Stakeholder management.....	17
Government expectations.....	17
Understanding of the project development stages.....	18
Transparency.....	18
Financial understanding.....	18
5. Recommendations.....	18
6. Conclusion.....	20
References.....	21

## Acronyms

<b>Acronym</b>	<b>Institution</b>
<b>AfDB</b>	African Development Bank
<b>AUC</b>	African Union Commission
<b>AICD</b>	Africa Infrastructure Country Diagnostic
<b>ASII</b>	Africa Strategic Infrastructure Initiative
<b>BRICS</b>	Brazil, Russia, India, China and South Africa bloc
<b>BWG</b>	Business Working Group (WEF)
<b>CCTTFA</b>	Central Corridor Transit Transport Facilitation Agency
<b>DBSA</b>	Development Bank of Southern Africa
<b>DFIs</b>	Development Finance Institutions
<b>DfID</b>	Department for International Development (UK) now UKAID
<b>DRC</b>	Democratic Republic of the Congo
<b>DWAF</b>	Department of Water Affairs and Forestry
<b>EAC</b>	East African Community
<b>FDI</b>	Foreign Direct Investment
<b>FfD</b>	Financing for Development Conference
<b>FOCAC</b>	Forum for China Africa Cooperation
<b>GDP</b>	Gross Domestic Product
<b>GIZ</b>	German Development Agency
<b>ICA</b>	Infrastructure Consortium for Africa
<b>ICT</b>	Information Communications and Technology
<b>IMF</b>	International Monetary Fund
<b>IISS</b>	International Infrastructure Support System
<b>JICA</b>	Japan International Cooperation Agency
<b>MDBs</b>	Multilateral Development Banks
<b>NEPAD PCA</b>	New Programme for Africa's Development Planning and Coordinating Agency
<b>PICC</b>	Presidential Infrastructure Coordinating Commission (South Africa)
<b>PICI</b>	Presidential Infrastructure Champion Initiative (Africa)
<b>PIDA</b>	Programme for Infrastructure Development in Africa
<b>PPPs/3P Network</b>	Public Private Partnerships / PPP Network
<b>PPF</b>	Project Preparation Facility
<b>PPIAF</b>	Public Private Infrastructure Advisory Facility
<b>RECs</b>	Regional Economic Communities
<b>SADC</b>	Southern African Development Community
<b>SAPP</b>	Southern African Power Pool
<b>SSA</b>	Sub-Saharan Africa
<b>SIPS</b>	Strategic Integrated Projects
<b>TICAD</b>	Tokyo International Conference on African Development
<b>WBG</b>	World Bank Group
<b>WEF</b>	World Economic Forum

## 1. Introduction

The infrastructure backlog in sub-Saharan Africa (SSA) has been researched and debated at length since the early days of the Programme for Infrastructure Development in Africa (PIDA) and the World Bank's *Time for Transformation* report in 2010. The industry consensus is that Africa requires around \$100 billion in investments per year to close the infrastructure gap, with the majority of those investments required in the energy sector. In effect, if the existing investments (\$43 billion) and maintenance costs (\$17 billion) are factored in, Africa's infrastructure investment gap is around \$30 – 40 billion per annum.

Many conferences have explored the reason for the infrastructure investment gap and have a common understanding that there is sufficient investment finance on the continent looking for investment opportunities, but the project pipeline is insufficient or being blocked by political, financial, technical and institutional barriers.

This briefing paper explores some of those barriers experienced by investors and project developers working in the infrastructure sector in SSA. It provides an overview of the political, financial, technical and institutional barriers that might be experienced to varying degrees depending on context, partners and sector. The final section explores the DBSA's experience in this regard and provides recommendations on how barriers to the project pipeline could be addressed or the resultant risk mitigated.

## 2. Methodology

This briefing paper is based on desktop research and some interviews with key people working in the infrastructure sector in Africa. It is not meant to provide a comprehensive detailed report but rather an overview of what some of the barriers to the development of a healthy infrastructure pipeline in Southern Africa particularly and Africa more broadly. It also uses the Central Corridor as an example of what could be done to coordinate infrastructure programmes and to ensure a pipeline of projects for development partners, governments, Development Finance Institutions (DFIs) and private investors.

## 3. Overview of barriers to a vibrant project pipeline

From 2008 - 2010, the World Bank produced a series of reports (Foster 2008; Foster and Briceño-Garmendia, 2009; WBG, 2010) that fed into their flagship report titled 'A Time for Infrastructure' that identified an annual financing gap of \$93 billion for African infrastructure projects in key sectors. The World Bank Report (2010) has been regarded as the reference point for all discussions on infrastructure gaps and financing requirements, despite the dated information. The current estimate is that the financing gap is closer to an amount between \$100 billion to \$120 billion per year.

### Box 1: Main findings of 2009 World Bank Report

- Infrastructure is responsible for more than half of SSA's recent improved growth performance and additional untapped potential
- SSA's infrastructure networks lag behind those of other developing countries
- SSA's economic geography presents a particular challenge for infrastructure development
- SSA's infrastructure is twice as expensive as elsewhere, reflecting diseconomies of scale in production and high profit margins due to lack of competition
- Power is by far SSA's largest infrastructure challenge, with 30 countries facing regular power shortages

- SSA's infrastructure needs are around \$93 billion a year, about one-third of which is for maintenance
- The infrastructure challenge varies greatly by country type – fragile states face an impossible burden and resource-rich countries lag despite their wealth
- A large share of SSA's infrastructure investment is domestic finance, driven primarily by central government budget allocation
- Even if major potential efficiency gains are captured, SSA would still face an infrastructure funding gap of \$31 billion a year, mainly in power.

*Source: Brookings, 2015*

Development Finance Institutions and Multilateral Development Banks have committed to raising and investing funds into infrastructure projects to drive economic development and regional integration on the continent.

Despite the honorable commitments made at earlier Financing for Development (FfD) conferences, the Monterrey Consensus, Paris Declaration the Accra Agenda for Action and the Addis Ababa Financing for Development conference, questions remain as to whether the infrastructure needs can be financed. In March 2015, the Brookings Institution published 'Financing African Infrastructure – Can the world deliver?' as a follow-up report to the AICD report.

However, in addition to finance, there are a number of constraints that need to be addressed before Africa's infrastructure programme is financed and projects begin to be implemented.

### **3.1 Financial** **The 'right' finance**

Financial barriers to project development are often discussed from two perspectives. One view is that there is sufficient investment finance out in the international markets looking for investment opportunities and the problem is therefore not financial but institutional or technical. The other side argues that projects are not ready therefore what is needed is not investment finance but preparation finance.

The World Bank Report (2009) argues that there is insufficient finance for infrastructure development therefore efforts should be undertaken by all stakeholders (private sector, public sector and multilateral development finance institutions) to ensure that infrastructure projects are financed and implemented.

A 2014 DfID report (Castalia Strategic Advisors, 2014) also argues that the financing gap between funds available and funds required is what is scuppering the development of a project pipeline in Africa and in Asia. In addition to a shortage of suitable finance, the report says political economy issues also plague the infrastructure sector. The public sector finances most infrastructure, particularly public goods such as roads, water and sanitation but due to constrained public spending, the development of these sectors is lagging. Other sectors like energy, particularly renewable energy, and ICT have seen a significant uptake from the private sector therefore boost the existing public finance in those sectors.

The public sector is unable to scale up infrastructure delivery because of their constrained budgets, but at the same time, development partners have focused on other priorities owing to their own domestic pressures to provide services and traditional development assistance has therefore been reduced. The Brookings Institution (Gutman, et. al. 2015) reports that between 2004 and 2012, official development finance to sub-Saharan Africa increased but simultaneously private finance increased to over 50% of

external financing and China became a major bilateral financier in Africa (2015:2). South Africa, Nigeria, Kenya, Ghana and Ethiopia are the winners in this era, with a few post-conflict countries losing out because of poor institutions, too-high risk environment and political instability.

### **China**

China's African infrastructure support increased from \$210 million in 2000, to \$3.17 billion in 2011 and to \$26 billion in 2013, filling an important gap (Gutman et al, 2015:2). Chinese total commitments to Africa reached \$73 billion, including the Forum for China Africa Cooperation (FOCAC) commitments. Concerns persist about the sustainability of the China model despite China's contribution being only 4.4% of all Foreign Direct Investment (FDI) to the continent in 2013/14. However, according to UN Comtrade 2016, China is currently Africa's largest trading partner at \$180 billion in 2015.<sup>1</sup> The 'Angola Mode' associated with Chinese investments links commodity commitments to China in exchange for Chinese long-term infrastructure finance. China's economic slowdown has reduced its demands for commodities from African markets but also the downturn in world commodity prices has suppressed the ability of resource exporters in Africa to rely on export profits. The role of China in Africa's infrastructure development has been outlined clearly in earlier publications (Brautigam 2009; Strange et al 2015; Le Pere et al 2007) that identify the drivers behind China's interest in Africa.

### **Role of public finance**

In relation to financing infrastructure, domestic resources finance infrastructure more than any other source of finance. Gutman et al (2015:3) argue that SSA countries finance about 65% of infrastructure expenditure totalling about \$60 billion or 4% of combined GDP. The World Economic Outlook of 2014 argues that

Public investment raises output in emerging market and developing economies, but at the cost of higher public-debt-to-GDP ratios because of the general absence of economic slack and the relatively low efficiency of such investment... For those emerging market and developing economies where infrastructure bottlenecks are constraining growth, the gains from alleviating those bottlenecks could be large (IMF, 2014:77)

The IMF predicts a public investment multiplier of about 1 – 1.3 in emerging and developing economies (2014:85), which means a 1% increase in infrastructure spending could lead to a 1 – 1.3% increase in GDP.

In an effort to highlight additional opportunities for financing African infrastructure by Africans, Amadou Sy<sup>2</sup> (2016) identifies three strategies:

- Domestic budget spending should be increased - by improving tax administration and revenue collection, Africa could increase its domestic resources for development. However, African countries would need assistance in strengthening their tax regimes.
- Domestic revenue sources should be broadened – from 2006 – 2014, 13 African countries issued \$15 billion in international sovereign bonds but Sy advocates for more involvement of local pension funds that total about \$380 billion in assets under management (85% are in South Africa).
- Funds must be spent efficiently – 'there is evidence that efficiency, not financing, is often the barrier to investment ... [due to] time delays, cost overruns and inadequate maintenance ... as a

<sup>1</sup> Cited in Zheng, Y. (2016).

<sup>2</sup> <http://www.imf.org/external/pubs/ft/fandd/2016/06/sy.htm>

result of undertrained officials, inadequate processes for assessing needs and preparing for and evaluating bids; and corruption. (Sy, 2016).

To return to the focus of this section, the argument that finance remains a constrained resource is supplanted by counter arguments that financial shortages are due to a lack of innovation, inefficiencies and poor systems.

### 3.2 Political

#### Project prioritisation and ownership

Each region on the continent has undergone a political process of identifying priority projects and programmes to ensure that the 'right' projects are developed for the maximum development impact. The general understanding is that this was a consultative process involving all stakeholders from communities to national policy-makers and traditional and emerging development partners. An additional assumption made is that these national project lists are linked to national development plans and other programmes that endeavour to improve the lives of citizens living in those countries.

Practitioners working in the infrastructure sector argue that there is a lack of clarity and transparency around the prioritisation of key infrastructure projects and that it is not always clear why one project has been selected over others.<sup>3</sup> Infrastructure project selection involves carefully '[weighing] competing projects against the requirements of multiple constituencies, including the public, private industry, multilateral development banks, donors and governments' (2013:10).

#### Box 2: Infrastructure Prioritisation Principles:

Infrastructure investment plans should:

**Principle One:** Align with the national strategic vision

**Principle Two:** contain robust and transparent selection criteria that maximise positive economic, social and environmental impacts

**Principle Three:** Consider the entire life-cycle of the assets

**Principle Four:** Account for potential network and cross-sectoral impacts

**Principle Five:** Contain analysis based on reliable data

**Principle Six:** Be built around support from a wide range of stakeholders and across political parties

**Principle Seven:** Optimise financing arrangements under different budget constraints

**Principle Eight:** Optimise delivery options

**Principle Nine:** Consider institutional and technical capacity to implement the plan

**Principle Ten:** Be flexible and adaptable to incorporating feedback.

Source: World Bank Group, 2014

It is important that the criteria for project selection be well-defined and transparent to avoid political interference. The World Bank Group identifies additional challenges that might affect weaker developing countries, namely:

- Weaker governance and institutional capacity
- Weaker technical capacity
- Lack of absorptive capacity of the economy
- Higher risks and few potential sources of finance
- Lack of proper accounting of contingent liabilities

<sup>3</sup> Email correspondence with DBSA International Finance Investment officer, 19 September 2016.

- Affordability constraints
- Limited and unreliable data

In 2012, DBSA research identified a number of project-related complications, particularly with regional projects. Regional or multi-country projects often do not have a clear sponsor who acts as a focal point. This creates difficulties in planning, preparing and financing the project due to the lack of coordination between relevant government departments and entities within and between countries.

Regional or cross-border projects are distinctly different to and more difficult than single-country projects because of regulatory and institutional differences. The One Stop Border Post programme is evidence of this difficulty particularly in relation to the negotiations around the Beit Bridge Border Post between Zimbabwe and South Africa.

### **Sovereign debt**

Another point of concern was the governments appeared to have reached their limit to provide sovereign guarantees, which makes investments substantially more risky and more complicated.<sup>4</sup> The sovereign debt crisis further constrains the ability of African governments to underwrite loans provided to national projects and to utilities. The first African bond of \$30 million was launched by the Seychelles in 2006 which led to African countries amassing about \$20 billion debt over a five year period (Hambayi, 2016).<sup>5</sup> Prior to sovereign bonds, countries received grants and concessional finance from development partners at an average of 1.6% interest over a loan period of about 28 years, which is far more attractive than the bond rate of 62% and an average maturity rate of 11.2 years (Hambayi, 2016). Many countries will struggle to service their debt from bonds due to their over reliance on a single-commodity economy. Others will need to guard against ‘vulture funds’<sup>6</sup> that buy sovereign paper from the markets and recover payment from countries. Hambayi (2016) concludes that:

Sub-Saharan African countries will require strong political will, prudent financial management, sustained fiscal discipline, long-term economic growth strategies, export diversification and sustained creation of employment to achieve economic emancipation.

Sovereign borrowing does not have a positive effect on economic growth in sub-Saharan Africa (World Bank Group, 2015) but Dirk Willem te Velde argues that countries can still make the most of the sovereign bond issuances by developing plans to invest in social and economic infrastructure; by improving their growth potentials, beneficiating their commodities, lowering inflation and employing good monetary and fiscal policies (2014:4).

### **3.3 Regulatory**

Across Africa, project sponsors, developers and financiers find regulatory frameworks that range from weak to strong. The different colonial legacies have left African countries with different legal systems that often speak past each other. An OECD report (2012:56) argues that a ‘weak enabling environment’ results in difficulties and losses in implementing infrastructure on the continent. ‘[W]ith well-developed

<sup>4</sup> Email correspondence with DBSA International Finance Investment Officer, 19 September 2016.

<sup>5</sup> <https://theconversation.com/africas-ticking-time-bomb-35-billion-worth-of-eurobond-debt-59404>

<sup>6</sup> ‘Vulture funds’ are ‘entities that purchase distressed debt on the secondary market, where it trades significantly below its face value, and then seek to recover the full value, often through litigation’ or values varying from 3 – 20 times their investment – African Development Bank <http://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/african-legal-support-facility/vulture-funds-in-the-sovereign-debt-context/>



frameworks for PPPs, project preparation costs are generally about 1% of total project costs, but for countries without much PPP experience, the project preparation costs run between 3% and 10% of total project costs because of weak institutional and policy arrangements (OECD, 2012:56).

Public Private Partnerships (PPPs) are offered as a panacea for all infrastructure development evils on the continent but the AfDB acknowledges that there are legal and regulatory constraints limiting the success of PPPs in Africa. A lack of technical skills to manage PPP programmes and projects, an unfavourable investor perception of country risk, Africa's peripheral position in global trade and investment, small market size, limited infrastructure and limited financial markets all contribute to ineffective PPPs (AfDB).<sup>7</sup> In summary, legislation in some countries has not been amended to gear for adequate investor protection, procurement processes and sufficient government support.

The SADC 3P Network in southern Africa has been established to encourage and support the development of a harmonised PPP framework across the region. The 3P Network now plays a role in PPP project development and is an advisory hub for PPPs in the region. PPPs have become important in the infrastructure sector because of stakeholders' financial constraints. An aggregation of financial resources and new sources of finance would lead to better projects and PPP frameworks therefore have an important role to play in enabling collaboration between public and private partners.

Other regulatory frameworks in the energy sector, water and sanitation, telecommunications and transport should create an ease of doing business and be geared towards reducing costs, improving efficiencies and providing a reliable service (Eberhard, 2007:1). In order to protect companies and investors against regulatory risk, the Public Private Infrastructure Advisory Facility (PPAIF, 2007:30) identified a number of risk mitigation measures:

- Political risk insurance
- Investment partial risk guarantees/partial credit guarantees
- Additional financial security measures for investors
  - Sovereign guarantees
  - Escrow accounts
  - Letters of credit
  - Stand-by debt facilities
  - Hedging and other derivative instruments
  - Committed public budget and/or taxes/levies
  - Targeted subsidies and output based aid
  - Hard-currency contracts
  - Indexation in contracts
- Change of law exemption in contracts
- Bilateral investment treaties
- Appeal, arbitration, and other dispute resolution mechanisms

These are risk mitigation measures for the private sector but if the project is financed by a range of investors from both the public and private sectors, the risks will be shared and reduced. Strategic

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<sup>7</sup> <http://www.afdb.org/en/topics-and-sectors/sectors/private-sector/areas-of-focus/public-private-partnerships/>

partnerships with all stakeholders involved in setting, implementing and working with regulatory frameworks will reduce regulatory risk at all levels.

### **3.4 Institutional**

A practitioner interview identified a number of institutional barriers to project pipelines in Africa<sup>8</sup>. Firstly a lack of institutional capacity, particularly among utilities, has led to procurement and implementation difficulties especially in large scale infrastructure projects. Capacity constraints at the Regional Economic Community (REC) level have led to concerns about the ability of the RECs to facilitate the regional and continental infrastructure programmes. The RECs have an important role to play in guiding infrastructure development and investment in their regions. Without their assistance, the coordination of regional projects will be difficult and result in a lack of coordination and an inability to create coherent and integrated infrastructure networks. Their capacity to coordinate will play a significant role in the industrialisation efforts in the region, as outlined by regional and national industrialisation plans.

The RECs have infrastructure desks and officers tasked with coordinating infrastructure plans within their regions, but these offices are often understaffed and insufficiently resourced to do the work at the level that is required. Development partners such as the German GIZ and the Japanese International Cooperation Agency (JICA) have introduced institutional capacity building plans to assist the RECs in scaling up their support for regional infrastructure programmes.

Coordination between government departments and between governments and utilities could be more efficient in identifying and implementing projects. An example of intergovernmental coordination is in the South African water sector where the Department of Water Affairs (DWA) has adopted an integrated approach to water resource management (DWA, 2009). Other examples of a coordinated government approach exist. For example, the 18 South African Strategic Integrated Projects (SIPs) report to the Presidential Infrastructure Coordinating Commission (PICC) on all infrastructure related development projects.

A final point on institutional weakness is that there is a lack of precedence for successful implementation of projects and court interpretations of applicable laws. As a result, investors are reluctant to invest in countries and projects where there is no legal recourse.

### **3.5 Technical**

#### **Megaproject risks**

Regional infrastructure projects are large in scale, complex in structure and by nature high-risk because they involve two or more countries. The move towards mega projects has also complicated the planning, management and financing of these large projects. Bent Flyvbjerg et al (2003:1) argue that 'the formula for approval [of megaprojects] is an unhealthy cocktail of underestimated costs, overestimated revenues, undervalued environmental impacts and overvalued economic development effects' (Flyvbjerg et al, 2003:1). In addition to the need for better technical capacity to design and assess projects more accurately, regional projects will need to be broken down into discrete project links that could be financed separately rather than as a whole. This process was explored by the SADC 3P Network in relation to financing Southern African Power Pool projects.

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<sup>8</sup> Email correspondence with DBSA International Finance Investment Officer, 19 September 2016

### Unsolicited bids

Procurement also presents its complications as many financiers prefer to source projects themselves because they then know that the project is well-prepared according to their internal requirements. However, unsolicited proposals are becoming more common as developers package projects and then seek financial backing. Investment institutions will need to find ways to build their internal capacity to assess and assist unsolicited bids coming into their companies. Apart from the fear of being exposed to risk, South African state entities are protected by section 217 of the Constitution that requires alternative bids to be part of the selection process. Processes have been mapped out in the Constitution, Municipal Finance Management Act and the Municipal Supply Chain Management Regulations. An additional concern with the bidding process, emerging from heightened competition for work in an ailing economy (or competition for government tenders) is the high rate of follow-up queries if bid is lost. These queries slow down the tender award process significantly.

The scale and complexity of regional infrastructure projects require multiple lenders, advisors and contractors, each with their own requirements. Negotiations to reach agreement take a long time to find a position with which everyone is comfortable.

### Project preparation

The general mantra among infrastructure financiers and specialists is that there is sufficient finance for projects but there is a shortage of bankable projects. In response to this, institutions have established project preparation facilities to prepare projects for financing and implementation. An Infrastructure Consortium for Africa (ICA) (2012) publication on PPFs in Africa explains that the G20 High Level Panel on Infrastructure and MDBs expressed concern about the high number of PPFs in Africa, their fragmented nature and the complex requirements of each facility. The ICA report (2012:6) identified 67 potential sources of funding for project preparation, including national public private partnership units, of which 17 were a core group but only 12 were operational.

**Table 1: African PPFs and their institutional hosts**

<i>Hosting arrangement</i>	<i>Examples</i>
<i>Multilateral development banks/ development finance institutions</i>	EIB: EU-AITF WBG: PPIAF; InfraVentures, DEVCo, ESMAP IsDB: AFFI-TAF
<i>Africa-based development banks</i>	AfDB: NEPAD IPPF, AWF, FAPA DBSA: DBSA DF <sup>9</sup> , DBSA-EIB PDSF, NEPAD PPFs, SADC PPDF
<i>AU and RECs</i>	ECOWAS: PPDU COMESA: PPIU AU: EU-Africa Infrastructure Partnership
<i>National government departments</i>	Egypt: PPP Unit Egypt Mauritius: PPP Unit South Africa: RSA PPP Unit
<i>Other</i>	Actis Infrastructure Fund: Globeleq Nexant Incorporated: USAID AIP PIDG: InfraCo Africa, TAF GIZ: AEEP RECP

Source: ICA, 2012

<sup>9</sup> The DBSA Development Fund was returned to National Treasury in 2012/13

PPFs in Africa are hosted by a number of institutions that make access to finance, management of the facilities and reporting outcomes to development partners very complex. The table below provides an overview of PPFs and their host institutions.

The World Bank estimates that project preparation costs range from 5 – 10% of total capital cost but transport projects could range from 3 – 5% and energy projects 10% while PIDA suggests an average of 7% per project (ICA, 2012:33). The realization that project preparation facilities are necessary tools in the DFI toolkit does not detract from the complexity of PPFs and difficulty associated with accessing them. The report (ICA, 2012:64-72) identifies five evaluation criteria that PPFs need to employ to determine whether they are sufficient and effective:

- *Relevancy*  
Are the objectives and design of a facility consistent with infrastructure challenges, including alignment with the needs and priorities of beneficiaries, by sectors, countries and groups?
- *Effectiveness*  
The speed at which like for like projects were propelled through the different phases of the project pipeline to financial close. Few PPFs cover the whole project cycle therefore their levels of effectiveness at undertaking their activities are more important than financial close
- *Efficiency*  
It is a measure of how economically resources/inputs (funds, expertise, time, etc.) are converted into results
- *Adequacy*  
The provision of financial and human resources required to operate successfully
- *Sustainability*  
It is the ability to self-finance out of reflows/profits (not the environmental or social sustainability of the project supported)

The toolkit available to DFIs should be able to operate optimally if these criteria are met. However, the ICA report (2012:49) identifies a number of gaps in the operations of PPFs:

#### **Private sector-originated projects**

- Support for governments when negotiating with sole-sourced private sector sponsors
- Support for private sector sponsors who have obtained the rights to develop projects and have undertaken early stage development work at their own risk

The main concern here is that the private sector does not get support from PPFs for their work in developing projects. Generally, PPFs that have been developed for public sector projects therefore have a very basic approach to providing support. Thus they do not offer the right level of support to private sector partners who might only need financial support and not technical assistance.

#### **Mega/transformational projects**

- These projects are mostly around \$1 billion or more and are mostly in the power sector. Because of their scale and complexity, they require more project preparation support than ordinary projects. They particularly need 'proof of concept' before the project can attract the private sector.

- The preparation of these projects is under resourced, which leads to delays and higher investment costs.

#### **Public sector origination of PPPs**

- Governments need assistance in identifying and setting up PPPs when they are best suited to sectors and projects
- Governments do not understand whether the PPP model is the best model for the project or whether they are pandering to public sector pressures.
- Government departments therefore need to know where the PPP opportunities exist in order for them to take advantage of this. They need PPP specialists for this to work and project preparation facilities could cover the PPP sector.

#### **3.6 Way forward for pipeline development**

This report turns to a case study of a successful project on the African continent, namely the Central Corridor. Section 4 will provide an overview and analysis of the Central Corridor programme as a best-practice case for pipeline development.

### **4. Central Corridor – Best practice<sup>10</sup>**

In the 1960s, the Japan International Cooperation Agency (JICA) adopted the corridor approach in their work because they consider,

[T]he trunk corridor as the key development axis that will stimulate and increase economic activity in countries and regions. By combining the development potential of the region with corridor infrastructure improvement, the strategic regional development plan enables to revitalize the entire region and to create a virtuous spiral of investment promotion and market expansion (JICA, 2016)<sup>11</sup>

In 2012, the DBSA paper proposed that ‘the adoption of a corridor approach to regional infrastructure development is emerging as a more pragmatic approach to addressing regional challenges ... [because] the adoption of a holistic, sequential and inter-modal approach is highly recommended to ensure that all routes along a corridor are successfully connected’ (2012:4).

The Maputo Corridor has been held up as a ‘best practice’ project between South Africa and Mozambique while Walvis Bay is fast becoming a regional template for corridor development between two or more countries (Namibia, Botswana and Angola). In 2015, JICA identified five priority corridors in Africa, one of which was the Central Corridor.<sup>12</sup>

In East Africa, the Central Corridor originates from the Port of Dar es Salaam and provides access to/from the landlocked countries of Burundi, Rwanda and Uganda. The corridor forms part of the backbone of the regional transportation system (road, rail, inland waterways) in East and Eastern Central Africa carrying

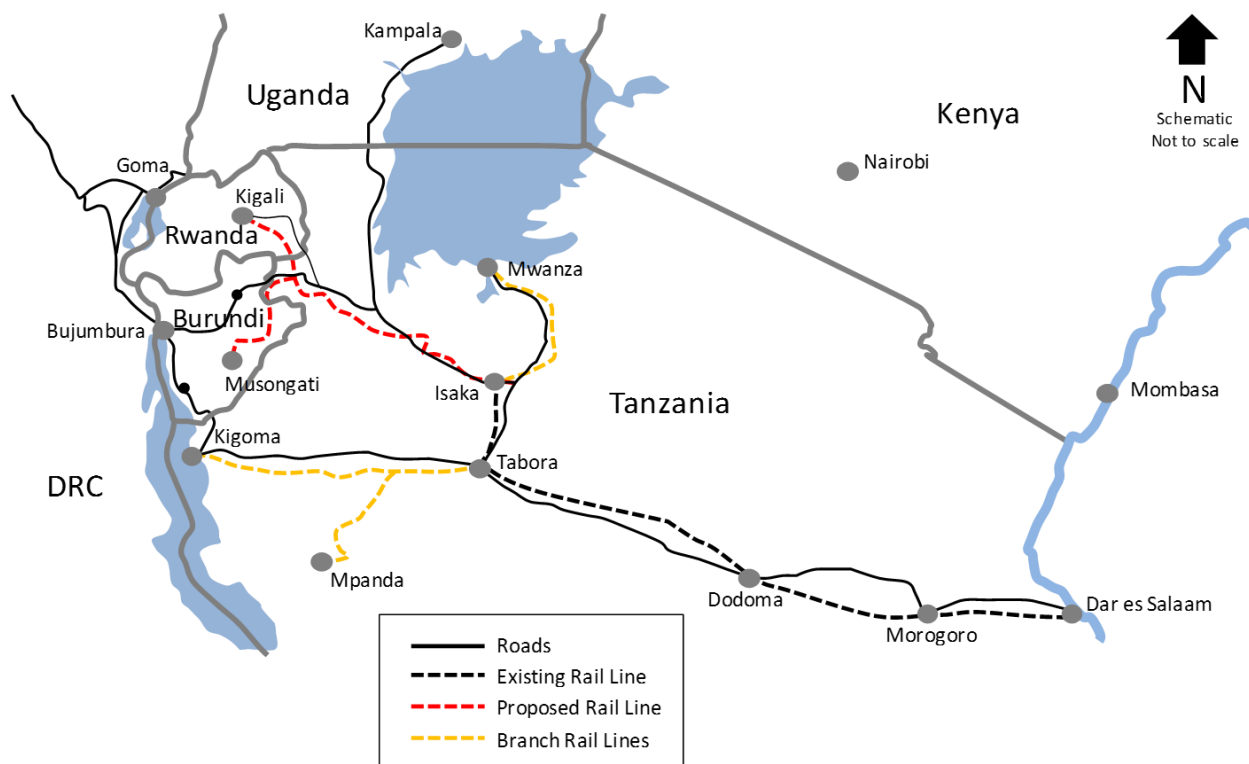
<sup>10</sup> This section was completed with information and assistance from Alvin Wildschutt, International Finance Division.

<sup>11</sup> [https://www.jica.go.jp/english/publications/brochures/c8h0vm000000k9k0-att/japan\\_brand\\_07.pdf](https://www.jica.go.jp/english/publications/brochures/c8h0vm000000k9k0-att/japan_brand_07.pdf)

<sup>12</sup> [http://www.afdb.org/fileadmin/uploads/afdb/Documents/Events/ATFforum/AfDB - ATF2015 - EIRO YONEZAKI.pdf](http://www.afdb.org/fileadmin/uploads/afdb/Documents/Events/ATFforum/AfDB_-_ATF2015_-_EIRO_YONEZAKI.pdf) (Magreb Highway; Djibouti-Addis Ababa Corridor; Northern Corridor; Central Corridor; Nacala Corridor; ECOWAS Growth Ring)

the imports and exports of the five countries with a population of more than 120 million people.<sup>13</sup> The EAC combined GDP of Kenya, Tanzania, Uganda, Burundi and Rwanda is around \$110.3 billion. According to the EAC regional strategy plan for 2015 – 2025, the region needs around \$68 billion to \$100 billion over a ten year period to build infrastructure.<sup>14</sup>

**Figure 1: Map of the Central Corridor and transport infrastructure**



Source: CCTFA

#### 4.1 Background

In 2012, the African Union Assembly approved the PIDA in Addis Ababa, Ethiopia. The PIDA Priority Action Plan was later endorsed by African and international business leaders at the World Economic Forum in Ethiopia later that same year. A business driven initiative was a proposal that would accelerate the implementation of PIDA.

The African Strategic Infrastructure Initiative (ASII) was formally launched in Johannesburg in July 2012 with the establishment of the World Economic Forum (WEF) Business Working Group (BWG), which provided business and the public sector with a platform to promote infrastructure in Africa. The ASII was a joint initiative of the WEF, AfDB, the African Union Commission (AUC) and the NEPAD Planning and Coordinating Agency (NPCA).

#### 4.2 Process

The ASII was structured along two key phases:

- Phase 1: Project Prioritization, pilot selection and overall management phase

<sup>13</sup> <http://en.reingex.com/Central-Corridor-Africa.shtml>

<sup>14</sup> <https://www.trademarka.com/news/tanzania-central-corridor-projects-to-unlock-regional-economies/>

- Phase 2: Pilot Project acceleration and enablement phase

Phase 1 focused on developing a selection methodology to identify the initial pilot programme for the ASII and included ongoing consultation with all stakeholders involved. As a result, the Central Corridor was selected as the pilot programme for acceleration.

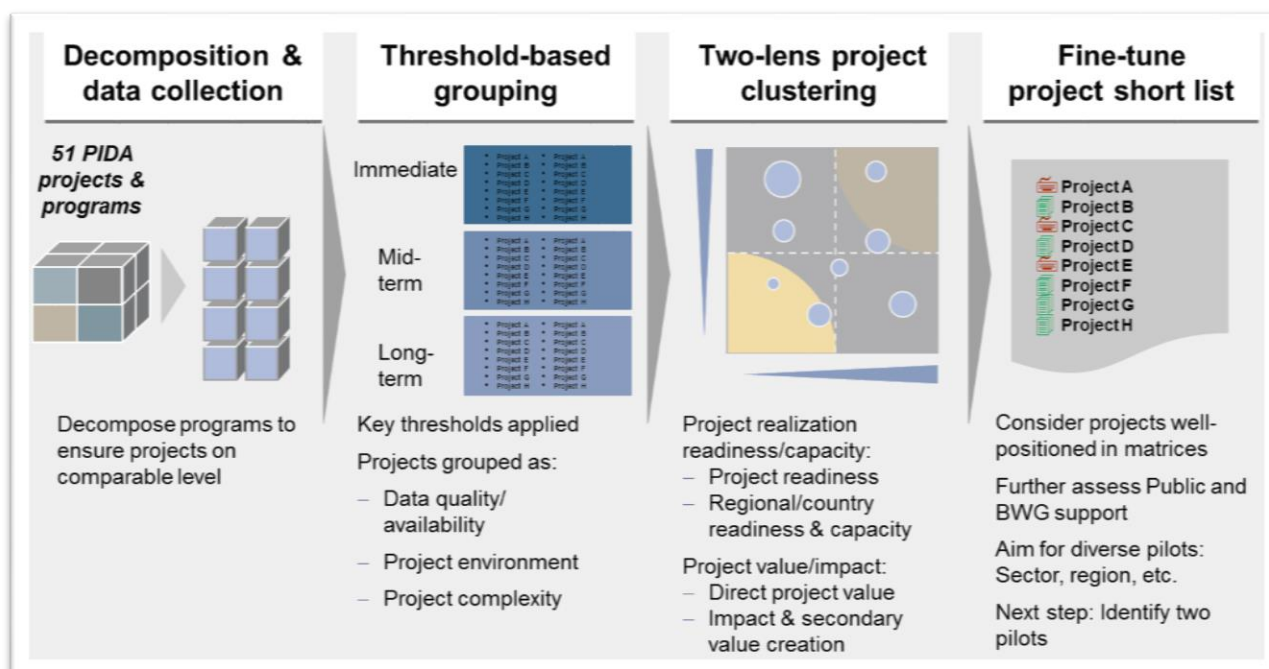
In Phase 2, the Pilot acceleration and enablement phase kicked in where the DBSA was requested to play a strategic role in driving the implementation of this process.

The WEF coordinated a High-level meeting on the Development of the Central Corridor under the patronage of the Government in Tanzania in April 2014, with the Central Corridor member states (Rwanda, Tanzania, Uganda, Burundi and DRC) and key business and DFI partners. On 3 June 2014, a technical workshop on the Central Corridor Acceleration Programme was held in Dar es Salaam with representatives from the BWG and the Central Corridor Transit Transport Facilitation Agency (CCTFA) to discuss three main topics:

- A potential governance structure and the resourcing requirements for the acceleration process
- Milestones for the acceleration process leading up to the WEF Africa 2015
- Recommendations by the BWG on the acceleration of the Central Corridor

Two of the key recommendations coming from the BWG on the acceleration of the Central Corridor included the following:

1. *Unbundle projects into viable packages with an appropriate legal and governance structure for each package.*



By employing the above methodology, the project team was able to unbundle projects from 121 large projects to approximately 24 focused and viable projects for the first phase.

2. *Complete preparation of packages, determine procurement model for each package and prioritize them for implementation.*

The DBSA, the appointed consultants and the CCTTFA collected all the necessary preparation and project documentation from the various agencies and ministerial departments to:

- Decide on the procurement model for each package, based on the outcome of the studies; and to
- Prioritize packages for implementation based on readiness, bankability and interdependencies with other packages.

Projects were packaged and presented at an Investors' Forum and Presidential Roundtable during which the private sector had an opportunity to interact with the different project owners and to better understand each project.

#### **4.3 Current situation**

The 24 identified projects are now being driven by the CCTTFA who is ensuring that progress is being made on these projects. On a quarterly basis, progress reports are presented to the Central Corridor technical group and the CCTTFA Board. In addition, regular progress meetings are also provided at a ministerial and presidential level.

Much progress has been seen on the projects identified in the first phase, with a few in their final stages of preparation while some have completed a bankable feasibility study and others are currently at a structuring phase, for example, the Dar-Chalinze toll road.

#### **4.4 Why the Central Corridor can be used as the benchmark for other corridors**

The 5 Central Corridor countries signed a mandate to cooperate in delivering on these projects. More so, a PMU/ Central Corridor development authority was established to monitor and drive the projects. This coordinating body made a big difference in ensuring that relevant ministries and agencies were present at meetings.

- A Taskforce was established where updates on the projects were provided with key officials from different agencies and ministries, ensuring the correct priority projects on the Central Corridor were selected.
- The calibre of the CCTTFA Executive made it easy for the member states to accept and defer to them.
- Presidents and Ministries provided their support for the CCTTFA and the Acceleration Programme, which ensured that support was obtained from all agencies. Political will is evident in the programme.
- Agencies had the access to relevant information and the capacity to provide it.
- The members were willing to learn throughout the process, which ensured capacity building and empowerment of especially the CCTTFA body.



- The support from the WEF, NEPAD and BWG members created more enthusiasm for the programme and ensured the mobilisation of both intellectual and financial support.
- The Central Corridor was marketed globally resulting in more financiers being interested in progress on the project.
- A Central Corridor project was selected as a pilot on the new International Infrastructure Support System (IISS) programme, where CCTTFA members were trained to use the system, update projects and ensure project information is provided regularly to the private sector.
- Four discrete financial models were presented, which could be adapted for other similar projects.
- Project implementation gaps were identified and were shared with the relevant project owners.
- A trust-based relationship was built between the project/ programme manager of the ASII and the relevant agencies.

#### **4.5 Replicating this process further requires the following:**

##### **Time considerations**

The process of packaging projects for such a forum is complex and adequate time needs to be allocated to this phase of the work.

- a. Creating enough time for the editing of reports
- b. Providing time for the translation of documents, where required
- c. Ensure adequate time for consultation with relevant stakeholders and quality assurance of the information provided

##### **Stakeholder management**

Consultation with all relevant parties is important

- a. The process required a detailed scoping of the projects, which included interviewing the relevant project managers and owners. Due to the limited time available, follow-up interviews after the review of all documents were insufficient.
- b. Additional interviews with private sector companies, all ministries working on these projects and interviews with DFIs and project development companies, regional bodies, etc. could have provided more insight into these projects.

##### **Government expectations**

Managing expectations is very important, especially where Government officials are concerned.

- a. Schedule ample time for stakeholder consultations with all relevant government officials before the Presidential roundtable.
- b. Ensure the Presidential Roundtable is held a few weeks before the Investors' Forum to ensure adequate consultations occur with Heads of State on their key projects.

- c. Government officials are not always aware of the specific risks related to the key projects. Schedule a risk workshop with the relevant government officials for them to understand the risks associated with each project and develop relevant mitigations required to resolve these risks.

#### **Understanding of the project development stages**

Project documentation was not always of the quality expected and not necessarily linked to the reported project stage of a project (For example, where some projects were identified as Stage 3a, after further investigation, research showed that the project was still at Stage 2.

- a. Understanding the needs of each phase of the project and the documents required per phase for investors was highlighted as a weakness of the relevant agencies. It is thus required to develop a capacity building strategy for the different agencies to ensure they understand which documents and information are required for a project to reach a bankable stage.

#### **Transparency**

The lack of transparency in the sharing of information can create uncertainty among investors and can raise the risk for investors.

- a. Procurement processes should be clear to all investors and be understood by the different agencies, for example, the impact the implementation of these policies might have when private sectors consider investing in a project.

#### **Financial understanding**

There needs to be a clear understanding of the PPP structure and financing principles.

- a. There was a misunderstanding around PPP financing structures and the regulatory environment. Coordinating bodies like the CCTFA should be aware of the PPP regulatory environment in the different countries they provide services to. When applying this model to another corridor, the first step would be for the Project Manager to have two- to three-day roundtable discussions with relevant country departments to understand the regulatory environment around PPPs or unsolicited bids.
- b. Agencies should be capacitated in the understanding of the basic project finance principles and how financial models are created within the different sectors.

## **5. Recommendations**

### *Partnerships*

- The DBSA's relationships with other institutions will remain the most important factor in any regional project pipeline. In order to develop a pipeline, the DBSA will need to have the 'right' partners and be visible at forums that discuss regional infrastructure programmes and projects. A partnership management tool would provide project teams with the ability to manage relationships more effectively and 'technically'.

### *Financial*

- Identify the most suited financial tool kit and ensure that the DBSA has the financial products our potential and current clients require/seek. The innovations initiative at the DBSA will be an appropriate starting point to determine which products we will need to develop, for which markets and for specific outcomes.

Research will provide an overview of the products within the DFI market and determine which products could be adapted and applied to the regional context,

### *Political*

- It is important for the DBSA to remain involved in infrastructure debates at the political level, for example, the Presidential Infrastructure Champion Initiative (PICI) on the North South Corridor, the TICAD conferences, FOCAC, BRICS, and other infrastructure forums. Political leveraging could be strengthened through a more strategic, institutionalised relationship with the foreign governments, RECs, the Department of International Relations and Cooperation (DIRCO) and the Presidency.

### *Regulatory*

- The DBSA's knowledge of the regulatory frameworks of the region and countries within the region should be enhanced through targeted research and knowledge sharing with partners. By knowing the region and the client's operational frameworks, the DBSA will be equipped to advise, implement and monitor regulatory frameworks within our project pipeline.

### *Institutional*

- The DBSA could set up programme-based project management teams to develop pipelines within a region or sector. These teams will be the knowledge sources on each programme or value-chain. They will identify, develop and coordinate the institutional relationships with the RECs and other stakeholders related to that programme.

### *Technical*

- The DBSA should develop in-house knowledge about the different project models on the continent and the associated risks related to those models. Project preparation is one of our strengths therefore we should market our expertise in this area to develop the project pipeline from the preparation phase. This is already being undertaken but could be made more visible.

### *Partnerships*

- This serves to underscore the importance of partnerships on the continent and in relation to programme development in the region. The DBSA cannot go it alone and will need to be involved in discussions, forums, initiatives that are strategic and promote our mandate and our objectives as they relate to regional integration, ending poverty and sustainable development.

## **6. Conclusion**

This paper provided a brief overview of a number of issues blocking a healthy regional project pipeline for the DBSA. These barriers include institutional, informational and strategic issues. The paper also provided insight into the model of the successful Central Corridor in East Africa and presented a few best practices from that project. Finally, a number of recommendations were provided to the DBSA in order to facilitate the development of a healthy project pipeline particularly for regional projects. The overarching recommendation is to develop a corridor approach or a cluster of projects that could be integrated into a value-chain or programme and get approval and buy-in at that level. Once the value-chain or programme is approved, partnerships can be harnessed to develop and finance those programmes.

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