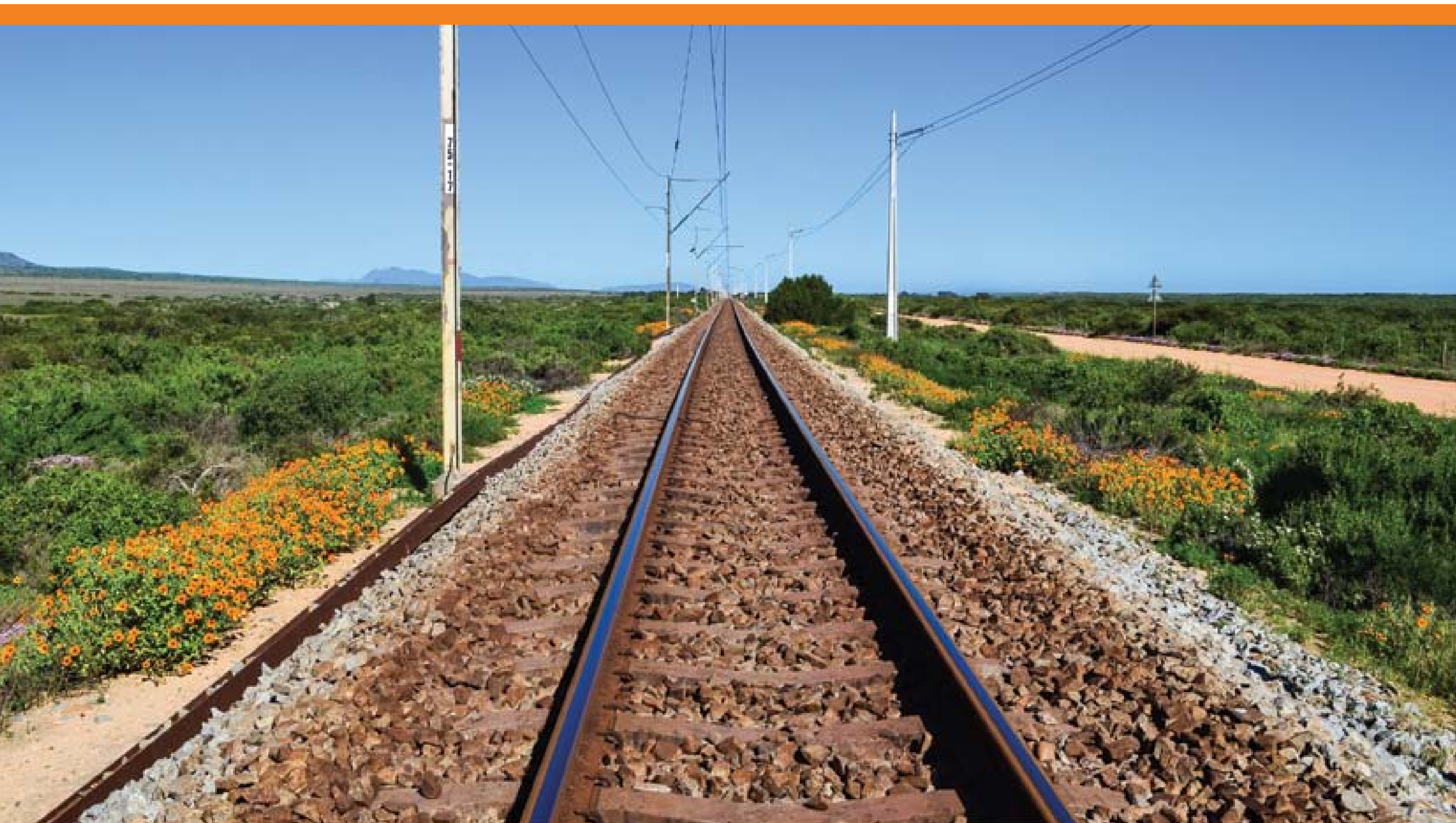
GEGAFRICA
GLOBAL ECONOMIC GOVERNANCE

DISCUSSION PAPER | NOVEMBER 2016

MAPPING CURRENT TRENDS IN INFRASTRUCTURE FINANCING IN LOW-INCOME COUNTRIES IN AFRICA WITHIN THE CONTEXT OF THE AFRICAN DEVELOPMENT FUND

Talitha Bertelsmann-Scott, Chelsea Markowitz & Asmita Parshotam



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ABOUT GEGAFRICA

The Global Economic Governance (GEG) Africa programme is a policy research and stakeholder engagement programme aimed at strengthening the influence of African coalitions at global economic governance forums such as the G20, BRICS, World Trade Organization and World Bank, among others, in order to bring about pro-poor policy outcomes.

The second phase of the programme started in March 2016 and will be implemented over a period of three years until March 2019.

The programme is expected to help create an international system of global economic governance that works better for the poor in Africa through:

- undertaking substantial research into critical policy areas and helping South African policymakers to prepare policy papers for the South African government to present at global economic governance platforms;
- ensuring that African views are considered, knowledge is shared and a shared perspective is developed through systematic engagement with African governments, regional organisations, think tanks, academic institutions, business organisations and civil society forums; and
- disseminating and communicating research and policy briefs to a wider audience via mass media and digital channels in order to create an informed and active policy community on the continent.

For the next three years the work of the programme will be focused on three thematic areas: development finance for infrastructure; trade and regional integration; and tax and transparency.

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With contributions from Moroesi Akhionbare (Lesotho), Mamadou Ndong (Senegal) and Cyril Prinsloo

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CONTENTS

ABSTRACT

This paper examines the role of the African Development Fund (ADF) in its efforts to support African low-income countries (LICs) in meeting their infrastructure financing needs. African LICs currently face tremendous infrastructure financing gaps, but are unable to access the concessional loans required to finance these. As a result, many are turning to non-concessional sources of financing, which could have a negative impact on their debt levels. Moreover, improperly managed projects, a lack of private sector involvement and insufficient technical expertise among African government officials also detract from the successful implementation of infrastructure projects on the continent. All of these problems highlight the extremely complex nature of infrastructure financing within LICs. As the concessional branch of the African Bank Group, the ADF is tasked with providing infrastructure financing to African LICs at affordable rates. However, its ability to do so is constrained by a variety of factors, including insufficient funding. In light of the upcoming ADF-14 meeting in November 2016, this paper examines what the ADF can do to improve the services it offers to LICs and mobilise additional finance, while also examining issues that pertain to the fund's own constrained operations and handicap. It concludes with policy recommendations to assist the ADF in improving its technical and operational functioning, in order to ensure that African LICs receive adequate assistance and levels of finance from the ADF in the years to come.

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INTRODUCTION

The UN Conference on Trade and Development (UNCTAD) estimates that between \$1.6 trillion and \$2.5 trillion is required annually for the period 2015–2030 to bridge the infrastructure-financing gap in developing countries. Closing this gap will require both public and private sector investment in infrastructure.[1] Some estimates indicate that sub-Saharan Africa alone requires up to \$93 billion annually until 2020 to finance its infrastructure gap.[2]

Despite their positive growth over the last two decades, low-income countries (LICs) in Africa attract only 25% of investment inflows into Africa.[3] This affects their ability to improve domestic socio-economic delivery and adopt inclusive growth models. One of the challenges facing LICs in financing and implementing infrastructure projects is a lack of technical expertise and institutional knowledge

1 Khan J, 'Investment, infrastructure and financing the Sustainable Development Goals', paper delivered at 'Aid for Trade and Infrastructure: Financing the Gap' Workshop, UNCTAD (UN Conference on Trade and Development), Geneva, 16 February 2015.

2 Gutman J, Sy A & S Chattopadhyay, *Financing African Infrastructure: Can the World Deliver?*. Washington DC: Brookings Institution, 2015.

3 Humphrey C, 'The African Development Bank: Ready to Face the Challenges of a Changing Africa?', Expert Group for Aid Studies, 2014.

among government officials to deal with complex financing issues. LIC infrastructure financing is further constrained by a low domestic taxpaying base.[4] Aid from Development Assistance Committee (DAC) member states has traditionally played an integral part in bridging the infrastructure-financing gap. Official development assistance (ODA) from select EU member states has been instrumental[5] in securing water supply, sanitation and transport infrastructure in LICs[6] and has played a catalytic role in involving private sector players in need of guarantees.[7] Nonetheless, while ODA support for developing countries peaked at nearly $90 billion in 2009 as a result of efforts by multilateral agencies to assist these countries during the onset of the 2008 financial crisis,[8] according to data from the World Bank, ODA to LICs has levelled out at $35 billion per year for the period 2012–2014.[9]

Infrastructure financing in Africa has also changed dramatically over the past 10 to 15 years. No longer the sole purview of multilateral development banks (MDBs) and donors, it entails the inclusion of new emerging donors sparked by the rise in South–South cooperation and the establishment of new MDBs. Nonetheless, the World Bank, the African Development Bank (AfDB) and its African Development Fund (ADF) still play critical roles in infrastructure financing on the continent, despite growing pressure to adjust their traditional lending model in response to new realities and growing competition in the field. The entrance of new players also raises concerns around acceptable levels of debt. Few LICs managed to diversify their economies during the commodity super cycle and the current commodity slump. This, coupled with uncertain global economic conditions, has raised concerns over the increasing exposure of fragile African LIC economies to unsustainable debt levels. There is no natural global economic forum within which to discuss the challenges facing LICs that includes all the actors, as well as new players and parties (including LICs), making co-ordination and the crafting and implementation of appropriate action and remedies difficult.

Looking to the future, two financing categories are emerging among LICs: those that remain reliant on ODA as opposed to those that are increasingly offered assistance through capital markets and public–private partnerships (PPPs) as they graduate from LIC status. However, even in those countries that have not accessed significant

4 World Bank Group, 'Supporting Infrastructure Development in Low-Income Countries: Submission to the G20 by the MDB Working Group on Infrastructure', Interim Report, June 2011.

5 Addison T & PB Anand, 'Aid and Infrastructure Financing', UNU-WIDER (UN University – World Institute for Development Economics Research) Working Paper, 2012/56. Geneva: UNU-WIDER, 2012.

6 World Bank Group, 2011, *op. cit*.; interview, EIB (European Investment Bank) and EC (European Commission) representatives, 18 August 2016.

7 World Bank Group, 2011, *op. cit*.

8 *Ibid*.

9 Overseas development aid (ODA) is in current US$ value. World Bank, 'Indicators', http://data.worldbank.org/indicator, accessed 19 October 2016.

amounts of private investment yet, there are opportunities to channel ODA funds to de-risk and therefore catalyse private finance.

The objective of this paper is to identify key infrastructure-financing trends that are relevant for LICs by closely engaging with the debates that have emerged at the AfDB ahead of the ADF replenishment meetings due at the end of 2016. Specifically, this paper seeks to complement the findings of the final report that emanated out of the mid-term review of the ADF Working Group on Innovative Approaches for the ADF-14.[10] Two LICs, Lesotho and Senegal, that have been invited to participate in the ADF-14 replenishment meetings at the end of the year, are used as case studies to highlight the challenges they face in dealing with the ADF and explore the suggestions contained in the ADF report on how to improve their access to infrastructure financing.

The paper outlines the role of the ADF and the challenges that it is facing in extending infrastructure financing to LICs. It examines the changing context confronting LICs that seek to address their infrastructure demands while balancing their financing needs with the requirement to maintain sustainable debt levels. It then unpacks the suggestions made in the ADF-14 report on new sources of finance for LICs by exploring the dynamics of blended financing, project preparation facilities, private sector mobilisation and, finally, the potential for PPPs. Reference is made throughout the paper to the experiences of Lesotho and Senegal. It concludes with a brief discussion of the two case studies and an elaboration of the recommendations emerging out of these.

METHODOLOGY

The authors have used a mixed-method approach in their methodology, involving desktop research, interviews with government officials, donor entities and independent researchers, as well as the outcomes from a study group held on 24 August 2016 in Johannesburg. Independent researchers undertook fieldwork in Lesotho and Senegal, where relevant stakeholders were consulted. Internal and external peer reviews of initial drafts have also been incorporated into this paper.

THE AFRICAN DEVELOPMENT BANK AND ITS DEVELOPMENT FUND

The AfDB was created in 1964 to be an African-owned regional development bank that could provide development finance to its members. Development finance was provided on favourable terms, offering long maturities at low interest rates. However, it soon became clear that many of the poorest and least developed African

10 ADF (African Development Fund), 'ADF-13 Mid Term Review: African Development Fund Working Group on Innovative Approaches for the ADF-14', Final Report, 2015, https://frmb.afdb.org/documents/MTR-ADF-13/ENG009---ADF13-MTR-Final-Report-of-the-ADF14-Deputies--Working-Group-FINAL-12102015.pdf, accessed 19 October 2016.

states would be ineligible to borrow from the AfDB's non-concessional window (ADB) given their precarious economic situations and the risk to the bank should it extend loans to them under these conditions. In addition, the nature and terms of the loans were not fully appropriate for the poorest of its members, especially for projects with long-term durations or non-financial returns.[11] In response, the AfDB established its concessional window, the ADF, in 1973 to assist LICs. While African countries exclusively made up the membership and capital contributions of the ADB for nearly two decades, the ADF relied on capital contributions/replenishment from developed economies from the outset.

At present, the ADF comprises 37 regional member countries (RMCs) that can draw on its resources. The group includes states that are emerging as new markets, as well as those countries that are in need of special assistance and recognised as vulnerable or fragile states, as detailed in Table 1.

TABLE 1 REGIONAL MEMBER COUNTRIES ELIGIBLE FOR ADF RESOURCES AS AT 30 OCTOBER 2015

ADF-GAP (4)	BLEND (3)	GRADUATING TO AFDB (3)	ADF-ONLY (30)	
Djibouti	Cameroon	Cape Verde	Benin	Mali
Ghana	Kenya	Congo-Brazzaville	Burkina Faso	Mauritania
Lesotho	Zambia	Nigeria	Burundi	Mozambique
São Tomé & Príncipe			Central African Republic	Niger
			Chad	Rwanda
			Comoros	Senegal
			Democratic Republic of the Congo	Sierra Leone
			Côte d'Ivoire	Somalia
			Eritrea	South Sudan
			Ethiopia	Sudan
			Gambia	Tanzania
			Guinea	Togo
			Guinea-Bissau	Uganda
			Liberia	Zimbabwe
			Madagascar	
			Malawi	

Source: AfDB (African Development Bank Group), 'ADF recipient countries', http://www.afdb.org/en/about-us/corporate-information/african-development-fund-adf/adf-recipient-countries/, accessed 9 November 2016

11 UNWTO (UN World Tourism Organization), 'African Development Fund (ADF) – AfDB', 12 January 2015, http://icr.unwto.org/content/african-development-fund-adf-afdb, accessed 3 September 2016.

Criteria for ADF funding are based on the World Bank's concessional window criteria, the International Development Association (IDA): per capita income below an operational cut-off (in the fiscal year 2013–2014 this was $1,205) and a lack of creditworthiness to borrow from the ADB.[12]

Between 1975 and 2015 the ADF disbursed more than UA[13] 30 billion in grants and loans to LICs. Disbursements are highly concentrated in three areas, namely infrastructure (35.9% of total disbursements), multisectoral projects (27.8%) and agriculture and rural development (19%). Under infrastructure, the disbursement trend indicates a strong affinity for transport and power generation. Both sectors are critical enablers of economic development and poverty alleviation, and dovetail with the sectors that the private sector favours. While water supply and sanitation receives significant attention from the ADF, it is almost exclusively funded by MDBs and development partners with little private sector participation, given the long maturity rates and low returns in this sector. In contrast, the communications sector attracts significant private sector interest. Both the costs of and returns on information and communications technology investments are more predictable and revenue is easier to secure given that the management of the infrastructure is controlled by the investor. As a result, ADF investment in the communications sector was negligible between 2003 and 2015. It is also noteworthy that the ADF-13 supports regional integration with a particular focus on developing both hard and soft infrastructure.

Unlike the ADB, where a small number of countries dominate the bank's portfolio, ADF disbursements are spread among several countries. Over the past four decades, the top five countries (Ethiopia, Tanzania, Uganda, Kenya and Ghana) accounted for just over 30% of total disbursements, while disbursements to the top five countries of the ADB accounted for more than 60% of total disbursements.[14] This is largely a result of how ADF funding is allocated. At the outset of each ADF cycle, an allocation is made to finance regional operations (explaining the high disbursements on multinational projects) and fragile states. Once these allocations are subtracted from the overall pool, all ADF countries receive a minimum allocation. Additional allocations are based on a performance-based allocation formula, which takes into account the policies and institutional performance of eligible RMCs as well as their development needs.[15]

Of interest in Figure 2 is that Eastern and Central Africa receive a larger contribution of ADF funds compared to Southern and Western Africa. This is cause for concern to the South African government, which contributes to the ADF pot (both directly through contributions and indirectly through loans taken from the ADB and

12 AfDB (African Development Bank), 'ADF recipient countries', http://www.afdb.org/en/about-us/corporate-information/african-development-fund-adf/adf-recipient-countries/, accessed 25 September 2016.

13 Unit of Account. In 2015, UA1=$1.39.

14 Author's own research.

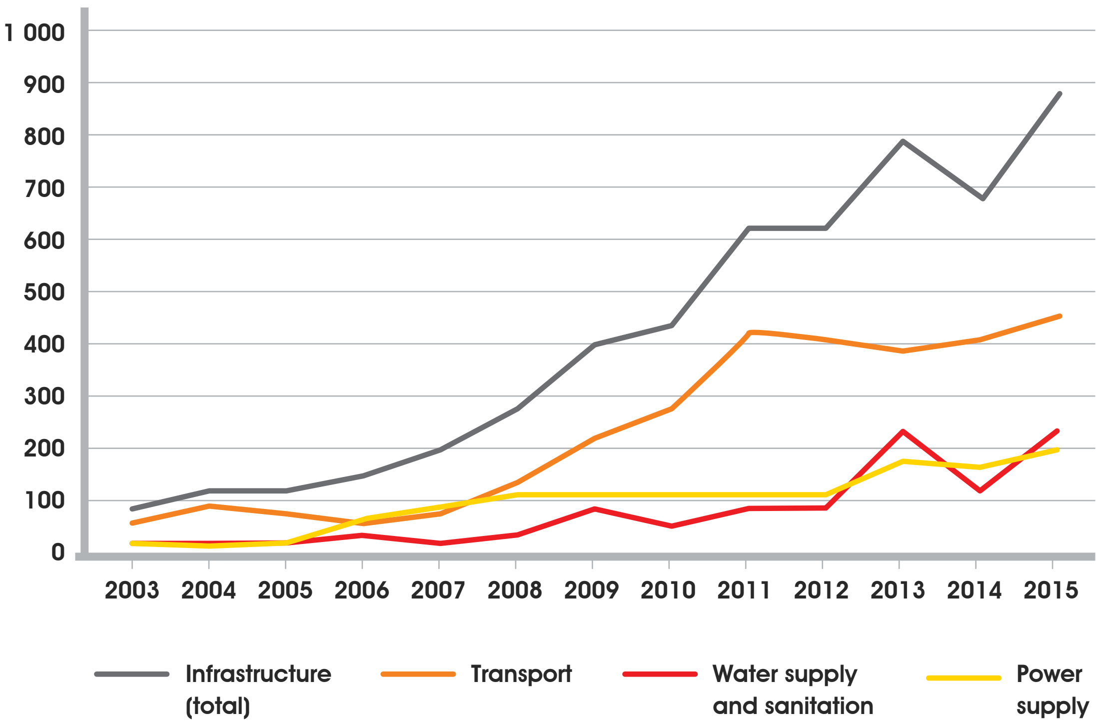
15 AfDB, 'ADF FAQs', https://frmb.afdb.org/?page=adf&subpage=about&section=faq, accessed 25 September 2016.

interest paid, which further supports the ADF) and which would like to see a greater proportion of its contribution spent in its own neighbourhood. Although the reasons for the lack of spend are not well understood, the case studies included in this paper shed some light on why ADF funding is not accessed.

ADF REPLENISHMENT

One of the key criticisms of the ADF has been that developed countries' influence on policymaking within the fund is disproportionally high, despite their not being beneficiaries of the fund. ADF contributing members include the US, Japan, EU member states, Canada, Turkey, Saudi Arabia, South Africa, Brazil, China, Korea and India. A total of 13 replenishment rounds have taken place since the bank's creation in 1974, and negotiations for the 14th replenishment are ongoing. Key policies and voting at the ADF replenishment are controlled by a board of executive directors. Contributing countries are afforded voting rights on the Executive Board in relation to their share of capital contribution. Figure 3 shows the current voting rights within the ADF.

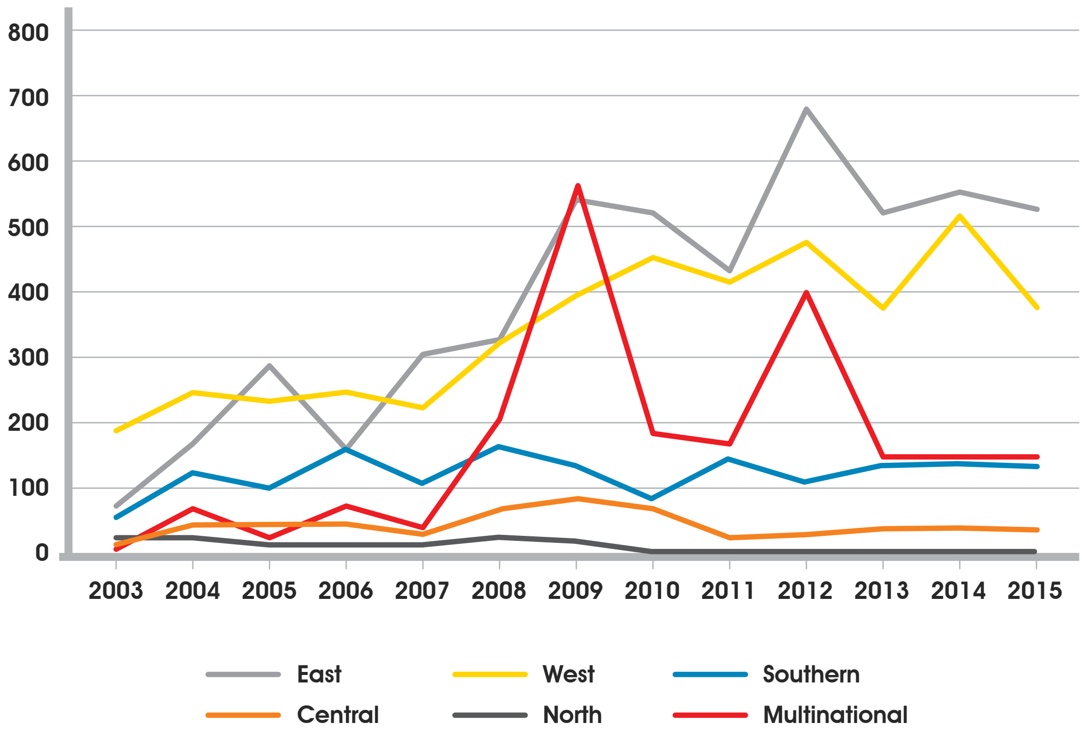
FIGURE 1 ADF DISBURSEMENTS FOR INFRASTRUCTURE, 2003–2015 (UA MILLIONS)



Note: For 2016, 1UA = $1.39

Source: Author's own work; AfDB, 'Compendium of Statistics 2016'

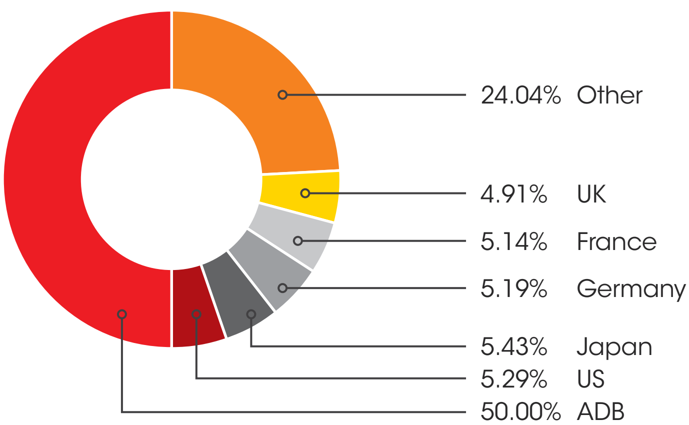
FIGURE 2 ADF DISBURSEMENTS BY REGION, 2003–2015 (UA MILLIONS)



Note: For 2016, 1UA = $1.39

Source: Author's own work; AfDB, 'Compendium of Statistics 2016'

FIGURE 3 ADF VOTING POWERS AS AT 31 DECEMBER 2015



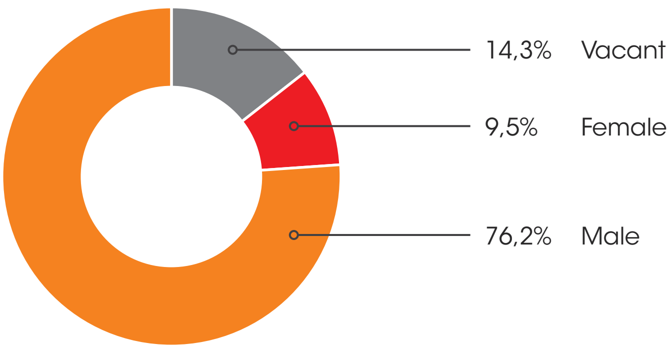
Source: Author's own work; AfDB, 'Compendium of Statistics 2016'

The Executive Board is also criticised for its lack of gender equity, with less than 10% female participation, as depicted in Figure 4. Considering the significant influence that the board has on policy decisions within the bank, the lack of gender equality will likely have an impact on the policy choices made, which could affect the ADF's programming and operations, and ultimately exacerbate inequalities in many of the African LICs that draw on loans from the ADF. The member states

Considering the significant influence that the board has on policy decisions within the bank, the lack of gender equality will likely have an impact on the policy choices made, which could affect the ADF's programming and operations

of the bank should make a concerted effort to increasingly include women on its board. The president of the AfDB could also focus on employing more women to senior positions within the bank itself. Evidence from the World Bank suggests that to ensure a discernible impact on reducing gender inequalities, MDBs need to integrated gender considerations across all areas of the development financing value chain, including at management level.

FIGURE 4 GENDER BREAKDOWN OF THE ADF EXECUTIVE DIRECTORS AS AT 31 DECEMBER 2015 2015



Source: Author's own work; AfDB, 'Compendium of Statistics 2016'

Unlike the ADB, which is financially self-sustaining, the ADF requires additional capital contributions every three years. Even though the ADB provides finance to African countries at more competitive rates than other sources of finance such as commercial financing and national development banks, it still levies a marginal interest rate of 1% on loans for ADF recipient countries that qualify for loans under the 'blend, gap and graduating status'. For all other ADF RMCs, there is a 0% interest rate on loans.[16] The income generated this way is used to fund the AfDB's operational expenses. Additional income generated from the ADB's operations is also used to replenish the ADF; however, this is not enough to sustain the latter's operations. Instead, the ADF relies on continuous capital injections from contributing countries to ensure its sustainability.

The ADF replenishment process involves the AfDB management, the ADF deputies (who are representatives of donor countries) and four observing RMCs (for the ADF-14, these are Lesotho, Senegal, Mozambique and Chad). As noted above, replenishments occur every three years. The participants in meetings ahead of each replenishment round carefully consider whether the policy framework is still appropriate, development impact is being achieved and the long-term financial situation of the fund is secure, among others. In the last in a series of meetings ahead of each replenishment cycle, donors make their pledges. Every replenishment cycle also includes a mid-term review typically 18–20 months into the cycle, to report on and evaluate progress.[17]

More recently, however, there seems to be a reduction in the extension of the ADB's financial services to MICs. By the end of 2013 the ADB had used only 15% of its capacity to service the financing needs of MICs.[18] Given the interconnectedness of the bank's concessional and non-concessional windows (through the transference of 'profit' from the ADB to supplement the ADF's funds), challenges experienced in the ADB are material to the financial health of the ADF. This results in smaller contributions being made to the ADF, which in turn compromises the extent to which the ADF can adequately respond to its members' needs. This has resulted in a situation where African countries are forced to pay higher interest rates over shorter timeframes in return for bigger loans and the imposition of higher restrictions on expenditure.[19] The problem is compounded by the fact that some LICs that are not permitted to borrow from the ADB due to lack of creditworthiness and insufficient GDP per capita (the IDA gross domestic product [GDP] cut-off, which the ADF also uses, was $1,215 in 2014)[20] and are being edged towards paying higher interest rates for shorter maturity loans, placing them on a higher debt trajectory. In addition, accessing non-concessional loans involves rigorous evaluation processes with loans

16 AfDB, 'Loans', http://www.afdb.org/en/projects-and-operations/financial-products/african-development-fund/loans/, accessed 2 November 2016.

17 AfDB, 'ADF FAQs', *op. cit.*, p. 7.

18 ADF Working Group, 'ADF-14 Innovative Financing Approaches', Options Paper. Abidjan: ADF, 2014.

19 Humphrey C, *op. cit.*

20 World Bank, *The World Bank Operational Manual: Operational Policies*. Washington DC: World Bank, July 2015.

being offered on competitive terms, and coupled with guarantees.[21] Based on this criterion, it is probable that many LICs simply do not meet the ADF's requirements for accessing non-concessional loans, and therefore turn to commercial markets to finance their needs. For example:

- Since 2010 there has been significant debt accumulation by LICs and middle-income countries (MICs) that has not been fully mitigated by other factors. For example, Mozambique's external debt-to-GDP ratio is greater than 40%, which exceeds the prudential limit recommended by the International Monetary Fund (IMF) on a long-term basis.[22]
- Since 2005 African LICs have experienced a steady decline in the grace period and maturity of new external debt commitments and are incurring higher interests on new external debts.[23]
- Domestic market borrowing is also on the rise: several African states (such as Tanzania and Zambia) have borrowed heavily on domestic markets, resulting in domestic debt rising to 19% of GDP in 2013, from an average of 11% of GDP in 1995.[24] While domestic market borrowing does not always have negative economic impact, it could adversely affect a country's ability to successfully maintain debt at sustainable levels.

Therefore, not only is both the external and domestic debt of LICs rising rapidly but the composition and sources of Africa's debt are also becoming increasingly diversified and less concessionary than previously, with little or no overview.

In preparation for the ADF-14 replenishment round, the ADF established a working group to examine several mechanisms to mobilise additional financing for ADF member countries. It released a document in 2014 proposing six options:[25]

1. opening up the ADF to donor contributions in the form of concessional loans and debt finance;
2. blending AfDB and ADF resources ([providing RMCs with access to ADB funds on softer 'blend' terms;
3. using ADF resources to increase private sector financing in ADF countries;
4. results-based financing (linking disbursement of funds to the achievement of developmental results);

21 ADF, 'ADF-13 Mid-term Review 2015: Review of the Bank's Credit Policy and Graduation: Issue Notes', *op. cit.*

22 Chowdhury A & I Iyanatul, 'Is there an optimal debt-to-GDP ratio?', CEPR (Centre for Economic Policy Research), http://voxeu.org/debates/commentaries/there-optimal-debt-gdp-ratio, accessed 27 October 2016.

23 tralac, 'UNCTAD warns on debt: Africa should find new ways to finance development', https://www.tralac.org/news/article/10144-unctad-warns-on-debt-africa-should-find-new-ways-to-finance-development.html, accessed 26 September 2016.

24 *Ibid.*

25 ADF-14 Working Group, 2014, *op. cit.*

5. reforming the Advance Commitment Capacity (ACC) model to allow contributions over a shorter period of time; and
6. allowing donors to contribute through the ACC.

Option two allows eligible ADF countries (countries designated as ADF 'blend' countries[26] and countries currently graduating to AfDB status) to access ADB funds. It introduces an interest buy-down mechanism that allows certain ADF countries access to ADB loans on ADF terms, with the ADF subsidising the difference in the interest rate. This will give countries that have graduated to 'blend' status and countries graduating to AfDB status access to additional funding. Three countries – Kenya, Zambia and Cameroon – are able to borrow from both the ADF and the ADB given their 'blend' status. While they are deemed creditworthy their gross national income per capita is still below the cut-off level to graduate to AfDB status. Currently, Nigeria is in the process of graduating from the ADF, with the process to be completed by 2018, having previously qualified for blended finance.

TABLE 2 ELIGIBILITY TO ACCESS ADF FINANCING

		CREDITWORTHINESS TO SUSTAIN ADB FINANCING	
		NO	YES
PER CAPITA INCOME ABOVE THE ADF/IDA OPERATIONAL CUT-OFF FOR MORE THAN TWO CONSECUTIVE YEARS	NO	**ADF only** on regular ADF terms	**Blend** eligible for ADB resources and for ADF resources subject to a cap and blend terms
	YES	**Gap** not eligible for AFDB resources but eligible for ADF resources on blend terms	**ADB only** Graduating countries are eligible for ADF resources on blend terms during a two- to five-year phasing-out period

Source: ADF presentation, South African National Treasury, 22 July 2015

Senegal is very interested in accessing non-concessional resources from the ADB, and although the country has not achieved 'blend' or ADB status it can already access the ADB's sovereign window on a case-by-case basis, in line with the bank's new credit policy, which was amended in May 2014 (and discussed under option 2 in the current ADF working group). Countries eligible for these terms are granted funds based upon the profitability of the project, but they are constrained by the

26 Countries that have achieved 'blend' status are able to borrow from both the ADF and the ADB subject to a specific cap and blended finance terms.

resources and technical capacity needed for project preparation. The Senegalese case study found that the country has managed to access only a fraction of the available funds from the ADB window, highlighting the need for more capacity building in this area. The lack of sufficient concessional/blended finance options available to Senegal has prompted it to issue Eurobonds to mobilise additional finance, at interest rates of 8.75% and 6%. Given the expense of this option, it would much prefer to access loans from the ADB with its far better terms, typically at around 1% interest and 20 years' maturity.[27]

Another concern for LICs is the scope and quality of consultation with recipient countries in formulating and informing the bank's country strategy papers (CSPs) and the replenishment meeting agendas. The AfDB noted during the course of the research that an extensive engagement process is undertaken with all its beneficiary countries (both LICs and MICs).[28] It bases its preliminary strategy on the country's own development strategy, which is a requirement for AfDB beneficiary countries. Bank officials design a mission for consultation or a 'dialogue mission' where they send a multidisciplinary team (comprising economists, infrastructure specialists and human development specialists, among others) to the recipient country with a concept note. The bank conducts extensive workshops, where it invites input from civil society, the private sector and the government. In drafting the CSP it considers how the existing CSP has fared and what should be changed. Only after further consultation with the country and after obtaining approval of the CSP does it pitch projects to the replenishment meetings.[29]

Despite this technically extensive process, consultations in Lesotho show there is a belief that the scope of the AfDB's engagement is too narrow. Private sector associations lament their exclusion from the process that determines the final selection of projects, given the highly politicised environment surrounding project selection. In additional, local civil society actors confirm that the government does not allow broader civil society representation in the project selection process. This is a significant problem, as the involvement of the private sector and civil society is a key mechanism to bridge the concept of infrastructure development with inclusive development.[30] However, this also presents a predicament, as the lack of consultation and participation stem from deep-seated historical mistrust and a lack of communication between the public and other sectors in Lesotho. It is questionable whether the AfDB should be expected to mediate in local political processes to ensure fairness and adequate consultation. It is also noteworthy that this was flagged as less of a concern in Senegal, where the outreach process that accompanies the development of the CSP was viewed as widely consultative.

27 Case study, based on interviews conducted in Senegal, September 2016.

28 Interview, AfDB representatives, October 2016.

29 *Ibid*.

30 Case study, based on interviews conducted in Lesotho, September 2016.

The ADF-13 Mid-Term Review and subsequent working group papers that were developed in the run-up to the ADF-14 replenishment meeting frequently highlighted concerns around sustainable debt levels for its borrowers. Although, as noted above, the ADF plays a limited role in domestic decision-making, it would do well to be aware of the possibility of another LIC debt crisis and adopt mitigating approaches in its engagement strategies with LICs.

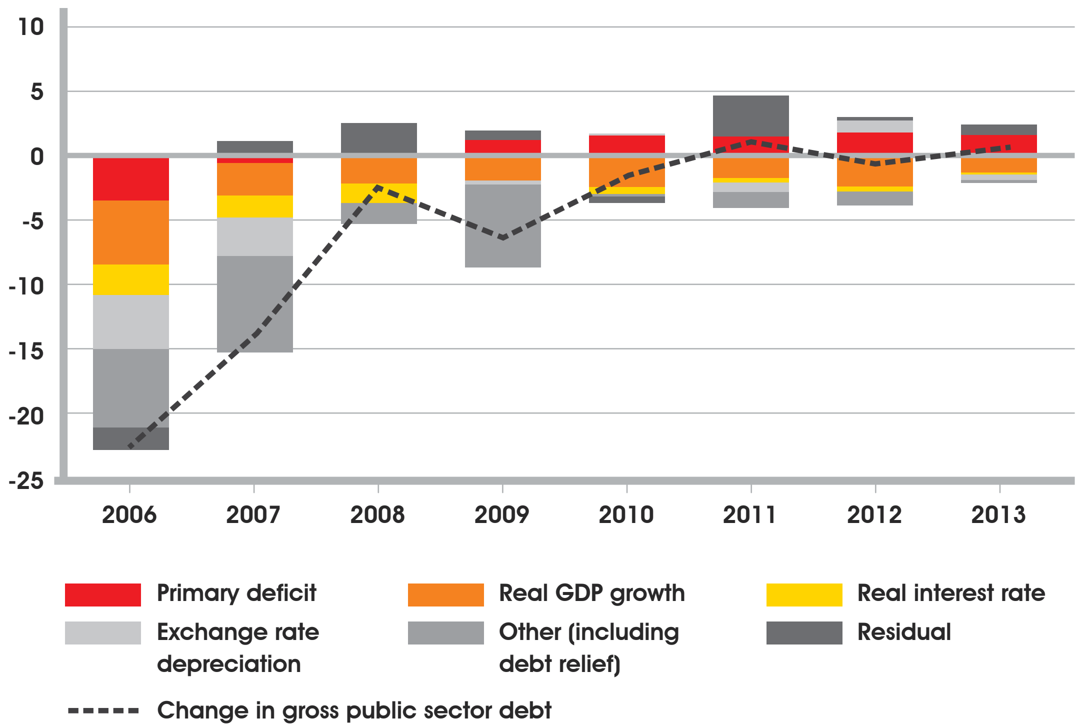
LIC DEBT SUSTAINABILITY LEVELS

Just a few years ago many believed that African LICs had on the whole achieved sustainable levels of debt, given the introduction of comprehensive debt restructuring and relief efforts led by the international community. These measures explained the significant drop in the external debt of countries such as Tanzania and Mozambique, which received debt relief equal to 22% and 39% of their respective GDP.[31] Statistical analysis by the World Bank shows that a significant reduction in debt was achieved prior to the global financial crisis. However, following the 2008 financial crisis, debt levels ceased decreasing at previously observed rates. Since 2010 indebtedness has begun to grow – albeit at a lower rate than in previous decades – because of a reduction in concessional debt, lower growth rates and higher primary deficits, among others.[32] These factors, compounded by LIC access to non-concessional loans at higher interest rates, have contributed towards a changing debt profile in recent years. Moreover, dependency on commodity exports, which have steadily declined in recent years, showed how vulnerable LICs are to a return of unmanageable debt levels. Since 2010 there has been significant debt accumulation by LICs and MICs that has not been fully mitigated by other factors. For example, as noted before, Mozambique's external debt-to-GDP ratio is greater than 40%. Figure 6 depicts the various reasons why public debt patterns have begun shifting in sub-Saharan African countries.

31 Battaile B, Hernandez FL & V Norambuena, 'Debt Sustainability in sub-Saharan Africa: Unraveling Country-Specific Risks', World Bank Policy Research Working Paper, WPS 7523. Washington DC: World Bank Group, 2015.

32 *Ibid*.

FIGURE 5 PUBLIC DEBT-CREATING FLOWS IN SUB-SAHARAN AFRICAN COUNTRIES, 2006–2013



Source: World Bank, 'Debt Sustainability in Sub-Saharan Africa: Unravelling Country-Specific Risks', Policy Research Working Paper 7523, December 2015; https://papers.ssrn.com/sol3/Papers.cfm?abstract_id=2706885

The Mid-Term Review of the ADF-13 flagged the maintenance of sustainable debt levels among LICs given increasing demands for higher levels of infrastructure spending. In particular, the ADF's main concern with non-concessional borrowing by LICs (especially those eligible for grant relief and those that benefitted from the Heavily Indebted Poor Countries Initiative [HIPC] and Multilateral Debt Relief Initiative [MDRI])[33] is that ADF grants 'could potentially cross-subsidise

33 The Heavily Indebted Poor Countries Initiative (HIPC) and Multilateral Debt Relief Initiative (MDRI) focused on reducing debt burdens and achieving debt sustainability among heavily indebted countries, many of which were African LICs. These debt relief programmes afforded some African countries the opportunity to have their debts reduced or written off, and provided them with a clean slate on which to build their development. From 2001 to 2012 recipient countries were able to increase their poverty-reducing expenditure by almost 3.5% points of GDP, a testimony to the initiatives' level of success. See Chervalier B, 'Recent Changes in the Debt Sustainability Framework, and Non-Concessional Borrowing', MDB Meeting on Debt Issues, Washington DC, 6–7 May 2014.

lenders that offer non-concessional loans to recipient RMCs'.[34] Occurring against a backdrop of tighter fiscal conditions governing donor support, there are also considerations about whether donors ought to move from grants to providing 'loans with hardened terms' instead. Within this mismatch of needs versus available funding, LICs increasingly turn to high-interest loans, whether on the domestic or international market, to finance infrastructure projects, as domestic resource mobilisation remains weak.

The review predicts that the hardening of loan conditions among traditional donors will be a long-term feature of the international development landscape, given domestic pressures in donor countries to curtail spending. It also finds that should harder loan conditionalities accompany higher levels of funding, which for now remain a hypothetical scenario, there is a good chance that LICs could be attracted away from high-interest loans towards more controlled debt management. However, if funding becomes restricted alongside tougher conditionalities without an increase in the availability of funds, LICs might well be attracted to high-interest loans simply because they need to meet their infrastructure demands, which could put them on a danger path towards unsustainable debt levels. With respect to concessional donor loans, the review finds that these should only be used for those countries on the ADF blend/graduating terms.

According to the ADF-14 working group report,[35]

> current ADF clients will be increasingly reliant on less concessional AfDB lending – not only as a result of countries changing their ADF status but also ADF-only countries will be able to access AfDB lending following the adoption of the 2014 credit policy. At the same time these countries may also be experiencing a similar hardening of terms from the World Bank Group and the International Monetary Fund, as well as potentially seeing a reduction in bilateral concessional funding triggered by their changing status in MDB concessional funds.

The report therefore encourages the AfDB to first, work closely with LICs to increase their capacity to mobilise domestic resources and second, co-ordinate with other MDBs and the IMF when assessing the overall debt sustainability of countries.

The ADF recognises that the monetary value of the grants and concessional loans that LICs can access is often well below their financial requirements. RMCs also indicated that 'they could afford to absorb less concessional funding, especially if funds were allocated to high-return projects'.[36] Hence, in May 2008 it adopted a policy on non-concessional debt accumulation – the Non-Concessional Borrowing Policy (NCBP) – with the aim of enhancing creditor co-ordination around a debt

34 AfDB, 'Non-Concessional Debt Accumulation Policy', http://www.afdb.org/en/projects-and-operations/financial-products/african-development-fund/debt-sustainability-and-adf-grant-eligibility/non-concessional-debt-accumulation-policy/, accessed 8 November 2016.

35 ADF Working Group, *op. cit*.

36 AfDB, 'Non-Concessional Debt Accumulation Policy', *op. cit*.

sustainability framework (DSF) and discouraging non-concessional borrowing among ADF members.[37] Tied to disincentives for recipient countries, these measures include reductions in financial volumes and tougher borrowing terms, which are applied on a case-by-case basis.[38] The idea behind the NCBP is to help countries manage their debt levels so that fiscal resources are made available for important development projects and to avoid the accumulation of new debt on non-concessional terms.[39]

However, challenges encountered in undertaking debt sustainability analyses (DSAs) for the DSF exposed the need to balance debt levels against development concerns. The DSAs have therefore been remodelled to reflect linkages between public investment and growth, and show greater flexibility on public enterprise debt and the use of remittances.[40] This flexibility entails 'replacing the single benchmark grant element of 35% with a more nuanced concessionality framework' that better reflects the differences in debt vulnerability and debt management capacity among ADF-recipient countries.[41] The lack of data on debts incurred with commercial and non-DAC donors that do not participate in traditional donor reporting systems also made the NCBP difficult to implement. Moreover, determining the correct level of disincentives has proven challenging for the ADF. Such disincentive measures include reductions in financial volumes and tougher borrowing terms, which are applied on a case-by-case basis.[42] However, determining what constitutes sufficiently tough borrowing terms and thus the 'correct level of disincentives' has proven difficult. Consequently, such measures have only been applied only once, to Ghana.[43] The idea behind the NCBP was to help countries manage their debt levels, so that fiscal resources could be made available for more important development projects, and to avoid accumulation of new debt on non-concessional terms, which could be potentially detrimental to ADF members' debt levels.[44]

Consequently, the NCBP, which previously followed a 'one-size-fits-all' approach to concessionality, has adapted to better reflect nuances among developing countries based on each country's specific public financial management profile, its debt

37 ADF Series, 'Balancing Debt and Development: African Development Bank Group Activities in Support of Debt Sustainability', ADF Series, 2010.

38 Tougher borrowing terms include shorter maturity and grace periods, and/or higher interest rates that reduce the concessionality aspect of ADF loans. See *ibid*.

39 *Ibid*.

40 *Ibid*.

41 AfDB, 'Non-Concessional Debt Accumulation Policy', *op. cit*.

42 Tougher borrowing terms include shorter maturity and grace periods, and/or higher interest rates that reduce the concessionality aspect of ADF loans. See ADF Series, 2010, *op. cit*.

43 ADF, 'ADF-11 Mid-Term Review: Update on ADF Activities in Support of Debt Sustainability', Background Paper, October 2009.

44 ADF Series, 2010, *op. cit*.

vulnerability and country-specific DSAs.[45] This is a positive step, which should assist the ADF in assessing debt levels among its members more accurately and responding more effectively to requests for debt management assistance. Flexibility in accommodating non-concessional borrowing needs will also be consistent with a country's debt management capacity – ie, countries will be able to access non-concessional loans depending on their debt distress levels as rated by the ADF (green, red or yellow).[46] This amendment allows nearly half of the ADF-only countries to access some level of non-concessional external debt, which will enable them to address their development needs.

Of course, whether the ADF is able to fulfil an additional mandate on this issue remains to be seen. There is also the additional risk that, because the NCBP follows established protocol from the IMF and World Bank, it could end up replicating errors in these MDBs' approaches towards addressing debt sustainability issues, rather than necessarily forging new solutions that address LIC-specific needs. Nevertheless, at the very least, providing comprehensive debt-related advisory services is another way to ensure that RMCs are provided with the necessary information to facilitate decision-making in respect of DSAs and other debt sustainability issues.[47]

In addition, the new approach of rating countries according to the extent of their debt vulnerability and determining the amount of concessional loans they can obtain based on individual debt vulnerabilities, allows the ADF to determine realistic DSAs. This in turn provides RMCs with the flexibility to access specified levels of non-concessional financing, while also ensuring the sustainability of their long-term debts.[48]

Nonetheless, beyond synchronising their efforts with the IMF and World Bank, there is a limit to what the AfDB and ADF can achieve by themselves. Currently, their capacity to implement substantial debt management initiatives remains constrained.[49] African countries also need to find ways to:

- reduce their debt through effective domestic revenue mobilisation, thereby ensuring greater efficiency in public expenditure, and introduce prudent debt limits that enable them to fulfil their debt service obligations;[50]
- implement debt management strategies and general fiscal policies that enable growth;[51]

45 ADF, 'ADF-12 Replenishment, Third Meeting'. Abidjan: ADF, May 2010b.

46 AfDB, 'Non-Concessional Debt Accumulation Policy', *op. cit*.

47 Chervalier B, *op. cit*.

48 ADF, 2010b, *op. cit*.

49 *Ibid*.

50 Ncube M & Z Brixiova, 'Public Debt Sustainability in Africa: Building Resilience and Challenges Ahead', AfDB Working Paper, 227, July 2015.

51 *Ibid*.

- establish a maximum volume for debt that can be incorporated into the ADF financing framework over the long term to ensure timeous repayment of debts;[52] and
- strengthen their own capacities to undertake independent DSAs and apply these findings to their borrowing activities.[53]

ALTERNATIVE FINANCING SOURCES: PRIVATE SECTOR POTENTIAL

The ADF-13 Mid-Term Review recommends that the ADF should give greater consideration to how private capital could be attracted to LICs. It suggests that the ADF pursue co-operation and partnership with the private sector with itself in the role of risk guarantor.[54] Following the mid-term review, the ADF established a working group on exploring alternative finance sources. The working group highlighted six areas for consideration, of which the blending of AfDB and ADF resources and the use of ADF funding to increase private sector funding in donor countries are explored further, given that they both can benefit from the inputs of beneficiary countries.[55] This paper also takes a look at PPPs as an important vehicle of blending approaches.

Approach to blending of financing sources

In order to make infrastructure investments more attractive and less risky, MDBs and development finance institutions (DFIs) are using 'blended finance', which technically consists of combining both loan and grant elements. An example of this is the AfDB's decision to blend access to concessional and non-concessional lending. However, blending is also increasingly utilised as a vehicle to make developmental projects more attractive to private sector finance. The UN's 2015 Addis Ababa Action Agenda on financing for development recognises the importance of utilising blended finance to encourage private investment through mechanisms such as PPPs, which represent a more attractive structure for private investors. The AfDB is exploring options for mobilising private investment. Importantly, blended finance is provided on the condition of additionality. This means that the grant element adds benefit that commercial finance would not, or fills a gap where commercial finance would not invest, to ensure that other sustainable finance options are not crowded out.[56]

52 ADF, 2010b, *op. cit.*

53 Ncube M & Z Brixiova, *op. cit.*

54 ADF, 2009, *op. cit.*

55 ADF, 2010b, *op. cit.*

56 Interviews, EIB and EC representatives, *op. cit.*

Four common types of additionality are:

- **financial:** leveraging additional private finance into the project;
- **design:** influencing project design so that growth and/or poverty impacts are enhanced;
- **policy:** influencing the policy context in which the project occurs to enhance growth/poverty impacts; and
- **demonstration:** where the success of a DFI-supported project provides a stimulus for subsequent private sector projects that do not involve DFIs.[57]

The grant element can take the form of either a direct grant for a particular part of a project or a mechanism such as subsidising interest rate payments on a project loan. Other mechanisms to mobilise finance include de-risking mechanisms, such as guarantees of creditworthiness and insurance against political and foreign exchange risks. Blended finance often targets the project preparation phase, which is the riskiest given that there are steep costs when there is still uncertainty as to whether a project will materialise. Funding goes towards feasibility, social and environmental impact studies, building technical capacity such as contract preparation and the management of balance sheets, and marketing projects.

When examining the possible additionalities that can come from blending, a study from the Private Infrastructure Development Group (PIDG) noted that efforts to design pro-poor projects were noticeably lacking.[58] Although this study examined blending among DFIs in particular, it also holds relevance for MDBs such as the AfDB as they increasingly look to mobilise private sector finance. It found that DFIs did not put much effort into the aspects that directly benefit the poor (barring the hoped-for trickle-down of economic growth), such as increased access to a service or ability to pay for a service. For example, expanding electricity into rural areas would represent a pro-poor initiative because it would contribute to inclusive growth. However, rural areas have less supportive infrastructure (for example, bad roads and water systems), which would increase the costs of such a project. Additionally, there is less likelihood that residents of the poorest areas will be able to pay for the service. It is thus often the case that pro-poor projects are less bankable. There is a need to develop a more refined and standardised categorisation of projects so that concessional resources can be best leveraged to ensure that pro-poor elements are included in projects and/or that concessional funds can be leveraged to support projects with high developmental impacts but low commercial returns. For example, in the energy sector some projects might be suitable for private sector investment with little or no concessional resources due to the natural profitability

57 Spratt S & LD Ryan, *Development Finance Institutions and Infrastructure: A Systematic Review of Evidence for Development Additionality*, PGD (Private Infrastructure Development Group), 2012, http://www.ids.ac.uk/files/dmfile/2012IDS-PIDGSystematic ReviewFinal.pdf, accessed 9 November 2016.

58 *Ibid*.

of the sector.[59] These are suggestions that the ADF can take note of, especially as it endeavours to increase its blending and private sector mobilisation initiatives. The study suggests a simple four-factor categorisation of projects that could help to optimally allocate funds, and developing a measurement for them that could be standardised across DFIs to ensure that finance is optimally allocated:

- fully commercially viable – ie, could go ahead without DFI involvement;
- commercially viable but a political umbrella essential to mitigate risks sufficiently to assure investors;
- commercially viable but only if finance is structured in ways that only DFIs will or can provide the financing; and
- only commercially viable if a 'blended' model of concessional and commercial finance is used.

However, this issue is more complex than just adopting a simple project categorisation to improve project selection. Although the ADF does not face the pressures of other DFIs such as self-funding and lending on commercial terms (which can run directly in contrast to choosing developmental projects), it does form a part of the AfDB, which has a AAA credit rating. This creates pressure to fund low-risk, high-return projects (with growth expected to indirectly lead to poverty reduction), especially with the new push to draw in the private sector. This is not the same as choosing projects that include direct social and environmental additionalities from the outset, which may be less financially viable.

The PIDG study suggests the first step is a more explicit acknowledgement of the tensions between development additionality and financial additionality. In addition, if development additionality is expected to be a direct rather than hoped-for indirect impact, a standardised method needs to be developed to select developmentally impactful projects. The study also suggests that although DFIs do strive to select pro-poor projects, there is no standardised way to do this and compare additionalities across projects. It is also important to standardise the evaluation of impacts in order to inform future project selection.[60] Option 4 of the ADF Working Group examines the possibility of 'results-based finance', which links additional donor contributions to developmental results. Most notably, the World Bank has engaged in this mechanism to fund social projects in health and education. However, this model could also be used to develop benchmarks for infrastructure projects, such as increasing service provision for the poor, improving access to markets for the poor, and creating employment and skills transfer on projects. In 2013 the AfDB released its Results Measurement Framework, and one of its five key priorities is '[b]etter assessing the Bank's impact on development', which the bank seems to do by focusing more on measuring impacts on people, increasing data collection

59 Kwakkenbos J & MJ Romero, *Engaging the Private Sector for Development: The Role of Development Finance Institutions?,* ÖFSE (Österreichische Entwicklungspolitik) Analysis, 2013, http://www.oefse.at/fileadmin/content/Downloads/Publikationen/Oepol/Artikel 2013/2_Kwakkenbos_Romero.pdf, accessed 9 November 2016.

60 Spratt S & LD Ryan, *op. cit.*

capacities and increasing qualitative analysis.[61] Another priority is to better measure impacts on gender. However, there is not much detail in the document on the processes for these initiatives, how the results are being applied, or their approach to infrastructure investment.

It is important to assess the progress of this initiative and its uptake (especially for LIC countries), and emphasise that similar parameters be developed for pre-project selection, using the monitoring and evaluation (M&E) data that is now being obtained. These are issues that the South African government could put forward in ADF-14 – to strengthen both ex-ante and M&E frameworks to ensure that the developmental interests of beneficiaries are considered.[62] It is especially important that the ADF pushes forward these initiatives given its position as an African institution that is closer to the needs of LIC countries.

Private sector funding: ADF facilities

Not only is private capital is a widely untapped financial resource that can catalyse a multiplier effect of additional finance, but it also holds the possibility of contributing to operations and technical capacity. Table 3 examines three recent mechanisms that the ADF has implemented to mobilise additional private sector finance for LICs.

TABLE 3 AFDB PRIVATE SECTOR MOBILISATION INITIATIVES

Partial Risk Guarantee (PRG)	Covers private sector investors in the event of the government's failing to uphold its duties in a contractual arrangement due to a number of factors, eg, regulatory changes, currency inconvertibility, force majeure
Partial Credit Guarantee (PCG)	Covers private lenders against the risk of debt service default
Private Sector Credit Enhancement Facility (PSF)	Separate legal entity backed by a $230 million grant from the ADF to provide credit enhancement to finance projects for LICs

Source: ADF Working Group, 'ADF-14 Innovative Financing Approaches', Options Paper. Abidjan: ADF, 2014

While these programmes are relatively new (the PRG was introduced in the ADF-12 and the PCG and PCF in the ADF-13) their uptake has been decidedly low. Only Ghana, Nigeria and Kenya have utilised this mechanism, and all for projects in the energy sector, which is the infrastructure sector most attractive to private investors

61 AfDB, Quality Assurance and Results Department, *The One Bank Results Measurement Framework 2013–2016*. Abidjan: AfDB, December 2013.

62 ADF Working Group, *op. cit*.

due to its high returns. The PCG has not been used for any projects as of the end of 2015 while the PSF has fared the best, approving 19 projects as of October 2016 in infrastructure sectors such as power, roads and port containers and non-infrastructure sectors such as finance in agriculture.

From the case study research, there seems to be little awareness or understanding of these private sector mechanisms and initiatives. The Senegalese case study shows that country officials and other stakeholders believe that these mechanisms fall under the AfDB's commercial window and that they are therefore not accessible to LICs.[63] This presents a clear information gap, where resources available to assist countries exist in a vacuum and are not utilised as often as they could be, or are only utilised when banks approach countries and not vice versa. These challenges are due to the relative newness of these mechanisms as a part of the ADF-13, but also draw into question the ways in which awareness is raised among RMCs. The AfDB 2015 annual report concedes that the slow uptake of the PRG and PCG is of major concern, and AfDB representatives concurred that it is a challenge to make all of these initiatives known at the country level.[64] Given that the AfDB is decentralising and focusing more resources in its regional offices, the bank should ensure that the information is available in easily digestible format in its various locations, explaining both the nature of the initiatives and how LICs can benefit from such finance. Despite their origins in the ADF, thus far uptake has been much greater among MICs, which is cause for concern. The local offices could take a road-show approach to advertise the various private sector programmes available in each country. It is also important that they are promoted in their official interactions with governments.

Under the ADF-14 Working Group's third option of using ADF resources to increase private sector financing in ADF countries, the ADF examines two ways to possibly enhance the PSF. The first option is to tailor the PSF risk guarantees to specific types of risks (as other risks are already covered by other AfDB policies). The second option is to extend the PSF coverage to other financial institutions that are co-financing private sector projects. Essentially, institutions that co-finance projects with the ADF will also be able to take advantage of the fund's credit lines to projects that involve private sector investment.[65] This option is especially important, as co-financing is a crucial mechanism that can increase the effectiveness of lending on the continent by spreading the risk and increasing the funding potential. Often, multiple banks such as the World Bank and the AfDB target the same types of projects, but even collectively they do not have the requisite funding to finance infrastructure projects and make them attractive for private sector involvement.[66] AfDB consultations confirmed that AfDB replenishment funds alone are sufficient to cover one project in its entirety over the three-year cycle. Co-financing provides a

63 Senegal case study, *op. cit.*

64 *Ibid.*

65 ADF Working Group, *op. cit.*

66 Interviews, AfDB representatives, *op. cit.*

much-needed aggregative boost to these efforts.[67] Both Lesotho and Senegal confirm these concerns, and their funding challenges (as elaborated in the case studies below) support the point that co-financing is needed to cover the costs of large projects. It is important within co-financing that different financing institutions specialise in certain areas in order to maximise their effectiveness. For example, the AfDB has a unique advantage in terms of its African ownership and closeness to the continent's objectives and challenges, and should therefore continue to specialise in framing and designing projects in terms of the regional initiatives of the RECs and AU, dealing with sensitive political issues around projects, and ensuring that developmental interests and challenges of countries are heard (and the ADF must specifically ensure that the often more marginalised views of LIC countries are heard).

The European Commission has made progress in mobilising the private sector by establishing its own separate blending facilities for Africa through the EU-Africa Infrastructure Trust Fund (EU-AITF, now the Africa Investment Facility). It represents a good model for the ADF and combines grants from the EU with loans from DFIs. The grant element comprises pure grants, technical assistance or risk-sharing mechanisms. It can also be considered a Project Preparation Facility (PPF), as approximately 15% of its funds were disbursed for project preparation in 2015; however, it also provides financing for other stages of projects. Since its inception in 2007 the fund has leveraged grants of $496 million (104 grants in total) to stimulate investments worth $9.6 billion. These grants have been allocated towards 77 projects.[68] The fund has been able to make a meaningful impact in those infrastructure sectors that stimulate development, as evidenced by the high percentage of approvals in the transport and energy sectors. Although the loans are not concessional, grant elements such as interest rate subsidies can assist countries with payments, and many LIC countries are project recipients. As a partner in this initiative, the AfDB is allowed to apply for grants from the facility. The effectiveness of the EU-AITF in disbursing technical assistance and stimulating private sector investment in difficult regional projects in primarily LIC countries is a noteworthy example for the ADF.[69] However, the EIB, which is the key DFI involved in the trust fund, also suffers from a lack of pro-poor additionalities, along with all the DFIs surveyed. This reinforces the need for a greater DFI effort to develop measurements to assess pro-poor impacts in the project selection process, and to measure their effects throughout M&E.[70]

67 *Ibid*.

68 EC, EIB & EU-AITF (EU-Africa Infrastructure Trust Fund), 'EU-Africa Infrastructure Trust Fund Annual Report', 2015, http://www.eib.org/attachments/country/eu_africa_infrastructure_trust_fund_annual_report_2015_en.pdf, accessed 7 November 2016.

69 ADF Working Group, *op. cit*.

70 Kwakkenbos J & MJ Romero, *op. cit*.

BOX 1 ZOOMING IN ON THE AFRICA50 INITIATIVE [a]

The Africa50 Fund is an example of a new finance vehicle that was created using blended finance. Established by the AfDB, Africa50 is an independent fund specifically targeting infrastructure and investing in high-impact national and regional projects. Its shareholders are currently 22 African governments, two central banks and the AfDB. It focuses on the mid- to late stage of project preparation, crowding in resources from traditional financiers, commercial banks and private equity funds. The fund also seeks to work with other sources of finance such as PPFs to ensure that their funding is brought into the earlier project preparation stages. It ultimately seeks to reduce the average time from project design to completion from 10 to three years.

The backing of the Africa50 Fund by the AfDB and its ability to invest in a range of infrastructure projects bolster its credibility, which the fund uses when appealing to institutional investors that have been reluctant to invest. The fund had its first annual general meeting in July 2016, where shareholders subscribed to $830 million in its initial share capital.[b] The ADF considers the Africa50 Fund as a vital resource for enhancing its activities.

In its 13th replenishment meeting, the ADF advised that a 'significant portion of the Regional Operations envelope be invested in the proposed Africa50 Fund'.[c] The Africa50 Fund holds much potential to stimulate private investment, especially in support of the AfDB's New Deal for African Energy.[d] However, it only engages in commercial lending, which will make its services affordable to only a handful of countries. Its projected capability to be sustainable, achieve high ratings and thus attract significant private finance is encouraging. It is perhaps also concerning that LIC countries, which are currently the most constrained for resources within the AfDB, will not be able to access its funding. If there was a future plan in place to expand its ambit once it does achieve significant profit, this could improve the financing outlook for LICs significantly. Additionally, the acting CEO of the fund stated that it would consider environmental and social safeguards like the AfDB despite being a separate commercial entity. Given that the fund has not yet disbursed its first project funds, it is too soon to analyse outcomes. However, it will be interesting to see if the fund will be able to tackle the ongoing challenge of balancing financial and developmental additionality (especially for LIC countries most in need). In its current setup, financial viability and private finance mobilisation seem likely to trump pro-poor impacts.

a Africa50 Fund, 'Africa50: Financing Africa's infrastructure', www.Africa50.com/about-us/, accessed 10 October 2016; ADF, 'ADF-13 Innovative Financing Instruments', Discussion Paper. ADF: Abidjan, 2013.

b BizNis Africa, 'Africa50 to mobilise $1 billion for infrastructure projects in Africa', http://www.biznisafrica.co.za/africa50-to-mobilise-1-billion-for-infrastructure-projects-in-africa/, accessed 10 October 2016; Africa50 Fund, *op. cit*.

c ADF, 2013, *op. cit*.

d See more at AfDB, 'The New Deal on Energy for Africa: A Transformative Partnership to Light Up and Power Africa by 2025', http://www.afdb.org/fileadmin/uploads/afdb/Docu ments/Generic-Documents/Brochure_New_Deal_2_red.pdf, accessed 7 November 2016.

Private sector funding: Other facilities

As mentioned previously, project preparation is an important and comprehensive component of infrastructure projects. It is a stage where projects are not yet approved and profit is not guaranteed, and thus financiers (especially those from the private sector) are reluctant to invest. Yet project preparation is necessary and must be thorough in order for any infrastructure project to succeed.

Due to these challenges, PPFs have proliferated across the developing world. PPFs can support a range of steps in the project preparation process, such as legal and regulatory framework assistance, design and implementation of feasibility, and project design. PPFs often include a grant element and thus constitute blended finance.[71] Multilateral organisations such as the World Bank, NEPAD and SADC have developed PPFs to serve the sub-Saharan African region. Currently, the AfDB does not have its own PPF; however, it hosts and manages the NEPAD-Infrastructure Project Preparation Facility and contributed $10.3 million to the facility from 2004–2012.

Co-financing is a crucial mechanism that can increase the effectiveness of lending on the continent by spreading the risk and increasing the funding potential

Project preparation costs are estimated to be between 5% and 15% of total project costs. However, the funds of PPFs are nowhere near sufficient to cover project-financing shortfalls on the continent, estimated at $3.36 billion from 2006–2015.[72] There is a general need to increase funding for PPFs, and this can be facilitated by increasing their sustainability and ability to recover costs. PPFs are generally deficient in funding earliest stage project preparation, which is where funding is most needed but is also the most risky. Cost recovery mechanisms must therefore be the primary focus in this stage to ensure that grants can be provided where they are most needed, without their depleting PPFs.[73] In its 2014 report, the ICA suggests useful mechanisms for cost recovery such as success fees, redeemable grants and a revolving fund.[74] Additionally, seemingly more manageable operational issues such as management, planning and disbursement transparency are some of the key

71 OECD (Organization for Economic Cooperation and Development) & WEF (World Economic Forum), *Blended Finance Vol. 1: A Primer for Development Finance and Philanthropic Funders*. Geneva: WEF, 2015.

72 Chaponda T, Nikore M & M Chennells, 'Effective Project Preparation for Africa's Infrastructure Development', Concept Paper for the 2014 ICA (Infrastructure Consortium for Africa) Annual Meeting. Cape Town: ICA & South African National Treasury, 2014,

73 *Ibid*.

74 See *ibid*. for more detail on these mechanisms.

challenges[75] that separate well-performing PPFs, such as the EU-AITF, from poorly performing ones such as the SADC Project Preparation and Development Facility (PPDF). The SADC PPDF, managed by the Development Bank of Southern Africa, disbursed its first preparation funds only in 2015, despite having been established eight years prior in 2008. Its challenges largely lie in planning issues; ie, a small budget relative to the large scope of SADC regional projects that need funding and difficulties in determining focused project selection criteria within this large scope.[76] On this basis, it would be useful for the AfDB to establish a PPF that is adequately tasked and funded, and able to serve the needs of its recipient RMCs. In this way, a fully funded AfDB PPF unit would be able to supplement regional PPFs that are not as well resourced. A dedicated PPF unit within the ADF would also be able to assist countries in identifying suitable infrastructure projects, work quickly to resolve implementation delays and streamline review processes in order to ensure that project implementation does not suffer unnecessary delays.

The Senegalese case study shows that the government struggles with project feasibility studies and is unable to raise funding for its projects, while its own efforts to start a national project preparation facility were unsuccessful due to insufficient funds. This predicament speaks not only to the lack of available PPF funds but also to the ability of national governments to instil confidence in investors and project financiers that they can foster successful projects. Attracting PPF assistance does not necessarily require a country to have the ability to fund all of its feasibility studies, but it does require some initial financial support to show that the country is invested in a project. This will increase the likelihood of DFIs such as the AfDB contributing to pre-project feasibility studies. What countries can do early on to attract PPF support is demonstrate unified, cross-sectoral support in government, mobilise popular support among civil society, and demonstrate a willingness to devote significant funds in accordance with their capacity. This unified support offsets some of the political uncertainty, which is a major risk factor for investment.

Currently the AfDB has a general preparation process where it pinpoints projects through CSPs, which might include some assistance with project preparation. However, generally the latter must be undertaken by the RMC itself. The ADF, however, has a separate PPF on which ADF countries can draw for assistance. The PPF was established in 2000, mainly for the purpose of conducting feasibility studies and assisting with procurement and tender processes.[77] The 2014 review of the facility increased the available funding of the PPF, updated the guidelines based

75 ICA, 'Assessment of African Infrastructure Project Preparation Facilities: Lessons Learned and Best Practice'. Abidjan: ICA & AfDB, December 2015, http://www.icafrica.org/fileadmin/documents/Publications/Report_on_Assessment_of_IPPFs.pdf, accessed 8 November 2016.

76 CEPA (Cambridge Economic Policy Associates) & Nodalis Conseil, 'A tunnel of funds: Assessing infrastructure project preparation for Africa Volume B: Individual assessments, Assessment of Project Preparation Facilities for Africa'. Abidjan: ICA, November 2012.

77 ADF, 'Project Preparation Facility (PPF) Operational Guidelines', Central Operations Department, January 2000, https://www.cbd.int/doc/guidelines/fin-afr-gd-lns-en.pdf, accessed 9 November 2016.

on best practice in the years since it was devised and harmonised its guidelines with those of other PPFs.[78] Unfortunately, the overall amount of funds in the facility is still quite low. The total fund comes to only $12.87 million, with the individual funding limit increased to $1 million per project.[79] The review of the fund is a positive step, given that the guidelines produced in 2000 are outdated. However, PPF does not seem to be a priority of the fund, given its small capital base, its review only 14 years after its establishment and the greater attention on other private sector initiatives. Given the challenges experienced by PPFs worldwide and the persistent challenges in project preparation, it is important that more emphasis is placed on this mechanism, and that other issues of current relevance such as cost recovery are carefully considered.

The potential of public–private partnerships

Providing blending mechanisms to attract funding is a crucial component of mobilising private sector finance. However, incentivising and facilitating the actual PPP arrangement are equally important, and an area to which the ADF can contribute. In the AfDB, PPPs are recognised as a crucial mechanism to finance infrastructure in the context of insufficient public investment. Under the AfDB's Private Sector Operations Department, the Infrastructure Finance Division is tasked with this process.

PPPs represent a way to mobilise additional finance for infrastructure by structuring arrangements that hinge on the strengths of both private and public actors. A PPP is defined as 'a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance'.[80] Through the use of PPPs, national governments can provide much more attractive conditions for private investment, as the private investor does not have to shoulder all of the risks. For example, if a railway experiences less traffic than predicted and therefore less user fees are generated, the government can partially guarantee to take on these costs, so that they will not be borne by the investor. In return for offering these types of guarantees, the government can gain many advantages from the private investor, such as improvements in operational efficiency, management capacity, technology and innovation.

78 ADF, 2015, *op. cit.*

79 ADF, 2000, *op. cit.*

80 World Bank Group, 'What are public–private partnerships?', https://ppp.worldbank.org/public-private-partnership/overview/what-are-public-private-partnerships, accessed 26 August 2016.

TABLE 4 TYPES OF PPPs

Management contract	Like a service contract, but company given more control in day-to-day operations and management. Government still maintains control of service provision
Lease contract	Private company exercises complete control over the service for a lease period of usually 10 years
Concession	Like a lease contract, but increases private company control so that it is now responsible for not only operations and management but all capital investments as well (such as maintenance and expansion)
Build-operate-transfer, design-build-finance-operate, build-own-operate etc.	Similar to a concession, but usually involves a completely new greenfield project rather than expansions to an existing project
Joint venture	Infrastructure is co-owned and jointly operated by the public and private sector

Source: Asian Development Bank, *Public Partnership Handbook*, 2008, https://www.adb.org/sites/default/files/institutional-document/31484/public-private-partnership.pdf, accessed 9 November 2016

The above description represents the ideal presentation of PPPs and has prompted a drive to implement PPPs in emerging markets. However, in practice, negotiating a contract between the public and private sector, with fundamentally different philosophies and operating principles, carries many complications. Many LICs require that the services provided by transportation infrastructure, electricity and water be located in rural areas that are not as financially viable as urban locations. Concerns arise around the incentive for a private company to upscale its involvement. Ideally, this would require government support. On the opposite end of the spectrum, private investors are hesitant to collaborate with governments that they do not view as efficient in their operations; they also have concerns about corruption and political interference by high-level government officials.

In LICs, the lack of capacity to engage in PPPs is also a concern, from the time of project preparation, to bidding and finally operation.[81] For example, the regulation of PPPs requires an independent regulator and the handling of disputes by an independent judiciary.[82] Structuring the contractual allocation of risks is also a complicated undertaking. If the public sector takes on full guarantees for losses, this represents a case of moral hazard, which may not encourage efficiency from the private sector actor and result in increased costs. However, if too much risk is

81 EIB & EC representatives, *op. cit.*; World Bank representatives, *op. cit.*

82 Wentworth L & CG Makokera, 'Private sector participation in infrastructure for development', *South African Journal of International Affairs*, 22, 3, 2015, pp. 325–341; Trebilcock M & M Rosenstock, 'Infrastructure PPPs in the Developing World', University of Toronto, Faculty of Law, 2013.

allocated to the private sector, this increases its operating costs and does not provide effective incentives. Overall, the goal should be to only transfer those risks to the private partner that it is able to insure against.[83]

According to consultations with the AfDB, the bank is working on developing a much-needed PPP support programme.[84] It is unclear whether this programme will be housed in the ADF or more broadly in the AfDB; however, it is imperative that its support extends to LICs, as they experience the greatest capacity challenges. It is important that the facility focuses not only on the most visible issues, such as the initial contract negotiation, but also on management throughout development and implementation and monitoring afterwards. The Lesotho case study highlights the need for a focus on softer issues such as the facilitation of public–private engagement and understanding between private and public parties, which have differing philosophies on the running of infrastructure. This is a process that requires much time and patience.

COUNTRY CASE STUDIES

In order to test some of the findings of the ADF-14 review in the field, two case studies were commissioned among those countries that have been invited to the ADF-14 replenishment meetings. The country cases have the added benefit of also galvanising thinking within these two countries in preparation for the replenishment meeting.

Lesotho

Lesotho[85] celebrates its 50th independence anniversary amid massive political and economic challenges. Agriculture's contribution to GDP, traditionally the backbone of its rural economy, has continued to decline due to adverse weather conditions, be they floods or droughts. The severe drought experienced during 2015 and 2016 has forced the government to declare a state of emergency and allocate additional resources towards the subsidisation of staple foods, including dry beans, pulses and mealie meal, whose costs have increased between 50–77% due to shortfalls in production at home and in its biggest trading partner, South Africa.

Manufacturing, driven by the textile and garment industry, has been a major employer over the past decade. The strength of the garment industry rests on Lesotho's eligibility to export garments duty-free to the US under the African Growth and Opportunity Act (AGOA). Lesotho is on the brink of suspension from

83 Ehlers T, *op. cit.*

84 AfDB representatives, *op. cit.*

85 Interviews for this case study include the ministries of finance and development planning, the Lesotho Chamber of Commerce and Industry and the Lesotho Council of Non-governmental Organisations (LCN).

AGOA in 2017 due to human rights abuses associated with the political turmoil that started in 2015. This will affect the livelihoods of over 30 000 workers; mostly women who are the main breadwinners for their families.

The political impasse has also affected Lesotho's eligibility for a second compact under the US Government Millennium Challenge Corporation (MCC). The MCC has advised that it will suspend consideration of Lesotho's funding until it is satisfied that the government has implemented the recommendations of the SADC Commission, which was tasked to investigate the political turmoil that started in 2015.[86] The first compact contributed resources towards infrastructure development in the health, water and transport sectors and towards the development of the private sector.

The country's Southern African Customs Union revenues, which have traditionally contributed 30–60% of Lesotho's annual budget, will reduce drastically should the new revenue-sharing formula be introduced, but general losses are also occurring because of extreme South African rand volatility, over which the Lesotho government has very little control.[87]

Lesotho's classification

The recent categorisation of Lesotho from a low-income to lower middle-income economy will adversely affect its ability to access concessionary loans. Officials in the Ministry of Finance noted during an interview that the 'one size fits all' World Bank method of economic classification of countries tends to overlook the unique circumstances in each country.[88] This classification is based on per capita income, which has increased in Lesotho due to two unrelated reasons, neither of which means an actual improvement in the socio-economic performance of the country. The first is the impact of the sale of diamonds and clothing. Diamond sales are highly volatile, while the garment industry is declining and under threat of US government suspension from AGOA because of the political crisis. In the long term the eventual cessation of benefits under AGOA when the agreement expires in 2025 will also have a significant economic impact on Lesotho. Second, a significant contributor to the variation in Lesotho's per capita income is its shrinking population,

86 The Lesotho government requested that SADC investigate the killing of Lt-Col Mahao of the Lesotho Defence Force in 2015 and the attendant political turmoil. A commission headed by Justice Phomaphi of Botswana was set up by SADC and its recommendations were adopted by SADC. Both MCC and AGOA issues are contingent on the implementation of these recommendations. Motsamai D, 'Deadlocked Lesotho takes strain as donors withhold funding', *Mail & Guardian*, 11 March 2016, http://mg.co.za/article/2016-03-10-deadlocked-lesotho-takes-strain-as-donors-withhold-funding, accessed 8 November 2016.

87 Parliament of the Kingdom of Lesotho, 'Budget Speech to Parliament for the 2015–2016 Fiscal Year by the Honourable Dr 'Mamphono Khaketla, Minister of Finance, Maseru, Lesotho', 22 May 2015, http://www.lra.org.ls/Downloadable_Docs/Adverts/LESOTHO%20GOVERNMENT%20%20-%202015%20BUDGET%20SPEECH%20-%20MINISTER%20OF%20FINANCE.pdf?FileID=32662, accessed 19 October 2016

88 Interview, Lesotho Ministry of Finance official, September 2016.

fuelled, among others, by deaths associated with the HIV/AIDS pandemic and the prevalence of tuberculosis. According to the UN Development Programme, in 2015 Lesotho was ranked third highest globally in terms of HIV/AIDS prevalence (23% of its adult population lives with the disease)[89] and life expectancy stood at 48.7 years.[90] The disease is most prevalent among people between the ages of 15–39, leading to severe stress on the productive labour force. Furthermore, income is increasingly concentrated in the hands of a small percentage of the population. Half the population of Lesotho lives below the poverty line (57.1% poverty rate), and income inequality is among the highest in the world.[91]

Lesotho's classification as a lower middle-income economy will make its efforts to reduce poverty more difficult. Within the World Bank's IDA, Lesotho is only allowed to borrow on blend terms, meaning that it can only access financing on blend credit terms.[92] Within the ADF, it is equally eligible for ADF resources on blend terms, and ineligible for ADB funds. Lesotho recently self-financed a road from Maseru to Qacha's Nek at high cost, as the AfDB could not fund it because of the country's new status. And yet the impact of the road on economic activity between the two towns has been significant.[93] The concern here is that the Lesotho government remains constrained in its fiscal position, and having to borrow at high cost can jeopardise the country's economic position unless the benefits of the project outweigh the costs, which is not always the case, as was seen in the hospital build project.

Lesotho and the ADF

The ADF is currently implementing the Lesotho CSP of 2013–2017. The CSP contains two pillars, namely infrastructure development and institutional capacity building. Under infrastructure development the CSP specifically targets infrastructure that could encourage private sector development and create opportunities for rural entrepreneurs. Support will be given to clean energy and water-saving projects, as well as the expansion of water and sanitation services to rural areas. The aims under the second pillar are to enhance the efficiency and effectiveness of the public sector by focusing on fiduciary shortcomings and the development of e-government broadband networks. In response to the CSP, the Lesotho government points to a number of challenges in accessing ADF funding and ensuring the successful implementation of its projects and programmes. These are listed in Table 5.

89 Avert, 'HIV and AIDS in Lesotho', 2015, http://www.avert.org/professionals/hiv-around-world/sub-saharan-africa/lesotho, accessed 8 November 2016.

90 UNDP (UN Development Programme), 'About Lesotho', http://www.ls.undp.org/content/lesotho/en/home/countryinfo.html, accessed 8 November 2016.

91 *Ibid*.

92 IDA (International Development Association), 'Borrowing countries', https://ida.worldbank.org/about/borrowing-countries, accessed 10 November 2016.

93 Lesotho Ministry of Finance official, *op. cit*.

TABLE 5 LESOTHO CSP (2013–2017): RECOMMENDATIONS ON ADF CSP IMPLEMENTATION

AREA	RECOMMENDATION
Harmonisation	To make the needed impact in the selected areas of intervention the bank should enhance efforts to harmonise procedures and deepen co-ordination with other donors operating in Lesotho
Institutional capacity	Project institutional capacity issues should be adequately dealt with in the design of future operations given the negative impact they have had on project implementation, especially in the early phases. The bank should also collaborate closely with the other development partners to address weaknesses in the project finance management (PFM) environment to pave the way for increased use of country systems in future lending activities. Establishing the Southern Africa Resource Center will ensure increased field support and provision of timely support in case of slippages
Staffing	Key project management units (PMUs) should be identified at project appraisal stage and, where feasible, become involved in the appraisal missions and review processes. The bank should also ensure that the PMU staff are involved in the training provided during launching missions
Implementation delays	To avoid implementation delays, government commitment and confirmation of the availability of counterpart funding should be undertaken during the project appraisal
M&E	Ensure that the result framework for project design and monitoring is used for all projects with quantifiable performance indicators. There is also a need for clear baseline data for the output and outcome indicators in the Logical Framework. The bank should also work closely with government to strengthen the capacity of line ministries and the Ministry of Finance to monitor and report on project implementation

Source: AfDB, 'Lesotho Country Strategy Paper 2013–2017', http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/2013-2017-_Lesotho_-_Country_Strategy_Papers_-_Draft_Version.pdf, accessed 9 November 2016

Government, private sector and civil society responses to the CSP: During interviews conducted in Lesotho it emerged that at present the government has no serious issues regarding its relations with the ADF. Planning officials spoke of Lesotho's own inefficiencies, including its inability to absorb in a timeous manner assistance from various donors. This they contrasted with the criticism that Lesotho's civil service is bloated while remaining constrained by a lack of staff with the required skill sets.[94]

94 Interview, Lesotho government official, September 2016.

The AfDB/ADF should ensure that PMU staff is involved in training during project preparation and the early implementation stages of infrastructure projects, resulting in government officials having sufficient technical understanding of a project to ensure its successful implementation. On the other hand, RMCs also need to make an effort to ensure that the necessary units are adequately staffed and not simply filled with officials who are unable to work on infrastructure projects. Despite the fact that most infrastructure projects are formulated with an overall intention of creating a conducive environment for private sector growth, interviews for this case study showed that private sector engagement was not sought in drafting the strategy paper. The private sector cited a lack of transparency in the award processes of government tenders. Private sector groupings currently need political connections that straddle various administrations to receive prior information on upcoming project implementation. Well-connected players are given prior warning of funded projects, putting them in a favourable position to prepare for government tenders.[95]

Civil society representatives who were interviewed felt that the selection of projects and justification for their inclusion in the country strategy paper was the sole purview of government officials. Although the foundation for the decentralisation of power and development has been laid via the creation of elected local councils, the central government's resistance to cede local project identification and monitoring to these structures impedes project ownership by the communities they are intended to serve. Civil society participation in project identification would add value to the conceptualisation of local projects, better define its proposed impact on the needs of the community, ensure better implementation monitoring, and better assess its subsequent impact. Lesotho's constitution proposes the creation of a National Planning Board, whose function would be to approve and monitor the country's development programme, and report to Parliament.[96] The presence of such a body would ensure the continuity of development programmes and the allocation of resources towards agreed projects. However, this body has not been formed because of a perception that it will usurp the powers of the executive. As a result, development programmes change with every new administration.[97]

The lack of civil society and private sector involvement highlights the challenges in trying to involve all relevant stakeholders in infrastructure processes. Sometimes there is a mismatch between envisaged policies and their implementation, and this is reflected in Lesotho's lack of diverse stakeholder involvement. Without the necessary procedures being followed and relevant engagement from all stakeholders (including local government, which might be best placed to understand the infrastructure needs and conditions of local communities), there is not widespread political buy-in for development projects, which affects a country's ability to successfully administer, oversee and implement infrastructure projects. This is of concern for the ADF-14 meeting and negotiations, where discussions should also explore ways towards

95 Interviews, private sector representatives, September 2016.

96 Kingdom of Lesotho, Constitution of Lesotho, 1993, Section 105(2) refers to the functions of the National Planning Board.

97 Interviews, civil society representatives in Lesotho, September 2016.

smoother implementation and inputs from varied stakeholders. Importantly, private sector input should be gained in order to understand concerns surrounding the implementation and design of infrastructure projects, and what the Lesotho government could improve upon in meeting its infrastructure needs in the coming years. The ADF needs to include civil society and the private sector when preparing the CSPs, and there needs to be a greater attempt at harmonisation from the ADF with all interested parties.

Problems experienced with the current CSP implementation: Implementers of ADF projects in Lesotho raise the general slow pace of implementation, which they blame partly on the cumbersome red tape in releasing ADF funds. The project co-ordinator for the ongoing e-Government project gave an example of a 300-page document that has to be completed by vendors who wish to bid for contracts in ADF-funded projects. This document is sent to the resource centre in Johannesburg, and then passed on to a procurement desk manned by a specialist responsible for regional projects in Zambia. Approval to proceed with the tender allocation takes too long. Vendors are also required to make a security deposit and insure all workers on the concerned project, which acts as a barrier for participation in such projects by small operators. In addition, when the Lesotho government wanted to install the telecommunications towers associated with the project, according to AfDB regulations it was required to advertise the job internationally. This clashed with Lesotho's regulatory framework, which requires local licensing for participation in such work. It took six months to receive AfDB board approval for it to use a local vendor for the installation.[98]

The physical presence of the bank, with a monitoring and advocacy function, would be helpful in Lesotho. Projects such as the introduction of e-Government encounter resistance from existing telecommunications providers, as the intention is to lower costs in the sector. While they lobby political leaders to protect their interests, the successful rollout of e-Government does require an overhaul of the regulatory framework and adoption of legislation. The stakeholders expressed the view that AfDB representation would bring clout to influencing the powers-that-be to enact such legislation on time. Political leadership should be made to understand that the release of funds should be contingent on the passage of legislation.[99]

Access to both ADF and ADB funds remains a sticking point, especially with transport infrastructure in a country such as Lesotho, where road construction is very expensive because of the terrain. Respondents noted that the AfDB should offer funding on the basis of the economic impact of the projects, which speaks to the aforementioned need for a greater emphasis on pro-poor additionality. The bank needs to reach out more visibly to the private sector and civil society players in Lesotho. It may have funding and other initiatives directed at the private sector, but stakeholders felt that information to this effect is lacking in Lesotho.[100]

98 Interviews, project officers, Lesotho, September 2016.

99 Interview, Lesotho government official, September 2016.

100 *Ibid*.

Local communities can also play an important role in identifying projects of immediate need, plan for economic activities that can be stimulated by such infrastructure, and monitor their implementation.

Public–private partnerships

PPPs have been put forward as viable mechanisms through which the private sector can be drawn into infrastructure development projects in LICs. However, even with solid project preparation and feasibility studies, PPPs in LICs can fail due to capacity and institutional constraints, unless MDBs are fully involved in ensuring that the necessary capacity exists in the relevant line ministries responsible for the PPP. Lesotho has had bad experiences with PPP arrangements, which were undertaken without proper due diligence and subsequent service delivery monitoring, resulting in hefty charges to the government. The key stumbling block appears to have been the government's capacity to monitor spending and mitigate cost escalations. The example of the Queen 'Mamohato Memorial Hospital is a case in point.

The International Finance Corporation (IFC) of the World Bank Group in 2008 advised the Lesotho government on the feasibility, structure and competitive procurement of a PPP in the health sector.[101] Under this arrangement, the government would assume the new role of purchaser rather than provider of healthcare services. The private partner would co-finance, design, build and operate public healthcare facilities and deliver both clinical and non-clinical services for a period of 18 years. The government would own the asset at the end of the 18-year period. In 2009 the bid was won by a consortium led by Netcare (40%), a private hospital operator based in South Africa. Other partners included an investment company formed by Basotho medical practitioners based in Bloemfontein, South Africa (20%); an investment company formed by professional and businesswomen in Lesotho (10%); and the investment arm of the Lesotho Chamber of Commerce and Industry (10%). The government of Lesotho made significant up-front payments for the hospital construction and site preparation ($58 million) in order to reduce both the risk profile of the project and the downstream annual unitary payment.[102]

Under the project, the national referral hospital, Queen Elizabeth II Hospital, was replaced with the new 425-bed Queen 'Mamohato Memorial Hospital, which started operating in October 2011. In addition to the hospital, three filter clinics on the outskirts on Maseru were extended and upgraded to filter and treat less severe cases at clinic level, freeing up as much hospital capacity as possible. The filter clinics were opened in May 2010.

101 Coelho C & C O'Farrel, *IFC Smart Lessons – Breaking New Ground: Lesotho Hospital Public-Private Partnership – A Model for Integrated Health Services Delivery*. Washington DC: World Bank, 2009.

102 Downs S *et al*., 'Health System Innovation in Lesotho: Design and Early Operations of the Maseru Public–Private Integrated Partnership'. San Francisco: Global Health Group, University of California & PwC, March 2013, http://www.pwc.com/gx/en/healthcare/mhealth/assets/pwc-health-system-innovation-in-lesotho-complete-report-pdf.pdf, accessed 8 November 2016.

Under the contract, the private operator would treat an agreed number of inpatients and outpatients a year. The government was to pay an agreed fixed annual unitary fee to cover capital repayment and service delivery costs, escalated only by annual inflation. The government would be charged further for those patients treated in excess of the maximum number agreed on under the contract, while patients presenting at the facility would pay the same amount charged at public hospitals and clinics.[103]

The PPP agreement includes performance monitoring, including payment and penalty mechanisms related to facilities management, equipment and other non-clinical service outcomes, as well as independent certification of delivery of services and equipment. The project has an independent monitor, jointly appointed by the government and the private operator, who performs quarterly audits of the operator's performance against the contractual performance indicators that the operator must meet in order to receive full payment. Failure to meet any of the indicators results in a reduction in payment.

Contrary to advice that the hospital operational costs would not be much higher than previous budgets, payments to the service provider have escalated from the outset, to a point where relations between the two partners have soured with Lesotho officials accusing the service provider of overcharging. During the first year of operation (2012) the number of inpatients exceeded the PPP maximum by 17%, while outpatients exceeded the maximum by 21%. These numbers resulted in an additional cost to the government of $4.3 million. In 2013 the fees for excess patients more than doubled, to $9.4 million. By 2014 the PPP fees were three times what the old hospital would have cost, and accounted for 51% of the total health budget. The government has projected a 64% increase in health spending over the next three years, over 80% of which will cover the PPP costs at the hospital.[104]

The government's responsibility in a PPP arrangement of this nature is to ensure service quality through regulation, contract management and monitoring activities. The cost of running Queen 'Mamohato Memorial Hospital is nowhere near what was promised when the PPP model was drawn up, and may prove unsustainable in the long run. Without contract management and monitoring capacity, the government cannot substantiate these claims or itself impose penalties where services are not up to par. Plans to build PPP units to perform this function within the ministries of finance and health have been in place since the launch of the project, but the necessary resources and personnel have not been made available to establish fully functioning units. This lack of broad government capacity is the biggest risk to the project's long-term success. A capable unit or units must be established to supply an independent monitoring function and protect the interests of the government.

103 Oxfam, 'A Dangerous Diversion: Will the IFC's Flagship Health PPP Bankrupt Lesotho's Ministry of Health?', Briefing Note, 7 April 2014, https://www.oxfam.org/sites/www.oxfam.org/files/bn-dangerous-diversion-lesotho-health-ppp-070414-en.pdf, accessed 8 November 2016.

104 Lesotho government official, *op. cit*.

The IFC has mobilised funds to engage consultants to assist the Ministry of Health in building its capacity for contract management and oversight. The consultants will work closely with ministry officials to build systems for performance monitoring and other contract management activities. The Ministry of Finance, with assistance from the IFC, has completed the first draft of a PPP regulatory framework and policy to be applied to all future PPP projects across all sectors in Lesotho. The AfDB could contribute to the resolution of the PPP crisis by assessing whether PPPs in specific cases are the best model to address infrastructure needs. In the hospital PPP case, it is obvious that the agreement is unsustainable and needs to be re-negotiated.

The ADF would do well to have full oversight over any PPPs going forward, ensuring that the government is well versed in the management of projects and that adequate legal support can be provided to understand the terms and conditions of the PPP. In the Lesotho CSP, the AfDB indicates that supporting the legal and institutional frameworks for PPPs in Lesotho is a key priority.[105] Thus far, however, there is no evidence that this initiative has been taken forward. Additionally, the CSP states that the ADF in particular will focus on leveraging ADF resources for more co-financing and private sector mobilisation of funds for PPPs as one if its five CSP priorities. Given the difficulties experienced with the Queen 'Mamohato Memorial Hospital PPP, it is important that the ADF works closely with the broader AfDB initiatives that provide technical capacity to PPPs, to ensure that the ADF funds do not lead to failed projects or little private sector interest.

It is important that the ADF works closely with the broader AfDB initiatives that provide technical capacity to PPPs, to ensure that the ADF funds do not lead to failed projects or little private sector interest

Debt sustainability levels

According to the director of debt management at the ministry of finance, Lesotho is moderately indebted but moving towards an unsustainable level.[106] At that point the country will have exceeded its debt level threshold, and will no longer be able to borrow easily because of low liquidity to service loans. This position is not as a result of over-borrowing, but is rather attributed to the depreciation of the local currency, the loti, which is pegged to the South African rand, and low revenue levels due to a weak private sector. The IMF reports Lesotho's debt service to total revenue budget as 3%, on average. Lesotho's debt/GDP threshold should be maintained at 40%, but currently stands at 48%.[107] The country needs to develop a debt strategy

105 AfDB, 'AfDB Country Strategy Paper for Lesotho 2013–2017'. Abidjan: AfDB, February 2013.

106 Lesotho Ministry of Finance official, *op. cit*.

107 Lesotho case study, *op. cit*.

that addresses the creation of enabling infrastructure for increased private sector activity to weigh in on both GDP and revenue growth.

The devaluation of the South African currency has an impact not only on Lesotho's debt servicing but also on food imports, in view of the historic drop in food production and the recent drought. An IMF mission is due in Lesotho for Article IV consultations in November 2016. It is on the basis of the outcome of these consultations that Lesotho will also consider requesting assistance from the IMF.

Senegal

Senegal, situated in West Africa, is geo-strategically located in the western half of the Sahel region. According to the World Bank, 40.3% of Senegal's 14 million citizens live in urban areas. Politically stable (especially when compared with some of its neighbours), the country has undergone economic growth in recent years, although it still remains an LIC: up to 46.7% of its population live in poverty and, despite strong economic growth, current GDP growth rates remain insufficient for significant poverty alleviation among Senegal's citizens.[108]

In 2015 Senegal's economy grew at a rate of 5.1% and peaked at 6% in 2016, with forecasts suggesting that GDP could continue to rise to 6.5% in 2017.[109] This unprecedented growth rate last occurred in 2003 and has made Senegal the second-fastest growing economy in West Africa, after Côte d'Ivoire.[110] The primary contributors to this growth rate include higher private sector demand (stimulated by lower energy and transportation costs) and public investment programmes.

In order to address Senegal's socio-economic conditions, generate growth and address poverty alleviation, the government has implemented a national development strategy plan known as the 'Plan Senegal Emergent' (PSE). The PSE is premised on three key pillars: (i) higher and sustainable growth in the range of 7–8%, based on foreign direct investment and export-driven structural transformation; (ii) human development; and (iii) improved governance, peace, and security.[111]

Although the medium-term growth forecast remains favourable, there is uncertainty surrounding the country's slow implementation of reforms aimed at curbing wasteful public consumption. Concerns over weak governance and an insufficiently attractive

108 World Bank, 'Senegal country overview', http://www.worldbank.org/en/country/senegal/overview, accessed 14 October 2016.

109 AfDB, 'Senegal country outlook', http://www.afdb.org/en/countries/west-africa/senegal/senegal-economic-outlook/, accessed 14 October 2016.

110 World Bank, 'Senegal country overview', *op. cit*.

111 IMF, African Department, 'Senegal: Selected Issues', IMF Country Report, 15/15. Washington DC: IMF, January 2015.

investment climate also raise questions about Senegal's ability to implement the reforms necessary for continued economic growth and poverty alleviation.[112]

Senegal and the ADF

During the last two AfDB general assemblies, African member states complained about insufficient ADF resources.[113] The ADF is African LICs' primary source of concessional financing. The AfDB has a triple AAA rating and the Senegalese government believes the AfDB should try to do more to service the significant financing demands of its African members. The AfDB via the ADF is one of the main infrastructure financiers in Senegal, and support under the current co-operation framework amounts to $90 million.[114]

A new CSP for Senegal 2016–2020 has been adopted.[115] It has two pillars, which have been determined on the basis of three elements: a strategic alignment with the Senegalese national development plan, the results of the evaluation of the AfDB assistance to Senegal, and the 2013–2022 strategy of the bank. The two pillars are (i) transforming agriculture products and (ii) reinforcing infrastructure development in the transport and energy sectors.

AfDB processes in preparation of the CSP were inclusive and included broad-based discussions with civil society. The planned ADF interventions for 2010–2013 show a spread across different sectors but with a focus on projects and programmes in the primary and tertiary sectors. However, owing to a lack of resources the ADF seems to be falling behind other donors in terms of contributing to financing these sectors. Indeed, its share in the financing of the primary sector was only 6.4% in 2010, reaching 11.4% in 2011 and 12.2% in 2012 before decreasing to 10.6% in 2013. It is the trajectory of support in the tertiary sector that is of real concern, with the ADF contribution starting at 21.7% in 2010 and increasing to 25.3% in 2011, then decreasing to 12.6% in 2012 before falling dramatically to 2.9% in 2013.[116]

The financing conditions offered by the ADF are similar to those of the World Bank. However, the amount of concessional financing available within the ADF is limited – even more so for infrastructure projects, as this amount is split between all infrastructure sectors. Senegal faces limitations in accessing more financing from the ADF. A possible solution to this would be to expedite project implementation and reach 100% disbursement as fast as possible, in which case the country could be eligible for higher amounts of financing. But there is no guarantee that Senegal can obtain more financing from the ADF. The situation is compounded by the fact

112 World Bank, April 2016, *op. cit*.

113 Interview with the Senegalese official in the Ministry of Finance, September 2016

114 Interview, IDA economist, September 2016.

115 AfDB, 'Bank Group's Country Strategy Paper For Senegal, 2016–2020'. Abidjan: AfDB, July 2016.

116 Senegal case study, *op. cit*.

that many fragile and post-conflict countries require ADF resources, which means that the allocation per country may decrease under the present circumstances.

The total financing in semi-concessional terms to which Senegal is eligible amounts to EUR[117] 300 million ($326 million) per year.[118] To date, it has been extremely rare for Senegal to obtain AfDB financing reaching XOF[119] 10 billion ($16.34 million) on a single project. However, in view of the country's recent strong economic growth its classification was upgraded, and the country is now eligible to access semi-concessional resources of the AfDB.[120] Obtaining such financing is dependent on the economic profitability of the project in question and determined on a case-by-case basis owing to the ADF's new credit policy.

According to some officials, determining access to such financing on a case-by-case rule is not problematic.[121] It is more important to factor in the government's absorption capacity, and there is general agreement that Senegal still has some way to go before it will be able to draw on the AfDB's non-concessional loans at the same level as countries such as Morocco or Tunisia. Nevertheless, the relatively low level of resources provided by the ADF can be seen from Table 6.

TABLE 6 SHARE OF ADF FINANCING IN TOTAL ODA IN SENEGAL, 2010–2013, $ MILLION

		2010	2011	2012	2013
TOTAL ODA ($ MILLION)		958.2	1082.6	1394.4	1055.0
OF WHICH RESOURCES PROVIDED BY THE ADF	AMOUNT IN $ MILLION	86.0	114.8	62.2	70.0
	%	9.0	10.6	4.5	6.6

Source: Directions of Economic and Financial Cooperation in Senegal, Senegal case study

Due to its inability to access sufficient concessional loans, Senegal issued a Eurobond worth $200 million in 2009. In 2011 it renegotiated the 2009 Eurobond to a maturity of 10 years instead of the initial five years, and acquired another Eurobond worth $500 million with an interest rate of 8.75% a year. In 2014 the new

117 Currency code for the EU euro.

118 Senegal case study, *op. cit*.

119 Currency code for the Senegalese CFA.

120 Senegal case study, *op. cit*.

121 Interview, Senegal government official, September 2016.

government took out a Eurobond of $500 million with an interest rate of 6.25%.[122] The Senegalese case study demonstrates the government's frequent need to fill the financing gap or look for additional co-financiers when receiving funds from traditional donors for large infrastructure projects. Senegal also looks to alternative funders such as China, which is more likely to provide sufficient financing.[123] This is because China devotes less financing to project preparation and standards. While this allows more money to be devoted to construction and increases the approval speed, it might make projects less sustainable in the long run due to possible quality issues and a greater likelihood of social and environmental impacts.[124]

Besides the ADF's limited resources, other problems experienced by Senegal when dealing with the AfDB/ADF relate to the length of time it takes to prepare and approve projects and the double review process, by which a project is required to satisfy both national legislation requirements and AfDB rules. ADF resources need to be significantly increased to enable the provision of financial resources for the implementation of project preparation studies.

Public–private partnerships

Senegal was one of the first West African countries to make use of PPPs. The Senegalese government introduced new legislation in 2004 specifically focused on the infrastructure domain to support the establishment of PPPs. Amended in 2014, the Partnership Law accounts for all types of PPPs and includes the involvement of local governments alongside the central government. A large number of projects with PPP characteristics have been implemented in different sectors.

- In the railway transport sector, Senegal established a PPP in conjunction with Mali, to manage the railway link between Dakar and Bamako with a concession to Transrail SA.
- A contract for the financing and building of a toll road between Dakar and Diameniadio with an overall estimated cost of $440 million was signed in 2009 with the limited company SENAC, which is a wholly owned by Eiffage. The optimum public investment required to render the project attractive to the private sector was an estimated 60% of the total investment. This toll road, which started operating in August 2013, is being extended to the new international airport Blaise Diagne with a public investment of 71%.
- The construction of an airport is underway to replace Senegal's international airport Léopold Sédar Senghor in Dakar at a total cost of $6 billion. The new airport will allow the country to meet the forecasted expansion of air traffic until

122 Nord R *et al.*, 'First Review under the Policy Support Instrument and Request for Modification of Assessment Criteria: Debt Sustainability Analysis Update for Senegal'. Washington DC: IMF, December 2015.

123 Lesotho case study, *op. cit.*; Senegal case study, *op. cit.*

124 World Bank representatives, *op. cit.*; AfDB representatives, *op. cit.*; EC and EIB representatives, *op. cit.*

2025. The Senegalese government will fund the building of the airport on the basis of a tax collected from airplane tickets over a number of years. Thereafter it will transfer the operations to a world-class operator, selected via the necessary tender procurement processes.

- Several independent energy production projects have been undertaken through PPPs. While the national parastatal holds a monopoly over the transmission and distribution of electricity, entry is free in the production sector, allowing contracts to be signed with other power producers. The Senegalese Agency of Rural Electrification was set up in December 1999 to provide electricity infrastructure in the rural areas. The agency has concluded six concessional rural electrification agreements since 2000 with the involvement of independent operators.
- Other innovative approaches to garner infrastructure financing involve Fonds d'Entretien des Routes Autonome, a body charged with the maintenance costs of roads. Its resources are generated from a road user tax that includes an unprecedented initiative to mobilise resources from local banks. The government has also paved the way for an important programme to connect outlying areas of the country with the existing road network. Local firms have been invited to make suggestions for new projects to be funded by the government with only two pre-conditions in place: that the project is not already planned by the government, and the cost is not less than $100 million.

However, there are also perceptions that the private sector is overly involved in infrastructure projects in Senegal. According to some, foreign companies seem to be making the biggest profits on the back of infrastructure projects in the country. However, the government believes that local companies lack the strong institutional capacities and technical know-how required to implement large-scale projects. Against this backdrop it thus favours joint ventures. Consequently, in the tendering process foreign firms are incentivised to sub-contract as much as possible to local firms.[125] The tender regulations include the prioritisation of nationals, which is extended thereafter to nationals of the West African Economic and Monetary Union. International firms that want to bid successfully on PPP projects have to rely on local human resources and partnerships with local businesses. In the long term, the government believes that such measures will contribute to the transfer of know-how and technical innovation to local players. Even so, joint ventures do not occur as frequently as they should, with often only the subcontracting of small maintenance activities going to local contractors.

125 This was the case between Eiffage (a French multinational engineering company) and CSE (a local Senegalese engineering company) CRYPTIC in the building of the toll road mentioned earlier.

Debt sustainability in Senegal

The Senegalese government does not consider the country's debt levels to be unmanageable. The Ministry of Economy and Finance conducts an analysis of debt viability biannually and the results and forecasts are shared with the IMF. In Senegal, the HIPC and MDRI resulted in a total debt reduction to 20% of GDP in 2006. The perception within the government is that debt levels are sustainable, and the risk of over-indebtedness is low.[126] This is confirmed by the IMF, as external public debt is projected at 39% of GDP for 2015, and total public debt amounts to 54% of GDP.[127]

This is also backed up by the IMF's own projections, which found that the debt service-to-revenue ratio is projected to remain below 20%.[128] The country's debt-service-to-revenue thresholds are estimated to decline in the coming years, barring the repayment of Senegal's Eurobonds, which are catered for in future projections.[129] IMF stress tests resulted in two spikes in the debt service-to-revenue ratio corresponding with the repayments of the Eurobonds, which resulted in a temporary and minor breach of the threshold. However, Senegal's DSA suggests 'there is not much space for higher fiscal deficits if the low risk rating is to be preserved'.[130] This is a cautionary indication for the Senegalese government, which is increasingly resorting to non-concessional borrowing as a result of reduced concessional funding from the ADF. [131]

When Senegal proceeded to issue the Eurobonds, it did so in agreement with its multilateral partners, notably the IMF. The reform of indebtedness rules introduced by the IMF in 2009[132] includes the new concept of 'concessional on average'. Senegal views its debt as concessional enough on average and intends to use the softening of the IMF rules to engage non-concessional resources for some of its most important and urgent infrastructure financing needs. It is an open question whether Senegal will return to the international financial markets for this purpose or whether it will seek to engage more with the AfDB's semi-concessional resources.

126 Interview, Senegal Ministry of Finance, September 2016.

127 IMF, 'Senegal: First Review Under the Policy Support Instrument and Request for Modification of Assessment Criteria, Senegal Country Report 16/3', January 2016.

128 Nord R *et al.*, *op. cit.*

129 *Ibid.*

130 IMF, January 2015, *op. cit.*

131 On the whole it remains unclear why Senegal is finding it difficult to access ADF funds. It could be that the ADF is short of resources, and Senegal now has the option to access non-concessional funds but finds it difficult to access these funds because of the need to support project preparation studies. It could also be that the arduous and long approval process inhibits Senegal's desire to access ADF finance.

132 Moghadam R, 'Staff Guidance Note on Debt Limits in Fund-Supported Programs', IMF, 18 December 2009, https://www.imf.org/external/np/pp/eng/2009/121809.pdf, accessed 9 November 2016.

RECOMMENDATIONS

Given the infrastructure gap on the African continent and the limited public financial means of LICs, MDBs such as the AfDB play an essential role in mobilising additional finance. Against this backdrop, the paper makes the following recommendations based on the case study analysis and exploration of the final report of the Working Group on Innovative Approaches for the ADF-14: [133]

Manageable debt levels

There is clearly a mismatch between certain LIC governments and MDBs regarding the interpretation of debt levels that can be considered 'manageable'. The ADF needs to consider engaging more with recipient countries in order to ensure that debt levels are adequately managed. Training and regular reporting to and monitoring by the ADF should be explored as a way to ensure better communication between all parties, to guarantee that all stakeholders share a common understanding of what acceptable debt levels are and how best to address rising debt levels. The ADF could also engage the IMF to encourage bespoke training programmes for specific countries that speak specifically to managing debt levels.

Discourage non-concessional borrowing

Attempts to discourage non-concessional commercial borrowing among its RMCs will only be possible if the ADF is able to fill this financial void itself and cater for its members' needs. Disincentives are difficult to apply and, in the event of the ADF's being unable to undertake proper pre-analysis of a country's debt situation and debt sustainability levels, cannot be accurately applied and may simply end up being a paper tiger.

Comprehensive debt-related advisory services

The ADF should use country ratings and country-specific analysis towards concessionality to better reflect nuances among developing countries, based on each country's specific public financial management profile, its debt vulnerability and country-specific DSAs. Providing comprehensive debt-related advisory services within the parameters of ongoing engagement with LICs is a good way for the ADF to ensure that RMCs are provided with the necessary information to facilitate decision-making in respect of DSAs and other debt sustainability-related issues. Domestic resource mobilisation linked to a maximum, sustainable volume of debt that can be incorporated into the ADF financing framework over the long term will help ensure timeous repayment of debts.

Project preparation facilities

Project preparation is a huge bottleneck that limits private financing for infrastructure and delays the AfDB's own project approval process. The AfDB should increase concessional funding towards the project preparation phase, particularly the social,

133 ADF, 2015, *op. cit.*

environmental and feasibility studies that must be completed by countries before project approval. This could be explored through the revitalisation of the ADF's existing project preparation facility, which should emphasise mechanisms of cost recovery in order to target the lack of funding that early project preparation receives. There should also be increased efforts to direct LIC countries to the resources that are available to assist in project preparation. Countries can attract PPF support early on by demonstrating unified, cross-sectoral support in government, mobilising popular support among civil society, and demonstrating a willingness to devote significant funds in accordance with their capacity. This unified support offsets some political uncertainty, which is a major risk factor for investment.

Co-financing options

Given the constraints surrounding the mobilising of additional funding, LICs emphasised that co-financing is crucially important, and that the lack thereof drives them away from MDBs to other sources of finance. Thus the option proposed by the ADF-14 working group to offer the benefits of the PSF to co-financiers is an important step in the right direction, and the ADF should focus on its strengths of representing the interests of LICs, and acknowledging the continent's regional agenda.

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Private investment for infrastructure

Blending grant and loan elements represents a potential mechanism to catalyse additional private investment for infrastructure through decreasing the risk of projects. The ADF-14's consideration of new mechanisms to blend ADF and ADB funds through interest buy-down mechanisms could ensure that the bank's resources are more efficiently used. The AfDB should study the EU-AITF (now the African Investment Facility) as a model of successful blending. However, it should be mindful in implementing initiatives to ensure the development additionality of projects, which must be balanced with financial additionality. This can start with developing tools to measure and consider pro-poor effects during project selection, and also assess pro-poor benefits throughout M&E. It is also important not only to incentivise private sector involvement through ADF initiatives such as credit and risk guarantees and the PSF but also to explain to countries how they are eligible for these services. Such information should be promoted and explained through the newly decentralised offices of the AfDB.

PPPs and infrastructure finance

PPPs are an important vehicle to incentivise private sector finance. However, their high rate of failure on the continent underscores the necessity for greater effort on the part of the AfDB to address the capacity gaps in their implementation and ensure that the public sector does not bear all the costs. The suggestion in the Lesotho

CSP to increase ADF funds towards private finance mobilisation and co-financing for PPPs is something that should definitely be considered and implemented more widely across LICs exploring PPPs. The broader AfDB is also considering developing a PPP unit that can focus on contract negotiation, implementation and monitoring frameworks. The softer issues of facilitating understanding and good relationships between public and private actors engaging in a contract must also not be neglected, as they are a major but less visible force driving PPP failures.

Political bias and infrastructure priorities

Overall, it is important to ensure that the ADF, as an African institution representing African countries, does its utmost to discover and serve the most pressing infrastructure and developmental needs of LICs. The case studies show that the AfDB should also undertake its own research on key stakeholders during the in-country consultation process to avoid bias and politicised consultations, and ensure that all sectors of society are heard. It is important to pay special attention to the contexts of different countries and the factors at play that might be driving assessments of debt sustainability and prioritisation of projects. It also important that South Africa, as the only sub-Saharan African country represented at the replenishment meetings, serves as a voice for LIC countries, especially its regional partners in SADC.

The AfDB could also consider effecting changes in six key areas, in order to ensure that the ADF is able to better service the needs of its clients:

Harmonisation

To make the needed impact in the selected areas of intervention the AfDB should enhance efforts to harmonise procedures and deepen co-ordination with other donors. With respect to recipient/beneficiary countries, the ADF should aim to align its CSPs to the priorities of the beneficiary country every time it engages in the development and drafting of a CSP through an inclusive process that includes civil society consultations.

Institutional capacity

Project institutional capacity issues should be adequately dealt with in the design of future operations given the negative impact they have had on project implementation, especially in the early phases. The AfDB should also collaborate closely with other development partners to address weaknesses in the PFM environment and pave the way for the increased use of country systems in future lending activities.

Staffing

Key PMUs should be identified at project appraisal stage and, where feasible, become involved in the appraisal missions and review processes. The AfDB should also ensure that the PMU staff are involved in the training provided during launching missions. Some LIC countries are also of the opinion that AfDB country office representatives should be made more autonomous in terms of non-objection decisions.

Implementation delays

To avoid implementation delays, government commitment and confirmation of the availability of counterpart funding should be undertaken during the project appraisal phase. From the ADF's side, the country case studies suggest that the ADF's double review process should be amended, in order to save time and ensure efficiency in ADF processes.

M&E

Ensure that the result framework for project design and monitoring is used for all projects with quantifiable performance indicators. There is also a need for clear baseline data for the output and outcome indicators in the Logical Framework. The AfDB should work closely with governments to strengthen the capacity of line ministries and the relevant ministry of finance to monitor and report on project implementation.

Project choices and financial support

In ADF processes, the focus should continue to be on development projects and programmes, and project approval and non-objection procedures should be undertaken with more diligence and efficiency. In order for the needs of LICs to be met, ADF resources need to be significantly increased from a broad spread of potential sources, particularly with respect to the implementation of technical and financial feasibility studies of proposed infrastructure projects.

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