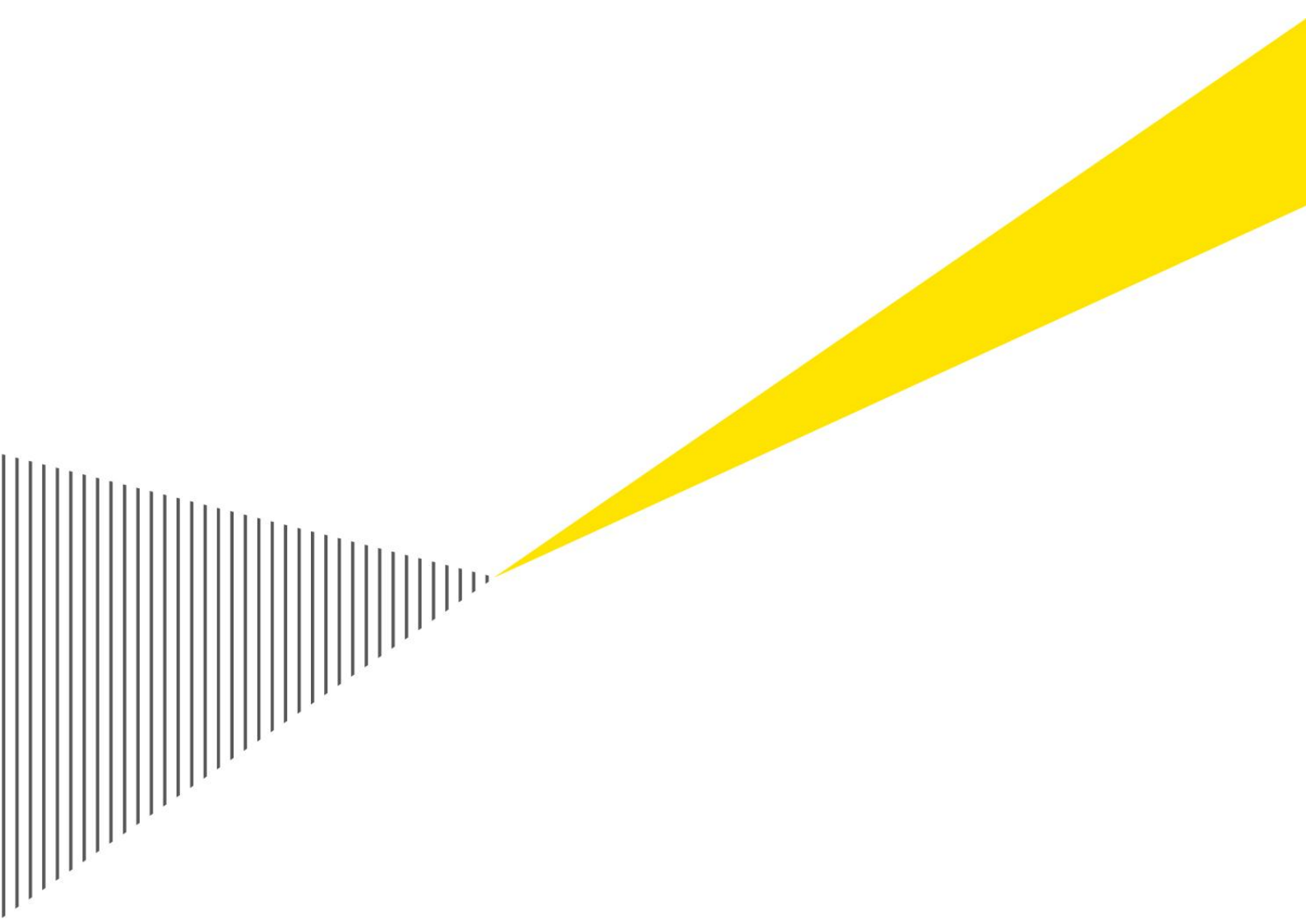


Mid-Term Evaluation of the EU-Africa Infrastructure Trust Fund

June 2012

Final report



This document has been prepared on the basis of the requirements and information communicated to us, with reference to their context, and taking into account the current legal and economic environment.

The findings presented have been prepared on the basis of Ernst & Young's methods, processes, techniques and knowledge. The decision whether or not to implement these findings, as well as the methods of such implementation, is the responsibility of the Executive Committee of the Infrastructure Trust Fund (ITF).

This document is issued in accordance with the contract entered into between the European Investment Bank, acting on behalf of the Executive Committee, and Ernst & Young.

Table of contents

| | |
|---|----|
| Executive summary | 5 |
| Relevance | 6 |
| Effectiveness | 7 |
| Efficiency | 9 |
| Monitoring and sustainability | 10 |
| 1 Objectives, scope and approach to the evaluation | 11 |
| 2 Evaluation of the relevance of the ITF | 12 |
| 2.1 Intervention logic | 12 |
| 2.2 Context (strategic relevance) | 13 |
| 2.3 Project relevance (operational relevance) | 19 |
| 3 Evaluation of the effectiveness of the ITF in achieving its objectives | 21 |
| 3.1 First outputs | 21 |
| 3.2 Leverage effect / added value | 22 |
| 3.3 ITF internal and external coordination | 32 |
| 3.4 Governance system | 36 |
| 4 Evaluation of efficiency of ITF | 42 |
| 4.1 Administrative efficiency | 42 |
| 4.2 Grant operation setting up, approval and implementation | 43 |
| 5 Evaluation of monitoring arrangements and sustainability | 49 |
| 5.1 Monitoring arrangements | 49 |
| 5.2 Sustainability | 51 |
| 6 Conclusions | 52 |
| 6.1 Relevance | 52 |
| 6.2 Effectiveness | 52 |
| 6.3 Efficiency | 53 |
| 6.4 Monitoring arrangements and sustainability | 54 |
| 7 Recommendations | 55 |
| 7.1 Relevance | 55 |
| 7.2 Effectiveness | 55 |
| 7.3 Efficiency | 57 |
| 7.4 Impact and sustainability | 58 |
| 7.5 Current and future challenges | 58 |
| 8 Annexes - methodology | 60 |
| 8.1 Mid-Term Evaluation of ITF Terms of Reference | 61 |
| 8.2 Recap of the objectives and scope of the evaluation | 63 |
| 8.3 Evaluation approach, limitations and use | 64 |
| 8.4 Evaluation questions | 67 |
| 8.5 List of interviews | 68 |
| 8.6 Documentation consulted | 71 |
| 8.7 Table of figures | 72 |
| 8.8 Table of tables | 72 |
| 8.9 Glossary of Terms | 73 |
| 8.10 Evaluation Ethics | 75 |
| 9 Annexes – Technical | 76 |
| 9.1 Final Evaluation: Proposed evaluation questions and indicators | 77 |
| 9.2 Contextual developments in African regional infrastructure since 2007 | 81 |
| 9.3 Private sector participation for the ITF | 84 |
| 9.4 Approvals and CIP as at 5 July 2011 | 86 |

| | | |
|-----|---|----|
| 9.5 | Contribution of case studies projects to ITF expected impacts | 87 |
| 9.6 | Analysis of value for money for each case study project | 94 |
| 9.7 | Comparative description of infrastructure investment facilities | 98 |

Executive summary

Ernst & Young was engaged to conduct the mid-term evaluation of the EU-Africa Infrastructure Trust Fund.

The Infrastructure Trust Fund (ITF) was created in 2007 in the framework of the EU-Africa Partnership for Infrastructure. The ITF comprises 13 donors – 12 Member States and the European Commission. It aims to:

- Support regional investment projects in infrastructure in four sectors: energy, transport, ICT and water;
- Offer a blending mechanism through four financing instruments: interest rate subsidies, technical assistance, direct grants and insurance premia.
- Provide support based on a governance structure organised around three main bodies: the EU-Africa Partnership for Infrastructure Steering Committee providing strategic direction, the ExCom represented by the Donors and the European Commission providing an approval body for ITF grant operations, and the Project Financier Group (PFG) composed of development financing institutions, each of which is appointed by a Donor, who identify potential grant operations to be submitted to ExCom for approval.

As stated in the Terms of Reference (ToR), the purpose of this mid-term evaluation is to “*assess the performance of the EU-Africa ITF over the period 2007-10 against key OECD/DAC evaluation criteria to make recommendations for the future work of the ITF and allow for preparation of the final evaluation*”. ITF relevance, effectiveness, efficiency and expected impacts and sustainability (through the review of the monitoring system and the preparation for the final evaluation) have been assessed in this evaluation. The evaluation covers the period to the 5 July 2011¹.

The evaluation process began in July 2011 with the development of an evaluation framework. In-depth field work was conducted during October and November 2011 with 82 interviews and field visits to four African countries.

The evaluation has focused on the implementation of the ITF at a programme / portfolio level. The objective was not to assess individual projects, however project level information has been reviewed for 10 projects as part of a case study analysis.

Overall there are many elements of the ITF which are valuable and clearly assist in the development of Infrastructure in Africa. The funding is required (as is much more) to continue to support these infrastructure programmes. On the whole, the ITF fulfills its role and is delivering results (although it is still very early in the infrastructure development process). The conclusions and recommendations support the ITF, while focusing on areas and opportunities to improve functioning and focus still further.

The main findings and conclusions are presented below in line with the four evaluation criteria, followed by a summary of recommendations.

Overall the main conclusions are:

- **Relevance:**
 - The original objectives of the ITF, whilst still relevant, are too broad, do not sufficiently show the flow of inputs, outputs, outcomes and impacts and do not reflect the evolving context as well as current and future challenges, eg the role of private sector investment, good governance and risk management.
- **Effectiveness:**
 - The ITF is at an early stage in terms of physical progress of infrastructure projects, and as such measuring outcomes and impacts at the project and portfolio levels is not possible.
 - There has been good progress in identifying projects and in approving grant operations (although actual disbursement has been slow).
 - The value added by the ITF is clear particularly in the case of the IRS which has enabled HIPC countries to be granted concessional loans, the terms of which are better aligned with debt sustainability requirements. There is also a particularly clear financial and economic case for using IRS as an upfront payment.
 - Leverage across the ITF is also clear at 12:1, ie 12 Euro of finance leveraged per Euro of ITF funding.
 - It is not clear whether the ITF substitutes monies that Donor's would have provided anyway.
 - There is a consensus that the current offer of financing instruments might be broadened and include new innovative ways of financing that further respond to the market needs, particularly risk management instruments.
 - The functioning of the various bodies of the ITF is working well, however, the existing Steering Committee for the EU-Africa Partnership for Infrastructure offers some room for improvement.
 - The ITF portfolio could benefit from an independent review of grant operation documentation, particularly relating to compliance with criteria and cost effectiveness, which would ensure the appropriateness of grant operations in reaching ITF objectives.
 - Better engagement of smaller financiers in taking on a Lead Financier role could assist in a sharing of the administrative and coordination workload undertaken by the Lead Financier. The use of intermediated loans has the potential to facilitate the involvement of smaller PFG members.
 - EU Delegations in African countries and RECs need to have a more formalised and frequent interaction with the ITF.
- **Efficiency:**

¹ Please note that this differs from the Terms of Reference for this project and was agreed in discussion with the Reference Group acting on behalf of the ExCom.

- The Administrative Fee for the ITF Secretariat / Fund Manager appears reasonable.
- The administrative burden of financiers is kept to a minimum. This flexibility is considered a positive attribute. However, the quality and comprehensiveness of submission papers is variable. For example, few submissions appear to explicitly refer to project risks and mitigation strategies. Furthermore, the eligibility criteria are not complete in view of the current and future challenges in regional infrastructure.
- Impact and Sustainability
 - Two types of monitoring processes need to be distinguished: at the project level (the responsibility of the lead financier) and also at the portfolio level by the ITF Secretariat. It is not the objective of this MTE to examine the project monitoring arrangements put in place by lead financiers, the objective instead is to establish a common set of indicators that can be aggregated, whilst taking into account the different stages of projects and sectors, and define some common ITF requirements for financiers.
 - Further work is required to agree common indicators and the timing of the final evaluation.

Overall the main recommendations are:

- Relevance:
 - Review intervention logic and objectives of the ITF;
 - Maintain the regional connectivity objective; and
 - Investigate measures to encourage private sector participation.
- Effectiveness:
 - Revisit and broaden the leverage effect calculations;
 - Increase the focus on value-added of the ITF grant operations;
 - Address the potential risk of over-subsidy, particularly relating to the Interest Rate Subsidy (IRS);
 - Encourage use of upfront IRS;
 - Set a clear strategy for TA funds in the context of the ITF;
 - Improve attractiveness and relevance of Direct Grants;
 - Formalise better coordination mechanisms between regional and national infrastructure;
 - Formalise better coordination mechanisms between financiers;
 - Encourage smaller PFG financiers and engage with financial intermediaries;
 - Refine the role of the Steering Committee;
 - Introduce an independent review mechanism for grant applications; and
 - Clarify the role of the RECs.
- Efficiency:
 - Improve the quality of grant request submissions;
 - Investigate options for better managing donor disbursements to the ITF;
 - Better address good governance, maintenance and sustainability in projects; and
 - Improve the consideration of risk management.
- Impact and Sustainability:
 - Improve monitoring, evaluation and the results framework.

In addition to outlined above, there are a number of challenges to the ITF which may require some further consideration, and may need some changes to the focus and evolution of the ITF, particularly: use TA to improve creditworthiness, use TA to build capacity for PPPs, and expand the use of risk mitigation instruments.

Relevance

The objectives of the ITF have not changed since 2007 however the context has evolved

The EU-Africa Partnership for Infrastructure has been established as part of the overarching EU-Africa Strategy, and targets the development of large regional infrastructure networks in Africa. The ITF is one of several funding instruments to enable the implementation of the Strategy.

The objectives of the ITF are focused only on the delivery of the expected outputs of the ITF. These have not evolved since inception in 2007. The three expected outputs (and therefore its objectives) are as follows:

- Mobilisation of resources for regional interconnectivity infrastructure projects;
- Increased collaboration between African States and European donors in the area of infrastructure development; and
- Increased loan finance mobilised from European Development Finance Institutions, thereby leveraging additional finance.

Regional infrastructure development is key to addressing the infrastructure gap, and therefore the ITF's positioning and focus on regional connectivity is relevant and important. Stronger donor coordination has become a necessity, since financing needs are greater than available resources, which often means that no single financier is in a position to fund a large infrastructure project. In this sense the PFG meetings have provided an effective forum. Indeed effective coordination by financiers on ITF-supported projects simplifies processes for national governments and beneficiaries in dealing with financiers.

However there have been changes in the context of African infrastructure and infrastructure financing over the past three years. Challenges have emerged, particularly in relation to the need to look beyond public sector financing in order to bridge the infrastructure gap. This has occurred in the context of the global economic and financial crisis, the publication of the Africa Infrastructure Country Diagnostic (AICD), the establishment of PIDA, and the ongoing work of the ICA and the African Union.

ITF funding instruments have been better defined to reduce ambiguity, to remain relevant in an evolving context and consider new opportunities. New members have been integrated into the Project Financiers Group (PFG), increasing coordination between financiers and creating better partnering.

The objectives (illustrated in the Logical Framework within the financing agreements between EC and the ACP states), whilst still relevant, are too broad, do not show the flow of inputs, outputs, outcomes and impacts, and therefore do not reflect current and future challenges. The evolving context and challenges must be addressed by the ITF in order to ensure ongoing relevance. Challenges for consideration include increased participation of the private sector, good governance, improved institutional and regulatory frameworks, and risk management to attract investors.

Further, there is still no monitoring and evaluation framework in place to enable outcomes and impacts of ITF funding to be measured.

Effectiveness

ITF is making progress towards achieving its expected outputs

The ITF is at an early stage in terms of physical progress of infrastructure projects, and as such measuring expected outcomes and impacts of projects (and even more so from the ITF as a whole) is not possible. However, it is possible to assess expected outputs from some projects, and measure progress. While good progress has been made there are some areas for further improvement. In terms of progress and initial outputs of the ITF:

- The EU's resource allocation towards African infrastructure has increased with 48 projects² representing €225.7m of grant funding as at 5 July 2011. The profile of these grant operations (approved and completed) is as follows:

² Does not include 4 grant operations that are "Cleared in Principle"

| Instruments | | Sector | | Geography | |
|------------------------|----|---------------|----|------------------------|----|
| Interest Rate Subsidy: | 12 | Transport: | 14 | West Africa & Sahel: | 15 |
| Technical Assistance: | 35 | Energy: | 24 | Central & East Africa: | 3 |
| Direct Grant: | 1 | ICT: | 6 | Southern Africa: | 15 |
| Insurance Premia: | 0 | Water: | 3 | East Africa: | 13 |
| | | Multi-sector: | 1 | African continent: | 2 |

- Coordination is being encouraged through interactions with the ICA and latterly PIDA, information sharing and specific coordination in the context of grant operations (e.g. Lake Victoria WATSAN case study). In addition, effective coordination of financiers has been achieved through the nomination of a Lead Financier which has simplified processes for beneficiaries.
- The ITF has been successful in leveraging finance, resulting in total leverage ratio of 12 and PFG leverage of 6.4 as at 5 July 2011.
- Private sector involvement is being encouraged in the PFG, for example through the inclusion of PIDG as a PFG member, and many other PFG members also follow the objective of supporting and promoting private sector involvement in infrastructure in Sub-Saharan Africa.

However despite these achievements, there are also areas for improvement:

- Delays in disbursement and the perception of funds being tied up could have a potential detrimental impact on additional contributions being made, as Donors find it difficult to justify additional contributions when funds appear abundant.
- The leverage calculation method requires some refinement to allow alternate leverage measures.

ITF added value varies according to the instruments mobilised and their specific characteristics

The real value added by the ITF is variable depending on the individual project and ITF instruments mobilised. For the 10 case study projects, the total of ITF grant operations (€130m) constitute a limited proportion of the total overall cost of the projects (€1.826bn), resulting in a leverage effect of 12 (11.2 when focusing on projects in their investment phase, the method employed by the ITF). Interviewed stakeholders have stressed that numerous projects would not have gone ahead, would have faced delays or would have been significantly reduced in scope in the absence of ITF funding.

IRS (12 projects for €156.5m as at 5 July 2011) is a key instrument of the ITF and can now be taken either across the life of a loan or as an upfront payment. The value added by the ITF has particularly been noted where IRS has enabled HIPC countries to be granted concessional loans, the terms of which are better aligned with debt sustainability requirements. The IRS has particularly permitted HIPC countries to meet IMF conditions in 8 separate grant operations, accounting for €134.9 m in IRS, and a leverage factor of 9. The question is whether the ITF substitutes monies that Donor's would have provided anyway. The subsidy is split between the different lenders on the basis of their respective refinancing rates (e.g. for KfW intervention rate of the German Treasury, for the EIB refinancing rate of its capital etc). This mechanism, however, is not transparent to other parties.

TA (35 grant operations as at 5 July 2011) supports different stages of project preparation and implementation, enables proper project planning and preparation, and develops capacity. TA is typically used to improve the project preparation or to focus on more cost-effective and efficient procurement. However, there is not always a systematic link to a project investment. Furthermore there is no strategy as to what the ITF seeks to achieve in granting TA support.

Insurance premia had not been used as at the cut off period for this evaluation, apart from one grant operation Cleared in Principle. Its lack of use is mainly due to poor clarity regarding its eligibility and how it could be applied to projects. However, some PFG members see a potential growing need for risk mitigation instruments of this kind which we would agree with based on our experience.

Direct grants as at 5 July 2011 had only been granted once since 2007. The only example of direct grant has highlighted huge potential to generate leverage effects and to include private funding (although the one case may not be representative overall).

ITF has also been effective in accelerating the financing of regional infrastructure projects due to its flexibility and uncomplicated procedures. Many stakeholders emphasised that the ITF generates limited administrative burden.

There are examples of good coordination externally with other instruments and internally between European financiers (whilst some difficulties have been encountered), but the ITF could benefit from increased formalisation of these coordination mechanisms

The ITF has developed a unique identity in African infrastructure in terms of its regional interconnectivity focus and its blending of grant money with long term loans from European financiers to leverage additional funds.

The ITF Secretariat has developed a close and effective collaboration with instruments and initiatives active in African infrastructure development. Further, the ITF has provided an opportunity to bring European financiers together. This enhanced coordination has taken place through combining efforts across 48 grant operations, more than 20 Executive Committee meetings, and numerous PFG meeting that cover strategic and operational issues, and implementation challenges of regional African infrastructure projects.

The coordination of PFG and non-PFG members involved in the same projects, depends on the effectiveness of liaison procedures used by the Lead Financier and on the individual contacts between Financiers' staff. Good practices (such as information sharing procedures or site visits) as well as difficulties (limited coordination generating delays in the case of the Beira Corridor project) have been observed, but the regular participation of the same stakeholders in projects tends to ease the coordination.

The ITF governance structure predominantly follows a bottom up approach with limited strategic direction

The ITF governance structure has three levels: the Partnership Steering Committee to provide the strategic directions, the ExCom to represent the donors and make decisions on grant operations, and the PFG, which discusses projects that may potentially benefit from ITF funding, and is first and foremost the single "entry point" for any request for ITF support. The functioning of this structure is assisted through the activities of the ITF Secretariat, which acts as the common link.

The ITF governance structure is clear, in that it is based on a clear definition of tasks between the different bodies. The regular meetings of the ExCom and the PFG allow frequent and up-to-date review of grant operations. As mentioned, the PFG constitutes a frame of cooperation among DFIs allowing information sharing and project reviews. ITF governance has evolved since 2007.

However, in practice, the governance system follows a bottom-up project identification approach, and there does not appear to be a clear top-down strategic approach from the EU-Africa Partnership for Infrastructure Steering Committee. The ITF governance structure, though it involves a range of relevant stakeholders, is largely influenced by a limited number of financiers, who are lead financier on 44 of 48 grant operations.

Efficiency

The administrative efficiency of the ITF appears reasonable

The management fee for the ITF Secretariat / Fund Manager of 4% is based on the cost accounting methodology which is common to all Joint Actions which the EIB is involved in and has been approved. Its level was confirmed as appropriate following the cost analysis review performed by the EIB, after two years of ITF operation. The evaluator could not carry out a full benchmarking of the ITF fee versus other trust funds for the administration of which donors appear to pay substantially different fees (ranging from 2% to 7%). Given the range of services provided by the ITF Secretariat and the Manager, the 4% rate seems reasonable.

Considering the current governance structure and "Rules of procedure", the administrative burden of financiers is kept to a minimum through ITF ways of working. A common grant operation request cover sheet has been developed and improved. Furthermore, the nomination of a lead financier for each grant operation minimises the duplication of workload, and the financiers' are afforded the flexibility to apply their own recognised work procedures. This flexibility is considered a positive attribute as it does not add unnecessary burden for financiers, however at the same time, Financier procedures are not always transparent to other parties.

The grant operation approval process is acceptable but could be strengthened to better justify ITF added value.

ExCom members apply a sufficiently rigorous approach to the approval of grant operation requests, which has been facilitated by an ITF application cover sheet template that is better aligned to the eligibility and development criteria. Furthermore, in ExCom minutes, there is evidence of ExCom members challenging grant operation requests prior to approval.

Nevertheless, the quality of grant operation papers is variable between grant operation requests. For many grant operations, certain criteria have not been addressed on the cover sheet, and justification in supporting documentation is, at times, not sufficiently rigorous.

The governance structure lacks an independent review of grant operation documentation, which would play the role of ensuring the appropriateness of grant operations in reaching ITF objectives.

Further, project objectives and expected outputs are often clearly defined but expected outcomes and impacts are not always quantified, making it difficult to follow the chain of results and establish the monitoring and evaluation arrangements. Similarly, there is rarely data available on monitoring indicators to quantify project progress. Given the ITF is in its mid-term stage, it is all the more important to establish appropriate monitoring arrangements both at project and portfolio level to prepare for the final evaluation.

ITF projects disburse well when compared with other national projects of European financiers. However delays in disbursement and the perception of funds being tied up could have a potential detrimental impact on additional contributions being made, as Donors find it difficult to justify additional contributions when funds appear abundant. This in turn may have an impact on the ability of financiers to advance project preparation if there is any doubt regarding the availability of funding.

Monitoring and sustainability

A better monitoring at fund level should be implemented

It is important to distinguish between two types of monitoring processes – monitoring which is undertaken at the project level which is the responsibility of the promoter, with the assistance of the lead financier and potentially other financiers and monitoring at the portfolio level by the ITF Secretariat, with the assistance of lead financiers. It is not the objective of this MTE to examine the project monitoring arrangements put in place by lead financiers (and hence monitoring at a project level), as they have the flexibility to apply their own internal processes.

However, PFG and ExCom meetings have raised the need for a clear and defined approach to monitoring and evaluation (M&E) for the ITF, and have particularly addressed the subject of measurement of ITF outcomes and impact monitoring, both in the context of individual projects and at the aggregate ITF portfolio level. Common indicators will facilitate the aggregation of data from projects to the ITF portfolio level.

The need for proper financial management of the ITF will go beyond 2015, the intended end date for the ITF. Therefore, it is difficult to determine during the mid-term evaluation how the portfolio of ITF grant operations should be monitored when the funding is ceased. There are increased calls for measuring the “value for money” of ITF funded projects, and for this to be made possible, a structure will need to be put in place post 2015 to measure outcomes and impacts at a portfolio level. Currently, apart from the ITF Secretariat, there has been no other monitoring body identified that has the potential to be operational post-ITF. The Secretariat has established a Project Monitoring Tool and GIS, amongst other tools, which should permit the ongoing portfolio monitoring.

1 Objectives, scope and approach to the evaluation

This report provides analysis of the Infrastructure Trust Fund (ITF) based on the evaluation questions outlined in the inception report and draws conclusions and recommendations based on our analysis.

This report has been prepared based on:

- Documentary Review ³;
- Field work related to ITF activities;
- Interviews with stakeholders ⁴; and
- A number of meetings with the reference group at regular points through the project.

Rather than enter into a long methodological discussion, the objectives and scope of this project can be found in Section 8.2 and the overall approach as well as limitations to the work conducted can be found in Section 8.3.

³ See Section 8.6 for a list of types of documentation consulted.

⁴ See Section 8.5 for a list of stakeholders interviewed.

2 Evaluation of the relevance of the ITF

2.1 Intervention logic

EQ A1: Is ITF implementation based on clear and consistent intervention logic?

The objectives (and expected outcomes) of the ITF as an instrument of the EU-Africa Partnership have not evolved since inception in 2007. The three expected outputs (considered as the objectives) are as follows:

- Mobilisation of resources for regional interconnectivity infrastructure projects.
- Increased collaboration between African States and European donors in the area of infrastructure development.
- Increased loan finance mobilised from European Development Finance Institutions, thereby leveraging additional finance.

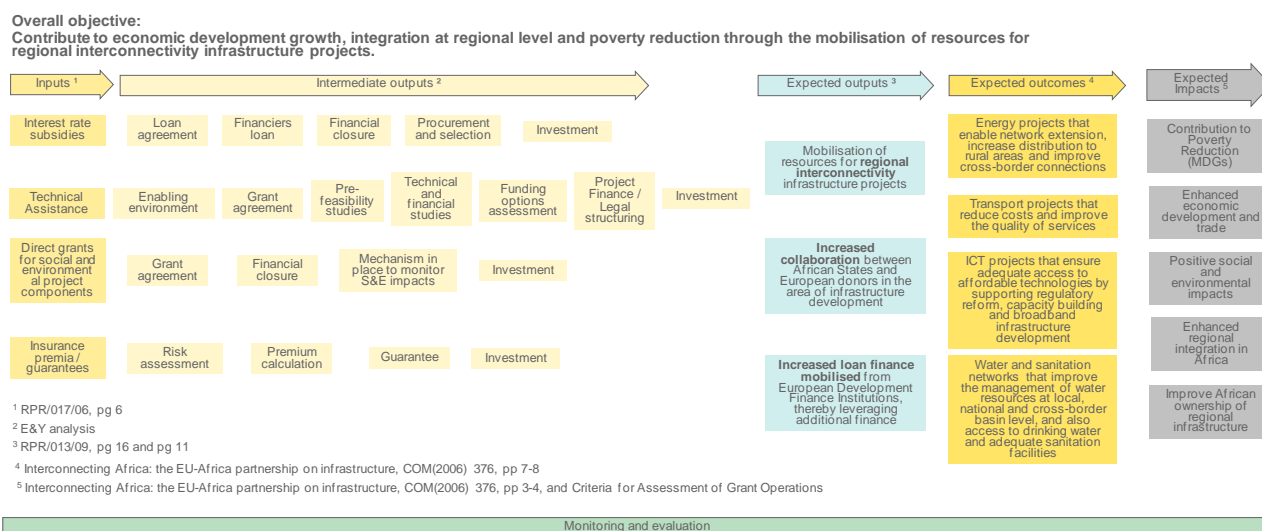
There have been changes in the context of African infrastructure over the past three years. The objectives (illustrated in the Logical Framework within the financing agreements between the EC and the ACP states), whilst still relevant, are broad, do not show the causal chain from inputs to outputs, outcomes and impacts, and therefore might not reflect current and future challenges. There is still no co-ordinated monitoring and evaluation framework in place to enable outcomes and impacts of ITF funding to be measured.

2.1.1 The ITF has not redefined or detailed different levels of objectives since its inception in 2007

The strategic intent of the ITF was clear at programme inception in 2007, however, this was not translated into specific objectives for the Fund to allow prioritisation of instruments, and set a results framework. Stakeholder views have supported our observation that the ITF has not developed specific objectives and clear goals for the programme to deliver. Additionally, a review of the ITF documents reveals there is not a common definition of ITF objectives used across presentations and other communications.

The evaluation team has developed a strategic intervention logic for the ITF however. The diagram below is predominantly based on the Logical Framework within the Financing Agreements between the EC and the ACP States⁵, which to the knowledge of the evaluator, is the only strategy document that defines the objectives of the ITF.

Figure 1 - Strategic intervention logic for the ITF



Source: Ernst & Young analysis based on Logical Framework within Financing Agreements between EC and ACP States

The above diagram represents the overall intervention logic for the ITF programme. The intervention logic has five levels:

- Inputs – the four instruments currently offered by the ITF.⁶

⁵ Financing Agreement between the European Commission and the ACP Group of States, The EU-Africa Infrastructure Partnership: EC Contribution to the Infrastructure Trust Fund, RPR/017/06 EDF IX, RPR/015/07 EDF IX, and RPR/013/09 EDF 10

⁶ Financing Agreement between the European Commission and the ACP Group of States, The EU-Africa Infrastructure Partnership: EC Contribution to the Infrastructure Trust Fund, RPR/017/06 EDF IX, pg 6.

- *Interest rate subsidies: the provision of a lump-sum amount to participating lenders to enable such lenders to make long-term loan finance available at reduced interest rates (usually meeting beneficiary countries / borrowers' debt sustainability constraints).*
- *Technical assistance: [(provision of a lump-sum to) finance technical assistance including preparatory work for eligible infrastructure projects including environmental impact assessments, project supervision, and targeted capacity building (reinforcing the technical and administrative capacity of people in Africa).*
- Grants: direct grants for project components which have substantial demonstrable social or environmental benefits or to project components mitigating negative environmental or social impacts.
- Insurance premia: initial-stage funding of insurance premia necessary to ensure the launch of infrastructure projects".
- Intermediate outputs – the intermediate steps necessary to implement the activities of the Fund (see Section 3.2 for analysis by instrument type)
- Expected outputs – these outputs have particularly been defined through review of the financing agreements between EC and ACP States as well as the ITF Criteria for Assessment of Proposals for Grant Operations (CAPGO) document, and define the key expected outcomes of ITF interventions. These expected outputs have not evolved since the initial financing agreement in 2007.
 - Mobilisation of resources for regional interconnectivity infrastructure projects: seeking to bridge the financing gap for infrastructure projects with a regional focus
 - Increased collaboration between African States and European Donors in the area of infrastructure development: the ITF is designed to bring together European Development Finance Institutions (DFIs) with African governments and beneficiaries to develop regional infrastructure based on the principle of African ownership. This could also be applied to internal coordination, in terms of encouraging efficient coordination between donors and financial intermediaries.
 - Increased loan finance mobilised from European DFIS, thereby leveraging additional finance: ITF grant operations are designed to be complemented with long-term finance from eligible DFIs, resulting in an increased number of infrastructure projects focused on regional interconnectivity financed by DFIs.
- Expected outcomes – these outcomes are specified both in the Trust Fund Agreement as well as the Communication from the Commission to the Council and the European Parliament "Interconnecting Africa: the EU-Africa Partnership for Infrastructure"⁷, and expressed in terms of the four different priority sectors.
- Expected impacts – these represent the development criteria for ITF funding as described by the CAPGO document developed in 2010, and reinforced in the Communication to the Council and the European Parliament "Interconnecting Africa: the EU-Africa Partnership for Infrastructure".

In the evaluation question B2, Section 3.2.2 further analysis is presented on the causal links between each instrument and the expected outputs, outcomes and impacts.

2.1.2 ITF objectives are relevant to the EU-Africa Partnership for Infrastructure

The ITF is positioned as an instrument of the EU-Africa Partnership for Infrastructure, which is one of eight partnerships under the 2011-2013 Joint Africa EU Strategy. The Partnership is based on the objectives initially defined by the short-term action plan in the field of infrastructure (i-STAP) of the African Union and NEPAD.⁸

The ITF has defined eligibility criteria, which frame its scope of intervention, focusing on regional infrastructure projects. Taken together, the ITF is directed clearly at supporting the EU-Africa Partnership for Infrastructure, furthermore the TFA states that: "*The key objective of the Trust Fund is to contribute to achieving the strategic objectives of the EU-Africa Partnership through targeted funding aimed at making up the regional and continental deficit in infrastructure. African ownership and project sustainability will be the guiding principle of the Trust Fund, and poverty reduction will be key criteria for project selection under the Trust Fund*".⁹

2.2 Context (strategic relevance)

EQ A2: After 4 years of implementation, is the ITF still relevant in addressing the objectives of the EU-Africa Partnership for Infrastructure, given the changing context in Africa's needs and priorities in terms of infrastructure development (e.g. effect of global financial crisis)? Will it remain relevant into the future?

The EU-Africa Partnership for Infrastructure has been established as part of the overarching EU-Africa Strategy, and targets the development of large infrastructure networks in Africa in four key sectors – ICT, Transport, Energy and Water. The ITF is one of several funding instruments to enable the implementation of the Partnership. The ITF targets cross-border infrastructure investments.

The ITF is strategically relevant to the EU-Africa Partnership for Infrastructure. However there have been changes in the context of African infrastructure over the past three years, and the ITF has not developed a specific strategy to reflect this new reality. Challenges have

⁷ Communication from the Commission to the Council and the European Parliament of 13 July 2007 – Interconnecting Africa: the EU-Africa partnership on infrastructure, COM(2006) 376

⁸ Communication from the Commission to the Council and the European Parliament of 13 July 2007 – Interconnecting Africa: the EU-Africa partnership on infrastructure [COM(2006) 376 final – Not published in the Official Journal]. http://europa.eu/legislation_summaries/development/sectoral_development_policies/r13013_en.htm

⁹ ITF Trust Fund Agreement

emerged, particularly in relation to the need to look beyond public sector financing in order to bridge the infrastructure gap. This has occurred in the context of the global economic and financial crisis, the publication of the Africa Infrastructure Country Diagnostic (AICD), the establishment of PIDA, and the ongoing work of the ICA and the African Union.

The ITF funding instruments have nevertheless been better defined to reduce ambiguity, remain relevant in an evolving context, and consider new opportunities. New members have been integrated into the Project Financiers Group (PFG), increasing coordination between financiers and creating better partnering. Further, there has been increasing readiness to look for new opportunities, including the use of financial intermediaries as a potential method to encourage better participation of the smaller PFG members and expand the outreach of the ITF to smaller scale investments.

However the evolving context and challenges must be addressed by the ITF in order to ensure ongoing relevance. These challenges include how to increase participation of the private sector, the consideration of good governance issues and improving institutional and regulatory frameworks, as well as risk management to create an environment that will attract private investors.

2.2.1 The importance and challenges of regional infrastructure development in Sub-Saharan Africa

Given the volume and fragmented nature of Sub-Saharan African countries (48 in number, 20 of which have a population of less than 5 million), there are particular challenges in addressing the infrastructure gap. Regional integration has been identified by the AICD studies as *“likely the only way to overcome these handicaps and participate in the global economy”*.¹⁰ An integrated approach will assist in enabling deeper economic integration, and therefore allow countries to benefit from economies of scale. It is in this context that PIDA has been established.¹¹

The benefits of regional integration are clear. For ICT and power, regional infrastructure can provide sufficient economies of scale to contribute to reduced costs of production. For transport and water, regional collaboration allows better integrated management and development of cross-border public goods.

More generally, infrastructure sharing addresses the problems of small scale and challenging locations. Joint provision increases the scale of infrastructure construction, operation, and maintenance. And it reduces costs, pools scarce technical and managerial capacity, and creates a larger market.

Furthermore, regional infrastructure could theoretically attract private sector interest, since the opportunity to serve a larger regional market would make extensive up-front investments more attractive. However in reality, the complexities of regional infrastructure (multiple legal/regulatory environments, etc) make it less attractive to private investors than national projects.

Some of the factors that make it difficult to meet regional infrastructure needs are discussed below:

Small scale of individual countries - Sub-Saharan African economies are generally small, with 20 countries that have a GDP of less than \$5 billion.¹² The small scale means governments have difficulty funding the large costs associated with infrastructure.

Mutual dependence - Some countries have more to gain from regional integration than others. 16 African countries are landlocked, depending on their neighbours for effective road and rail corridors to the sea, as well as on intra-continental fibre optic backbones that link them to submarine cables. Coastal countries depend particularly on sound management of water resources upstream.

Concerns of governance and regulatory frameworks - Investment in African infrastructure projects is usually considered more risky, due to political instability, underdeveloped human resources and financial systems, poverty, and corruption. Governments must promote pro-development policies in the long run so that economies can prosper and infrastructure investments can generate the expected benefits.

Building a political consensus - Regional infrastructure is only one aspect of broader regional integration. Even if a project is bankable and presents a clear economic case, political obstacles may constrain or block its development. Regional infrastructure requires trust and dependence between countries, particularly in the case of water and energy source management. There is a need to build political consensus among neighbouring states that may have diverging national agendas or even recent histories of conflict.

Establishing effective regional institutions - Africa has no shortage of regional political and technical bodies (including 30 executive continental bodies). The result is a high degree of complexity, unclear responsibilities for strategy and project development, and uncertain financing strategies. This lack of clarity has slowed progress on coherent regional strategies, realistic programmes for integration priorities (such as regional infrastructure and trade integration), and technical plans for specific projects. Effective regional institutions are needed to promote a collaborative cross-border infrastructure development program and to ensure an equitable distribution of benefits.

¹⁰ Africa's Infrastructure: A Time for Transformation, Chapter 6, pg 143.

¹¹ Programme for Infrastructure Development in Africa, a programme designed to develop a vision and strategic framework for the development of regional and continental infrastructure (Energy, Transport, Information and Communication Technologies (ICT) and Trans-boundary Water Resources).

¹² Africa's Infrastructure: A Time for Transformation

Setting priorities for regional investments - The infrastructure needs of Sub-Saharan Africa are significant, and therefore it is a challenge to determine which projects should be financed as a priority. Additionally there is also a large backlog of infrastructure investments as well as limited borrowing ability. There is a need for better sequencing and priority setting of regional projects to guide efforts on the regional integration agenda. Suitable criteria for prioritisation therefore may include predicted economic returns, spatial targeting, and scope for private participation.

Developing regional regulatory frameworks - Physical integration of infrastructure networks will be effective only once harmonized regulatory frameworks and administrative procedures have been put in place to allow the free flow of services across national borders. Building physical infrastructure by itself will not yield high economic returns in regional growth and employment. Improving the legal, regulatory, and administrative environment is necessary to ensure infrastructure's efficient use.

Facilitating project preparation and cross-border finance - The added complexity of regional infrastructure projects as compared to national projects makes them costly and time-consuming to prepare. This is particularly true when projects are large in relation to the size of the host economy, depend on financing from downstream beneficiaries and involve a large number of potential financiers.

2.2.2 Private sector investment is needed to enable regional infrastructure development.

The private sector, including multinational enterprises, can play a role in providing finance and expertise to develop the infrastructure services of host countries. If the African Infrastructure financing gap is to be addressed, policy makers need to mobilise all sources of capital and innovate.¹³

The enormous gap between available infrastructure and the needs of the African population cannot be bridged by public resources alone. Similarly, regional infrastructure requires greater financing, which cannot be provided from one source alone. To meet these needs, encouraging private investment in infrastructure is an essential element in bridging the financing gap.

Private sector participation can bring wider benefits. Examples include the mobilisation of the private sector's technological expertise and managerial competences in the public interest. ICT, power plants, and ports and airports have significant potential to be provided and operated by the private sector.

Despite the growing consensus that private sector involvement is essential to bridge the infrastructure gap, private investment has not yet fully materialised and private sector participation has remained limited to some 10 to 15% of infrastructure financing, with telecoms attracting the bulk of investments.¹⁴

The number of failed public-private partnerships in the infrastructure sectors attests to the challenges facing policy makers. A number of possible reasons as to why private sector investment has been limited to date are provided in section 2.2.4, which addresses the current and future challenges for the ITF.

2.2.3 The objectives of the EU-Africa Partnership for Infrastructure have set the framework for the ITF

The EU-Africa Partnership for Infrastructure was established recognising the context set out in the preceding sections (2.2.1 & 2.2.2) but COM (2006) 376 specifically noted:¹⁵

- Significant obstacles to reducing poverty and achieving the Millennium Development Goals (MDGs) in Africa, including limited access to transport, telecommunications, and energy and drinking-water services. The development of suitable infrastructure and related services would enable increased economic growth and stimulate trade and regional integration.
- During the 1990s, there was a reduction in the financial resources allocated to developing infrastructure in Africa by African governments and EU Member States. It was therefore necessary to increase support and build on progress that had already been made thanks to cooperation between the European Commission, African governments and other donors.
- The recognition that Africa could benefit from EU experience in terms of a methodology (such as that from the Trans-European Networks - TENS) for identifying priority projects and the principles for consensus-building on the harmonisation of regulatory frameworks.
- A desire for coherence between investments at continental and regional level and national strategies for the development of infrastructure and combating poverty.

*In order to ensure the success of the Partnership, it was noted that "effective coordination between the Commission, Member States and other international initiatives and organisations such as the World Bank and the EIB is necessary"*¹⁶. This coordination is intended to encourage ownership of projects by beneficiaries, in particular through political commitment by governments to applying good governance in

¹³ OECD Principles for Private Sector Participation in Infrastructure, 2007

¹⁴ C Kaufman, Engaging the Private Sector in African Infrastructure, NEPAD-OECD African Investment Initiative, 2008

¹⁵ Communication from the Commission to the Council and the European Parliament of 13 July 2007 – Interconnecting Africa: the EU-Africa partnership on infrastructure, COM(2006) 376

¹⁶ Communication from the Commission to the Council and the European Parliament of 13 July 2007 – Interconnecting Africa: the EU-Africa partnership on infrastructure [COM(2006) 376 final – Not published in the Official Journal]. http://europa.eu/legislation_summaries/development/sectoral_development_policies/r13013_en.htm

all infrastructure sectors. In line with the Financing Agreements defining the EC contribution to the ITF¹⁷, the objectives of the latter as an instrument of the EU-Africa Partnership for Infrastructure can be summarised as follows:

- Mobilisation of resources for regional interconnectivity infrastructure projects;
- Increased collaboration between African States and European donors in the area of infrastructure development;
- Increased loan finance mobilised from European Development Finance Institutions, thereby leveraging additional finance.

2.2.4 The ITF is relevant to its original objectives, but needs to refine its strategy to remain relevant into the future, in light of the changing context

The ITF has evolved its operations in order to better address the contextual changes and new realities in African infrastructure (see section 9.2). However, these objectives, whilst still relevant, are too broad and therefore not sufficiently detailed to enable connections between inputs, outputs, outcomes and impacts. Some of the challenges are discussed below.

Infrastructure projects are capital intensive, complex and are long in duration

Projects involve high initial investments, long payback periods and disparate commercial rates of return across sectors (estimated by the AfDB at between 5 and 10% in the water sector, compared to 17-25% in the power sector and 25-30% in telecoms).¹⁸ This tends to generate high contractual and regulatory risks in a context of political volatility and external shocks.

Infrastructure investment involves contracts which are more complex and of longer duration than in most other sectors of the economy. At the same time, it needs to both be financially viable and sustainable, whilst meeting user needs and social objectives.¹⁹ These conditions are particularly highlighted in the case of regional (rather than national) projects.

The Infrastructure gap must be addressed through a regional focus

As mentioned, regional integration has been identified by the AICD study as *“likely the only way to overcome these handicaps and participate in the global economy”*.²⁰ An integrated approach will assist in enabling deeper economic integration, and therefore allow countries to benefit from economies of scale.

Unfavourable institutional and regulatory framework conditions

Private finance will not materialise unless the balance between risks and returns is deemed appropriate by lenders and investors. It involves an increased focus on the part of governments and their partners on aspects that go “beyond money”, such as the institutional and regulatory framework conditions.

National governments have a role to play. It is essential for Governments to establish adequate policy and regulatory frameworks and contractual arrangements, and for the ultimate responsibility to meet population’s basic needs. It involves establishing the appropriate institutions, including the relevant regulatory bodies.

The role of ITF TA in supporting capacity building for improving the creditworthiness of customers is crucial to encouraging commercial banks and the private sector to become involved in such projects. TA is particularly important in improving the credit rating of project promoters. Credit rating improvement is a long process that requires effort and reform of public finances, accounting and expenditure management, taxation as well as cash collection from customers.

Although a number of project promoters will not have a credit rating and will get the rating for their home country by default, there are however instances, like the Nigerian national oil company (and NNPC), or the Port Autonome de Pointe Noire (PAPN), where the project promoter can achieve a rating which is higher than its home country because the infrastructure operator’s economics are driven by international markets and their customers (oil companies/oil exporters).

This is further complicated when projects are cross-border and requires further work and agreements between countries.

The ITF can potentially play a role in improving institutional and regulatory framework conditions, and some considerations are provided in Section 7, Recommendations.

Weak management and financial capacities

Management and supervision of contractual arrangements may be carried out by local entities, exposing the investors to the weak management and financial capacities of sub-sovereign entities.

TA grants in the context of the ITF can and should continue to enable external expertise to be procured, encouraging capacity building, knowledge sharing, and robust planning. Many organisations do not have the capacity or experience to implement projects of this size and character, and therefore the ITF is essential.

¹⁷ Financing Agreement between the European Commission and the ACP Group of States, The EU-Africa Infrastructure Partnership: EC Contribution to the Infrastructure Trust Fund, RPR/017/06 EDF IX, RPR/015/07 EDF IX, and RPR/013/09 EDF 10

¹⁸ C Kaufman, *Engaging the Private Sector in African Infrastructure*, NEPAD-OECD African Investment Initiative, 2008

¹⁹ OECD Principles for Private Sector Participation in Infrastructure, 2007

²⁰ Africa’s Infrastructure: A Time for Transformation, Chapter 6, pg 143.

Additionally, given the large resource requirements and the budgetary and borrowing constraints of African governments, private sector investment and participation in all sectors of infrastructure is essential. PPPs are seen as a growing business opportunity for large-scale private investment in infrastructure and economic development of Africa. However managing a successful PPP programme requires a range of specialised functions within government to conceptualise, evaluate, structure, appraise and select the projects. Such aspects are not supported by the ITF currently.

Currency risks

Revenues come mainly from user fees or government subsidies in local currency, exposing investors and lenders to foreign exchange risk if funding is in foreign currency, a true constraint for international investors, but also for national operators in a context of poorly developed local financial markets.

Furthermore, regional infrastructure will often seek the involvement of international infrastructure operators, which are particularly sensitive to commercial risks involved in working in unfamiliar local environments.

Emerging local currency debt markets

Sub-Saharan African domestic bond markets are coming into focus of foreign institutional investors, private capital flows to Sub-Saharan African having grown five-fold between 2000 and 2008, thus creating an opportunity for capital market financing of infrastructure development.

However, many African bond markets suffer from a comparatively weak regulatory environment, inadequate market infrastructure and lack of capacity. The level of development in local markets is dispersed with little or no cross-border trading due to capital controls, underdeveloped market culture to attract private investors (local currency bond markets are often inadequate and corporate bond markets nearly nonexistent), and the lack of harmonised tax treatment. While there are pockets of collaboration on developing capital markets in Africa, international support is largely fragmented.

The G8 initiative on Good Financial Governance in Africa (2007), the Third High-Level Forum on Aid Effectiveness in Accra in 2008, as well as the G20 High Level Panel on Infrastructure Action Plan to Support the Development of Local Currency Bond Markets (2011), all call however, for the harmonisation of technical assistance and developing local currency bond markets.

While there are resources in place at international level (e.g. World Bank and all major regional development banks) to fund modest levels of support for the development of local currency bond markets to date, these have nevertheless been extremely limited. Many more countries would benefit from more comprehensive technical assistance support to put in place preconditions and build basic infrastructure for successful financial deepening of their specific capital markets, including by leveraging existing sources of financing and improving coordination and coherence (e.g., development issuance strategies and liability management tools, coordinated development programmes across different fixed income markets (bond, loan, etc.), primary and secondary market architecture, strategies to broaden and diversify the investor base, coordination schemes for central banks' and governments' operations, etc.).

Anticipated growing needs for risk mitigation instruments

Members of the PFG have explained that they faced increasing risks in a number of countries and anticipated growing needs for risk mitigation instruments, not only in IMF constrained countries. Risk mitigation instruments for infrastructure financing can split into guarantees or insurance products.

A guarantee provides the holder of a debt obligation the timely payment of principal and interest, through the payment of the amounts by the guarantor in case of default. In case of an insurance contract, the holder of a debt obligation is insured upon evaluation of the claim and determination of its liability by the insurer.

Risk mitigation instruments may benefit debt providers (lenders, bond investors) concerned about a borrower's credit risk, covering default on debt service or equity investors seeking protection against investment risk, covering losses on their investment. There are variations between instruments, depending on the origin of the loss, which triggers the payouts of insurance depending on the occurrence of the risk.

Some instruments differentiate between the cause of the loss as political or commercial. Many instruments cover only part of the debt or equity investment so that risk is shared between the guarantor or insurer and the lender or equity investor.

The Box below contains some characterisation of risk mitigation instruments.

The instruments can be divided according to the type of risk mitigated:

- Credit guarantees cover losses in the event of a default. They are themselves differentiated, into two categories. Partial risk guarantees allow debt issuers to improve their credit rating and hence their market access and the terms of the commercial debt. In these cases the credit risk is split between the guarantor for the part that is guaranteed and the borrower for the rest. The guarantee coverage can vary widely depending on the risk sharing structure between the creditworthy guarantor and the lender. Full credit guarantees allow borrowers to obtain debt terms similar to those of the guarantor through the coverage of the entire debt service in the event of a default. These guarantees are provided by specific insurers or some public agencies,
- Export credit guarantees or insurance cover losses for exporters or lenders financing projects, and are linked to the nationality of the suppliers, project developers, or lenders. These instruments cover both political and commercial risk (together, comprehensive risk). Coverage is generally limited to a specified percentage for each risk, but can be nearly complete. Comprehensive export credit

guarantees provide the same protection as credit guarantees, guaranteeing debt service in the event of a default.

- Political risk insurance and partial risk guarantees (or political risk guarantees) cover losses caused by specified political risk events.
 - Political risk insurance (PRI) covers traditional political risks for equity investors and debt providers: currency inconvertibility and transfer restriction; expropriation; war and civil disturbance. Less usual political risks can also be covered by political risk insurance, such as: breach/ repudiation of contract; losses arising from a government's non-payment when a binding decision or award by an arbitral or judicial court cannot be enforced.
 - Partial risk guarantees (PRGs), also used as an abbreviation for similar instruments called "political risk guarantees" which benefit debt providers, and cover a wider range of political and regulatory risks than PRI. They typically cover losses due to a host government's non-payment of its contractual obligations. In addition to the traditional political risks, they may cover: government contractual termination payments; changes in laws (notably fiscal laws), or incentives, etc; the contractual performance of public counterparts, and arbitration award default.

The mitigation of political risk has seen recent shifts from the coverage of 'traditional' political risks, to the coverage of more 'subtle' risks stemming from government actions that may adversely affect infrastructure business operations such as:

- Adverse regulations taken by the host government of the infrastructure, or the government default on contractual clauses.
- Local currency devaluations, negatively affecting the revenue earnings in local currency of infrastructure (when project expenses and debt service remain to be paid in foreign currency).
- In the few African countries that enjoy sufficiently developed financial and capital markets, the use of loans in local currency or the issuance of public and private debt or of cross currency swaps can help mitigating the risk of devaluation. However in most of Africa, the only way to mitigate this risk is to allow for the contractual tariff indexation on foreign exchange rates of foreign currency costs components. Therefore taking a PRG to cover against the risk of host governments' refusal to enforce such indexation contracts, can indirectly contribute to cover the substantial risk of devaluation.

The use of innovative instruments by insurance providers has been expanded in the recent years, often on the initiative of regional development banks, providing risk protection that allowed private insurers to enter new markets (e.g. wrapping of local currency bonds by infrastructure operators, enticing insurers to cover a larger share of the credit risk); offering partial risk guarantees for privatisation transactions; or the provision of PRG to fully equity-funded projects; or providing political risk insurance coverage to support the securitisation of local loans in order to boost the rating of debt issue; or helping countries to set up their own guarantee facilities by providing seed capital (or technical assistance) to the government.

There is a consensus among stakeholders that the current offer of financing instruments might be broadened and include new innovative ways of financing that further respond to the market needs: *"the PFG as a whole would welcome widening the geographical scope, as well as of the range of instruments available for grant operations"*²¹.

2.2.5 The ITF has incrementally evolved by taking into account the changing context

2.2.5.1 Participation and interaction with regional and continental initiatives

The ITF Secretariat has worked closely with Infrastructure Consortia for Africa (ICA) and wider stakeholders and has sought to develop ways of working and technical initiatives. The AfDB (a PFG member and host to the ICA Secretariat), in the context of the G-20 consultations and the PIDA monitoring, is undertaking a project reviewing other African infrastructure project preparation facilities (of which there are more than 50). This review will examine many issues including the average time for implementation, sector, geography, and contribution to existing strategies in an effort to rationalise and apply the most relevant instrument available.

In 2010, the EIB, African Development Bank (AfDB), New Partnership for Africa's Development (NEPAD), IPPF and the ITF finalised the project data and status sheet for common information exchange.²² This has now been trialled on the ITF information management system among members of the PFG.

2.2.5.2 Introduction of new PFG members

The PFG has been strengthened through the inclusion of two new members– the Private Infrastructure Development Group (PIDG) and the AfDB, nominated by the Netherlands and the UK respectively.

- PIDG is a multi-donor trust fund mobilising public and private sector investment to assist developing countries provide infrastructure vital to boost their economic development and combat poverty. 90 percent of PIDG funds are currently committed to projects in Sub-Saharan Africa. PIDG is intentionally different from other financiers, supporting Donors need for a mechanism to support private sector involvement in infrastructure projects. PIDG is not meant to compete with DFIs, but rather to broaden investment opportunities through

²¹ Quoted in the PFG technical note "Some Considerations with respect to the provision of Risk Mitigations Instruments and especially Insurance Premia (IP) in the context of the EU – Africa ITF"

²² Infrastructure Consortium for Africa, Annual Report 2011, pg 48.

mechanisms such as PPPs. The integration of PIDG into the PFG represents a move towards increased private sector involvement in ITF-supported projects. It is important to recognise however that PIDG is not the only option for using ITF to leverage private participation in infrastructure.

- The inclusion of AfDB as an active member of the PFG is a move towards better coordination with African institutions in the spirit of African ownership and according to the EC will “allow the necessary strengthening of the projects pipeline”.²³

The integration of PIDG and the AfDB is a positive move for the ITF recognising that the private sector must play a stronger role in African infrastructure and that African ownership is a priority and build on the local “ownership”.

2.2.5.3 Increased coordination amongst ITF financiers

Stronger donor coordination has become a necessity, since financing needs are greater than available resources, which often means no single financier is in a position to fund a large infrastructure project. In this sense, PFG members have been encouraged to cooperate, and the PFG meetings have provided an effective forum. Effective coordination by financiers on ITF-supported projects, whereby the procedures of the Lead Financier are followed, simplifies processes for national governments and beneficiaries in dealing with the Financiers – “one point of contact” has been referred to as a key positive feature. However, the ITF could benefit from better coordination with other EU instruments and non-PFG financiers (see Evaluation Question B3, Section 3.3).

2.2.5.4 Active consideration of new programme elements

The ITF has demonstrated an eagerness to evolve over time. New opportunities such as investigating the potential involvement of financial intermediaries (in order to optimise the financing environment and promote increased African ownership), the development of analysis to clarify and define how existing instruments can better address needs, as well as clarifying eligibility and development criteria through the development of the ExCom CAPGO document, all show this willingness.

As an example, the involvement of Financial Intermediaries in the context of the ITF has been raised in relation to a number of proposals. It has been argued that intermediated loans can bring the following benefits:

- Better efficiency in managing smaller projects and multi-scheme investments, which would otherwise be precluded due to resource constraints and lack of outreach;
- Strengthening regional financial institutions;
- Facilitating the involvement of some smaller PFG members;
- Access to specialist knowledge (sectors, specific investment instruments etc);
- Local presence and networks (country and/or region); and
- Risk sharing.

2.2.6 However the ITF needs to focus on defining a results framework

The ITF has not yet established a clear defined results framework at the portfolio level. Furthermore, the ITF is yet to develop monitoring indicators enabling measurement of the fund's performance at the portfolio level. Monitoring is specifically examined in evaluation question D1, Section 5.1.

2.3 Project relevance (operational relevance)

EQ A3: To what extent does the ITF portfolio of projects address ITF objectives and meet the eligibility and development criteria?

A review of the portfolio of ITF grant operations demonstrates relevance with ITF objectives as well as the eligibility and development criteria articulated in the CAPGO document. This view is supported through a more detailed analysis of the 10 case study projects.

However, some criteria are more relevant than others depending on the project in question. For example, projects in water and sanitation tend to have more social and poverty reduction-related impacts than a transport corridor, which in turn tends to have a stronger economic trade and development focus.

Further, the ability to demonstrate relevance to all development criteria is variable, depending on the type of instrument, stage of the project cycle and the quality of documentation. For example, TA projects in very early stages are not necessarily linked to an investment, making it more difficult to quantitatively demonstrate relevance to development criteria. An assessment as to quality of documentation of the ITF portfolio of projects is presented in evaluation question C2 (section 4.2).

²³ Financing Agreement between the European Commission and the ACP Group of States, The EU-Africa Infrastructure Partnership: EC Contribution to the Infrastructure Trust Fund, RPR/013/09 EDF 10, pg 10

A high-level review of the portfolio demonstrates that the ITF grant operations address both ITF objectives and the eligibility and development criteria articulated in the CAPGO document. For illustrative purposes, the table in Annex 9.5 illustrates the extent to which the 10 case study projects²⁴ address the eligibility and development criteria:

- Geographic: trans-border infrastructure project or a national project with a demonstrable regional impact on two or more countries;
- Sector: Energy; Transport (rail, road, air, maritime and inland waterways); Water; and Information Technology (including telecommunications infrastructure where projects financed provide access to services of general economic interest);
- Project contribution to poverty reduction: positive impact in the attainment of the poverty reduction objectives;
- Project contribution to economic development and trade: positive impact in the promotion of economic development;
- Economic viability of the Projects: Economic and Financial Assessments that state estimated financial and economic rates of return, non-monetary benefits, and debt sustainability considerations; and
- Social and Environmental Impact: ensure appropriate and/or legally required assessments of social and environmental impacts have been undertaken, and ensure impact assessments carried out respond to international commitments of the EC or the Members States of the concerned Project Financiers.

We have noted variability in the quality of supporting documentation for grant operation requests, which affects a thorough analysis of the relevance of the whole portfolio.²⁵

In terms of the relevance of the portfolio, in addition to the above focus on the 10 case studies, the following can be noted:

- All 48 grant operations²⁶ meet the TFA article 1 eligibility criteria, fitting into one of the four priority sectors.
- Some development criteria are more relevant than others depending on the project in question. For example, projects in water and sanitation tend to have more social and poverty reduction-related impacts than a transport corridor, which in turn tends to have a stronger economic trade and development focus.
- The ability to demonstrate relevance to all development criteria is variable, depending on the type of instrument and stage of the project cycle. For example, for TA projects in very early stage cycle and not necessarily linked to an investment it is much more difficult to quantitatively demonstrate relevance to development criteria. Decisions to approve these grant operations must be based on high level assumptions.

²⁴ See Methodology (Section 1.3) for an explanation as to how 10 case study projects were selected

²⁵ However this, and other "ways of working" are addressed specifically in Evaluation Question C2 on Grant operation setting up, approval and implementation

Note: an assessment of the extent to which the case study projects addresses the expected outputs of the ITF is presented in Evaluation Question B1, Section 9.5, and is therefore not the topic of this evaluation question.

²⁶ Does not include 4 grant operations that are "Cleared in Principle"

3 Evaluation of the effectiveness of the ITF in achieving its objectives

3.1 First outputs

EQ B1: To what extent are ITF objectives, expected outputs and outcomes achieved?

The ITF is at an early stage in terms of physical progress of infrastructure projects, and as such measuring expected outcomes and impacts is not possible. However, it is possible to assess expected outputs from some projects, and measure progress. While progress has been made there are some areas for further improvement, specifically:

- The EU's resource allocation towards African infrastructure has increased with 48 projects²⁷ representing €225.7m of grant funding as at 5 July 2011.
- Coordination is being encouraged through interactions with ICA and PIDA, information sharing and specific coordination in the context of grant operations (e.g. Lake Victoria WATSAN case study). In addition, effective coordination of financiers has been achieved through the nomination of a Lead Financier which has simplified processes for beneficiaries.
- The ITF has been successful in leveraging finance, resulting in total leverage of 12:1 and PFG leverage of 6.4:1 as at 5 July 2011. This represents €181 m of grant funding for projects in their investment phase, generating €1.1bn of PFG financing and €1 bn of other non-PFG financing.
- Private sector involvement is being encouraged by the PFG, for example through the inclusion of PIDG as a member.

Despite achievements, there are also areas for improvement:

- Delays in disbursement and the perception of funds being tied up could have a potential detrimental impact on additional contributions being made, as Donors find it difficult to justify additional contributions when funds appear abundant.
- There are currently limited opportunities for coordination of infrastructure projects with non-PFG financiers beyond the context of individual grant operations, such as with the World Bank and the Development Bank of Southern Africa.
- The leverage calculation method requires some refinement to allow for measurement of private sector leverage.

3.1.1 The ITF has made some progress towards the expected outputs

Section 2.1 introduced a portfolio-wide intervention logic that enables an assessment of ITF inputs (activities) against expected outputs, outcomes and impacts. Whilst the ITF is in its early stages of implementation in terms of completion of physical infrastructure, and therefore it is difficult to look at expected outcomes, a review of ITF activities reveals that progress has been made across several expected outputs which are detailed below.

3.1.1.1 Mobilisation of resources for regional interconnectivity infrastructure projects

Resources have been mobilised and funding increased since the inception of the ITF. The number of donors has increased from 10 to 13 and contributions have risen from €170.2m in 2009 to €340.2m as at 5 July 2011.

The increased funding to the ITF has resulted in an increase in grant operation approvals. Nineteen grants for €112.5m were approved in 2010²⁸, up from four grant operations and €15.5m in 2007, bringing the overall total of approved grant operations to 48 grant operations²⁹ and €225.7m as at 5 July 2011.

Further, in recent analysis presented to ExCom, it was found that ITF projects disburse favourably in comparison to projects when compared to project data from AFD, AfDB, EIB and KfW. See section 4.2.5 for more information.

3.1.1.2 Increased collaboration between African States and European donors in the area of infrastructure development

There are different levels of collaboration with the ITF, reflecting the three governance levels described.

The African Union Commission (AUC) is involved in the ITF to the extent that they co-chair the Partnership Steering Committee, which is intended to feed prioritisation and strategy considerations down to the ExCom. The Partnership Steering Committee covers a broad range of

²⁷ Does not include 4 grant operations that are "Cleared in Principle"

²⁸ NB: 4 of these grants required re-approval subsequent to 5 July 2011. This amount does not include 3 grant operations from 2007-2008 that required re-approval in 2010.

²⁹ Does not include 4 grant operations that are "Cleared in Principle"

representatives including the AUC, EU Member States, the EC and the EIB and has met three times during the period covered by this evaluation.

The ITF Secretariat has worked closely with ICA. In 2010, the EIB, AfDB, NEPAD, IPPF and the ITF finalised the project data and status sheet for common information exchange. This has now been trialled on the ITF information management system among members of the PFG.

Complementarities between the ITF and the IPPF have been developed. Firstly, the ITF was initially designed to act to improve project preparation and implementation³⁰ downstream of a project whereas the IPPF works upstream. Four projects are currently co-financed by the IPPF. Furthermore, workshops have been organised (e.g. March 2010 when the AfDB and the EIB worked together on some projects like the GIS). Closer working relationships have also been set up between the IPPF staff and the ITF Secretariat.

Parties interviewed have praised the ability of the ITF to bring stakeholders together and encourage them to cooperate on regional and continental issues. On an individual grant operation basis, there is interaction between the European financiers and African governments, but this is not formalised beyond specific projects.

Effective coordination between European financiers is addressed in greater detail in Evaluation Question B3.

3.1.1.3 Increased loan finance mobilised from European Development Finance Institutions thereby leveraging additional financing

As at 5 July 2011, ITF grant operations had facilitated the blending of 14 infrastructure projects in their investment phase, resulting in a total leverage effect of 12:1. This represents a ratio of 6.4:1 in terms of PFG member financing leverage. It should be noted that calculation methods differ across funds, limiting the value of direct benchmarking.

27 non-PFG parties have financed components of projects that benefit from ITF grant funding (35 projects approved or cleared in principle by 5 July 2011). This situation generally concerns governments for projects occurring in their country, or private companies managing the concerned infrastructure.

Non-PFG financing parties involved in more than one project are financiers known to PFG members and with whom they have good relationships, for instance, the World Bank is involved in 8 projects and the DBSA in 3 projects.

In terms of positive steps, PIDG (whilst not a European DFI) has been nominated as financier by the Netherlands and is now represented on the PFG. It will seek to increase private sector involvement in ITF-supported projects, particularly through broadening investment opportunities through PPPs.

3.1.2 Although there is good progress, there remain opportunities for improvement in order to optimise the value provided by ITF funds

Despite positive progress towards objectives, the following are some potential opportunities for improvement towards achieving ITF expected outputs.

3.1.2.1 Coordination between African States and European donors in the area of infrastructure development is not fully effective

There is often a focus on single projects without looking at master planning, and focus on priorities of a particular region. This was confirmed through the case study analysis, where stakeholders praised the ITF for enabling projects to be considered more broadly, regionally and strategically. This is particularly the case in the Water Sector, where a water and sanitation focus has tended to have a limited regional impact.

Engaging regional and national financial intermediaries would allow the ITF to better appreciate local risks. In particular, TA could support the enhancement of skills and processes of relevant local commercial and development banks, so that these could become effective gateways for national and international capital to be deployed in Sub-Saharan Africa infrastructure projects.

In this respect, capacity building of local financial intermediaries would assist in reducing the gap between perceived and actual risks for infrastructure investments. Regional development banks, such as the Development Bank of Southern Africa, the West African Development Bank or the East African Development Bank, could be integrated more at the operational level, potentially through an annual invitation to an ExCom meeting.

See also Evaluation Question B3 on ITF coordination for more detail.

3.2 Leverage effect / added value

EQ B2: How critical have ITF grants been for enabling ITF-supported projects to proceed? What is ITF added value?

The real value added by the ITF is variable depending on the individual project and ITF instruments mobilised. For the case study projects, the total of ITF grant operations (€130 m) constitute a limited proportion of the total overall cost of the projects (€1,826 m), resulting in a

³⁰ While in some early instances this resulted in some TA projects not being related to investments

leverage effect of 14 (11.2 when focusing on projects in their investment phase). Interviewed stakeholders have stressed that numerous projects would not have gone ahead, would have faced delays or would have been significantly reduced in scope in the absence of ITF funding.

IRS has been granted to 12 projects for €156.5m as at 5 July 2011 and is a key instrument most relevant to the ITF blending philosophy and can now be taken either across the life of a loan or as an upfront payment. It has allowed financial terms to be aligned to debt sustainability conditions in HIPC countries in 8 separate grant operations, accounting for €134.9m in IRS, and a leverage factor of 9. The question is whether the ITF substitutes monies that Donor's would have provided anyway. The subsidy is split between the different lenders on the basis of their respective refinancing rates (e.g. for KfW intervention rate of the German Treasury, for the EIB refinancing rate of its capital etc). This mechanism, however, is not transparent to other parties.

TA, representing 35 grant operations as at 5 July 2011, supports different stages of project preparation and implementation, enables proper project planning and preparation, and develops capacity. However, there is not always a systematic link to a project investment. Furthermore there is no strategy as to what the ITF seeks to achieve in granting TA support particularly in the early grant operations.

Insurance premia had not been used as at the cut off period for this evaluation, potentially due to lack of clarity regarding how it could be applied to projects. But some PFG members see a potential growing need for risk mitigation instruments of this kind.

There was one example of a Direct Grant as at 5 July 2011. This one example however highlights huge potential to generate leverage effects and to attract private funding (although the one case may not be representative overall).

ITF has also been effective in accelerating the financing of regional infrastructure projects due to its flexibility and streamlined procedures. Many stakeholders emphasised that the ITF generates very limited additional administrative burden.

3.2.1 ITF funding leverage

The most recent ITF annual report contains a calculation of ITF leverage since 2007, which was 12.7 (total financing) and 7.2 (PFG financing) as at 31 December 2010, as shown in Table 1. It is worth noting that as at the end of the evaluation period (5 July 2011), the ITF achieved leverage of 12 (total financing) and 6.4 (PFG financing). The financial leverage effect is defined as the catalytic effect of a grant amount in mobilising non-grant investment in a project which has reached its investment phase and is calculated by dividing the overall amount of the cost of those projects by the amount of ITF related grants.

Table 1 - Leverage effect of the ITF funding according to ITF annual reports (figures at year end)

| | Leverage effect on total financing | Leverage effect on PFG financing |
|------------|------------------------------------|----------------------------------|
| Cumulative | 12,7 | 7,2 |
| 2007 | 34,6 | 14,9 |
| 2008 | 11,2 | 3,9 |
| 2009 | 14,9 | 9,1 |
| 2010 | 10 | 7,3 |

Source: ITF Annual Reports

In terms of the 10 case study projects, the following results regarding leverage effect were observed:

Table 2 – Leverage effect of 10 case study projects

Projects in their investment phase

| Project | ITF (€m) | Total Project Cost (€m) | Total Leverage |
|-----------------------------------|-------------------|-------------------------|----------------|
| Caprivi Interconnector | 15 (IRS) | 302 | 20.1 |
| Beira corridor | 29 (IRS) | 189 | 6.5 |
| Port de Pointe Noire | 2 (TA), 6.6 (IRS) | 128.4 | 14.9 |
| Benin-Togo Power | 12.25 (IRS) | 73.2 | 5.9 |
| JKIA Extension | 5 (TA) | 184.2 | 36.8 |
| Rehabilitation of Great East Road | 25 (IRS), 1 (TA) | 250 | 9.6 |
| Lake Victoria WATSAN | 14 (IRS), 8 (TA) | 212 | 9.6 |
| Seychelles Submarine Cable | 4 (DG) | 27.2 | 6.8 |

| TOTAL | 121.8 | 1,366 | 11.2 |
|--|------------|-------------------------|----------------|
| Other projects (not in their investment phase) | | | |
| Project | ITF (€m) | Total Project Cost (€m) | Total Leverage |
| Ruzizi III | 4.2 (TA) | 460 | 109.5 |
| Satellite e-medicine | 4 (TA) | TBD | TBD |
| TOTAL | 8.2 | 460 | 56 |

The above table shows total ITF grant operations of €130 m with a for a total project cost of €1.826bn. This results in a total leverage effect of 11.2 for projects in their investment phase, and 56 for other projects (not in their investment phase). In this sense, the 10 case study projects are representative of the entire portfolio given their territorial and sectoral coverage, in addition to coverage of the four different types of instruments, and overall leverage effect.

Many interviewed stakeholders have stressed that many numerous case study projects may not have gone ahead, would have faced delays or would have been significantly reduced in scope in the absence of ITF funding. Even if the project could have gone ahead, the absence of ITF funding would have forced the promoter or project sponsor to prioritise certain elements of a project over others, encouraging an isolated project approach, rather than a programme approach.

On the Caprivi Interconnector and Corridor Project the ITF is deemed by project promoter Nampower to have been both additional and instrumental as the project might not have happened if it were not for the extra funding available. Similarly, in the case of the Great East Road Rehabilitation in Zambia, parts of the investment would not have occurred without the ITF and there would have been missing "lots" in the works contracts. In the Kampala Water Lake Victoria WATSAN project, isolated lots would have had to be prioritised rather than adopting an integrated water management approach.

ITF has also been effective in accelerating the financing of regional infrastructure projects due to its flexibility and uncomplicated procedures. Many stakeholders emphasised that the ITF generates very limited additional administrative burden. Also, project promoters appreciated the short timeframe for the availability of ITF funds, particularly in the case of the Beira Corridor project. The promoter approached private banks, which required long periods of evaluation, and the World Bank was not in a position to offer further financing, beyond the US\$80 m already pledged. EIB, via an ITF IRS, filled the gap, reducing the approval period.

A wide range of stakeholders, from financiers to project promoters, agree that the ITF's flexibility through the blending of loans and grants, technical assistance and the IRS, as well as the ability to apply their own procedures without adding administrative burden, is the greatest added value of the ITF.

3.2.2 Effectiveness and added value of ITF funding instruments

Case study analysis

Value for money for Donors is closely linked to added value of ITF support. Donors want to ensure that their contribution to the ITF is not providing free money, and therefore want to know that the ITF is providing value above and beyond what could be provided from other funding sources. The analysis of the added value of the ITF for each of the 10 case study projects is presented in Annex 9.6, and summarised below. In building the case for ITF intervention for each project, we have sought to take into consideration the counterfactual (considering what would have been the case if ITF funding had not been provided). In particular we have looked at the following factors in determining value for money:

- reviewed which non-PFG co-financiers were involved in the given project prior to ITF intervention;
- previous involvement of PFG financiers in a given project, i.e. maturity of project at time of ITF intervention;
- the purpose for which the instrument is being used;
- the availability of private financing / attractiveness of market, and
- financial contribution of ITF as a proportion of total project cost.

Table 3 – Value added and importance of 10 case study projects

| Project | Comment on value added and importance of ITF |
|------------------------|--|
| Caprivi Interconnector | <ul style="list-style-type: none"> • IRS has been partly given as an upfront payment which has not impacted total disbursement, but impact has been greater • High leverage effect but predominantly public funding. |

| Project | Comment on value added and importance of ITF |
|-----------------------------------|---|
| Ruzizi III | <ul style="list-style-type: none"> • TA component small compared to total project cost • Non-financial leverage in terms of strong interest from a number of IFIs after the technical studies were complete • According to stakeholders, project would not go ahead without ITF funding technical and institutional capacity studies |
| Beira corridor | <ul style="list-style-type: none"> • IRS used to meet HIPC conditionality • When calculating "true" leverage, it is important to recognize the presence of other financiers involved in project prior to ITF intervention • It is debatable as to whether World Bank funds should be included in leverage calculation considering their long term presence related to this project |
| Port de Pointe Noire | <ul style="list-style-type: none"> • IRS provided through direct loan to PAPN (Porte Autonome de Pointe Noire) • Project promoter expressed belief that funds could have been procured from elsewhere, eg. Sub-regional debt markets, but may have resulted in a more "piece-meal" approach |
| Benin-Togo Power | <ul style="list-style-type: none"> • IRS used to meet HIPC conditionality • It is also questionable as to whether World Bank funds should be included in leverage calculation considering their long term presence related to this project |
| JKIA Extension | <ul style="list-style-type: none"> • TA grant given to support technical and capacity building • Perception that loans would have been forthcoming without ITF intervention • It is debatable as to whether World Bank funds should be included in leverage calculation considering their long term presence related to this project |
| Rehabilitation of Great East Road | <ul style="list-style-type: none"> • No private sector leverage • Blend of TA and IRS • IRS to meet HIPC conditionality |
| Lake Victoria WATSAN | <ul style="list-style-type: none"> • Absence of ITF would have reduced scope of works and resulted in more "piece-meal" approach • IRS to meet HIPC conditionality |
| Seychelles Submarine Cable | <ul style="list-style-type: none"> • Only direct grant made by the ITF to date • 3% dividend to be directed towards social and economic spending in the local community • Private sector involvement |
| Satellite e-medicine | <ul style="list-style-type: none"> • Value added difficult to determine given nature of 4 horizontal studies |

On the whole, value-added is deemed variable according to the individual circumstances of the grant operation. Value-added appears more evident for the Caprivi Connector and Ruzizi III, and less so for Port de Pointe Noire and JKIA Extension, as examples.

Furthermore the analysis has led the evaluator to question the "true" leverage effect of ITF grant operations, considering the regular presence of other DFIs and role in the projects prior to the intervention of the ITF. In this light, we provide a recommendation to review the calculation of leverage effect.

Instrument level analysis

An assessment of effectiveness, value added and value for money is provided in this chapter for each of the four instruments available through the ITF:

- Interest Rate Subsidies: the provision of a grant amount to a participating lender to enable them to make long-term loan finance available in flexible ways that reduce the total amount of debt service to be paid by the borrower. Such subsidies can therefore be applied upfront or over time, and will be granted so as to avoid market distortions. Financing operations benefiting from interest rate subsidies will be in line with the EU position on debt sustainability in Low Income Countries.
- Technical assistance: including preparatory work for eligible infrastructure projects such as environmental impact assessments, project supervision and targeted capacity building (reinforcing the technical and administrative capacity of local staff in Africa).
- Insurance premia: as defined in Article 1.2.4 of the TFA: *"initial-stage funding of insurance premia necessary to ensure the launch of infrastructure projects"*. This definition was subsequently clarified by the ExCom: *"The ExCom can support with this facility mitigation measures covering project stakeholders and Project Financiers on all kinds of risk, thereby fulfilling an important catalytic role to mobilise financing for projects"*.
- Direct grants: planned for project components which have substantial demonstrable social or environmental benefits or to project components which can mitigate negative environmental or social impacts.

These instruments can be provided individually, or in a combined manner, for the financing of regional infrastructure projects. See Annex 9.4 for a complete list of projects that benefit from one or more grant operations.

Each of these instruments is discussed below, however firstly we will examine the risk of over-subsidising and/or double subsidies.

In all public lending there is a risk of over-subsidising. Most PPPs around the world at some point have been criticised for allowing parties to earn excess profits when compared to acceptable rates of public sector return. In the case of the ITF instruments, this risk of over-subsidising is lower, as often the projects are targeted at public sector entities (e.g. State-owned utilities), where any over-subsidy could be recycled elsewhere to the public good.

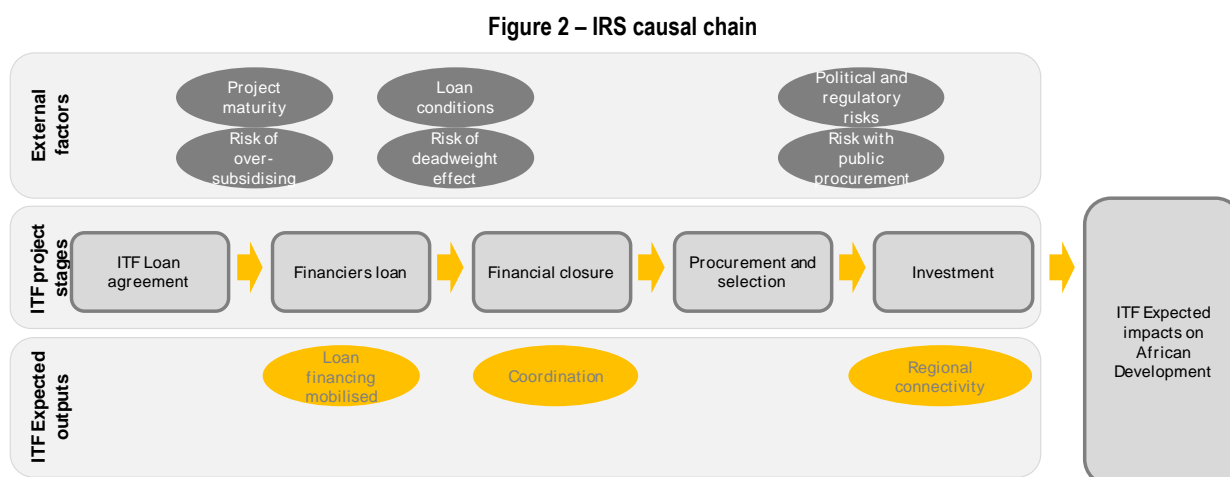
The ITF has to date been used to work alongside other donor funding sources. In most cases, the lead financier (and others from the PFG) has decided to make a loan to projects on their own account, and subsequently the ITF has provided additional support using the instruments.

In the case of TA, grant funding from the ITF has limited potential to result in a double subsidy. TA is typically used to improve the project preparation or to focus on more cost-effective and efficient procurement. In this case, TA usually drives efficiencies in subsidies and minimises the potential for double subsidy.

In the case of IRS however, the potential for double subsidy is greater. With respect to the IRS, this is currently utilised to cover a portion of the interest payments on the loans from the PFG members. This adds further subsidies to those that are already given by the Donor's (although some ITF members do not do any IRS on their own loans), and is considered part of the overall structuring of financing for infrastructure development. The question is also whether the ITF substitutes monies that Donor's would have provided anyway. In fact all the resources within DFIs are both fungible and limited. The subsidy is split between the different lenders on the basis of their respective refinancing rates (e.g. for KfW intervention rate of the German Treasury, for the EIB refinancing rate of its capital etc). This mechanism, however, is not transparent to other parties.

3.2.2.1 Interest rate subsidies

Figure 2 presents the external factors influencing the ITF expected outputs, throughout the overall grant operations stages with the IRS mechanism:



Source: Ernst & Young analysis

Table 4 assesses, for each expected output of the ITF, the contribution that IRS has made towards its achievement, based on case studies undertaken:

Table 4 – Evaluator's assessment of IRS contribution to ITF expected outputs

| ITF Expected Outputs | Effectiveness of the IRS mechanism to achieve the outputs | Evaluator's assessment |
|--|--|------------------------|
| Mobilisation of resources for regional interconnectivity infrastructure projects | | + |
| Increased collaboration between African States and European donors in the area of infrastructure development | <p>IRS can be coordinated with project preparation facilities in order to limit the risks related to the financing through TA studies. The nature of the instrument also favours cooperation between financiers.</p> <p>However IRS is also a mechanism that poses risk of over-subsidising due to internal calculation processes and margins that are not disclosed amongst financiers, often for confidentiality reasons, in line with banking practices</p> | neutral |

| | | |
|--|--|---------|
| Increased loan finance mobilised from European Development Finance Institutions, thereby leveraging additional finance | IRS can generate important leverage effects. IRS have generated significant investments resulting from 12 grant operations for an amount more than €156m. However, in the frame of the ITF, IRS only leverages public funding. | neutral |
|--|--|---------|

Source: Ernst & Young analysis

IRS constitutes a fundamental aspect of the ITF activities

Many stakeholders stressed that the IRS is a fundamental aspect of the ITF particularly in relation to HIPC countries and managing their debt sustainability obligations insofar as for many HIPC countries, it is essential in order to make financial institutions willing and able to invest in Africa. In HIPC countries, there is a minimum concessionality of 35% (i.e. that the financing must have a minimum of 35% grant element) and therefore the country governments would not have been able to borrow without an IRS to bring the grant component up to the required level. IRS also provides “comfort” to financiers to increase the size of the loan.

The below table shows the projects that have benefited from IRS grant operations as at 5 July 2011, and have also cited meeting HIPC conditionality requirements as a justification for the grant operation.

Table 5 – IRS applied to HIPC countries

| Project | ITF (€m) | Total Project Cost (€m) | Total Leverage | PFG leverage |
|---------------------------------------|--------------|-------------------------|----------------|--------------|
| Felou Hydropower Plant | 9.3 | 102.5 | 11 | 4 |
| Beira Corridor | 29 | 189 | 6 | 2 |
| Benin - Togo Power Rehabilitation | 12,25 | 73.2 | 6 | 4 |
| Rehabilitation of the Great East Road | 38.7 * | 246.6 | 6 | 5 |
| Kampala Water – Lake Victoria WATSAN | 14 | 212 | 15 | 12 |
| Access to Douala | 5.7 | 60 | 11 | 11 |
| Tanzania Backbone Interconnector | 24.3 | 374.6 | 15 | 6 |
| Mauritania Submarine Cable Connection | 1.5 | 21 | 13 | 5 |
| TOTAL | 134.9 | 1,278 | 9 | 6 |

* represents 3 separate IRS grant operations, which have been summed

As can be seen above, there are eight projects (out of a total of 12 IRS grant operations) where an IRS has been applied to meet HIPC conditionality borrowing requirements. This represents a total of €134.9m in grant operations, a total leverage factor of 9 and a PFG leverage factor of 6. The leverage factor of grant operations ranges from 6 to 15 (2 to 12 for PFG leverage). Therefore compared to the overall PFG leverage effect of 6.4 as at 5 July 2011, IRS to meet HIPC conditionality has achieved a slightly higher leverage effect.

However in the case of IRS, the specific contribution of the ITF funding towards project outcomes is not always obvious as it is hidden within the donor financing. In the case of the Kampala Water – Lake Victoria WATSAN project, the IRS has facilitated additional investments. According to interviews, loans of about €30m would have been provided, instead of the €64m actually provided, including the €14m IRS grant from the ITF. The World Bank could have provided alternative funding, but this could have added complexity (as the World Bank is not part of the PFG). Under the Ugandan Government strategy, 39% concessionality was required, meaning that the loan would not have been approved in the absence of the IRS grant operation.

Another particular success of IRS is the flexibility of the ITF to modify its rules by allowing the IRS to be taken upfront

The Caprivi Interconnector project obtained special exemption to provide IRS as an upfront rate subsidy, which has effectively been deducted from the loan amount up front for monies from the EIB and KfW (looking more like a Direct Grant) with AFD receiving support across the life of the project as per more normal IRS from the ITF. While this has not impacted the total disbursement from the ITF, the financial impact has been greater. Calculations are that the IRS of €15m is actually worth €31m as a consequence of the upfront disbursement.

There are advantages and disadvantages of up-front payment like in this specific case. The advantages are:

- Up-front payment allows for quicker disbursement of the funds which allows faster deployment of Donor's funds. This avoids funds remaining within the ITF for long periods and.
- It has the effect of providing a greater subsidy, by increasing the Net Present Value and the Internal Rate of Return on a project. The Table below shows the impact of an up-front payment based on a simplified case.

Table 6 – Up-front payment impact

| Assumption / Output | Value |
|--|--|
| Capital Cost of Project | USD 100m |
| Interest Rate | 8% |
| Repayment Period | 10 years |
| Capital Repayment | USD 10m / annum (assume straight-line repayment, i.e. equal amounts each year until capital is repaid) |
| Operating Cost ³¹ | USD 2m / annum |
| Revenue | USD 20m / annum |
| Total IRS Available | USD 20m |
| Project NPV (IRS Smoothed) ³² | USD 31m |
| Project NPV (IRS Upfront) ³³ | USD 35m |

Source: Ernst & Young, example calculation for the purposes of illustration.

In this case, the impact of an upfront IRS is around 12% on NPV, and would add significantly to the financial and economic case, while not impacting on the actual amount of funds disbursed. Additionally, there is the potential to allow for lower subsidies to achieve the same result – in the case of Caprivi, this could have been achieved, by lowering the amounts of the loans.

□The disadvantages are:

- □It reduces the control the ITF has over a project. Once money is disbursed, there is limited control over the project / investment moving forwards, and, in the event of a real problem with the project / investment, there could be considerable challenge in obtaining repayment (although this is the true of other investments also)
- □It could excessively subsidise a project and allow for additional profit to be taken. However, in the case of Caprivi, the potential for excess profit has been limited through the creation of a fund into which (through a set formula) additional profit must be paid, and recycled to improve electricity access in Namibia.

Overall, there is a clear financial and economic case for using IRS as an upfront payment. Whilst, there are some disadvantages, these could be largely manageable.

IRS is however criticised by some stakeholders

Almost all the IRS granted projects concern the energy and transport sectors, as in two of the case studies projects (the Caprivi Interconnector and Corridor Project in Namibia and the Great East Road Rehabilitation project in Zambia). Only one IRS has been granted in the water sector, and in the ICT sector

IRS does have the potential to distort financial markets – but only where privately raised funds are applied. As discussed above, the IRS is currently only applied to loans provided by members of the PFG. This subsidy is usually calculated as the difference between a “market” rate of interest and the loans provided.

However, perhaps as the ITF evolves into providing support to private entities / sponsors and in cases where more commercial funding is used, there is the potential for more distortion. Commercial funders will generally price their loans at some locally relevant inter-bank rate (e.g. LIBOR or JIBOR), plus a margin to reflect risk – this could be country risk, project risk, credit risk etc. At the point of financial close, these interest rates are generally “swapped” to allow for borrowers to fix the rate of interest they are paying over the life of the loan. If commercial lenders are involved in providing funds, it is possible / likely that some consideration of the IRS will be given in the terms for the loan and consequently, these banks may seek to inflate the rate of margin above the relevant inter-bank rate and then gain additional profit not on the loan that they make, but on the swap itself. This would not be apparent to members of the PFG and would be difficult to protect against.

3.2.2.2 Technical assistance

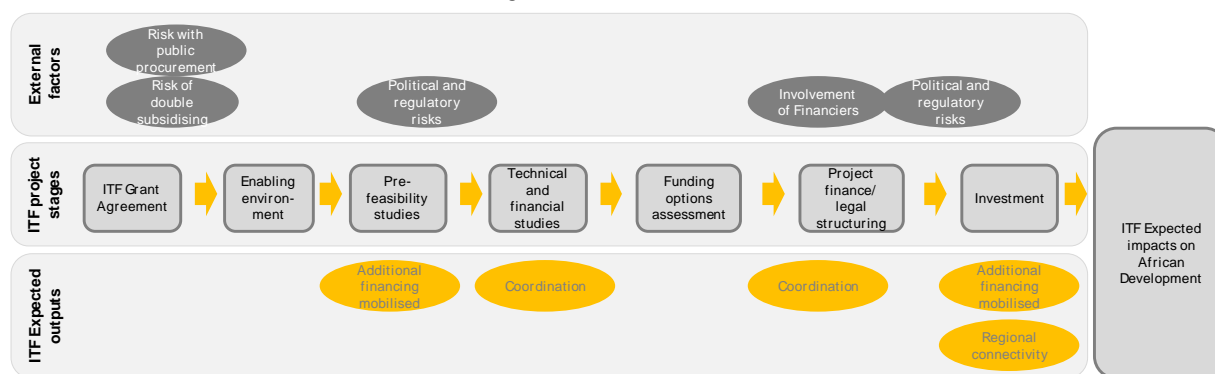
Figure 3 presents the expected outputs, as defined by the evaluator.

³¹ We assume no inflation on costs or on any other revenue or capital items for simplicity.

³² This assumes that the IRS is paid in equal amounts each year and is deducted from the interest charge on the remaining capital each year.

³³ This assumes that the IRS is drawn down to cover all interest payments in full in the early years until such time as the IRS funds are zero (which in this case is during year three).

Figure 3 – TA causal chain



Source: Ernst & Young

Table 7 assesses, for each expected output of the ITF, the contribution that the TA mechanism has made towards its achievement.

Table 7 - Evaluator’s assessment of TA contribution to ITF expected outputs

| ITF Expected Outputs | Effectiveness of the TA mechanism to achieve the outputs | Evaluator’s assessment |
|--|---|------------------------|
| Mobilisation of resources for regional interconnectivity infrastructure projects | TA represents the majority of ITF grant operations (72%) but only 27% of the total funding amount. It has enabled the ITF to enrich the project pipeline in its early years of operation. | + |
| Increased collaboration between African States and European donors in the area of infrastructure development | There have been examples of challenges in coordinating TA, evidenced in the duplication of tasks in the case of the “Great East Road” project. However, some coordination with the IPPF on projects also financed by the ITF has occurred (4 projects). | neutral |
| Increased loan finance mobilised from European Development Finance Institutions, thereby leveraging additional finance | The leverage effect may be limited when TA is too far from investment (9 out of 24 TA grants are not linked to an identified investment albeit most of these were at an early stage of the ITF). TA is in theory able to encourage private funding by enabling the environment and in support of PPP structuring, but TA grant operations have not financed such initiatives. | - |

Source: Ernst & Young analysis

TA grants are perceived as crucial by many stakeholders as it enables proper project planning and preparation to occur.

TA has allowed consideration and focus on all project elements and resulted in a programme rather than project level. Indeed, if the ITF was not available, several projects would have focused on only specific components. The ITF allows them to engage consultants as and when they need them. It also enables promoters to package funds – short term for planning and tender documents, and longer term for capacity building. TA has added flexibility to be able to accelerate certain parts of the project when required.

- For the Ruzizi III hydropower plant project, the TA studies financed by the ITF, encompass technical, environmental social and institutional and financial aspects of the projects and even its bankability. These TA funds have also been instrumental in gathering international and bilateral development finance institutions around the project. In the wake of the EU and the ITF technical studies, the World Bank, the AfDB, as well as numerous bilateral development organisations, have expressed their interest: KfW (Germany), AFD (France), FMO (the Netherlands), CTB (Belgium), DBSA (South Africa), ADA (Austria), etc. The TA has also helped the project promoter and their decision-making organs in the choice of the best financial arrangements and a short-listing and selection of preferred investors structuring of the PPP model for managing the operation of the project, raising its capital and signing contracts between the power plants operator and major clients.
- For the Port de Pointe Noire project, TA is also proving instrumental in improving the management of the Port authority and thus decreasing the credit risk for the lenders.
- In Uganda, for the Lake Victoria WATSAN - Kampala Water project, the TA has been used to develop an integrated master plan for project preparation, study of different options and hydraulic analysis (notably the consolidation of water and wastewater master plans towards integrated master planning and diagnosis, restructuring and modelling of the entire water distribution network of Kampala). Therefore, TA is helping to improve knowledge related to the wider impacts from waste water, climate change and other variables, rather than financing isolated small projects of a lesser impact.

Furthermore, TA has enabled feasibility studies to be undertaken or updated, reducing project preparation and implementation delays.

It appears that there is no particular strategy as to what TA is intended to achieve through the ITF

Most of the TA grants have been used to fund pre-investment phases of the projects (feasibility studies, engineering studies). On the 34 TA grants analysed (grants approved, completed or cleared in principle at 5 July 2011, with available project descriptions), 18 focus on the financing of pre-project implementation activities (feasibility studies and environmental impact assessments).

Whilst TA represents 27% of the total funding amount, it represents the majority of grant operations (72%). This may be explained by the relatively small number of projects and actual opportunities for financial institutions to be involved and visible within African infrastructure projects, as well as the pressure to build the pipeline.

Due to this concentration of grant operations towards TA, the ITF is regarded amongst some stakeholders as a project preparation facility, which is not its intended nature and does not correspond to its objectives. Of the 34 TA grant projects reviewed, 10 concern grant operation financing advisory services for projects with investment yet to be identified.

Capacity building is important, however it is not always linked to an investment (of the 10 TA grants not linked to an identified investment, 4 of them have a focus on capacity building - ECOWAS Electricity Regulation, Mozambique Backbone CESUL, AXIS, Capacity Building for BOAD).

While TA can take many different forms with varying levels of effectiveness, and taking into account that TA represents 72% of the number of grant operations, the ITF should determine its focus areas. This is all the more important, considering there are other facilities which offer TA funding which may be potentially overlapping with the ITF. (See Section 3.3.1)

3.2.2.3 Insurance premia

The contribution of the Insurance Premium mechanism towards expected outputs cannot be measured at this stage as there is only one grant operation that has been Cleared in Principle (CIP). As such at this stage conclusions are hard to draw and commentary is based on interviews only.

IP mechanism has been used only once...

Insurance Premium (IP) mechanism had not been used as at the end of 2010. KfW submitted the first grant request for an IP type of grant during the 16th ExCom meeting of 23 March 2011 for the Kainji Hydropower Project in Nigeria which was cleared in principle. ExCom requested, that *“the PFG prepares a paper on risk mitigation mechanisms and similar instruments such as credit enhancement instruments”*.

At the time of submission, the ITF application indicated that there were two approaches to determining the premium approach – based on a value from earlier with a European Export Credit Agency or commercially. The application indicated that: *“if KfW could conclude the insurance with a European export credit agency, then the premium amount would be in the range of € 2–2.5m; if KfW had to pay for a commercial risk mitigation instrument, then the premium amount could be up to € 6m”*.

KfW stated that it was actually KfW's senior management who requested this insurance and not the beneficiary country. The explanation that was put forward was the extremely high risks related to Nigeria, which made a loan financing without a risk mitigation instrument impossible. KfW insisted that, even though other alternative options like an interest rate subsidy, guarantee on revenues, promoters' guarantee payments, debt reserve accounts or project finance mechanisms existed for other projects, such options were however not feasible for this project.

...but might meet growing needs for risk mitigation in the future

AFD representatives supported KfW's initiative and explained that they faced increasing risks in a number of countries and anticipated growing needs for risk mitigation instruments, not only in IMF constrained countries. AFD therefore considers this request as a potential precedent for future projects.

The reason for the lack of use of the IP is believed to be a combination of lack of awareness regarding its eligibility and lack of understanding as to how it can be used. A discussion on the trend towards increased use of risk mitigation instruments is provided in Section 2.2.4., however instruments of this type are valuable – more needs to be done by the IFT to develop their use.

3.2.2.4 Direct grants

Table 8 provides an assessment, for each expected output of the ITF for the contribution of the Direct Grant (DG) mechanism.

Table 8 - Evaluator's assessment of DG contribution to ITF expected outputs

| ITF Expected Outputs | Effectiveness of the Direct Grant mechanism to achieve the outputs | Evaluator's assessment |
|--|---|------------------------|
| Mobilisation of resources for regional interconnectivity infrastructure projects | Only one operation of this type has occurred as at 5 July 2011, resulting in a limited impact in terms of mobilisation of resources. Furthermore, the one project relates to a national project with an argued regional impact. | - |
| Increased collaboration between African States | | + |

| ITF Expected Outputs | Effectiveness of the Direct Grant mechanism to achieve the outputs | Evaluator's assessment |
|--|--|------------------------|
| and European donors in the area of infrastructure development | Direct grants, by allowing States to bring sovereign guarantees, may ensure the participation of other funding sources in the projects. | |
| Increased loan finance mobilised from European Development Finance Institutions, thereby leveraging additional finance | <p>Direct grants have the potential to generate significant leverage effect, with the significant advantage of going directly to the project.</p> <p>However, only one grant operation of this type has occurred as at 5 July 2011.</p> <p>The unique case of DG has allowed a public-private partnership to occur, by contributing to the government share in the consortium. In this case, EIB and AfDB loans were definitely approved only once the ITF participation was agreed.</p> | + |

Source: Ernst & Young analysis

Direct grants, which are limited to environmental and social projects, may generate large leverage effects, but this mechanism has only been used once.

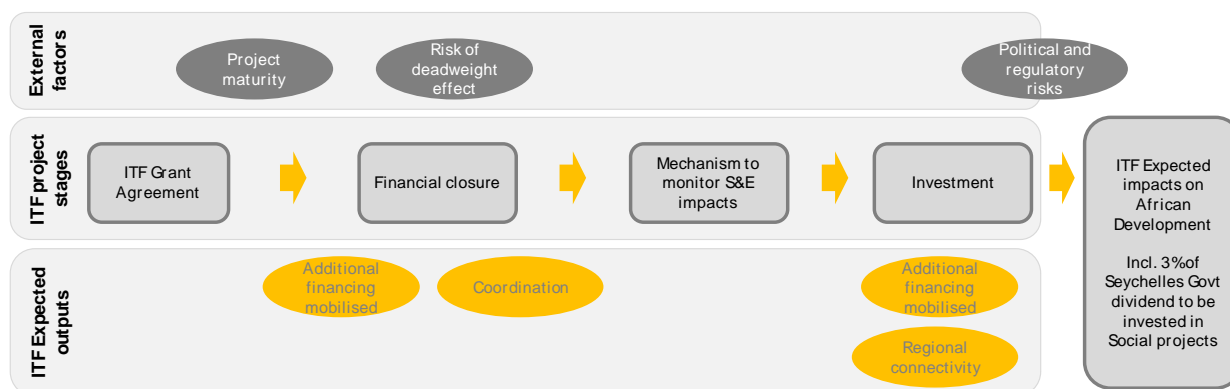
The DG has been used for the Seychelles Submarine Cable project. It has been awarded to the Seychelles government in order to complete the financing of a PPP involving the government and two private companies. The amount of the grant represents 10% of the total amount of the project. The leverage effect of this direct grant is therefore high. However this high leverage factor may not necessarily be representative of direct grants in general.

The Seychelles ITF grant was critical in order to allow the implementation of the project. Without the ITF, the Seychelles government would have had to fund the missing amount with its own resources which would have generated further delays, increasing the cost of the project.

With regards to the social dimension of the project justifying the grant, the ITF has required that 3% of the government dividends from the project results will have to be used for non-commercial ICT development initiatives, such as linking schools to the network. No monitoring or control mechanisms to check this condition have been established, with the ITF relying on the monitoring and control of the Lead Financier.

Figure 4 presents the external factors influencing the ITF expected outputs proposed by the evaluator, for the Direct Grant mechanism, based on the "Seychelles Submarine Cable" project, which is the only ITF project of that kind.

Figure 4 – Direct grants causal chain



Source: Ernst & Young analysis

The existence of only one direct grant tends to stress either a lack of demand for this instrument or a poor understanding of how it can be applied. However, in the only case when this instrument has been used, the ITF had to create specific and unverifiable conditions in order to comply with its own criteria of attribution. Nevertheless, grants can be crucial, in allowing the financing of projects that are sub-investment grade, but realisable with the assistance of a grant element, ensuring that grants are not wasted on projects that can benefit from pure loans and that projects do not materialise due to lack of finance.

3.3 ITF internal and external coordination

EQ B3: To what extent is the ITF coordinated between Financiers, as well as with other instruments and initiatives that exist for African regional infrastructure projects?

The ITF has sought to develop a unique identity in African infrastructure in terms of its regional interconnectivity focus and its blending of grant money with long term loans of European financiers to leverage additional funds. The evaluator finds the ITF to be complementary with other existing instruments.

There is an interdependence of regional infrastructure projects on other projects (such as national) and initiatives (power pools, transport corridors, RECs).

The ITF Secretariat has developed a close and effective collaboration with instruments (NEPAD-IPPF) and wider African initiatives such as the (ICA). Cooperation activities have been pursued such as the GIS, which is a project pipeline information exchange system. This highlights a good level of interconnection between the ITF and the relevant political initiatives which contribute to the ITF's credibility.

The ITF has provided an opportunity to bring European financiers together. This enhanced coordination has taken place through combining efforts across 48 grant operations, more than 20 ExCom meetings, and numerous PFG meetings that cover strategic and operational issues, and implementation challenges of regional African infrastructure projects.

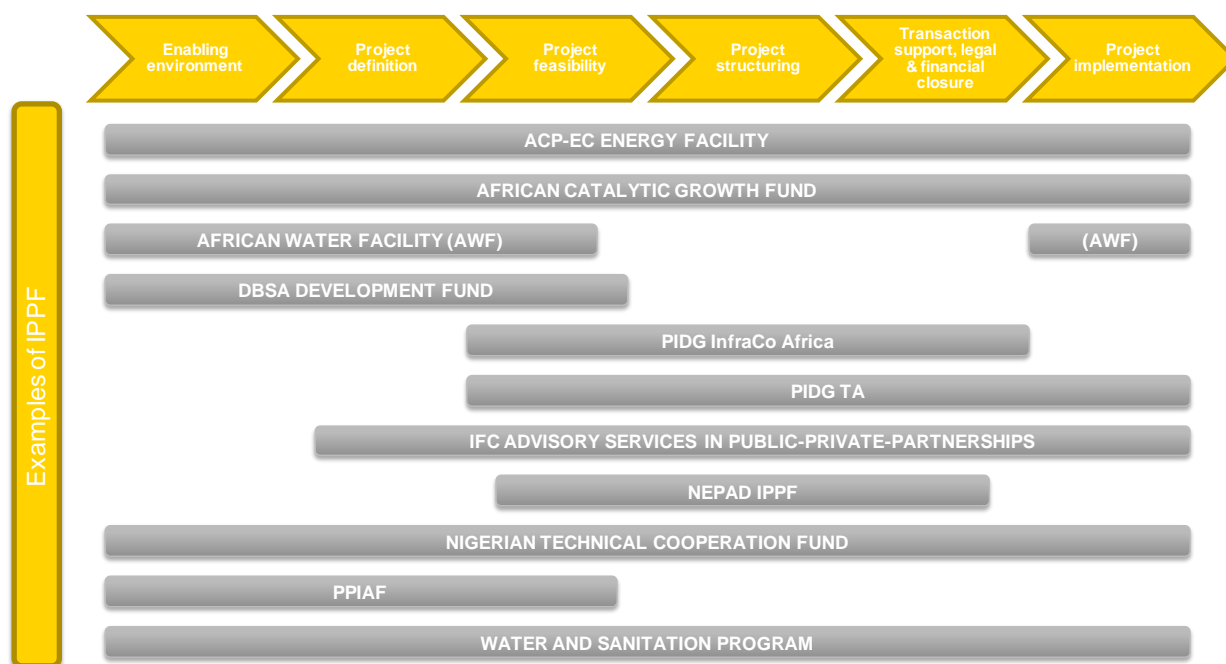
Regarding the coordination of PFG and non-PFG members involved in the same projects, the effectiveness of liaison procedures relies on the Lead Financier and on the individual contacts between Financiers' staff. Good practices (such as information sharing procedures or site visits) as well as difficulties (limited coordination generating delays) have been observed, but the regular participation of the same stakeholders in the projects tends to ease coordination between them.

3.3.1 The ITF has sought to develop a unique identity in African infrastructure funding and is complementary with other existing instruments

There are a large number of facilities which are aligned (in part or whole) to the ITF.

Figure 5 presents the scope positioning of a select number of facilities funding infrastructure projects in Africa.

Figure 5 – Selected facilities and their stage of intervention in the projects lifecycle



Source: Ernst & Young based on public documentation

Many different instruments or facilities fund similar activities to meet Africa's significant infrastructure development needs. The financing needs for infrastructure in Africa make all the existing funding sources (about 50 project preparation facilities available) complementary insofar as needs exceed capacities. Despite this there are opportunities for rationalisation of existing facilities which are currently being reviewed by the ICA through the AfDB. This dedicated review will examine many issues including the average time for implementation, sector, geography, and contribution to existing strategies. There is currently a limited overview as to what each of these instruments is designed to achieve and which is most appropriate for a given set of circumstances. The ITF is one of the few facilities which focuses its activities on regional projects, however. Amongst those analysed:

- Only the NEPAD-IPPF acts regionally (like the ITF);

- The PIDG TA Facility and PPIAF are limited to funding TA projects and intervene early in the preparation phase, and usually at a high-level (e.g. policy stages).
- Other PIDG and IFC facilities support the private sector in financing infrastructure projects. PIDG DevCo for instance provides funding for expert consultants to prepare projects for private investment (TA focused on supporting private sector investment).
- Other PIDG and IFC facilities support the private sector in financing infrastructure projects. PIDG DevCo for instance provides funding for expert consultants to prepare projects for private investment (technical assistance focused on supporting private sector investment).
- As regards the other EU funding instruments, the ACP-EU Water and ACP-EU Energy Facilities have been introduced in the context of the EU EDF. These facilities are related to national programmes and are focused on mid-sized projects of € 20m to €30m. Concerning the RIPs (Regional Indicative Programme) and the NIPs (National Indicative Programme), their scope of intervention is much broader than infrastructure development. However, infrastructure development constitutes a significant part of the different RIPs and NIPs objectives. One obstacle however could be the implementation timing of these initiatives, since for example, RIPs are set forth for 4 years, meaning there is less opportunity to incorporate new projects.
As an example, the Benin NIP makes “infrastructure and regional interconnection” one of its four priorities, whereas the RIP for West Africa includes among one of its four priorities the “development/interconnection of infrastructure”. However, there appears to be no connections, no coordination, nor at the RIP/NIP definition stage, nor during their implementation, between the RIPs and NIPs and the ITF despite this common scope of activities. In theory, RIPs are able to provide technical assistance grants to support regional infrastructure projects in Africa and thus facilitate ITF projects development investments.

3.3.2 There is a dependence of regional infrastructure projects on other projects (such as national) and initiatives (power pools, transport corridors, regional strategies), but no specific coordination mechanism is in place.

At the sub-regional level, Africa’s RECs comprise groupings of countries co-operating to address joint development issues, and aims to create free trade blocks and customs unions. A key responsibility is overseeing and addressing sector or regional specific issues such as river basin, power pool and transport corridor management. These activities are coordinated as national projects which together impact regional development. As an example, the Tripartite of COMESA/EAC/SADC is seeking to coordinate and harmonise the Regional Transport Master Plans, the Regional Energy Priority Investment Plans and the Energy Master Plans.

As mentioned above regional infrastructure development (and therefore logically the activities of the ITF) is dependent on essential national projects, which do not fit the eligibility criterion for ITF funding. As such co-ordination is key to ensure that national projects add to the regional context, for example power pools rely on national generation of electricity to allow for inter-connection, similarly in the context of transport.

Within the context of the ITF, the RECs specific role is to address regional strategies, harmonisation and coordination of regional regulations and standards. Considering this level of engagement, the appropriate level of involvement in the ITF is at the Partnership Steering Committee level.

As regards the EU Delegations in African countries, their involvement and knowledge of the ITF is limited despite the role they could play through their local knowledge. More generally, the lack of EC representatives within the PFG reduces the opportunities to coordinate the ITF with other EU infrastructure instruments in Africa (see further analysis on this issue in the section related to the effectiveness of ITF governance – evaluation question B4, Section 3.4).

3.3.3 A tight and effective collaboration between the ITF and the NEPAD IPPF

The mandate of the NEPAD IPPF is to assist African countries, RECs and related institutions to prepare high quality and viable regional infrastructure projects and programmes, develop consensus and broker partnerships for their implementation. The long-term goal is to reduce Africa’s economic marginalisation by ensuring sustainable regional economic development and integration through cooperation among African countries, donors and the private sector.

Co-operation between the ITF and the IPPF have been developed. Firstly, the ITF is designed to act downstream of a project whereas the IPPF works upstream, four projects are currently co-financed with the IPPF. Further working co-operation is in place such as joint workshops have (eg March 2010 when the AfDB and the EIB worked together on some projects like the GIS). Closer working relationships have also been set up between the IPPF staff and the ITF Secretariat.

3.3.4 An effective cooperation within the context of the ICA

As introduced in evaluation question A2 (Section 2.2), the ICA acts as a catalyst by enhancing and accelerating the development of Africa’s infrastructure. The ICA also works to help remove some of the technical and policy challenges and barriers to building more infrastructure and to better coordinate the activities of its members and other significant sources of infrastructure finance, such as China, India and Arab partners.

In practice, the ICA ensures the coordination between the DFIs involved in infrastructure development in Africa as well as the EC. It brings together the G8 (G5 initially), WB, EC, EIB and AfDB. It appears that the EIB and the ITF Secretariat in particular are very active in ICA’s activities (such as working groups, forums etc). The ITF is clearly in line with the ICA call for scaling up the infrastructure financing in Africa.

The effectiveness of cooperation between institutions involved in infrastructure financing in Africa may also be improved with the use of the GIS. This tool which is being set up between the EIB, ITF, AfDB, IPPF and the ICA Secretariat is used as a regional project pipeline information exchange system as mentioned elsewhere in this report. This concrete example of cooperation among the main financiers illustrates the effective cooperation that has been established.

3.3.5 PIDA as a road map for infrastructure development strategy in Africa

PIDA is a continent-wide programme to develop a vision, policies, strategies and a programme for the development of priority regional and continental infrastructure in transport, energy, trans-boundary water and ICT based on a wide range of consultation at all levels.

PIDA merges various continental infrastructure initiatives, such as the NEPAD Short Term Action Plan, the NEPAD Medium to Long Term Strategic Framework (MLTSF), and the African Union Infrastructure Master Plans initiatives into one coherent programme, covering all the four key infrastructure sectors. PIDA has developed an infrastructure investment programme at short, medium and long term, built around key priorities. This plan is accompanied by an implementation strategy and priority action plan. PIDA will serve as the AU/NEPAD key planning/programming document guiding the continental infrastructure development agenda, policies, and investments priorities in the above mentioned sectors for the 2011-2030 period. It will also provide the much-needed framework for engagement with Africa's development partners willing to support regional and continental infrastructure.³⁴

However, several interviewed stakeholders expressed concern that PIDA, although bringing a relevant strategic framework for infrastructure development in Africa, would not actually bring added-value at project level and improved co-ordination.

3.3.6 The effectiveness of coordination between PFG financiers has been enhanced, however relies strongly on the Lead Financier and on individual contacts between Financiers' staff

The ITF has provided an opportunity to bring European financiers together. This enhanced coordination has taken place through combining efforts across 48 grant operations, more than 20 ExCom meetings, and numerous PFG meetings that cover strategic and operational issues, and implementation challenges for regional African infrastructure projects.

Lead Financiers are responsible for this co-ordination. Effective coordination depends more on the individuals than the procedures in place. The PFG has not established ITF-specific procedures to be used for the coordination with other financiers. Instead, each project uses its own coordination mechanisms depending on the financiers involved in the project.

In the case of the "Benin-Togo Power Rehabilitation" project for instance, the financiers (EIB, WB and KfW) have rationalised the work for example. They have split the work for procurement. More generally good practices observed in terms of coordination with non-PFG members include common field/on-site visits, definition of a regular frequency for progress meetings, and regular information sharing (by email, phone or videoconferences).

Liaison between PFG members and other financial parties to ITF-supported projects may be complicated by the fact that the latter are often only involved in one project. 27 financial parties (not part of the PFG) have been involved in ITF supported projects (35 projects approved or cleared in principle by 5 July 2011). These are mainly national governments, or private companies managing the infrastructure.

Table 9 – Number of grant operations institution is involved as co-financier

Non-PFG Financiers involved in more than one project are institutions well known to the PFG members and with whom they work regularly.

For instance, as shown in the table on the right, the World Bank is involved in 8 projects and the DBSA in 3 projects.

| | Involved as co-financier (No. grant operations) |
|---------------------|---|
| World Bank | 8 |
| DBSA | 3 |
| IFC | 2 |
| European Commission | 2 |

Coordination effectiveness is assisted by the fact that most financing institutions/agencies regularly work together, know each other's procedures and ways of functioning, and have developed relationships among their staff within the PFG and non-PFG members. This is true within the ITF but also outside the ITF frame.

However, these are challenges – in the case of the Beira Corridor project (which involved five financiers) co-ordination was not strong and through our interviews it is apparent, resulted in delays to this project.

³⁴ African heads of state recently endorsed the launch of PIDA at the 18th African Union Summit in Addis Ababa in February 2012. Heads of state welcomed the PIDA programme and noted that its projects address a key gap that will support Africa's integration. They also noted that PIDA's longer term goal is to enhance the physical integration of Africa, boost intra-African trade, and raise African competitiveness in the global economy.

Table 10 shows the number of financiers involved per project (based on the 35 projects³⁵ approved or cleared in principle on 5 July 2011):

Table 10 – Number of Financiers involved per project

| No. financiers involved in the project | Number of projects |
|--|--------------------|
| 8 | 2 |
| 7 | 1 |
| 5 | 4 |
| 4 | 7 |
| 3 | 6 |
| 2 | 7 |
| 1 | 8 |
| <i>Total</i> | 35 |

Source: Ernst & Young based on ITF Secretariat documentation

This table shows that there are 20 grant operations that involve at least 3 financiers, including 7 grant operations that involve 5 or more financiers. Only 8 grant operations have involved a single PFG financier.

The importance of coordination has been highlighted in the High Level Panel report to the G20, emphasising the “need for better coordination between [Multilateral Development Banks] and with bilateral and national development agencies”³⁶ as there remains too much duplication of development efforts. In this regard, the ICA initiative is presented as an illustration of good practice. This report to the G20 stresses how critical the coordination among the stakeholders is in order to improve the effectiveness of infrastructure projects funding.

3.4 Governance system

EQ B4: How effective is the ITF governance system in order to reach its objectives?

The ITF governance structure is based on three levels: the Partnership Steering Committee (which provides overall strategic direction); the ExCom (which represents the donors and makes decisions related to grant operations); and the PFG, which discusses projects that may potentially benefit from ITF funding, and is first and foremost the single “point-of-entry” for any ITF support. The ITF Secretariat supports all three levels of governance.

The ITF governance structure is clear in theory, in that it is based on a clear definition of tasks between the different bodies. The regular meetings of the ExCom and the PFG allow a frequent review of grant operations. The PFG enables cooperation among DFIs, allowing information sharing and review and discussion on grant operations.

ITF governance has evolved since 2007, in terms of the inclusion of AfDB and PIDG as members of the PFG. However, in reality we have observed the following limitations in the governance structure:

The governance system follows a predominantly bottom-up project identification approach, and there does not appear to be a clear top-down strategic approach from the EU-Africa Partnership for Infrastructure Steering Committee. The ITF governance structure, though it involves a range of relevant stakeholders, is largely influenced by a limited number of financiers.

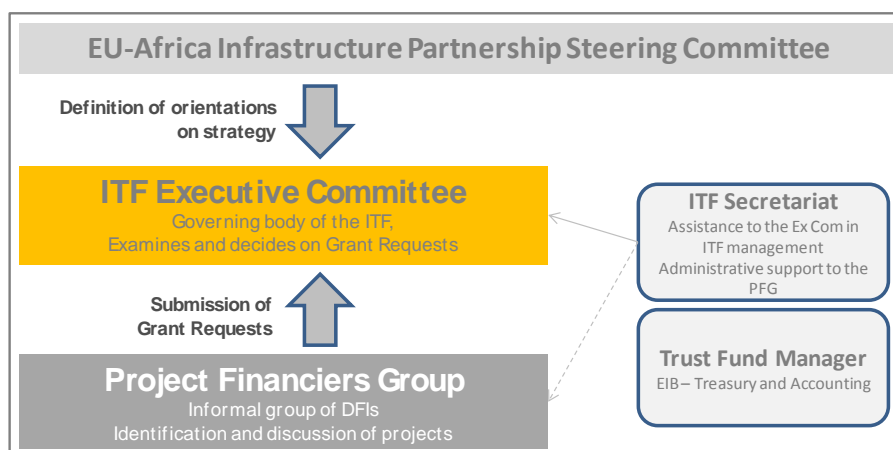
Finally the governance structure also lacks an independent review of grant operation documentation, which would play the role of ensuring the appropriateness of grant operations in reaching ITF objectives.

³⁵ Analysis based on 35 projects, as complete data on financiers provided ITF Secretariat only covered period up until 1 July 2011. It therefore does not consider the additional grant operations approved or cleared in principle at the ExCom meeting of 5 July 2011,.

³⁶ High Level Panel on Infrastructure – Recommendations to G20 – Final Report, October 2011, page ii

3.4.1 The governance system is structured three core levels

Figure 6 - ITF Governance



Source: Ernst & Young (based on TFA and analysis)

The governance structure of the ITF is defined by the ITF Agreement, signed on 23 April 2007. It has been further developed in the Operating Principles of the EU-Africa Partnership for Infrastructure Steering Committee, the ExCom “Rules of procedure” and the PFG Operating Methodology. The approval of Grant Operations and oversight of the ITF is the responsibility of the ExCom, which is the governing body of the ITF. It is assisted by the ITF Secretariat, hosted by the ITF Manager (the EIB) and which has been delegated the financial management of the Fund. The PFG is an informal group composed of financing bodies nominated by each Donor and acts as the single entry point for any request for ITF support. After discussions and assessment, the PFG reaches a consensus as to which Grant Operation requests will be submitted to the ExCom.

Table 10 presents a synthesis of the roles of each body involved in the ITF governance.

Table 11 - Synthesis of each ITF governance Body's role

| | Role in ITF management, portfolio consistency and strategy | Role in project design |
|-------------|---|---|
| SC | Provide strategic guidance | Define priorities |
| ExCom | Responsible to ensure the implementation of the PSC strategic guidance Management of the Fund Ensure the consistency of the portfolio of projects | Approve Grant operations and manage the pipeline of projects |
| PFG | Give opinion on operating methodologies | Act as entry point for request for ITF support Identify and technically discuss projects, their merits and eligibility vs ITF criteria Issue opinion on the submission of grant operation requests to the ExCom |
| ITF Sec. | Day-to-day management of the Fund in support of the ExCom Informal administrative support to the PFG | Suggest projects to be included in the PFG pipeline (but no official role in looking for projects) |
| ITF Manager | Financial management of the Fund | |

Source: Ernst & Young (based on TFA, governance bodies' documentation and analysis)

3.4.2 The EU-Africa Partnership for Infrastructure Steering Committee is the body responsible of the strategic guidance of the ITF

According to its operating procedures³⁷, the mandate of the PSC is to foster co-ordination between Partnership members, to guide the development and to ensure the effective and efficient implementation of the Partnership programme. Consequently the PSC is the body responsible for:

- Issuing policy guidance and providing strategic direction to the Partnership and its implementing instruments, such as the ITF;

³⁷ Operating principles of the EU-Africa Infrastructure Partnership Steering Committee.

- Serving as a forum for the exchange of information and coordination amongst its members as regards the needs of infrastructure, the related services and the regulatory frameworks, and ensuring appropriate responses to the evolving priorities in Africa;
- Facilitating co-ordination between AU-NEPAD Infrastructure Programme, the NIPs and RIPs or other infrastructure initiatives/programmes,
- Reviewing the Partnership's coherence and co-ordination with other continental programmes and initiatives, and liaising with the ICA and other international initiatives that support infrastructure;
- Seeking to mobilise resources necessary to reach the Partnership goals;
- Monitoring progress of operations implemented by the Partnership and report on past, ongoing and planned activities on the basis of the partnership annual report; and
- Provide advice to the ExCom, receiving regular summaries of ITF activities and commenting on the ITF Annual Report.

Members of the PSC comprise representatives from the EU and AU member states, the EC, the EEAS and the AUC, as well as RECs. In addition the EIB is an observer member. PSC meetings occur once a year. There have been three PSC meetings since the launch of the Partnership, in 2007, 2009 and 2010. The joint statements issued at the conclusion of these meetings show a similar agenda which addresses:

- Procedures;
- Promotion of capacity building;
- The ITF;
- PIDA and cooperation on other initiatives;
- Private sector;
- Action Plan, Road Map and Monitoring and Evaluation plan;
- Implementation of the EDF actions in support of the EU-Africa Partnership for Infrastructure; and
- Other specific issues (such as preparation of an EU-Africa summit).

The ITF is only one item on the PSC meetings' agenda, but is intended to provide recommendations on the priorities or "areas of attention"³⁸ on which the ITF should be focused. These recommendations address issues such as the cooperation and coordination with relevant stakeholders (e.g. other DFIs, ICA, African institutions, private sector organisations and the involvement of the AfDB in the PFG) as well as sectoral focus.

PSC meetings occur with very large representation, generally 60 countries/organisations, due to the need to cover all aspects of the Partnership operational capacities and the parity principle between the AU and the EU.

Based on interviews, it appears as though the PSC has not been fully effective in performing the strategic role it is intended to play within the ITF governance structure, due to its wide scope of intervention and the nature of its size.

3.4.3 The ExCom is the central body of ITF governance

The ExCom is composed of:

- Voting participants ("Members"): one named representative of each Funding Donor with a contribution of at least € 1m (13 Donors in 2011);
- Non-voting participants ("Observers"): one representative of each interested EU Member State that is not a current contributor to the ITF;
- The ITF Manager and ITF Secretariat, with non-voting status.

According to the ExCom "Rules of procedure", the Member for the EC is the chair of the ExCom meetings during the first year of Trust Fund operations. The Chair is intended to be subsequently rotated amongst Members representing Donors that have made a Contribution commitment of €5m or more. However, in practice, the EC is still acting as Chair of the ExCom meetings.

The first ExCom meeting took place on 27 June 2007. Since then, there have been regular meetings, with the last one (included in the scope of the present evaluation) taking place on 5 July 2011 (18th ExCom meeting). This means that the ExCom meets more or less quarterly, which provides a regular opportunity to review and approve grant requests on a timely basis subsequent to their submission by the PFG.

The agenda of the ExCom meetings is similar between meetings. It is based on three main activities:

- The approval of the Minutes of the preceding ExCom meeting;
- The review of decisions for grant operations requests, where the ExCom makes its decision to approve projects submitted by the PFG; and
- The management of the ITF in accordance with its needs. This latter agenda item includes various items such as the review of procedures, discussion and approval of the ITF annual report, the approval of the annual financial statements presented by the Fund Manager, discussion on ITF strategy (such as the evolution of the funding mechanisms), review and discussion of the ITF project pipeline, overview of the Fund activities, or presentation of new initiatives.

³⁸ As stated in the Joint Statement on the EU – Africa Infrastructure Partnership – 2nd meeting of the Steering Committee, Addis Ababa, Ethiopia, 21-22 November 2008

Voting rights within the ExCom are determined by its “Rules of procedure” which state that “each contribution equivalent to the minimum contribution shall give the relevant Donor one vote in the ExCom. These voting rights take effect from the date of the first ExCom meeting following the reception by the Manager of the Donor’s Contribution certificate, and are valid for a period of four years”. Therefore, Members have no more voting rights after four years if they have not made new contribution. However, this is limited by the fact that, in practice, the decision making process within the ExCom is based on consensus among its Members. The potential drawback of having Donors without voting rights after four years is therefore limited (but could be enforced).

In its task, the ExCom is supported by the ITF Secretariat. Composed of four people (3.5 full time equivalents), the ITF Secretariat provides administrative support for the day to day management of the ITF. Its tasks include:

- Support to the ExCom in ensuring effective operations;
- Development of a regular dialogue with all Donors;
- When requested, collaboration with African Partners (such as the AfDB or NEPAD);
- Organisation of meetings including ExCom meetings and minutes (this role, in practice, has been also extended to PFG meetings);
- Preparation of the ITF annual report;
- Monitoring of the ITF activities; and
- Ensuring the visibility of the ITF.

The ITF Secretariat plays an intermediary role in the overall governance system of the ITF. It participates in all the meetings of the ExCom and the PFG, as well as meetings of other African infrastructure development initiatives, such as the NEPAD-IPPF or ICA. It also acts as a permanent contact centre for any stakeholder interested in the ITF.

3.4.4 ITF Project Financiers’ Group discusses and proposes the projects for ITF grant operations

The PFG brings together project financiers, nominated by each Donor and agreed by the ExCom. Project Financiers are the source of the grant operation requests, which they discuss in accordance with their own methodology, prior to submitting them to the ExCom for approval. In 2011, members of the PFG were:

- COFIDES (Corresponding Donor : Spain);
- Lux-Development (Luxembourg);
- AFD - Agence Française de Développement (France) ;
- European Investment Bank (European Commission);
- Ministry of Economy and Finance Greece (Greece);
- OeEB - Oesterreichische Entwicklungsbank AG (Austria);
- SIMEST - Società Italiana per le Imprese all’Estero (Italy);
- KfW - Kreditanstalt für Wiederaufbau (Germany);
- AfDB African Development Bank (United Kingdom);
- SOFID (Portugal);
- BIO - Belgian Investment Company for Developing Countries (Belgium);
- FINNFUND - Finnish Fund for Industrial Cooperation Ltd. (Finland); and
- PIDG - Private Infrastructure Development Group (The Netherlands).

There have been 22 PFG meetings since the beginning of the ITF. These meetings occur four or five times per year. The agenda of the PFG meeting is focused on the presentation and discussion of projects potentially eligible for grant operation requests. In each case, the lead financier presents the project which is then discussed with the other members of the PFG. The decision to prepare a grant operation request is made during the meeting, or further information is requested for in the next meeting. The remainder of the meeting is dedicated to other business of the PFG such as the pipeline of projects, discussion of the PFG strategy (generally a sectoral focus), briefing on new initiatives or (e.g. changes of the funding mechanisms) or any issue related to the operating principles of the ITF or the PFG itself.

3.4.5 The lack of EC representatives in the PFG meetings is a subject of debate; thematic working groups however “open” the discussions

Though it is represented by the EIB, the EC is not part of the PFG, and is therefore not active in identifying projects to benefit from ITF funding nor ensuring better alignment with EU policies. For some stakeholders, this is problematic and should be addressed. Some consider the EC has the most exhaustive knowledge and vision of the overall range of EU funding instruments, and therefore is in a prime position to assess complementary of funding. However, the participation of the EC in the PFG would be considered, by some stakeholders, as not being in line with the principle of separation between Donors and financiers.

Whilst not forming part of the ITF Governance framework, “thematic groups” have been established at the end of 2010. They are organised in coordination with PFG meetings and both PFG members and the EC participate. These thematic meetings are co-chaired by the EC and PFG chair. This allows the members of these thematic working groups to go beyond the project level and to make an assessment and an analysis of project needs at sectoral level. In these meetings, it is also possible to develop some issues which require technical knowledge. The

objective of these meetings is to identify potential sub-sectors (in the sector of transport for instance) and the types of projects that are eligible for ITF support and are of interest to both the Financiers and the EC. This is made “with a view to prioritising cooperation and strengthening the ITF pipeline” for the sectoral projects³⁹.

3.4.6 The characteristics of ITF governance allow, in theory, funding to be directed to relevant projects in order to reach its objectives

These main characteristics are the following:

- The financiers know the eligibility criteria, so they can assess whether a project meets ITF requirements and then present this project to the PFG. Generally, projects proposed to the PFG address ITF criteria after necessary justification.
- A first peer review (PFG) by the other financiers of proposed grant operations is a good practice before submitting it to ExCom and allows presenting and selecting relevant projects.
- Infrastructure needs and therefore potential infrastructure projects in Africa are well known by the PFG members.

3.4.7 PFG fosters close cooperation among financiers

The ITF has brought financing organisations closer together as it has provided a framework for cooperation. This trend may also be observed with the implementation of the Mutual Reliance Initiative (MRI), though not directly related with the ITF, as it has drawn financiers to closer.⁴⁰

As a principle, this delegation of tasks and responsibilities is based on mutual recognition, not on harmonisation of procedures. The MRI is creating substantial synergies to leverage efficiency and effectiveness of development cooperation at the operational level. Even if it has not been directly generated through the ITF, the principle and the practice of the PFG is clearly in line with this trend of closer cooperation between the DFIs.

The High Level Panel (HLP) on Infrastructure Development recommends that “development agencies cooperate locally and on a regional basis and use the concept of ‘lead bank’ in such a way to move infrastructure projects forward more effectively.” The MRI is presented as a model of such cooperation. This recommendation of the HLP also confirms the relevance of a governance structure such as the PFG in fostering cooperation among Financiers.

3.4.8 ITF governance structure involves a range of relevant stakeholders but it is largely influenced by a limited number of them

The regular presence of all financiers in the PFG provides important added value, as it brings efficiency and effective information sharing. They PFG meetings allow an effective screening of projects; critical questions to be raised, facilitate peer group review, networking, and to follow up with co-financing.

The functioning of the PFG is intended to limit competition between financiers and to favour coordination. The context of development funding generates a high degree of competition between the DFIs which occurs beyond the scope of ITF. However, despite the huge needs in financing African infrastructure, the actual number of bankable projects is low and financial institutions therefore face some competition when there is an opportunity to finance a project. The Caprivi project, in which EIB, KfW and AFD are all involved at the same level of financial engagement (€35m) with an additional funding of the ITF of €15m is an example of this.

The PFG is dominated by three financiers (AFD, KfW, EIB). Of the 11 institutions which participate in the PFG, three have been consistently active as Lead Financier since the beginning (AFD, KfW, EIB), with three more becoming active recently (Lux-Dev, AfDB and PIDG).

The following table presents the number of approved grants for which each financier has acted as the lead financier (on the 48 grants operations approved or completed at the date of 5 July 2011).

Table 12 - Grant operations by Lead Financier

| | Number of projects in which the institution is involved as Lead Financier |
|---------|---|
| EIB | 24 |
| AFD | 13 |
| KfW | 7 |
| Lux-Dev | 2 |
| AfDB | 1 |
| PIDG | 1 |
| Total | 48 |

³⁹ Minutes of the Joint ITF PFG and Commission Thematic Discussion on Transport (12 November 2010, Brussels) and the Joint ITF-PFG and Commission Thematic Discussion on Energy at the meeting of the Project Financiers Group (Brussels, 7 June 2011)

⁴⁰ AFD, EIB and KfW have set up a mechanism to broaden and deepen their co-operation and coordination, particularly focusing on the co-financing of development projects. The three institutions have jointly elaborated a model for a better division of labour in the framework of the so-called Mutual Reliance Initiative (MRI). The objective of the MRI is to delegate central tasks in project preparation, implementation and monitoring to the maximum possible extent to the institution which is subsequently resuming the responsibility as Lead Financier.

It is an objective of the ITF to encourage financiers other than the three main ones to increase their lead financing involvement. The Secretariat has played a key role including the AfDB and PIDG in the PFG, as well as with Lux Development. But currently, there are very few institutions able to finance large African infrastructure projects. It is also important to recognise that the significant influence of EIB, AFD and KfW reflects their strong history of presences in Sub-Saharan African Infrastructure Development.

The “e-Satellite Medicine” project constitutes an illustration of the ITF succeeding in attracting smaller financing institutions. This project was in the pipeline of the ESA (European Space Agency) but lacked financing. Lux-Dev was proposed within the PFG to become the lead financier of this project. After assessing the project Lux-Dev finally took the lead financier. This example however remains an exception and highlights the challenges in encouraging smaller financiers to take the lead financier role. Beyond this specific case, the ITF Secretariat tries to encourage smaller stakeholders to become involved in financing but it has only had limited success to date (although the Austrian Development Bank may potentially become a co-financier in the “Ruzizi” project).

3.4.9 There is a lack of delineation between ExCom and PFG roles at times, which poses concern regarding the independence of the decision-making process

Financiers have to focus on the bankability (they also consider the social and economic impacts) of the projects while donors mainly bring a political or strategic vision. This division allows having a specific vision of the financial and political terms of a project without overlap.

The PFG is a good working platform and does not “vote” on projects but rather encourages consensus on which grant operation requests should be submitted to the ExCom for approval. When the ExCom questions conformity to criteria, the PFG provides the necessary justification and analysis to enable the funding application to be reconsidered.

Separation between financiers and the ExCom is an important characteristic, however, in reality, there are certain representatives who attend both PFG and ExCom meetings with different “hats”. To address this potential issue, the TFA has included provisions (article 4.5.1) to avoid conflict of interest when there is a vote involving PFG Members who are also Members of the ExCom “on a Grant Operation or Operations for which they are the Lead Financier or in which they have a direct participation”⁴¹.

3.4.10 Governance structure lacks an independent review of grant operations

The ITF governance system, considering the bodies involved in the ITF governance as well as the limitations in the theoretical separation of political and financiers’ bodies, does not set up a process of independent review of grant operation requests. Such a review would:

- Guarantee the independence of the governance bodies;
- Enable a stronger and more reliable check of compliance of grant operations with criteria;
- Ensure the global coherence of the portfolio of projects.

Examples of such a review may be observed with the Technical Advisory Panel of the PPIAF, which undertakes random reviews of project applications; and Global Partnership on Output Based Aid (GPOBA) who have a similar independent review approach (albeit at application stage).

The PPIAF set up an independent Technical Advisory Panel which supports the Programme Council (the Body involving programme’s Donors and which defines its strategy orientation) to ensure the quality and relevance of PPIAF-financed activities. This Technical Advisory Panel is comprised of up to six members selected for their expertise on issues relating to private participation in infrastructure in developing countries. In practice, the Technical Advisory Panel is responsible for:

- Providing advice on issues relating to private involvement in infrastructure in developing countries;
- Reviewing and commenting on the PPIAF strategy; and
- Evaluating the impact of PPIAF’s annual work programme through an ex-post evaluation of selected activities.

In the case of the GPOBA, the Programme Council (with the same mandate as the PPIAF) is supported by an independent Panel of Experts, comprised of up to three recognised practitioners in the field of the provision of infrastructure services or health or education services in developing countries (which is the field of GPOBA activities). The Panel of Experts evaluates and endorses projects for subsidy funding submitted to grant requests.

In the case of the ITF, the ExCom has the role to review the documentation of the projects before approving any grant operation request from the PFG. However, as can be seen in evaluation question C2, Section 4.2, the quality of grant operation request support documentation is variable and lacking in some areas.

⁴¹ Article 4. 5. 1 of the TFA

4 Evaluation of efficiency of ITF

4.1 Administrative efficiency

EQ C1: What are the costs of back office administrative support with respect to ITF implementation?

The 4% management fee for the ITF Secretariat / Fund Manager appears reasonable, however benchmarking the ITF against other mechanisms is not possible. The 4% Management fee over the life of the fund was determined at the outset of the ITF, and is based on a cost accounting methodology which is common to all Joint Actions which the EIB is involved in and has been approved.⁴²

The ITF Secretariat has played an important intermediary role, which could assist in improving ITF attractiveness and visibility if further developed.

Considering the current governance structure and “Rules of procedure”, the administrative burden of financiers is kept to a minimum through ITF ways of working. A common grant operation request cover sheet has been developed and improved. Furthermore, the nomination of a lead financier for each grant operation minimises the duplication of workload, and the financiers’ are afforded the flexibility to apply their own work procedures. This flexibility is considered a positive attribute as it does not add unnecessary burden for financiers, however at this same time, it does not always encourage transparency of Financier procedures.

In measuring administrative efficiency, the following has been considered, firstly the activities undertaken by the ITF Secretariat in the ongoing administration of the portfolio of ITF grant operations; and secondly, the administrative impact of ITF grant request application procedures for project (lead) financiers.

4.1.1 Administrative costs of ITF Secretariat / Fund Manager

The financial and administrative management of the ITF is covered by a 4% Management Fee over the period 2007-2013. This fee is deducted from each paid Contribution to the ITF and spread over the lifetime of the Fund. As a consequence of the administrative fees being amortised until the end of 2015, the current termination date of the Trust Fund, this now represents closer to 3%.

The management fee is treated under General administrative expenses, and is recognised in the statement of comprehensive income on a pro-rata basis over the remaining lifespan of the Trust Fund. Expenses are amortised over the life of the ITF until 2015, with €1.7m having been recognised for the year 2010, and €8.3m (also in 2010) being booked in “other assets” as administrative fees paid in advance.

In line with Article 8.4.2 of the ITF Agreement, cost analysis was performed after two years of ITF operation. This was based on actual costs for 2007 to 2010 of the Secretariat and Fund Manager as well as cost projections for the period 2011 to 2015. The Secretariat and Fund Manager, like all EIB staff, complete weekly timesheets, which provide the basis for the allocation of the various costs elements mentioned below, meaning that administration costs of the ITF are based on time and labour.

The ITF management fee is determined using the Cost Accounting methodology, which is common to all Joint Actions which the EIB leads. The calculation is based on Standard Full Cost Rates (without inflation), which cover:

- Basic Salaries & Benefits of all EIB Staff, including the ITF Secretariat;
- Other Administrative Cost of the ITF Secretariat: missions, consultancy, cost of ExCom meetings, training;
- Information Technology: computers, networks, infrastructure, applications;
- Facilities Management: office space, security, printing, mail;
- Coordination & Management: operational management, coordination and staffing matters; and
- Non-Operational Costs: EIB’s management committee, communications, translation, accounting, human resources.

The additional workload necessary to manage a multi-donor trust fund in comparison to a single donor fund needs to be considered when assessing the appropriateness of this 4% fee.

Table 13 shows the projected operational costs (in € '000s) as determined in 2009:

Table 13 – ITF operating costs

| Item | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Cumul. |
|---------------------------|------|------|------|------|------|------|------|------|------|--------|
| Basic salaries & benefits | 179 | 339 | 629 | 652 | 837 | 837 | 837 | 837 | 837 | 5984 |
| Other administration | 11 | 14 | 82 | 183 | 97 | 77 | 67 | 67 | 117 | 714 |
| IT and FM direct | 48 | 87 | 165 | 176 | 282 | 282 | 282 | 282 | 282 | 1884 |

⁴² As informed by the EIB.

| | | | | | | | | | | |
|----------------------|------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|
| Coordination and Mgt | 82 | 153 | 259 | 259 | 259 | 259 | 259 | 259 | 259 | 2050 |
| TOTAL | 319 | 593 | 1135 | 1270 | 1475 | 1455 | 1445 | 1445 | 1495 | 10632 |

Source: Review of Management Fee, EIB as Manager of ITF

Of which "other administrative costs":

| Item | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Cumul. |
|-------------------------|-----------|-----------|-----------|------------|-----------|-----------|-----------|-----------|------------|------------|
| Missions | 11 | 12 | 52 | 75 | 60 | 60 | 60 | 60 | 60 | 450 |
| Meetings/salle à manger | 0 | 2 | 1 | 7 | 7 | 7 | 7 | 7 | 7 | 43 |
| Consultants | 0 | 0 | 29 | 101 | 30 | 10 | 0 | 0 | 50 | 219 |
| Others | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| TOTAL | 11 | 14 | 82 | 183 | 97 | 77 | 67 | 67 | 117 | 714 |

Source: Review of Management Fee, EIB as Manager of ITF

The above calculations were presented to ExCom in 2009 and were based on certain assumptions, including the EC's additional contribution of €200m for which the Manager had not yet received a Contribution Certificate. The forecast showed that the overall cost coverage over the lifetime of the ITF would be 91% (to the end of 2015).

However the actual financial management of the ITF (e.g. disbursements, monitoring, repayments, etc.) will go beyond the date of the unwinding of the ITF due to the actual terms of the underlying operations. This has not been considered in calculations to date. The Manager will have to verify at that time whether the fees already received will cover the future work of the ITF.

4.1.2 Comparative analysis of fund managers / secretariats

Donors agree to pay substantially different fees to multilateral financial institutions for administering trust funds (e.g. EBRD: 2%, IMF: 7%; World Bank Group: 5% for most trust funds). These Trust Funds also differ widely in terms of sourcing, purposes and administration (e.g. single donor TFs, multi-donors TFs, bank-executed TFs, recipient-executed TFs, financial intermediary funds). Given this wide array of trust funds, it is not possible to benchmark the 4% fee for the ITF. However given the range of services provided by the ITF Secretariat and manager the rate of 4% seems reasonable.

4.1.3 Administrative burden of financiers is kept to a minimum through ITF ways of working

Projects financiers agree that ITF is a simple instrument to operate, due particularly to the flexibility of financiers to apply their standard procedures and processes with limited additional ITF administrative burden.

When asked to quantify the additional workload necessary for ITF process, financiers claimed that it was negligible, representing only 10-15% more than a comparable funding sources.

A number of interviewed stakeholders compared the ITF favourably in relation to the administrative burden of other facilities the ACP-EU Water and ACP-EU Energy Facilities, with suggestions that the ITF workload is 20% less.

4.1.4 ITF Secretariat intermediary/brokering role

The Telemedicine and Axis projects were good examples of where the Secretariat has played an intermediary or "brokering" role in bringing promoter and potential Financier together.

The Secretariat has an opportunity to develop this role through close liaison especially with ICA, the PIDA process and the HLP advising the G20. Ensuring a closer level of interaction will assist in knowledge sharing on opportunities and reduce the risk of duplication.

4.2 Grant operation setting up, approval and implementation

EQ C2: To what extent do the PFG and the ExCom apply efficient, timely and rigorous internal grant operation evaluation/approval procedures? To what extent is ITF implementation efficiently monitored?

It appears that the ExCom members apply a sufficiently rigorous approach to the approval of grant operation requests, which has been facilitated by an ITF application cover sheet template that is better aligned to the eligibility and development criteria. Furthermore, in ExCom minutes, there is evidence of ExCom members challenging grant operation requests prior to approval.

Nevertheless, the quality and comprehensiveness of grant operation papers is variable between grant operations. For many grant operations, certain criteria have not been addressed on the cover sheet, and furthermore justification in supporting documentation is, at

times, not sufficiently rigorous.

Further, project objectives and expected outputs are often clearly defined but expected outcomes and impacts are not always quantified, making it difficult to follow the chain of results and establish the monitoring and evaluation arrangements. Similarly, there is rarely data available on monitoring indicators to quantify project progress. However it highlights the attention that is require now at the mid-term stage in establishing appropriate monitoring arrangements both at project and portfolio level to prepare for the final evaluation.

ITF projects disburse well when compared with other national projects of European financiers. However delays in disbursement and the perception of funds being tied up could have a potentially detrimental impact on additional contributions being made, as Donors find it difficult to justify additional contributions when funds appear abundant. This in turn may have an impact on the ability of financiers to advance project preparation if there is any doubt regarding the availability of funding.

It was out of scope to review the individual project appraisal and due diligence procedures of individual financiers. The procedures of most of the PFG financiers are audited and approved by the EC. Therefore, this evaluation question will particularly focus on the methods and ways of working that lead to the approval of grant operation requests. The extent to which the ITF is monitored efficiently will be addressed specifically in evaluation question D1, Section 5.1.

4.2.1 A key positive feature of the ITF is its flexible ways of working

A number of stakeholders have expressed the view that one of the key features of the ITF in comparison with other financing instruments and funding sources is its flexibility and ability to evolve in order to remain relevant in addressing the changing context of African regional infrastructure needs. This particularly relates to the absence of rigid procedures or processes enforced on project financiers, who instead apply their own. This has assisted in keeping the additional administration burden of the financier to a minimum.

The advantage of this flexibility was highlighted at the 2010 Thematic Discussion on Transport, and also supported in a report on EU Blending Mechanisms for Development Finance⁴³, which argues a key strength of blending facilities comes from their flexibility, and the encouragement of local ownership.

This flexibility and adaptability to change is appreciated by members of the PFG who are key in identifying potential regional infrastructure projects to be funded by the ITF. By not adding unnecessary process and procedure, the application process for ITF funds becomes more attractive as funds are easier to access. CFM, the promoter of the port component of the Beira Corridor project praised the ITF for the ease of access to and rapid availability of ITF financing, which was key to accelerate the implementation of the project.

4.2.2 The processes leading to approval or rejection of grant operation requests shows evidence of rigour but the quality of documentation is variable

In line with the ExCom "Rules of Procedure", the ExCom approves Grant Operations related to the eligibility criteria. The decision to approve the underlying grant operation remains the responsibility of the project financiers; the ExCom only takes decisions on the requested grant element from the ITF.

The overall process for grant processing in the ITF is represented below:

0. Identification of opportunity.
1. Application: Cover Sheet: Requests for each grant operation must be supported by a Cover Sheet to be approved by the ExCom, containing key information for each grant operation and summarising the underlying project. In addition, relevant information contained in the financing proposal prepared by the lead financier in accordance with its internal project approval procedures shall be appended to each Cover Sheet.
2. Opinion of the PFG: Based on a discussion of eligibility the proposed grant operation request amongst the PFG, the PFG issues an opinion on each grant operation request, for the information to the ExCom, explaining why the project is considered suitable for grant support. In exceptional cases where there is disagreement between the PFG on the opinion to be issued, the ExCom will be informed thereof.
3. Decision of the ExCom (PFG + 1 month). Approval of grant operations can be obtained in two ways:
 - a. Following a presentation of individual grant operation requests at any meeting of the ExCom; or
 - b. Following an annual presentation of a consolidated list of grant operation requests⁴⁴.

⁴³ Nunez Ferrer and Behrens, "Innovative Approaches to EU Blending Mechanisms for Development Finance", CEPS Special Report, 18 May 2011

⁴⁴ NB: This method has not been employed to date

The processing of a grant approval request for a project in the investment phase can be done in parallel with the financier's own internal loan approval steps, avoiding a delay to project implementation.

4. Implementation of infrastructure project and disbursement of funds throughout life.
5. Monitoring & Evaluation at project level, consolidated by Secretariat at portfolio level – (specifically addressed in evaluation question D1, Section 5.1) through (semi-) annual progress report(s); a project completion report (PCR); and a development impact report.

To demonstrate that the approval process shows elements of rigour, we present below some examples where the ExCom has requested additional justification from the PFG regarding a project's alignment to the eligibility criteria. This analysis is based on ExCom meeting minutes, PFG informal working notes, and stakeholder interviews:

- A key element of the ExCom in assessing grant operation requests is the justification of regional impact and integration. One particular example where additional information has been requested is the Jomo Kenyatta International Airport (JKIA) expansion. In this case, prior to approving this grant operation request, the ExCom meeting requested a clearer identification of the regional impact. Additional data was provided in the form of figures of the international and regional traffic. The ExCom also noted that economic justification for the significant TA grant was missing and requested more information on the economic value added, noting that TA requests still require an economic justification.
- Sustainable economic impact and environmental impact are also areas where the ExCom has requested more robust justification.
 - On presentation of the application to the ExCom for the Caprivi Interconnector project there was strong questioning of several project elements. As a result, the ExCom approved the grant operation in principle however requested that the EIB (lead financier) prepare a more detailed paper with regard to the impact on sustainable development, the environmental impact, the impact of the Zambian energy market, and a detailed analysis of the possible capitalisation of the interest rate subsidy.
 - For the Benin-Togo Power Rehabilitation project, the ExCom questioned the economic viability of the project, the social and environmental aspects and provisions for maintenance, prior to the grant approval.
 - For the Strategic Regional Environmental and Social Assessment (SRESA) Study for Mozambique Regional Transmission Development Project, the ExCom noted that the documentation should better reflect compliance with ITF Assessment Criteria. The lead financier agreed to review and complement the information, and provide an updated version of this grant proposal for approval by written procedure.

4.2.3 The PFG identifies projects through a flexible, bottom-up project identification approach

The identification of projects amongst the PFG follows a largely bottom-up approach. Whilst this flexible approach encourages debate during meetings, and results in opportunities being identified by financiers who are very familiar with African infrastructure needs, it is important that this approach does not lose sight of larger regional and continental priorities as defined by PIDA, AICD and in coordination with RECs and other regional bodies. Nevertheless the bottom-up approach appears to have worked in the early phases of the ITF with pressure to fund projects.

4.2.4 The quality of support documentation for grant operation requests is variable, and requires improvement in several areas

A review of supporting documentation for the portfolio of grant operations reveals the following observations:

- The majority grant operations address most of the development criteria through their grant operation request supporting documentation. However there are several grant operations where the lead financier has not checked the box relating to all eligibility and development criteria. Specifically:
 - Approximately 70% of grant operation requests make specific references to the strategic context of the project in grant operation request support documentation, whether it be in support of the EU, NEPAD or REC priority plans, or corridor/power pool priority projects. Links to strategic initiatives in ITF grant operation request documentation is therefore adequate, however for certain projects these links have not been formalised.
 - The most frequently addressed development criteria in the documentation is the contribution to regional economic development and trade and the environmental impacts (100% of the projects). This is understandable, given the emphasis placed on regional impact by the ExCom in their approval process of grant operations, and also through the fact that enabling regional infrastructure is the key ITF objective.
 - The contribution to the Poverty Reduction criterion box is checked on the ITF Cover Sheet for 75% of the projects. Poverty reduction is more likely to be easier to justify for a Water & Sanitation project, than for Transport, Energy and ICT projects, which inherently have a strong economic and trade focus. Given the small proportion of ITF-supported projects in the Water sector, it is not surprising that compliance is less than 100%. Nevertheless, poverty reduction remains an eligibility criterion which must be addressed for a grant operation to be approved by the ExCom.
 - The contribution to economic development and trade and the economic viability criteria box is checked on the Cover Sheet Application for 98% of the projects. This is not surprising given that the vast majority of approved grant operations concern the

transport or energy sectors, which both have a very strong economic development and trade orientation. This said, economic viability is supposed to cover Economic and Financial Assessments, Non-monetary benefits, and Debt Sustainability. However in reality these three topics are not adequately addressed in a large proportion of supporting documents.

- The Environmental impacts criterion box has been checked on the ITF Cover Sheet for 88% of the projects. This should be higher, given the increased attention given to these matters.
- Provisions for project maintenance in applications are the most poorly addressed criterion in the documentation, with only 57% compliance. This low figure in the grant operation documentation may be explained by the view that it is of secondary importance to the other development criteria. Nevertheless, it is a development criterion that must be addressed in order to be eligible for grant operations. It is a concern that 18 grant operations have been approved by the ExCom, despite the criterion not being addressed in support documentation.
- Grant operation/project objectives and outputs are often clearly defined but expected outcomes and impacts are not always quantified, making it difficult to follow the chain of results and establish the necessary monitoring and evaluation requirements at an early stage both at project and ITF levels.
- There is rarely data available on monitoring indicators to quantify project progress, which is understandable for the project preparation phase grant operations. However it highlights the attention that is required at the mid-term stage in establish appropriate monitoring arrangements in order to be prepared for the final evaluation.
- The studies referred to in grant operation request supporting documentation were not always available amongst the ITF Secretariat's records. Therefore it has not been possible to validate whether project documentation specifically addresses a particular development criterion.
- The objectives for TA grant activities are generally less explicit than for the other instruments. This is particularly the case for TA grants that are not yet related to a specific project. Refer to evaluation question B2, Section 3.2, for a detailed discussed related to TA projects.
- Grant operation requests are largely based on assumptions, especially for the economic criteria. The assumptions on which economic and financial rates of return are based have not been made available to the evaluation team, and therefore no comment can be made regarding the economic viability of projects.

Members of the ExCom have therefore suggested a more systematic focus on the compliance of a project to the ITF Assessment Criteria for future proposals, suggesting an amendment of the cover sheet template. The Chairman has also requested on several occasions that the PFG improve the quality of the submission papers and focus in particular on the regional dimensions of a project and other aspects of (CAPGO) set by the ExCom. In response, at the request of the PFG, the Secretariat has drafted revised Cover Sheets, which were submitted to the PFG before being communicated to the ExCom. The main objective of the proposed changes is to ensure that the criteria used by the ExCom to assess grant operations requests are clearly addressed in the Cover Sheet and/or in its supporting documentation.

As a reminder the evaluation team has not reviewed the individual processes and procedures of the PFG financiers as that was deemed out of scope of this evaluation, in keeping with the spirit of trust in financier methodologies and procedures. However, at the ITF portfolio level, a review of grant operation supporting documents demonstrates that management of risk is not adequately considered in grant request approval documentation (including political, corruption and development risk).

In the PFG Operating Methodology, the only mention of risk management/mitigation is in the context of grants to cover Insurance Premia in order to mitigate project risks. This is also the only reference to risk in the CAPGO document. Of the 10 case study projects, only four appear to explicitly refer to project risks and mitigation strategies, and in even in these cases the subject is not comprehensively addressed:

Table 14 – Coverage of risk management in case study submissions

| Project | Mention of risk and mitigation strategies |
|-----------------------|--|
| Beira Corridor | Documentation outlines key project risks, covering governance risk, credit risk, and sustainability risk. Selected risks are supported by a mitigation strategy and comments, but this importantly does not cover governance or credit risk. |
| JKIA extension | Airport charges are approved by the government on an ad hoc basis, leaving the financial viability of Nairobi airport very exposed to political risk. The Kenyan government will provide a deficiency guarantee to ensure the financial viability of KAA. This is the only risk considered however. |
| Benin-Togo | Substantial social risk due to the open issue concerning the resettlement of population living within the easement of the transmission backbone to be refurbished. Given the weight of the social issues involved and the potential impact on project cost and schedule, the pending Environmental and Social Impact Assessment and the corresponding Resettlement Action Plan must be reviewed and approved by the Bank's services. This is the only risk considered however. |
| Port de Pointe Noire: | Non-availability of the PAPN's own financial resources for the project: This risk is mitigated by the fact that the amount of the investment self-financed by the PAPN is equal to the minimum fees payable contractually by the concession holder over the construction period. Moreover, a payment mechanism agreement will make it possible to control the necessary cash flow, including the concession fees. |
| | Risks to implementation of the project: Mitigation strategy - an international firm of consultants is responsible for |

| Project | Mention of risk and mitigation strategies |
|---------|--|
| | <p>implementing and monitoring the works.</p> <p>Market risk: Traffic volumes could fail to reach the levels projected by the concession holder. Traffic figures used in the model equate to the concession holder's contractual commitments. A sensitivity test of the model shows that even with weaker traffic growth rates, the project's profitability would still be satisfactory.</p> |

Source: Case study project cover sheets and supporting documents

Further, debt sustainability is one of the elements of Financial and Economic eligibility of an ITF grant operation. The CAPGO document states "eligible projects shall be assessed against the impact they may have on the debt situation of the beneficiary region [including the Debt Sustainability framework, where applicable]. Projects should demonstrate that they will not have a significant adverse effect in this regard for the beneficiary countries". However the review of grant operation supporting documentation revealed that this factor is not adequately addressed by financiers in preparing for grant operation approval.

4.2.5 ITF disbursements are timely for a multi-donor fund, however Donors are concerned about funds being tied up

The PFG and ITF Secretariat have undertaken a study into the elapsed times of first disbursement for ITF grant operations. It has been measured in terms of the elapsed time between the date of approval of grant operations by the ExCom and the first disbursement of the approved grants. For comparison purposes, disbursement delays for the ITF grant operations have been compared to a control group, consisting of infrastructure project data (353 projects) from AFD, AfDB, EIB and KfW.

The overall finding from this study was that disbursement of ITF projects was favourable in comparison with projects of the control group, both for investment projects and technical assistance. This is despite the fact that all ITF projects are regional projects and could therefore be considered as more complex than national projects. It is important to recognise however that the projects within the control group are implemented by the same financing institutions as the key members of the PFG, and therefore significant differences should not be expected.

In terms of differences across instruments, while the TA projects "perform" better than the investment projects in terms of speed of disbursements, it should be noted that they have much less impact on the disbursement of funds. In the ITF, the average TA Grant amount is about €2m, while that of an IRS is about €15m. In terms of "classical" IRS, it is important to consider disbursement delays in terms of elapsed time from first disbursement up to final disbursement. Based upon the 10 ITF IRS grants that had been approved at the time the paper was written, comprising a total commitment of €147.5m, the expected average time from commencement of works (approximately first disbursement) to end of works (approximately last disbursement) ranges from 18 to 40 months, over which time the IRS allocation will be progressively disbursed.

Based on 11 projects, grant operations for investment projects are approved by the ExCom approximately 33 days prior to the approval of the investment component by the financiers' boards, suggesting the coordination and communication between the PFG and ExCom is adequate.

However, there are some challenges which require addressing:

- It has been noted that first disbursements for investment projects take longer than the 18 months, which is the time period set out in Art. 6.1.2. of the ITF Agreement. As a result a number of grant operations have had to be re-approved because this 550-day limit had been exceeded. A total of 5 grant operations had been re-approved (as at 5 July 2012)⁴⁵, covering 2 IRS and 3 TA grants, and representing €21.7 m in funding.
- Additional grant operations may require a similar re-approval or extension, resulting in the issue of the soundness of the Rule, or of the management of the grant operation.

The ITF could encounter challenges when seeking additional contributions. The lapse in time of disbursements results in large amounts of funds being "tied up" as committed but not yet drawn down (undisbursed), and therefore Donors find it difficult to justify additional contributions to be made to the ITF as long as cash in the fund is abundant. Conversely, Financiers need assurance, at the time of developing a project, that grant money is available. Donors postponing new contributions based on a misperception of delays in disbursements may result in financiers postponing the development of grant-loan blended projects, as they require long-term assurance that grants will be available when needed in a challenging and unpredictable business environment. This raises the question as to whether Article 2.3 of the TFA requires amendment. This article addresses the payment of contributions, and states that: "Pledged contributions of € 2000000 (two million euro) or less to be paid in one instalment, within 6 (six) months of the date of signature of the Contribution Certificate. Pledged contributions exceeding €2000000 (two million euro) to be paid in one or more instalments of minimum €1000000 (one million euro) each. The first instalment shall be paid within 6 (six) months of the date of signature of the Contribution Certificate, and the final instalment within 18 (eighteen) months of the date of signature of the Contribution Certificate."

⁴⁵ This re-approval includes one project which has been re-approved twice.

The findings from this study have been supported by experience from ICA Members. The ICA Annual Report⁴⁶ has for the past two years (2009 and 2010) reported on its Members' disbursements in African Infrastructure and compared these to their commitments (approvals) made in the same year. While ICA Members include a wide range of bilateral donors and multilateral lenders, and the report covers national as well as regional projects, nevertheless the report highlights the widespread challenges in improving disbursement rates on infrastructure projects across Africa. Total disbursements in 2010 expressed as a percentage of 2010 total commitments were just 27% as reported by bilateral ICA Members, while the equivalent percentage for multilateral Members was 42%. For the ITF, the equivalent disbursement rate in 2010 is calculated as 7% (contributions in 2010 of €120 m and disbursements of €8.4 m).⁴⁷ For the period 2007 to 5 July 2011, the disbursement rate of the ITF is 11%. The factors leading to disbursement delays include political risks on complex regional infrastructure projects, insufficient regulatory harmonisation between countries and the weak institutional capacity of borrowers. This further illustrates the environment within which the ITF operates.

⁴⁶ Infrastructure Consortium for Africa, Annual Report 2010 and Annual Report 2009

⁴⁷ ITF Secretariat data: EU-Africa ITF Situation 31/07/2011 and PFG Pipeline

5 Evaluation of monitoring arrangements and sustainability

5.1 Monitoring arrangements

EQ D1: How adequate are the monitoring arrangements instituted and required by ITF for facilitating the final evaluation of ITF? What lessons can be learnt (from project financiers or other stakeholders/funds to improve monitoring for the second half of the ITF programme?)

It is not the objective of this MTE to interfere with the project monitoring arrangements put in place by lead financiers, as they have the flexibility to apply their own internal processes and they differ between financiers.

The focus therefore is on portfolio monitoring, and specifically to identify indicators that can be used by ITF-supported projects, enabling the Secretariat to manage the programme and prepare the final evaluation.

PFG and ExCom meetings have raised the need for a clear and defined approach to M&E for the ITF, and have particularly addressed the subject of measurement of ITF outcomes and impact monitoring, both in the context of individual projects and at the aggregate ITF portfolio level.

Common indicators will facilitate the aggregation of data from projects to the ITF portfolio level.

An important outcome of the final evaluation of the ITF is to provide, at the ITF portfolio level, a measure of the ITF impacts. A key consideration will also be determining quantitatively the impact/leverage effect that ITF financing has had on the project as a whole. Should the ITF be terminated at the end of 2015, a final evaluation of the ITF should be undertaken, regardless of the progress of physical infrastructure projects. If delayed, there is a risk that project stakeholders will not be available or will be difficult to contact. If the ITF were to be extended beyond 2015, a decision as to the timing of the final evaluation should be determined by ExCom in due course. This will be determined by several factors, including the status of construction / operation of infrastructure projects and the ability to measure impacts, bearing in mind that financiers usually undertake project final evaluations two years after the completion of works.

5.1.1 Expectations in terms of monitoring and evaluation are not clearly defined in ITF documentation

Monitoring and Evaluation (M&E) is the last stage of the grant operations process, following project identification/selection, submission/approval and disbursement/implementation.

M&E is addressed as follows in official ITF documents:

- the ITF Agreement (Art. 7.2 and 9.3) requires the production of selected M&E reports (i.e. initial 12-month; mid-term; and final evaluations), but the focus is more on the functioning of the ITF rather than the ongoing process of monitoring and evaluating projects on an individual or collective basis.
- The Operating Methodology of the PFG states simply that "*Approval of a Grant Operation Request implies that the due diligence, approval, implementation (including tendering), monitoring and evaluation procedures of each Financier are considered valid by the PFG*".

These statements imply that Financiers are responsible for defining indicators, and monitoring and evaluating an individual project, and neglects consideration of M&E at an aggregate level.

The PFG and ExCom have noted on several occasions the need for a defined approach to M&E for the ITF, and have particularly raised the subject of measurement of ITF outcomes and impact monitoring, both in the context of individual projects and at the aggregate ITF portfolio level.⁴⁸

Whilst the majority of ITF supported projects are in their early stages of implementation and impacts are likely to be evident only after several years of operation, it is important to establish a common basis for assessment in the immediate future, particularly in preparation for the final evaluation of the ITF at the portfolio level.

It is important to acknowledge however that each financier has its own methods and approaches to M&E, and the additional administrative burden of measuring the ITF as a whole should be kept to a minimum. Therefore, the objective of M&E of the ITF is to establish a limited set of indicators which, where feasible, can be aggregated and assist in communicating what ITF achievements at the global level.

⁴⁸ See Minutes of the 10th Executive Committee, and the "Framework for Monitoring and Evaluation (M&E) of the ITF"

At the project level, it is the responsibility of the financiers to identify appropriate indicators and baselines. This process should also include a common set of ITF indicators. Indicators at the Project level should be defined for the following categories of measurement:

- Inputs – indicators in terms of financing, nature of grant and technical assistance provided;
- Outputs – for infrastructure projects, indicators of achievement of physical deliverables as well as total project financing secured and disbursed; typically captured in monitoring and Project Completion Reports;
- Outcomes – expectations from completed projects which are assessed ex-ante during appraisal (e.g. EIB's ESIAF and value added pillars etc.) and ex-post through evaluation reports, case studies etc. Outcomes relate to the short to medium term achievements.
- Development Impact – measured as longer term effects such as contributions to economic growth (regional trade, exports, employment, change in GDP etc), environmental benefits (additional quality such as energy efficiency, carbon footprint etc) and social improvements (access, equity, affordability etc).

5.1.1.1 Currently monitoring at the ITF portfolio is limited

Monitoring and evaluation at the portfolio level is currently based on information in cover sheets and the six monthly progress reports. These are gathered by the ITF Secretariat and uploaded in their Project Management Tool (PMT)⁴⁹. These documents contain the following:

- ITF grant operation request cover sheets include, supporting documents and PFG/ExCom minutes providing initial data on individual grant eligibility, justification, and sustainability; and
- Six-monthly ITF monitoring report, which provides updates on the status of individual ITF grants. Physical monitoring information in terms of outputs are generally not covered. To our knowledge only the latest version of these reports is retained, and as a result, previous six-monthly reports are not available to enable progress to be tracked and consistency in reporting to be verified.

An agreed template amongst the PFG and ITF Secretariat would facilitate the aggregation of data from projects at the ITF portfolio level, where the use of common indicators would enable some aggregation of outcomes and impacts, along with other indicators such as regional and sectoral balance in operations, leverage of funding, etc. The key is convergence on a set of basic project indicators that facilitates aggregation of project outputs and outcomes.

A proposal of mandatory core indicators is provided in tables 18 and 19. This work is based on our work with other Trust Funds, and focus on the following areas:

- Increase in number of people with access to improved service;
- Cost reductions for consumer; and
- Employment (sectoral) generated during construction and during operation.

Furthermore, possible mandatory sector-specific indicators are provided in Table 18 and 19.

The ITF Secretariat has agreed with financiers and the ExCom (at its meeting of 16/09/2010) on the following reporting deliverables. These three reports are to be prepared by the Project Financiers (Lead financier) for the ITF Secretariat to assemble for ExCom.

- Semi-annual Monitoring report which is a progress report, providing updates on all operational, quantitative and qualitative elements of the ITF, e.g. contributions, disbursements, pipeline, new approvals, portfolio, etc. The existing report seems to satisfy both the ExCom and PFG, so it could remain as it is with ad hoc improvements in format and presentation.
- Project Completion Report, which is a report on the physical, operational and financial implementation of each project and TA operation triggered by the final disbursement of the grant.
- Report on Development Impact. This is the most difficult part of any M&E system, as concrete and relevant indicators must be identified ex-ante in order to be meaningfully tracked ex-post. Each financier follows a similar set of indicators for infrastructure, and it is suggested to find the "common denominators" among them (in terms of indicators and timing) so that optimum harmonisation is reached without compelling Financiers to adopt new criteria or procedures.

5.1.2 ITF needs a framework for the final evaluation

The final evaluation of the ITF must provide an analysis of outputs, outcomes and impacts of ITF funding. We propose the standard OECD/DAC evaluation criteria, which follow the evaluation criteria used for this mid-term evaluation be followed – namely: relevance, efficiency, effectiveness and impact and sustainability.

Each of these evaluation criteria is elaborated upon in Annex 9.1, with associated questions and indicators. Some of these indicators are ongoing monitoring indicators (denoted by #).

Potential tools to be developed for the final evaluation (based on experience and lessons learnt) are:

- Case studies and field visits (particularly for projects where impacts are more likely to be measurable);
- Interviews at the fund/portfolio level, and

⁴⁹ Information management system used by the ITF Secretariat to monitor financial progress of grant operations.

- Benchmark interview with other funds – e.g. NIF and WBIF, which will be more mature in their implementation by the final evaluation stage.

5.1.2.1 Timing of final evaluation

Should the ITF be terminated at the end of 2015, a final evaluation of the ITF should be undertaken, regardless of the progress of physical infrastructure projects. If delayed, there is a risk that project stakeholders will not be available or will be difficult to contact, and that project documentation may not be readily available.

If the ITF were to be extended beyond 2015, a decision as to the timing of the final evaluation should be determined by ExCom in due course. This will be determined by several factors, including the completion of infrastructure projects, the ability to measure impacts.

5.2 Sustainability

EQ D2: How will the benefits of the ITF continue to be monitored when the funding is ceased?

The need for proper financial management of the ITF will go beyond 2015, the date of the unwinding of the ITF. Currently there are insufficient project and portfolio monitoring practices in place to set the foundation for post-ITF monitoring. Therefore, it is difficult to determine during the mid-term evaluation how the portfolio of ITF grant operations should be monitored when the funding is ceased. However, a structure will need to be put in place post-2015 to measure outcomes and impacts at a portfolio level. Currently, apart from the ITF Secretariat, there has been no other monitoring body identified that has the potential to be operational post-ITF. The Secretariat has established a Project Monitoring Tool and GIS, amongst other tools, which should permit the ongoing portfolio monitoring.

5.2.1 Monitoring of impacts post 2015 need to be considered

This question seeks to determine the long term sustainability of monitoring arrangements for ITF projects in the event that the funding programming is ceased. If the governance structure and reporting framework of the ITF is removed, the question is whether there will be sufficient and robust internal monitoring and reporting processes in place so that the benefits of the ITF can be tracked into the future.

The requirement for the proper financial management of the ITF (e.g. disbursements, monitoring, repayments, etc.) will go beyond the completion date of the ITF due to the underlying operations. At this stage, a decision has not been made as to what the ongoing financial management and therefore monitoring arrangements will be when the funding is ceased.

Considering the immaturity of projects, it is difficult to determine during the mid-term evaluation how the portfolio of ITF grant operations should be monitored when the funding is ceased. It will take several years following the completion of projects to measure the regional, economic and trade impacts, which constitutes the key objective of the EU-Africa Partnership for Infrastructure. However, a structure will need to be put in place post-2015 to measure outcomes and impacts at a portfolio level. This role has the potential to cover all EU-Africa Partnership for Infrastructure funding arrangements, i.e. European Development Fund, intra-ACP resources including EU Water and Energy Facilities, as well as the ITF.

Currently, apart from the ITF Secretariat, there has been no other monitoring body identified that has the potential to be operational post-ITF. The Secretariat has established a Project Monitoring Tool and GIS, amongst other tools, which should permit the ongoing monitoring of the ITF at portfolio level. Nevertheless, as stated in Evaluation Question D1 (Section 5.1), there needs to be a focus now on developing a minimum set of indicators that can be consolidated at portfolio level.

6 Conclusions

6.1 Relevance

Regional infrastructure development is key to addressing the infrastructure gap, and therefore the ITF's positioning and focus on regional connectivity is relevant and important. The objectives of the ITF as an instrument of the EU-Africa Partnership for Infrastructure have not changed since its inception in 2007. However there have been changes in the context of African infrastructure over the past three years. The objectives (presented through a Logical Framework within the financing agreements between EC and the ACP states), whilst still relevant, are too broad, do not sufficiently show the flow of inputs, outputs, outcomes and impacts, and do not reflect current and future challenges.

The ITF has demonstrated an ability to evolve in order to address the changing context of African regional infrastructure needs; however these experiences have not resulted in the redefinition of clear objectives at different levels. Further, monitoring indicators at the portfolio level have not been developed and there is still no monitoring and evaluation framework in place to enable outcomes and impacts of ITF funding to be measured.

The strategy of the Trust Fund should be informed and guided by the Steering Committee which is to provide oversight to the wider EU-Africa Partnership for Infrastructure, however this process has not been effective. The recent work of PIDA provides an opportunity to build on.

An overview of the portfolio of ITF grant operations through grant operation request documentation demonstrates relevance to ITF objectives as well as the eligibility and development criteria articulated in the CAPGO document.

However, there are ongoing and future challenges that the ITF will need to respond to in order to ensure ongoing relevance. Bridging the infrastructure gap cannot be met by public financing alone, and therefore the ITF necessarily has a role to play in taking measures to encourage private sector investment in infrastructure. Furthermore, good governance and risk management are challenges that cannot be avoided when financing infrastructure programmes and to date have not been well covered within the ITF grant operations applications.

6.2 Effectiveness

6.2.1 First outputs

The ITF is at an early stage in terms of physical progress of infrastructure projects, and as such measuring expected outcomes and impacts of projects (and even more so from the ITF as a whole) is not possible. However, it is possible to assess expected outputs from some projects, and measure progress. While good progress has been made there are some areas for further improvement. In terms of progress and initial outputs of the ITF:

- The EU's resource allocation towards African infrastructure has increased with 48 projects representing €225.7m of grant funding as at 5 July 2011.
- Coordination is being encouraged through interactions with the ICA and PIDA, information sharing and specific coordination in the context of grant operations (e.g. Lake Victoria WATSAN case study). In addition, effective coordination of financiers has been achieved through the nomination of a Lead Financier which has simplified processes for beneficiaries.
- The ITF has been successful in leveraging finance, resulting in total leverage of 12:1⁵⁰ and PFG leverage of 6.4:1 as at 5 July 2011 (for grant operations in their investment phase).
- Private sector involvement is being encouraged with the inclusion of PIDG in the PFG and through other means.

There are areas for improvement also:

- Delays in disbursement and the perception of funds being tied up could have a potential detrimental impact on additional contributions being made, as Donors find it difficult to justify additional contributions when funds appear abundant.
- There are currently limited opportunities for coordination of infrastructure projects with non-PFG financiers beyond the context of individual grant operations. There needs to be greater coordination of infrastructure projects between the regional and national level.
- The leverage calculation method requires some refinement to allow for measurement of private sector leverage. Only PFG and total leverage is measured, in terms of the number of Euros leveraged for each Euro of ITF grant funding. Further, the calculation of leverage needs to consider which non-PFG co-financiers were involved in the given project prior to ITF intervention; and any previous involvement of PFG financiers in a given project, i.e. maturity of project at time of ITF intervention.

6.2.2 Value per instrument

The value added by the ITF has particularly been noted where IRS has enabled HIPC countries to be granted concessional loans, the terms of which are better aligned with debt sustainability requirements. Ten of 48 grant operations⁵¹, accounting for €134.9m in grant operations,

⁵⁰ ie for every € from the ITF a further €12 has been leveraged from non-ITF sources.

⁵¹ Does not include 4 grant operations that are "Cleared in Principle"

and a leverage factor of 9 have facilitated investment in HIPC countries. In several of these examples, interviewed stakeholders stated that their project would not have gone ahead if the ITF IRS had not been applied.

There is a particularly clear financial and economic case for using IRS as an upfront payment. The advantages of upfront IRS are:

- Up-front payment allows for quicker disbursement of the funds which allows faster deployment of Donor's funds.
- It has the effect of providing a greater subsidy, by increasing the Net Present Value and the Internal Rate of Return on a project.

However, there remains a risk of over-subsidy. It is not clear whether the ITF substitutes monies that Donor's would have provided anyway. Resources within DFIs are both fungible and limited. The subsidy is split between the different lenders on the basis of their respective refinancing rates (e.g. for KfW intervention rate of the German Treasury, for the EIB refinancing rate of its capital etc). This mechanism, however, is not transparent to other parties, making it very difficult to determine any over-subsidy.

Technical Assistance can take many different forms with varying levels of effectiveness. TA represents 72% of the number of grant operations (although a small percentage of funds), as such, the ITF should determine its focus. This is all the more important, considering there are other facilities which offer TA funding which may be overlapping with the ITF.

Direct Grants have only been used once during the evaluation period. The only example highlighted huge potential to generate leverage effect and to including private funding. However this may not be representative of Direct Grants as a whole.

Insurance premia had not been used as at the cut off period for this evaluation, apart from one grant operation Cleared in Principle. Its lack of use is mainly due to poor clarity regarding its eligibility and how it could be applied to projects. However, some PFG members see a potential growing need for risk mitigation instruments of this kind which we would agree with based on our experience.

6.2.3 Expanding the current instruments

Private finance will not materialise unless the balance between risks and returns is deemed appropriate by lenders and investors. It involves an increased focus on the part of governments and their partners on aspects that go "beyond money", such as the institutional and regulatory framework conditions.

National governments have a role to play. It is essential for Governments to establish adequate policy and regulatory frameworks and contractual arrangements, and for the ultimate responsibility to meet population's basic needs. It involves establishing the appropriate institutions, including the relevant regulatory bodies.

There is a consensus among stakeholders that the current offer of financing instruments might be broadened and include new innovative ways of financing that further respond to the market needs: *"the PFG as a whole would welcome widening the geographical scope, as well as of the range of instruments available for grant operations"*.⁵²

6.2.4 Addressing the governance structure

The functioning of the existing Steering Committee for the EU-Africa Partnership for Infrastructure offers room for improvement. EU Delegations in African countries and RECs need to have a more formalised and frequent interaction with the ITF (PFG in terms of projects, and PSC in terms of coordination and strategy) given their key role both on the ground and in regional priority and strategy setting.

The ITF portfolio could benefit from an independent review of grant operation documentation, particularly relating to compliance with criteria and cost effectiveness, which would ensure the appropriateness of grant operations in reaching ITF objectives.

Better engagement of smaller financiers in taking on a Lead Financier role could assist in a sharing of the administrative and coordination workload undertaken by the Lead Financier. The use of intermediated loans has the potential to facilitate the involvement of some smaller PFG members, encourage local presence and networks (country and/or region), and strengthen regional financial institutions.⁵³

6.3 Efficiency

The management fee for the ITF Secretariat / Fund Manager appears reasonable.

Currently and as in the past, Donors agree to pay substantially different fees to multilateral financial institutions for administering trust funds (e.g. EBRD: 2%, IMF: 7%; World Bank Group: 5% for most trust funds). The trust funds also differ widely in terms of sourcing, purposes and administration (e.g. single donor TFs, multi-donors TFs, bank-executed TFs, recipient-executed TFs, financial intermediary funds). Given this wide array of trust funds, it was not possible to benchmark the fee. However, given the role of the ITF Secretariat, the fee seems reasonable.

Considering the current governance structure and "Rules of procedure", the administrative burden of financiers is kept to a minimum through ITF ways of working. A common grant operation request cover sheet has been developed and improved, enabling linkages to the eligibility and development criteria to be clearer. Furthermore, the nomination of a lead financier for each grant operation minimises the duplication of

⁵² PFG technical note "Some Considerations with respect to the provision of Risk Mitigations Instruments and especially Insurance Premia (IP) in the context of the EU – Africa ITF"

⁵³ See PFG Note "Involvement of Financial Intermediaries as conduits for ITF support" prepared by EIB and "Memorandum for the ITF Executive Committee on using Financial Intermediaries as channels for the ITF initiative" prepared by AFD.

workload, and the financiers' are afforded the flexibility to apply their own work procedures. This flexibility is considered a positive attribute as it does not add unnecessary burden for financiers.

However, there remains room for improvement in the quality and comprehensiveness of submission papers. For many projects, certain criteria have not been addressed on the cover sheet, and furthermore justification in supporting documentation is sometimes not sufficiently rigorous. For example, of the 10 case study projects, only four appear to explicitly refer to project risks and mitigation strategies, and in even in these cases the subject is not comprehensively addressed. Clarifying and explicitly documenting the contribution of the proposed grant operation to the development criteria and compliance with the eligibility criteria should assist in streamlining the approval process during ExCom meetings. Furthermore, the eligibility criteria are not complete in view of the current and future challenges in regional infrastructure (i.e. better improve consideration of risk, encourage private sector engagement, addressing good governance: see recommendation 7.3.1)

6.4 Monitoring arrangements and sustainability

It is important to distinguish between two types of monitoring processes – monitoring is undertaken at the project level which is the responsibility of the lead financier, with the assistance of the promoter and potentially other financiers and also then at the portfolio level by the ITF Secretariat, with the assistance of lead financiers to provide the required information.

It is not the objective of this MTE to examine the project monitoring arrangements put in place by lead financiers, as they have the flexibility to apply their own internal processes and they differ between financiers. The objective instead is to establish a common set of indicators that can be aggregated, whilst taking into account the different stages of projects and sectors, and define some common ITF requirements for financiers.

The focus therefore is on portfolio monitoring, and specifically to identify indicators that can be used by ITF-supported projects, enabling the Secretariat to manage the programme and prepare the final evaluation.

The PFG and ExCom have noted on several occasions a lack of a coordinated and defined approach to M&E for the ITF, and have particularly raised the subject of measurement of ITF outcomes and impact monitoring, both in the context of individual projects and at the aggregate ITF portfolio level.

Common indicators will facilitate the aggregation of data from projects to the ITF portfolio level. Initial thoughts on these indicators are presented in Tables 18 and 19.

An important outcome of the final evaluation of the ITF is to provide, at the ITF portfolio level, a measure of the ITF impacts. A key consideration will also be determining quantitatively the impact/leverage effect that ITF financing has had on the projects as a whole.

Should the ITF be terminated at the end of 2015, a final evaluation of the ITF should be undertaken, regardless of the progress of physical infrastructure projects. If delayed, there is a risk that project stakeholders will not be available or will be difficult to contact. If the ITF were to be extended beyond 2015, a decision as to the timing of the final evaluation should be determined by ExCom in due course. This will be determined by several factors, including the status of construction / operation of infrastructure projects and the ability to measure impacts, bearing in mind that financiers usually undertake project final evaluations two years after the completion of works.

7 Recommendations

A table showing the linkages between findings, conclusions and recommendations is provided in Annex **Error! Reference source not found.**

7.1 Relevance

7.1.1 EQA1: Review interventional logic and objectives of ITF

In light of contextual changes, including African continental initiatives, the global financial crisis and the scale of infrastructure investment, the ITF will need to develop a more detailed and clear intervention logic.

The initial logic contained in the Logical Framework within Financing Agreements between EC and ACP States and presented here is a solid basis, but further work is required to update and provide more detail. This further analysis needs to link to the approach for monitoring and also draw on the elements that have been recommended for the final evaluation and are discussed below.

The evaluation team proposes that the ExCom review, modify and adopt the intervention logic. This should also be considered in the context of the work of pan-African bodies and initiatives such as PIDA and the G20 High Level Panel on Infrastructure.

The intervention logic should be reviewed on an annual basis to ensure ongoing relevance.

7.1.2 EQA2: Maintain Regional Connectivity objective

The ITF should continue to pursue its overall objective of regional interconnectivity, engage closely with continental programmes such as those of ICA and PIDA, as well as encourage and participate in initiatives (such as the Thematic sector groups) that encourage focus on wider sectoral issues, regional priorities and sequencing, master planning, and knowledge sharing.

The regional eligibility criteria should remain broad in its definition, covering both regional projects that cross two or more eligible countries, as well as national projects that have demonstrable regional impacts.

7.1.3 EQA2: investigate measures to encourage private sector participation

The ExCom should further investigate measures to encourage private sector participation in terms of existing instruments (TA to PPPs, guarantee mechanisms with IP, direct grants, etc).

The ITF can assist through actions that seek to improve the capacity and performance of national public sectors, encourage autonomy of regulatory institutions through building their institutional capacity with a view to changing the cost-benefit rationale of actors in the target country and setting incentives for reform.

The EU can support good governance by targeting either the government or channelling funds through non-state actors.

7.2 Effectiveness

7.2.1 EQB2: Revisit and broaden leverage effect calculation

Incorporate a dedicated private sector leverage calculation and monitor this at a portfolio level to be able to measure progress in this area. We propose the following calculation methods:

- PFG loan leverage: number of € of PFG funding generated by one € of ITF grant funding.
- Non-PFG loan leverage: number of € of non-PFG loan funding pledged subsequent to approval of each € of ITF grant funding.
- Grant leverage: number of € of additional grant funding pledged subsequent to approval of each € of ITF grant funding.
- Private sector leverage: private sector funds generated as a result of each € of ITF grant funding.

These should be considered and developed separately for investment phase and non-investment phase projects and developed for each of the instruments as well as across the portfolio

7.2.2 EQB₂: Increase focus on value-added of ITF grant operations

The ITF can deliver greater value-add through focusing on its differentiating features:

- Its regional interconnectivity focus – identifying bankable projects that have the greatest potential to improve development outcomes for the maximum population across several countries
- Its internal coordination mechanisms – the use of the Lead Financier role assists in streamlining the way in which project promoters and the ITF Secretariat deals with the PFG financiers. The ITF needs to build on examples of good coordination experienced to date, and better formalize how coordination takes place, so that benefits can be shared across grant operations.

The ITF has the potential to deliver greater value by better measuring the current value it provides 9ie by understanding which grant operations and contextual characteristics provide greater value. Propositions for alternative methods to calculate the leverage effect are presented in this report.

7.2.3 EQB₂: Address the potential risk of over-subsidy, particularly relating to the IRS

There should be greater formalisation of the coordination arrangements between financiers in the context of grant operations, and this should address a minimum level of transparency. This is all the more important considering there are strong expectations from Donors that the potential for double subsidy should be actively addressed by financiers.

In order to improve the accountability of the use of public funds within the ITF there should be some transparency on the respective margins and a discussion on the minimum level of effort of the different donors. It is likely that the same is true of the Direct Grants, although based on current activity and evidence it is difficult to confirm this.

Further there needs to be very careful consideration given to the use of IRS when funding private enterprise and when providing subsidy to private finance. If the IRS were to be used to “subsidise” commercial debt a clear and effective policy will need to be set out relating to the pricing of interest to minimise the scope for commercial lenders to earn rent from the IRS through their pricing. These guidelines need to include information requirements (eg pricing sources), benchmark levels which are to be utilised (eg pricing from major inter-bank lending indexes) and wider transparency arrangements.

7.2.4 EQB₂: Encourage use of upfront IRS

Encourage sensible use of upfront IRS to enable quicker disbursement of the funds and in turn allow faster deployment of donor's funds. This will provide a greater subsidy, by increasing the Net Present Value and the Internal Rate of Return on a project, adding significantly to the financial and economic case while not impacting on the actual amount of funds disbursed.

The potential for excess profit could be limited through the creation of development funds into which (through a set formula) additional profit would be paid, and recycled, in favour of “pro-poor” projects.

7.2.5 EQB₂: Set a clear strategy for TA funds in the context of ITF

The ExCom should consider setting a strategy and specific objectives for use of TA funds in the context of the ITF. They need to set the scope as to which activities will be financed, across the project preparation lifecycle. Further recommendations on the role of TA are set out in Section 7.5.1 and 7.5.2.

7.2.6 EQB₂: Improve attractiveness and relevance of Direct Grants

The use of investment grants for specific social or environmental aspects of projects that are often critical for the success of a project, should be developed.

In this regard, the social conditionality of direct grants is supposed to contribute to good practices of governance. There would be merits however to improving monitoring of projects in order to ensure that this criterion is actually met.

In this respect, the ITF could work or liaise with NGOs in order to maximise the ‘pro-poor’ benefits of projects in which it is involved, so as to ensure that its projects incorporate the voices of beneficiary populations. More generally these direct grants could also be structured so as to take the form of equity financing.

7.2.7 EQB₃: Formalise better coordination mechanisms between regional and national infrastructure

The PFG should formalise coordination mechanisms with the RIP/NIP programmes and facilities, to ensure that the important national infrastructure projects are being addressed and not adversely impacting the bankability and feasibility of regional projects. ITF bodies (PFG in terms of projects, and PSC in terms of coordination and strategy) should consider more regular and formalised interaction with EU Delegations in African countries to ensure coordination with national boundaries.

Interactions should further be formalised with other regional institutions such as Regional Power Pools and Water management bodies and Transport corridor committees.

7.2.8 EQB₃: Formalise better coordination mechanisms between financiers

The ITF should include coordination mechanisms as an “implementation criterion” in the CAPGO document. This should include coordination with non-PFG financiers.

In the context of grant operations, this should cover the sharing of data and organisation of combined site visits and planning days to take stock of project progress.

7.2.9 EQB₃: Encourage smaller PFG financiers and engage with financial intermediaries

Smaller financiers should be encouraged to take on the lead financier role, to assist in a more equal distribution of workload and cover the broader interests of the ITF Donors.

Engaging regional and national financial intermediaries would allow the ITF to better appreciate local risks. In particular, TA could support the enhancement of skills and processes of relevant local commercial and development banks, so that these could become effective gateways for national and international capital to be deployed in Sub-Saharan Africa infrastructure projects.

In this respect, capacity building of local financial intermediaries would assist in reducing the gap between perceived and actual risks for infrastructure investments. Regional development banks, such as the Development Bank of Southern Africa, the West African Development Bank or the East African Development Bank, could be integrated more at the operational level, potentially through an annual invitation to an ExCom meeting.

7.2.10 EQB₄: Refine the role of the Steering Committee

There is a need to revisit the role of the Steering Committee, for the provision of a clear strategic guidance to the ITF, in order to direct funding to projects that are relevant to reach its objectives, and for the Steering Committee to encourage the creation of a clear results framework.

The adoption of the PIDA by the African Heads of State in February 2012 provides an opportunity to build upon.

7.2.11 EQB₄: Introduce an independent review mechanism for grant operations

An independent review of grant documentation would:

- Guarantee the independence of the governance bodies;
- Enable a stronger and more reliable check of compliance of grant operations with criteria;
- Ensure the global coherence of the portfolio of projects.

We would suggest the creation of an expert panel to further challenge and develop projects to maximise their outcomes and impacts.

7.2.12 EQB₄: Clarify the role of the RECs

The Executive Committee should clarify the role of the RECs in the ITF as well as the opportunities for coordination and interaction. It should equally formalise opportunities for interaction with sectoral regional institutions beyond the RECs.

7.3 Efficiency

7.3.1 EQC₂: Improve the quality of grant request submissions

There is a need to improve the consistency and quality of documentation supporting grant requests. A format that closely follows the CAPGO document should address potential concerns of the ExCom when approving requests. Additionally, there is a need to incorporate new “implementation criteria” into the CAPGO document, corresponding to the expected outputs of the ITF, covering:

- Measures taken to encourage private sector involvement;
- Coordination mechanisms in place (PFG and non-PFG);
- Risk management considerations;
- Governance and sustainability;
- Measures taken to reduce the risk of double or over-subsidy; and
- Arrangements for sustainable service delivery (including provisions for maintenance of infrastructure).

7.3.2 EQC₂: Investigate options for better managing donor disbursements to the ITF

When compared with to Trust Funds operated by other organisations (such as the World Bank) there may be some need to change the Trust Fund Agreement. Other organisations allow for the contractual commitment to provide funds, but then allow for the transfer of funds (to the fund manager) to follow once a project (or group of projects) have been approved (in this case by ExCom). Such arrangements provide Trust Fund managers with the certainty that they have funds to commit while giving Donors the option to provide funds when they are required by the ITF nearer to the point of disbursement. While this would have no impact on the rate of disbursement, it is successfully used in other programmes to more clearly show when further funds are required from Donor’s.

7.3.3 EQC2: Better address good governance, maintenance and sustainability in projects

The ITF should consider incorporating “good governance arrangements” as a specific “implementation criterion” in the CAPGO document, so that when grant operations undergo approval, they must demonstrate at a project level what initiatives are taken to reduce governance risk. This should include some assessment of the level of governance risk and a clear mitigation plan.

Furthermore, there needs to be a reinforcement of the “provisions for project maintenance” clause, so that this topic is not overlooked during the grant approval process.

7.3.4 EQC2: Improve the consideration of risk management

There should be a more systematic assessment of risks in the project approval stage and clearer presentation to ExCom. These risks should follow standard risk management approaches and may best be considered against Political, Economic, Social, Technical, Legal and Environmental (PESTLE) elements. In this case project risks would be outlined and detailed and a probability and impact of occurrence indicated – those with high probabilities and high / medium impact could then be required to outline mitigating measures as part of the application process.

Therefore these considerations need to be integrated as an “implementation criterion” in the CAPGO document and accordingly addressed in the grant operation request cover sheets, and presented as part of the case for funding.

7.4 Impact and sustainability

7.4.1 EQD1: Improve monitoring, evaluation and the results framework

The ITF needs to establish a minimum common set of indicators at project level that could be aggregated at portfolio level, taking into account the different stages of projects and sectors, so that the Secretariat can better manage on a day-to-day basis as well as prepare for the final evaluation in 2015. These indicators should be proposed and adopted by the PFG members in consultation with ExCom.

A proposal of mandatory core indicators could focus on the following areas:

- Increase in number of people with access to improved service;
- Cost reductions for consumer; and
- Employment (sectoral) generated during construction and during operation.

The ITF Secretariat should reinforce its monitoring at portfolio level, and develop (with the assistance of the PFG financiers) appropriate monitoring and reporting tools. On the basis that the functioning of the ITF will not change however, there is only limited need to increase the size of the ITF secretariat to allow for improved monitoring which could be (and should be) limited to one full time equivalent.

Decisions regarding timing of the final evaluation will be made depending on the decision as to whether or not the ITF is terminated in 2015. Should it be terminated, the evaluation team would recommend that the final evaluation go ahead as planned in 2015, regardless of the extent of physical completion of the infrastructure projects. Should the ITF however be extended beyond 2015 it is up to the ExCom to decide an appropriate date, given that potentially few ITF supported projects will be physically completed.

7.5 Current and future challenges

Many of the conclusions drawn above are based on the conclusions from our work. However, based on the generalities of the work conducted in this evaluation and the experience of the team there are a few additional recommendations that it is felt important to consider. These are intended to be helpful in considering the future direction and continued evolution of the ITF to support infrastructure challenges in Africa.

7.5.1 Use TA to improve credit worthiness

The ITF could contribute to supporting the creditworthiness of infrastructure customers (e.g. utilities buyers of power) through:

- TA to support assessments and work towards achieving a credit rating or an improvement in credit ratings. This support is offered through other facilities as well, however, directly working with beneficiaries through a specific element of the ITF could be beneficial and is essential in achieving greater private sector participation.
- TA however needs to be seen as complementary to other forms of direct support to credit worthiness. While TA to support achieving a rating or improving a rating is important, these changes will take time to impact a specific investment. As such, further financial support is required through:
 - Direct credit support or financial structuring; and
 - Setting up partial risk guarantees on the pattern of those created by the World Bank and providing a backstop to borrowers in case of default (customers’ rating being boosted by the Donors rating).

This TA however should only be related to a wider ITF investment

7.5.2 Use TA to improve capacity building in PPPs

Technical assistance provided by the ITF could be beneficial to addressing African government's capacity challenges. However, in the context of the ITF, this should be linked to a transaction and or loan and undertaken to support a smooth functioning project. Specifically, TA could help by:

- Setting up of local PPP units to concentrate expertise, supplementing government capacity with external specialists to structure and manage PPPs,
- Working towards standardised procedures and documentation for PPPs, based on proven experience for use in African countries, in order to achieve efficiency gains (e.g. template for financing documents contracts and operations, and maintenance agreements along with concession agreements, etc).

This TA however should only be related to a wider ITF investment

7.5.3 Expand the use of risk mitigation instruments

Obstacles to private sector participation could be overcome by risk mitigation and credit support instruments, in order to make funding available to infrastructure projects under suitable terms. These would however require a redefinition of the trust fund agreement.

- Encourage the implementation of pilot projects to test new funding approaches aimed at mobilising third-party equity capital from private sources for investment in infrastructure.
- Provide capital grants to mitigate the risks linked to business costs, by developing specific instruments to address the following risks:
 - increased capital equipment costs,
 - operational expenses and maintenance costs

Some other tools to overcome risk include:

- Foreign exchange liquidity facility - A foreign exchange liquidity facility can help reduce the risks associated with borrowing money in a different currency by creating a line of credit that can be drawn on when the project needs money and repaid when the project has a financial surplus. The cost of such a foreign exchange liquidity facility is expected to be cheaper than either a loan guarantee or policy insurance.
- Pledge fund - an equity capital 'pledge' fund may be appropriate for projects that are too small for equity investors to consider, despite having a strong internal rate of return (IRR). In this model, public finance sponsors (which could be developed country governments or international financial institutions) provide a small amount of equity to anchor and encourage much larger pledges from private investors, such as sovereign wealth funds, large private equity firms and pension funds
- Subordinated equity fund – this means that the repayment on the equity is of lower priority than the repayment of other equity investors. Subordinated equity would aim to leverage other equity investors by ensuring that the latter have first claim on the distribution of profit, thereby increasing their risk-adjusted returns.

8 Annexes - methodology

8.1 Mid-Term Evaluation of ITF Terms of Reference

BACKGROUND TO THE EVALUATION

Description of the Infrastructure Trust Fund

- 1 The EU Africa Infrastructure Trust Fund (ITF) is an instrument to help implement the EU-Africa Infrastructure Partnership. The Manager of the ITF is the European Investment Bank (EIB) and has been mandated by the ITF Executive Committee to undertake the procurement for the ITF's Mid-Term Evaluation. The ITF is governed by the Trust Fund Agreement (TFA) first signed on 23 April 2007 (and since amended from time to time). Charts describing the ITF mechanism and its governance structure as well as the current version of the TFA are attached as Appendix E and should be regarded as integral to these terms of reference.
- 2 The ITF is to achieve its objectives by providing grant finance for Eligible Projects (TFA Article 1.1), which are trans-border infrastructure projects or national projects with a demonstrable regional impact on two or more countries, at least one country of which must be among the list at TFA Schedule 1. ITF resources, which come from contributing Donors (TFA Article 2.2), are allocated to "Grant Operations" which can take four forms: interest rate subsidies, technical assistance, direct grants and insurance premia (TFA Article 1.2). Project Financiers nominated by contributing Donors solicit Grant Operations from ITF (TFA Article 1.3) and are members of the Project Financiers Group (PFG) (TFA Article 5). The EIB provides the ITF Secretariat (TFA Article 7).

Rationale for and Purpose of the Evaluation

- 3 The TFA envisages independent mid-term and final evaluations of the ITF, to be organised by the Executive Committee, which is the ITF's governing body (TFA Articles 3.2 and 4). The TFA states (Article 9.3) "The Evaluation reports will summarise the impact of Grant Operations financed by the Trust Fund in the African countries, paying attention to human resources, the eligibility (Article 2) and development (Art 4.3.3) criteria."
- 4 The purpose of the mid-term evaluation is to assess the performance of the ITF over the period 2007-10 against key OECD/DAC evaluation criteria and to make recommendations for the future work of the ITF and for preparations for the final evaluation.

Scope of the Evaluation

- 5 The evaluation will cover all ITF activities and all ITF projects approved and cleared in principle, from first signature of the TFA until 31 December 2010. It will look not only at the grant operations portfolio but also at ITF governance structure, strategic directions, rules, procedures, and ways of working in practice (including ITF-related activities of PFG members).

Governance of the Evaluation

- 6 The evaluation is commissioned by the Executive Committee and will be conducted by an independent evaluation consultant team ("the Evaluator"). The Evaluator's primary point of contact will be the Evaluation Coordinator who will be assisted by a Reference Group, comprising volunteer members of the Executive Committee and of PFG. The Evaluation Coordinator's name will be communicated to the Evaluator by formal written notice. The purpose of the Reference Group is, on behalf of the Executive Committee, to assure the overall quality and usefulness of the evaluation, and the adherence of the evaluation process to the OECD/DAC Evaluation Principles, by advising the Evaluation Coordinator at key stages in the evaluation process. The TORs for the Reference Group are attached as Appendix A to these ToR.

EVALUATION OBJECTIVES AND TASKS

Evaluation Objectives

- 7 The evaluation will assess the overall performance of the ITF and make recommendations for the ITF's future. The focus will be on ITF as an instrument of the EU-Africa Infrastructure Partnership to accelerate the financing and implementation of regional infrastructure projects, rather than on assessing the performance of ITF projects themselves.
- 8 The assessment will review the evolution of the ITF portfolio in relation to eligibility criteria in TFA Article 1 and to development criteria in TFA Article 4.3.3.
- 9 Without being subject to the evaluation itself, the Evaluator will need to be cognizant of the overall and evolving context in which the ITF was set-up and operates:
 - (a) The changing context, including
 - i) the evolution of the EU-Africa Infrastructure Partnership and the Joint Africa-EU Strategy, the Infrastructure Consortium for Africa, and the Programme for Infrastructure Development in Africa;
 - ii) the effects of the global financial crisis;
 - iii) the findings of the Africa Infrastructure Country Diagnostic;
 - iv) the evolution of EU experience with grant-loan blended funding mechanisms.
 - (b) The views of a range of stakeholders, including EU Contributing Donors, PFG members (including the African Development Bank), key members of the Partnership Steering Committee, major non-EU official financiers of regional infrastructure projects (e.g., World Bank, Development Bank of South Africa), and promoters of ITF-supported projects.
- 10 The evaluation will also
 - (a) help prepare for the final evaluation, including (but not limited to) how to assess the impact and sustainability of ITF-supported projects and how to pay "attention to human resources" (Article 9.3 of TFA)

- (b) assess the efficiency, effectiveness and awareness raising and communication activities by ITF Secretariat, Financiers and Donors in line with Article 10 of the TFA.

Evaluation Tasks

- 11 The Evaluator will undertake the following tasks
- (a) Construct the chain of results: inputs/outputs/results(outcomes)/ impacts
 - (b) Create "the framework" for monitoring of inputs, activities, outputs and possible outcomes
 - (c) Adapt and propose, if necessary, the methodological approach for evaluation;
 - (d) Identify a set of evaluation questions (taking as a starting point the suggestions in Appendix D), linked on one hand to the expected effects (outputs, outcomes, specific impacts) and on the other hand to objectives specified under §7-10, appropriate judgement criteria for each question and relevant quantitative and qualitative indicators for each criterion;
 - (e) Collect and analyse primary and secondary data for the period 2007-2010 necessary to answer to the above questions;
 - (f) On the basis of these data collection, propose a baseline for the final evaluation and any necessary strengthening of monitoring systems;
 - (g) The conclusions must be justified and based on the findings;
 - (h) Formulate recommendations based on conclusions;

Evaluation Criteria

- 12 The evaluation will be based on the following criteria
- (a) Relevance in relation to African regional infrastructure priorities and programmes (including but not limited to coherence between ITF supported projects and other projects targeting closely related objectives) and in relation to the contributing Donors' objectives.
 - (b) Effectiveness in achieving the ITF objectives (including but not limited to the extent to which ITF has leveraged project finance, facilitated co-financing by PFG members, or has been a critical factor in allowing projects to proceed).
 - (c) Efficiency in the use of resources, which primarily are ITF grant funds, but also staff time, including but not limited to timeliness of project processing.
- 13 Impact and sustainability are two additional important evaluation criteria to be considered by the mid-term evaluation in relation to ITF-supported infrastructure projects. But for most of these projects, it is likely too early to make an assessment of impact and sustainability. With a view to facilitating the ITF final evaluation, the mid-term evaluation will assess the adequacy of project monitoring (including, but not only, in relation to impact and sustainability) and make appropriate recommendations if necessary.

Methodological Approach

- 14 The Evaluator should draw as appropriate on EuropAid evaluation guidance at :
http://ec.europa.eu/europeaid/evaluation/methodology/index_en.htm
- 15 It is expected that the mid-term evaluation will use a range of evaluation methods including
- (a) Review of ITF documentation (including rules, procedures, Executive Committee documentation and minutes, monitoring reports, annual reports, website material, PFG documentation);
 - (b) Analysis of information on the full portfolio of projects (i.e. grant operations approved and cleared in principle by the Executive Committee);
 - (c) Interviews (face-to-face, by telephone, in focus groups or by other means) with key stakeholders, including representatives of contributing Donors, PFG members, project promoters, key African regional institutions;
 - (d) Case study analysis of up to 10 projects, to be proposed by the Evaluator as representative. The following three non-mutually exclusive criteria must be used to ensure the representativeness of the selected projects:
 - i) Sectors: at least two projects in each of the transport and energy sectors
 - ii) Type of grant support: at least two grants providing Technical Assistance grants and at least four providing Interest Rate subsidy
 - iii) Co-financing and coordination among the PFG members and other agencies: at least two grants involving more than one PFG Members and at least two involving parallel or joint financing with non-EU financiers as well as at least two where the ITF project needs coordinating with projects financed by other agencies within a coherent regional programme (e.g. power pool, transport corridor etc).
 - (e) Field visits to at least 2 African sub-regions for interviews, for instance with project promoters and African regional institutions.
- 16 The ITF Secretariat will facilitate Evaluators' contacts with stakeholders and access to relevant documentation.

REPORTING, DELIVERABLES AND TIMETABLE

- 17 The Evaluator will deliver the following outputs, with provisional deadlines after contract signing date. The evaluation should commence before the end of June 2011 and should be completed within 33 weeks.
- (a) Kick Off Note: presentation to meeting of Reference Group (6 weeks from commencement)
 - (b) Draft Inception Report (8 weeks from commencement)
 - (c) Final Inception Report (12 weeks from commencement)
 - (d) Presentation of Draft Findings Conclusions and Recommendations to a meeting of Reference Group (22 weeks from commencement)
 - (e) Draft Final Report (25 weeks from commencement)
 - (f) Final Report (30 weeks from commencement)
 - (g) Final Report presentation to the Executive Committee in Brussels (33 weeks from commencement)
 - (h) The Evaluator should be prepared to make the presentation of the final report to the Steering Committee, subject to decision by the Executive Committee. The date and location of this potential presentation are not yet determined and will need to be communicated at a later stage; the venue could be in the EU or Africa.

The content of these outputs are discussed below.

Kick Off Note presentation to meeting of Reference Group

- 18 At this meeting the Evaluator will propose, and the Reference Group will discuss and validate
- (a) draft evaluation questions and possible judgement criteria based on logical framework and linked to objectives covered under §7-10
 - (b) methodological approach
 - (c) ITF projects proposed as case studies
 - (d) proposed work plan including field work

Draft Inception Report

- 19 The Draft Inception Report will contain
- (a) The validated evaluation questions. Each question should be accompanied by explanatory comments, judgement criteria, quantitative and qualitative indicators;
 - (b) Methodological approach to data collection and analysis
 - (c) Detailed work plan, including field missions.

Final Inception Report

- 20 Provided that the Final Inception Report responds adequately to Reference Group comments on the draft, the Evaluation Coordinator will issue a formal letter of acceptance of the Final Inception Report to the Evaluator.

Presentation of Draft Findings, Conclusions and Recommendations to a meeting of the Reference Group

- 21 At this meeting, the evaluator will present, and the Reference Group will discuss provisional findings, conclusions and recommendations, including the field mission findings.

Draft Final Report

- 22 The Final Report will comply with the format at Appendix B to these ToR. The quality of the draft Final Report will be assessed by the Reference Group, including using the Quality Assessment Grid at Appendix C to these ToR. The minimum requirements are that
- (a) Findings are based on reliable data, which has been cross-checked,
 - (b) Conclusions are clearly and unambiguously based on evaluation findings, which themselves flow logically from, and are justified by sound analyses and interpretations based on carefully described assumptions and reasoning.
 - (c) Recommendations flow directly from the conclusions and provide a realistic basis for addressing weaknesses and/or reinforcing strengths.

Final Report

- 23 The Final Report must take account of comments on the draft Final Report from the Reference Group and the Evaluation Coordinator. The Evaluator may either accept or reject the comments but in case of rejection they must justify in the main report (or an annex) the reasons for rejection.

Final Report presentation to ExCom

- 24 The Evaluator will make an audio-visual presentation of the Final Report findings, conclusions and recommendations to the Executive Committee.

8.2 Recap of the objectives and scope of the evaluation

8.2.1 Objectives

The purpose of this mid-term evaluation is to “assess the performance of the EU-Africa Infrastructure Trust Fund over the period 2007-10 against key OECD/DAC evaluation criteria and to make recommendations for the future work of the ITF and for preparation for the final evaluation.”

The main objectives of the evaluation are therefore to assess the overall performance of the ITF to date, and make recommendations for the ITF’s future.

The evaluation focuses on the contribution of the ITF, as an instrument of the EU-Africa Partnership for Infrastructure, to accelerate and leverage the financing and implementation of regional infrastructure projects, rather than on assessing the performance of ITF projects themselves.

The evaluation assesses the evolution of the ITF portfolio of projects in relation to:

- Eligibility criteria defined in ITF Agreement Article 1, and
- Development criteria in ITF Agreement Article 4.3.3.

As per the ToR, the evaluation also seeks to achieve the following objectives:

- Assist in the preparation for the ITF final evaluation (including how to assess the impact and sustainability of ITF-supported projects and how to pay “attention to human resources” - Article 9.3 of the ITF Agreement);
- Assess the efficiency, effectiveness and awareness raising and communication activities by the ITF Secretariat, financiers and donors in line with Article 10 of the ITF Agreement.

8.2.2 Scope

The ToR for the evaluation defines the scope as covering “all ITF activities and all ITF projects approved and cleared in principle, from first signature of the ITF Agreement until 31 December 2010. It looks not only at the grant operations portfolio but also at ITF governance structure, strategic directions, rules, procedures, and ways of working (including ITF-related activities of PFG members).” In agreement with the evaluation Reference Group (RG) and ITF Secretariat, the coverage period for the mid-term evaluation was extended to 5 July 2011, in order to take into account projects that have been approved recently and maximise learning from experience to date.

Importantly, this evaluation is not assessing the performance of each individual ITF project.

8.3 Evaluation approach, limitations and use

8.3.1 Evaluation criteria

Evaluation questions have been formulated in line with the four main evaluation criteria outlined in the ToR:

- **Relevance:** the extent to which the ITF (its role, strategy, alignment and geographical reach) is relevant to the objectives of the EU-Africa Partnership for Infrastructure, the contributing donors’ objectives and African regional infrastructure priorities, programmes and needs.
- **Effectiveness:** the extent to which the ITF objectives are achieved, leverage has been generated, knowledge has been developed, retained and transferred, and ITF governance supports its effectiveness.
- **Efficiency:** a measure of how resources/inputs (funds, expertise, time, etc.) are converted to outputs, especially through the efficiency of the ITF organisation and processes.
- **Impact and sustainability:** the judgment criterion is not assessed as it is too early to identify outcomes and sustainable impacts. However, the mid-term evaluation analyses the monitoring system with a view to facilitating the final evaluation of the ITF.

The complete list of evaluation questions is detailed in annex 8.4.

8.3.2 Approach and tools

Inception phase

The inception phase gave us the opportunity to:

- Undertake initial interviews with a selection of stakeholders: ITF Secretariat staff and members of the Reference Group.
- Perform documentary research (particularly of online documentation and documentation provided by the ITF Secretariat).
- Conduct an ITF portfolio review with regard to the eligibility and development criteria (articles 1 and 4.3.3 of the ITF Agreement).
- Conduct a first analysis of the strategies that provide the context for the functioning of the ITF.

Data collection phase

An **in-depth document review** has been conducted over the past months, which focused on:

- Reviewing ITF project applications (cover sheets and supporting documents) related to the full portfolio of projects in order to assess the extent to which they address the development criteria and eligibility criteria, as well as provide a foundation for monitoring.
- Understanding the internal workings of the ITF, ways of working and governance structure.
- Understanding the changing context, including the evolution of the EU-Africa Partnership for Infrastructure and the Joint Africa-EU Strategy, the Infrastructure Consortium for Africa (ICA), and the Programme for Infrastructure Development in Africa (PIDA).
- Identifying the stakeholders at project level (case study projects only)

The following broad categories of documents have been reviewed (a more comprehensive list is presented in annex 8.6).

- ITF Agreement, role and responsibility documents – e.g. Lead Financier, PFG Operating Methodology.
- ITF application cover sheets and supporting documents made available by the ITF Secretariat for the full portfolio of projects.
- PFG meeting agenda, minutes and pipeline of projects.
- ExCom meeting agenda and minutes, ICA, African Development Bank (AfDB), Private Infrastructure Development Group (PIDG), EIB, ITF and ExCom presentations.
- Specific papers developed by ExCom and PFG on specific discussion points
- Minutes of ad-hoc meetings

- Press releases and other ITF communications.

Interviews were conducted with the members of the reference group subsequent to the kick-off meeting.

For the field phase, data was gathered through two main means:

- Interviews with a range of ITF stakeholders, including the ITF Secretariat and other institutions funding/delivering the ITF: Stakeholders involved in the day-to-day management of the ITF, stakeholders involved in the ITF strategy, institutions involved in the EU-Africa Partnership for Infrastructure, financiers of the ITF, stakeholders from other funding instruments involved in regional infrastructure projects in Africa.
- Interviews in the context of case studies at a project level, including field visits. The case studies were proposed case by the consultant, submitted to the Reference Group for comment through the kick-off note and the sample was validated during a Reference Group meeting on 19 July 2011. Case studies were selected based on the following criteria, as outlined in the TOR
 - At least two projects in each of the transport and energy sectors;
 - At least two grants providing Technical Assistance grants;
 - At least four grants providing Interest Rate subsidies;
 - At least two grants involving more than one PFG Members;
 - At least two grants involving parallel or joint financing with non-EU financiers; and
 - At least two grants where the ITF project needs coordinating with projects financed by other agencies within a coherent regional programme (e.g. power pool, transport corridor etc).
 - the participation of several members of the PFG in the grant operation or its underlying investment, including the AfDB.

A list of the interviews undertaken is provided in annex 8.5.

A total of 82 interviews have thus been performed

- Case study interviews: 55 interviews undertaken out of total 65 planned (85%)
- Non-case study interviews: 27 interviews undertaken out of total 37 planned (73%)

Four countries / ITF funded projects have been visited:

- Beira Corridor (Mozambique)
- Lake Victoria WATSAN (Uganda)
- Caprivi Interconnector (Namibia)
- Rehabilitation of Great East Road (Zambia)

Several reasons explain why some interviews were not conducted:

- At times unreliable contact details for stakeholders
- Non-response of some stakeholders (despite several attempts)
- Site visits – some unavailability at the last minute

Analysing phase

Data gathered through interviews has been processed to conduct detailed analysis and feed the indicators set out in the evaluation framework, according to the evaluation criteria.

Context analysis has been conducted throughout the evaluation process. This enabled a more thorough consideration of ITF future relevance in a highly evolving context.

8.3.3 Limitations

No particular problems have been encountered by the evaluation team.

However there are some limitations, which can be observed, particularly:

- Stakeholder interviews potentially biased towards project financiers due to several factors;
 - They tended to be the most responsive stakeholder group to the evaluator's request for an interview
 - All EIB Loan Officers (and in most cases, Monitoring Officers) were interviewed for the 10 case study projects, as requested by the Secretariat
 - All Project Lead and other Financiers were solicited for the case study projects, with some projects involving 3 or 4 different Financiers.
- There may be some inconsistency of figures across documents sourced: at times, figures in some cover sheets differ from supporting documents, which differ from status update reports;
- Progress of physical infrastructure is slow: impact on ability to address certain evaluation questions in their entirety, e.g. monitoring, impacts, achievements;
- Challenge in sourcing appropriate quantitative benchmark data; and

- Required reorganisation of judgment criteria or indicators: two sub-questions have been merged to provide a more logically flowing report (B3 and B5 merged into B3, elements of C2 merged with D1)

As a reminder the evaluation team has not reviewed the individual processes and procedures of the PFG financiers as that was deemed out of scope of this evaluation, in keeping with the spirit of trust in financier methodologies and procedures.

These limitations are known to the evaluation team, and therefore consideration of these points has been made when formulating conclusions and recommendations to ensure they are based on a balanced view.

8.3.4 Recipient of this work

The intended recipient of this work is the European Investment Bank as the Manager of the ITF, with whom the evaluator entered into a contract. Direct recipients of the findings and recommendations will be the ITF Secretariat, Project Financiers Group, Executive Committee and Infrastructure Partnership Steering Committee. Indirect beneficiaries of the reports will be other project financiers and African stakeholders.

8.4 Evaluation questions

| Proposed evaluation questions: | Sub questions: |
|---|---|
| Relevance | |
| <p>A. To what extent is the ITF relevant to achieve its objectives?</p> | <p>A1. Intervention logic: Is ITF implementation based on a clear and consistent intervention logic?</p> <p>A2. Context (strategic relevance): After 3 years of implementation, is the ITF still relevant in addressing the objectives of the EU-Africa Partnership for Infrastructure, and more broadly the EU-Africa Strategy, given the changing context in Africa's needs and priorities in terms of infrastructure development (e.g. effect of global financial crisis)? Will it remain relevant into the future?</p> <p>A3. Project relevance (operational relevance): To what extent does the ITF portfolio of projects address ITF objectives and meet the eligibility and development criteria?</p> |
| Effectiveness | |
| <p>B*. How far has ITF assisted in achieving the expected outcomes of the EU-Africa Partnerships for Infrastructure and Energy?</p> <p><i>B3 and B5 questions have been combined and reformulated into one single evaluation question on coordination.</i></p> | <p>B1. First outputs: To what extent are ITF objectives / expected outputs and outcomes achieved?</p> <p>B2. Leverage effect / added value: How critical have ITF grants been for enabling ITF-supported projects to proceed? What is ITF added value?</p> <p>B3. ITF coordination: To what extent is the ITF coordinated between Financiers, as well as with other instruments and initiatives that exist for African regional infrastructure projects?</p> <p>B4. Governance: How effective is the ITF governance system in order to reach its objectives?</p> |
| Efficiency | |
| <p>C*. How far have ITF's ways of working (including rules, governance structures, procedures, strategic direction, and how they have operated in practice) been optimal in channelling ITF grant resources to where they add most value?</p> | <p>C1. Administrative efficiency: What are the costs of back office administrative support with respect to ITF implementation?</p> <p>C2. Grant operation setting up, approval and implementation: To what extent do the PFG and the ExCom apply efficient, timely and rigorous internal grant operation evaluation/approval procedures? To what extent is ITF implementation efficiently monitored?</p> |
| Impact and sustainability | |
| <p>D. How adequate are the monitoring arrangements in bringing about the implementation of projects that have long term benefits and achieve the objectives of the fund?</p> | <p>D1. How adequate are the monitoring arrangements instituted and required by ITF for facilitating the final evaluation of ITF? What lessons can be learnt (from project financiers or other stakeholders/funds to improve monitoring for the second half of the ITF programme?</p> <p>D2. How will the benefits of the ITF continue to be monitored when the funding is ceased?</p> |

8.5 List of interviews

Interviews conducted in the frame of the case studies

| Name | Position | Company / Institution | Location |
|---------------------------|--|-----------------------------|------------|
| Olivier Ratheaux | Investment Officer, Non Sovereign Financing Department | AFD | France |
| Celine Boulay | Financial Manager | AFD | France |
| Frédéric Maurel | Water and sanitation department | AFD | France |
| Sabrina Guerard | Senior Project Manager, Water and Sanitation | AFD | Uganda |
| Stéphane Carcas | Chef de projets Infrastructures | AFD | France |
| Freddie Kwesiga | Resident Representative, IMF, Zambia Country Office | AfDB | Zambia |
| Karim Mhirsi | Principal Investment Officer | AfDB | Tunis |
| Lise Weidner | Principal Transport Economist | AfDB | Tunis |
| Themba Bhebhe | Country Programme Officer, Zambia Country Office | AfDB | Zambia |
| Adelino Mesquita | Executive Board Director/Member of the Board | CFM | Mozambique |
| Arun Pai | Advisor to the Board | CFM | Mozambique |
| Mads Tiemroth | Consultor Financeiro | CFM | Mozambique |
| Lene Mollerup | Adviser / Secretariat for Mixed Credit | DANIDA | Denmark |
| Bob Aheuro | Team Leader | EGIS | Kenya |
| Cristina Mejia Garcia | Loan Officer | EIB | Luxembourg |
| Diederick Zambon | Loan Officer | EIB | Luxembourg |
| Dimitri Mayaux | European Affairs Officer | EIB | Luxembourg |
| Floris Vermeulen | Loan officer | EIB | Luxembourg |
| Geoffroy van der Straeten | Head of Banking Unit | EIB | Luxembourg |
| Isabel Costa | Loan officer | EIB | Luxembourg |
| Mark Leistner | Loan Officer | EIB | Luxembourg |
| Michel Marciano | Head of Public Sector Unit | EIB | Luxembourg |
| Philippe Brown | Loan Officer | EIB | Luxembourg |
| Rasmus Lauridsen | Loan Officer | EIB | Luxembourg |
| Roberta Micillo | Monitoring Analyst | EIB | Luxembourg |
| Sandrine Grbic | Monitoring Analyst | EIB | Luxembourg |
| Stephen Hart | Water sector expert | EIB | Luxembourg |
| Claude Kayintekore | Directeur Energie | Electricité des Grands Lacs | Burundi |

| Name | Position | Company / Institution | Location |
|---------------------------|---|--------------------------------|-------------------|
| Alfonso Cabrillo | Deputy Secretary | EU Delegation | Mozambique |
| John Seryazi | Operations Officer – Infrastructure | EU Delegation | Uganda |
| Jordi Cadilla | Chargée Infrastructures | EU Delegation | Rwanda |
| Mehdi Mahjoub | Engineering Advisor | EU Delegation | Zambia |
| Ioannis Tzartzas | Energy officer | EU Delegation | Rwanda |
| Michel Arrion | Chef de Delegation / Ambassadeur UE | EU Delegation | Rwanda |
| Sigvard Bjorck | Head of Section – Infrastructure | EU Delegation | Zambia |
| Giorgio Parentela | Telemedicine Task Force Manager | European Space Agency | Paris |
| Anja Nina Kramer | Senior Project Manager, Water and Sanitation | KfW | Uganda |
| Christiane Schmidt | Principal Project Manager | KfW | Germany |
| Klaus Gühr | Head of Energy and Environment Division | KfW | Germany |
| Dev Hurlpaul | Director, LuxConsult SA Consulting Engineers | LuxConsult | Luxembourg |
| Mario Poli | Team Leader for TA GER project | LuxConsult | Zambia |
| Michael Gotore | Managing Director | Nampower | Namibia |
| Rainer Jagau | Finance | Nampower | Namibia |
| Sara NM Naanda | Finance | Nampower | Namibia |
| Jean Jacques MOMBO | Chef de projet | PAPN | Congo-Brazzaville |
| Michael N Mulenga | Director and CEO, Road Development Agency | RDA | Zambia |
| Felix Massangai | Treasury Department, Ministry of Finance | Republic of Mozambique | Mozambique |
| Mrs. Piedade Macamo | Deputy Director in National Treasury Department | Republic of Mozambique | Mozambique |
| Adolf Spitzer | Senior Infrastructure Planner | Republic of Uganda NWSC | Uganda |
| Isaac Arinaitwe | Manager Planning and Design Department | Republic of Uganda NWSC | Uganda |
| Johnson Amayo | Chief Manager Planning and Capital Development Division | Republic of Uganda NWSC | Uganda |
| William Tsimwa Muhairwe | Managing Director | Republic of Uganda NWSC | Uganda |
| Charles Hammond | CEO Cable & Wireless (Seychelles) Limited | Seychelles Cable Systems (SCS) | Seychelles |
| Tsiresy Randriamampionona | CEO AIRTEL Seychelles, Telecom (Seychelles) Limited | Seychelles Cable Systems (SCS) | Seychelles |
| Benjamin Choppy | Principal Secretary for Information, Communication & Technology / Societe Seychelloise d'investissement | Seychelles Government | Seychelles |

Other interviews

| Interviewee | Position | Company / Institution | Locations |
|------------------|---|-----------------------|-----------|
| Matthieu Bommier | Chef de projets, Division environnement et équipement | AFD | France |

| Interviewee | Position | Company / Institution | Locations |
|-------------------------|--|---|-------------------|
| Alexis Bonnel | ExCom and PFG | AFD | France |
| Lydie Ehouman | Transport Economist, AfDB | AfDB | Tunisia |
| Alex Rugamba | Head of Lydie Ehouman | AfDB | Tunisia |
| Patrick Opoku-Darkwa | Transport engineer | AfDB | Tunisia |
| Gil-Blas Soptgame | Chef de la division des infrastructures BDEAC et interim du directeur des études et du financement | BDEAC | Congo-Brazzaville |
| Irma Weenink | Senior Programme Manager | DBSA | South Africa |
| Alwyn Coetzee | Senior Investment Analyst | DBSA | South Africa |
| Gary Quince | Director - Sustainable Growth and Development | EC - DEVCO | Brussels |
| Eleftherios Tsiavos | Unit - Multi-country programmes | EC - DEVCO | Brussels |
| Jean-Louis Lacube | Head of Unit - "Quality of Operations" for Infrastructure | EC - DEVCO | Brussels |
| Jean-Paul Joulia | Head of Unit – Energy | EC - DEVCO | Brussels |
| Pablo Leunda Martiarena | Head of sector – Energy | EC - DEVCO | Brussels |
| Anastase Zacharos | Energy unit | EC - DEVCO | Brussels |
| Peter Fernandes Cardy | Head of Regional Programmes, ICA, infrastructure expert | ICA | Tunisia |
| Bernhard P.Tilemann | Special advisor, Secretariat of Infrastructure Consortium for Africa | ICA | Tunisia |
| Laurence Carter | IFC Director, Infrastructure Advisory Services | IFC | USA |
| Yves de Rosée | Head of Secretariat | ITF Secretariat | Luxembourg |
| Anja Schorr | Assistant | ITF Secretariat | Luxembourg |
| Ludovic Poirotte | Assistant | ITF Secretariat | Luxembourg |
| Amélie D'Souza | KfW Brussels Rep Office | KfW | Germany |
| Bamory Traore | Manager, NEPAD Infrastructure Project Preparation Facility | NEPAD IPPF | Tunisia |
| Wim Bekker | ExCom | Netherlands Ministry of Foreign Affairs | Netherlands |
| Maurice Moukoubouka | Directeur divisionnaire, finances et informatique | PAPN | Congo-Brazzaville |
| Hichame Selmaoui | Project Director | PIDA | Tunisia |
| Michel Berd | SOFRECO | PIDA - SOFRECO | France |
| Smita Biswas | | PIDG | UK |
| John Hodges | PIDG contact person for the ITF | PIDG | UK |
| Remigious Makumbe | Director, Infrastructure Services | SADC | Botswana |

8.6 Documentation consulted

- Africa Infrastructure Country Diagnostic
- ICA Annual Reports
- The Africa-EU Strategic Partnership: A Joint Africa EU Strategy
- Mid-Term Evaluation of EU-Africa Infrastructure Trust Fund ToR
- ITF Agreement
- Joint statement on the EU-Africa Partnership for Infrastructure - 2nd meeting of the Steering Committee
- Joint statement on the EU-Africa Partnership for Infrastructure - 3rd meeting of the Steering Committee
- Road Map: Implement the EU-Africa Partnership for Infrastructure
- EU-Africa Infrastructure Trust Fund Annual Report (2007, 2008, 2009, 2010)
- Figures for Annual Report 2010
- ITF Audited Financial Statements 2008
- ITF Brochure January 2011
- ITF Flyer January 2011
- ITF Project Map
- ITF Basic Presentation March 2011
- ITF Press Releases
- Financial commitments for infrastructure in Africa for 2008
- Mandatory cross-sectoral indicators
- Development Outcomes Report on Progress
- Calculation of Interest Rate Subsidy Amount
- 12-month review of the ITF Agreement
- Grant Operation Proposals
- ITF Cover Sheets for each project proposal
- Supporting documentation (e.g. impact assessments, project summaries) for each project proposal
- Operating Methodology of the Project Financiers Group
- PFG Pipeline (various versions)
- Rules of procedures of the ExCom of the ITF
- PFG meeting agenda and minutes
- Guide of the financial institutions in Africa
- Review of Risk Mitigation Instruments for Infrastructure Financing and Recent Trends and Development
- ExCom meeting agenda and minutes
- EU Blending Facilities: Implications for Future Governance Options
- Working Group on the additionality of grants in the framework of blending mechanisms
- Minutes of selected Experts Meetings
- Guidelines for the role of the lead financier
- Various AfDB, EIB, ITF and ICA presentations
- Discussion Note for the Executive Committee (16 September 2010): A Framework for Monitoring and Evaluation (M&E) of the ITF
- Review of first disbursements elapsed times on select infrastructure projects in sub-Saharan Africa – PFG experience (For discussion at ExCom meeting of 20.10.2011)
- Communication from the Commission to the Council and the European Parliament of 13 July 2007 – Interconnecting Africa: the EU-Africa Partnership for Infrastructure [COM(2006) 376 final – Not published in the Official Journal].
- Infrastructure Investor Africa: An Intelligence Report, February 2011
- Working notes from Joint-ITF-PFG Thematic Working Groups on Energy and Transport
- Criteria for Assessment of Proposals for Grant Operations (CAPGO)
- The Contribution of the Private Sector to the Implementation of the New Partnership for Africa's Development (NEPAD), United Nations 2006
- High Level Panel on Infrastructure Recommendations to G20 – FINAL REPORT

8.7 Table of figures

| | |
|--|----|
| Figure 1 - Strategic intervention logic for the ITF | 12 |
| Figure 2 – IRS causal chain | 26 |
| Figure 3 – TA causal chain | 30 |
| Figure 4 – Direct grants causal chain | 32 |
| Figure 5 – Selected facilities and their stage of intervention in the projects lifecycle | 33 |
| Figure 6 - ITF Governance | 37 |

8.8 Table of tables

| | |
|--|----|
| Table 1 - Leverage effect of the ITF funding according to ITF annual reports (figures at year end) | 23 |
| Table 2 – Leverage effect of 10 case study projects | 23 |
| Table 3 – Value added and importance of 10 case study projects | 24 |
| Table 4 – Evaluator’s assessment of IRS contribution to ITF expected outputs | 26 |
| Table 5 – IRS applied to HIPC countries | 28 |
| Table 6 – Up-front payment impact | 29 |
| Table 7 - Evaluator’s assessment of TA contribution to ITF expected outputs | 30 |
| Table 8 - Evaluator’s assessment of DG contribution to ITF expected outputs | 31 |
| Table 9 – Number of grant operations institution is involved as co-financier | 35 |
| Table 10 – Number of Financiers involved per project | 36 |
| Table 11 - Synthesis of each ITF governance Body’s role | 37 |
| Table 12 - Grant operations by Lead Financier | 40 |
| Table 13 – ITF operating costs | 42 |
| Table 14 – Coverage of risk management in case study submissions | 46 |
| Table 15 – Relevance: Evaluation questions and indicators | 77 |
| Table 16 – Efficiency: Evaluation questions and indicators | 77 |
| Table 17 – Effectiveness: Evaluation questions and indicators | 77 |
| Table 18 – Impact and sustainability: Evaluation questions and indicators | 78 |
| Table 19 – Outcomes and impacts (physical outcomes): Evaluation questions and indicators | 79 |
| Table 20 – Breakdown of infrastructure spending and gap | 81 |

8.9 Glossary of Terms

| Acronym | Meaning |
|---------|---|
| AFD | Agence Française de Développement |
| ACP | Africa-Caribbean-Pacific |
| AfDB | African Development Bank |
| AU | African Union |
| BDEAC | Banque de Développement des Etats de l'Afrique Centrale |
| CAPGO | Criteria for Assessment of Proposals for Grant Operations |
| DBSA | Development Bank of Southern Africa |
| DFI | Development Finance Institution |
| DG | Direct grant |
| EC | European Commission |
| EIB | European Investment Bank |
| ESIA | Environmental and Social Impact Study |
| ERR | Economic Rate of Return |
| EU | European Union |
| ExCom | ITF Executive Committee |
| FRR | Financial Rate of Return |
| HLP | High Level Panel for Infrastructure Development |
| ICA | Infrastructure Consortium for Africa |
| IFC | International Finance Corporation |
| IP | Insurance premium |
| IPPF | NEPAD Infrastructure Project Preparation Facility |
| IRS | Interest Rate Subsidy |
| ITF | EU-Africa Infrastructure Trust Fund |
| KfW | Kreditanstalt für Wiederaufbau |
| LGB | Loan-Grant Blending Mechanism |
| Lux Dev | Agence Luxembourgeoise pour la Coopération au Développement |
| MDG | Millennium Development Goals |
| MDTF | Multi-Donor Trust Fund |
| NEPAD | New Partnership for Africa's Development |
| NGO | Non-government organisation |
| NIP | National Indicative Programme |
| PFG | ITF Project Financiers' Group |
| PIDA | Programme for Infrastructure Development in Africa |
| PIDG | Private Infrastructure Development Group |
| PPF | Project Preparation Facility |
| PPIAF | Public Private Infrastructure Advisory Facility |
| PPP | Public Private Partnership |
| PSC | EU-Africa Partnership for Infrastructure Steering Committee |

| | |
|-----|-------------------------------------|
| REC | Regional Economic Community |
| RG | Mid-term evaluation Reference Group |
| RIP | Regional Indicative Programme |
| TA | Technical assistance |
| TFA | Trust Fund Agreement |
| TPC | Total Project Cost |
| ToR | Terms of Reference |
| USD | United States of America Dollar |
| WB | World Bank |

8.10 Evaluation Ethics

As stated in the evaluation manual of EuropeAid, “There are good reasons to believe that ethical subjects will – in the long run – prove particularly difficult in evaluation of development cooperation. The asymmetrical power relations, the prevalence of donor- recipient modalities of thinking and acting, the often perverse incentive systems around aid, and the cross-cultural differences contribute to make aid evaluation difficult and subject to intricate ethical choices”. Therefore this present section seeks to outline how the evaluation team will respond to ethical considerations relevant to this type of evaluation.

Considerations that the Evaluation team will be cognisant of throughout the evaluation process include the following (modified from the World Bank publication, “Evaluation Ethics, Politics, Standards, and Guiding Principles):

Stakeholder potential issues:

- Attempt to drive the findings in a certain direction to achieve a pre-meditated result, or to use the findings in an ethically questionable fashion
- Decline answering certain questions, despite their substantive relevance
- Directly modify findings in a draft report document or account of meeting minutes
- Pressure the evaluation team into modifying findings
- Suppress or ignore findings
- Pressure the evaluation team to violate confidentiality
- Legitimate stakeholders to be omitted from the process
- Omit or distort information, or provide excessive irrelevant information to obstruct an efficient evaluation
- Use delay tactics or provide excuses for not being able to acknowledge a commitment
- Downplay findings or claim their irrelevance because the situation has changed
- Findings are used to punish someone other than the evaluator.

Evaluator potential issues:

- Evaluation Team discovers behaviour that is illegal, unethical, dangerous, etc
- Evaluation Team is reluctant to present findings fully, for unspecified reasons
- Evaluation Team is unsure of their ability to be objective or fair in presenting findings
- Although not pressured by stakeholders to violate confidentiality, the evaluator is concerned that reporting certain findings could represent such a violation.
- Evaluation Team collecting their own information “off the record”
- Evaluation Team does not respect confidentiality of information
- Evaluation Team does not respect cultural sensitivities

To date, the following specific measures have been taken by the Evaluation Team to minimise the risk of the above problems eventuating:

- Consultation of the ITF Reference Group in identifying the non-project specific stakeholders to consult
- Consultation of the Lead Financier for each project to identify the stakeholders to interview in the context of the case studies
- Sole accountability of the Evaluation Team to the ITF Reference Group, in terms of advice and validation of reports
- All reports submitted in pdf format to eliminate risk of direct modification of wording
- Consultation with, and validation received from, the ITF Reference Group in selecting the 10 projects for case study analysis.

Ernst & Young is a member of the French and European Evaluation Societies, and has an Ethics framework and Global Code of Conduct Overview. The Global Code of Conduct provides a set of guiding principles grouped into five categories:

- Working with one another
- Working with clients and others
- Acting with professional integrity
- Maintaining our objectivity and independence
- Respecting intellectual capital

The Code applies to everyone in Ernst & Young, regardless of individual role, position and practice. The Evaluation team has a personal commitment to promote, support, and behave according to the principles contained in the Code.

9 Annexes – Technical

9.1 Final Evaluation: Proposed evaluation questions and indicators

Relevance

Potential evaluation questions and indicators to assess relevance are outlined below.

Table 15 – Relevance: Evaluation questions and indicators

| Evaluation question | Indicators |
|---|--|
| Is the ITF still relevant in addressing the objectives of the EU-Africa Partnership for Infrastructure? | Evolution of context Achievements with respect to objectives set |
| Has the intervention logic been reviewed in light of the mid-term evaluation? | Construction of an intervention logic following mid-term evaluation |
| How present has the EU been in developing regional African infrastructure? | Increase in EU financial resources pledged to African regional infrastructure (through EDF, ITF *) |

Efficiency

Potential evaluation questions and indicators to assess relevance are outlined below:

Table 16 – Efficiency: Evaluation questions and indicators

| Evaluation question | Indicators |
|---|---|
| Are the costs of back office administrative support sufficiently covered by the ITF? Will this be the case beyond 2015? | Coverage of ITF Secretariat administrative costs Evolution of role of ITF Secretariat |
| How efficient and timely is the approval process of the ExCom? | Elapsed time between project proposal for funding by PFG, and approval/rejection by ExCom # |

Effectiveness

Potential evaluation questions and indicators to assess effectiveness are outlined below:

Table 17 – Effectiveness: Evaluation questions and indicators

| Evaluation question | Indicators |
|--|---|
| To what extent has ITF funding leveraged funds amongst PFG financiers? Other financiers? Private sector? | PFG loan leverage: number of € of PFG funding generated by one euro of ITF grant funding # Non-PFG loan leverage: number of € of non-PFG loan funding pledged subsequent to approval of each euro of ITF grant funding # Grant leverage: number of € of additional grant funding pledged subsequent to approval of each euro of ITF grant funding # Private sector leverage: private sector funds generated as a result of each euro of ITF grant funding # |
| How timely are ITF disbursements across the project cycle? | Elapsed time between ExCom approval and first disbursement # Elapsed time between ExCom approval and final disbursement # Financial status of progress (disbursements) # |
| Are financial and economic rates of return (real or estimated) in line with the objectives articulated in the initial ITF application? | Average financial rates of return vs. expected # Average economic rates of return vs. expected # |
| What has the ITF achieved in terms of additionality? | Reflows ⁵⁴ generated by the ITF per type of ITF instrument * |

⁵⁴ Not to be confused with the Investment Facility definition, where it refers to cash being returned/reinvested in a revolving fund

| Evaluation question | Indicators |
|---|--|
| To what extent have the chosen recommendations resulting from the MTE been implemented? | Proportion of recommendations implemented # Achievement level of KPIs related to implemented recommendations # |
| What mechanisms/initiatives have been put in place to ensure effectiveness of Financier relations? Amongst PFG financiers vs. with non-PFG financiers? | Examples of effective PFG financier/donor relations * Examples of effective cooperation between PFG and non-PFG financiers * Evolution of participation in thematic sectoral discussions * No. of thematic sectoral discussions held # "Coordination arrangements" addressed as an implementation criteria in the CAPGO document? # |
| What mechanisms/initiatives have been put in place to ensure effective cooperation with African regional bodies? | Number of initiatives/fora that bring together financiers with African institutions, sector experts, etc * Evolution of liaison with financial intermediaries, RECs and regional development banks (in the context of an ITF grant operation, and in general) * |
| How effective has PFG been in maximising participation of financiers and co-financing opportunities? Private sector financiers? | Number of PFG financiers taking lead financier role on ITF grand operation # Number of co-financiers (PFG and non-PFG) per ITF grant operation # Co-financing rate per type of ITF instrument # Evolution of liaison with appropriate and relevant private sector organisations, in the context of grant operations, and more broadly # |
| To what extent have eligibility and development criteria been respected by the PFG and ExCom? | % of eligibility and development criteria addressed on ITF grant operation request cover sheet # % of eligibility and development criteria adequately addressed in supporting documentation provided to the ExCom # |
| How effectively has project monitoring and evaluation been considered and implemented, in order to facilitate the final evaluation at a fund level? | % of ITF grant operations that have defined an M&E framework # % of indicators that can be fed # |
| How efficient and timely is the approval process of the ExCom? | Elapsed time between project proposal for funding by PFG, and approval/rejection by ExCom # |
| How adequately does the ITF contribute to improving the legal, regulatory and bureaucratic environment necessary to encourage private sector in regional African infrastructure projects? | % of grant operation requests that address provisions for good governance within project support documentation # |
| To what extent has the PSC provided strategic direction to the ExCom? | Number and % of PSC recommendations implemented by the ExCom Number and frequency of PSC meetings |

Source: Ernst & Young analysis

Impact and sustainability

Potential evaluation questions and indicators to assess impact and sustainability are outlined in below.

Economic, social and environmental

Table 18 – Impact and sustainability: Evaluation questions and indicators

| Evaluation question | Indicators |
|---------------------|------------|
|---------------------|------------|

| Evaluation question | Indicators |
|---|---|
| How adequately are social aspects being addressed by ITF grant operations? | Contribution to attainment of Millennium Development Goals * Contribution to attainment of poverty reduction objectives as defined in regional/national Poverty Reduction Strategy Papers * Estimated numbers of people below the poverty line receiving an improved service |
| How adequately are economic aspects being addressed by ITF grant operations? | Impact of project on the promotion of economic development * (see sector specific indicators on social and economic contribution) |
| How adequately are environmental aspects being addressed by ITF grant operations? | Compliance with legally required assessments of social and environmental impacts # |
| To what extent has African ownership been achieved? | No. of ITF grant operations referenced in PIDA / NEPAD Action Plans # |

Source: Ernst & Young analysis

Physical outcomes

Table 19 – Outcomes and impacts (physical outcomes): Evaluation questions and indicators

| Evaluation questions | Sample Projects | Output indicators | Outcome indicators |
|---|--|--|---|
| How have energy projects enabled network extension, increased distribution to rural areas ,improved cross-border connections, resulted in cost reductions for consumers and generated employment? | Power generation Transmission - high voltage lines, oil and gas pipelines | Power output (MW) # Renewable power (% or MW) # Energy efficiency (MW saved) # Length of network extension or network rehabilitation # Improved maintenance # Reduction in network loss # Employment during construction | No. of countries connected; power traded between adjacent countries # Stability of power supply # Carbon footprint changes and efficiency # No of people connected to distribution system, or gaining access # No of people with sustainable and reliable improvements in service # Improved coverage of rural areas # Cost reductions in tariffs # Employment during operation |
| To what extent have transport projects increased volume of trade, increased access to centres of production, markets and services, reduced transport prices for consumers and generated employment? | Ports, airports Railways, roads and bridges | Expanded facilities and operating capacity # Improved handling procedures # Length of networks, bridges built or rehabilitated # No. of border posts improved # Employment during construction | Volume of freight, passengers through ports, airports etc # No. of countries connected # Logistics performance indices (cost and delay reductions etc) # Usage (vehicles, public transport passengers, volume of freight etc) # Cost reductions/km; time savings # Revenues generated # Evolution of service quality # Employment during operation |
| To what extent have ICT projects ensured adequate access to affordable and improved technologies by supporting regulatory reform, capacity building and | Telecoms backbones and links serving a region | Length of backbones installed # Employment during construction | Access - no. of people connected to telecoms system; traffic # Improved capacity # Reduction in cost of service # |

| Evaluation questions | Sample Projects | Output indicators | Outcome indicators |
|--|--|--|---|
| broadband infrastructure development, and generated employment? | | | Employment during operation |
| To what extent have water and sanitation networks improved the management of water resources at local, national and cross-border basin level, improved access to drinking water and adequate sanitation facilities, resulted in cost reductions for the consumer and generated employment? | Water and wastewater treatment plants Distribution networks and sewerage schemes, | Capacity of production/treatment (m3/d) # Length of networks built or improved # No. of persons/hhs gaining access to new or improved services # Employment during construction | Improved environmental conditions in a regional basin, pilot projects that can be replicated, climate resilience improved # Improvement in population with access to reliable and sustainable service # Improved health statistics (water-borne) # Savings in water; cost reductions, reliability # Employment during operation |

Source: Ernst & Young analysis, based on Discussion Note for the Executive Committee (16 September 2010): A Framework for Monitoring and Evaluation (M&E) of the ITF

9.2 Contextual developments in African regional infrastructure since 2007

The ITF is currently operating in a different context from when the Fund was first implemented. Some of the key developments are described below.

The ICA has provided an important structure and direction to guide the work of the ITF

The Infrastructure Consortium for Africa (ICA) seeks to help improve the lives and economic well-being of millions of people across the African continent through support to scaling up investment for infrastructure development from both public and private sources. Like the ITF, the ICA was launched following the G8 Gleneagles summit in 2005. ICA bilateral members include the G8 countries Canada, France, Germany, Italy, Japan, Russia, United States, United Kingdom and multilateral institutions such as the African Development Bank Group, European Commission, European Investment Bank, Development Bank of Southern Africa and the World Bank Group.

There are three key pillar initiatives currently being undertaken by the ICA:

- a) Enhanced Coordination
- b) Facilitating Regional Infrastructure Programmes
- c) Increased Knowledge and Information

The level of interaction of the ITF with ICA initiatives is discussed in more detail in Evaluation Question B3, Section 3.3.

The ITF has incrementally evolved in response to the findings of the AICD Diagnostic

The AICD diagnostic represents the key data collection and knowledge programme since 2007 to assist in reorienting and refocusing aid for infrastructure. The AICD attempted to collect comprehensive data on the infrastructure sectors in Africa - covering power, transport, irrigation, water and sanitation, and information and communication technology (ICT) - and provide a comprehensive analysis of the challenges faced.

This study⁵⁵ showed that for Africa's infrastructure to reach levels of other parts of the developing world, an annual investment of over USD 93b is required (which represents about 15% of the region's GDP). In comparison, the report estimated that the region is presently spending USD 45b a year on infrastructure, summarised below:

Table 20 – Breakdown of infrastructure spending and gap

| Investment | Source | Annual investment (USD b) | % of total spend |
|-------------------------|--|---------------------------|------------------|
| Required investment | | 93 | - |
| Current estimated spend | Local tax payers and local infrastructure users | 30 | 66.7 |
| | Private sources (mainly ICT infrastructure) | 9 | 20 |
| | International donors | 6 | 13.3 |
| | Official Development Assistance (ODA) (mainly water and transport infrastructure in fragile countries) | 4 | 8.8 |
| | Non-OECD sources (mainly oil and gas related infrastructure) | 2 | |
| Spending gap | | 48 | |

Source: AICD: A Time for Transformation

It highlights therefore a significant infrastructure financing gap, of approximately USD 48b per annum. Addressing the continent's infrastructure gap would be enough to hit the 7% in growth stipulated by the UN Millennium Development Goals as the amount needed to half poverty across Africa. The contribution of the ITF to the USD 48b per annum requirement is Euro 175m in grants which has leveraged Euro 2.2b in regional infrastructure as a result of direct blending. Furthermore, an additional Euro 34m has been provided for the preparatory phases of other infrastructure projects.⁵⁶

The AICD has supported the view that regional and continental integration is key to bridging the infrastructure gap. It has been noted that Africa's infrastructure networks increasingly lag behind those of other developing countries and are characterised by missing regional links. Most countries allocate only 1.5% of GDP or 6-8% of their national budgets to support the provision of infrastructure. This effort represents approximately USD300m a year for an average country, which is insignificant in comparison to infrastructure needs. As a result, many of

⁵⁵ AICD, "A Time for Transformation", Foster, Briceno-Garmendia, *et al*, 2008

⁵⁶ EU-Africa ITF Annual Report 2010

Africa's individual economies are not in a position to support the type of infrastructure investments they need to stimulate growth. It has therefore pointed to the key role of RECs⁵⁷ to coordinate and pool funds for regional projects.

The public sector can only meet approximately 10% of the infrastructure needs of Africa. Furthermore, limited resources increasingly force governments to turn to the private sector for capital. Therefore it is essential to mobilise private sector financing, which to date, has delivered below expectations across infrastructure projects in Africa. Furthermore, the private sector can play a positive role in infrastructure, not just through filling the funding gap for projects; but also by creating a more competitive environment; and providing technological and managerial expertise.

The AICD studies have also highlight that bridging Africa's infrastructure funding gap is as much about improving the performance of the relevant institutions as it is about raising additional finance. Some institutional reform has been achieved, with particular results in the telecommunications sector. However, elsewhere the benefits are more limited and experiences more problematic. Private financing opportunities have been most successful in certain key areas (mobile telephony, power generation, ports) whilst very limited in others (roads, power and water distribution).

The institutional reform agenda has also been broadened in terms of the greater focus on the quality of governance for state-owned enterprises: "The recognition that the private sector will never be a ubiquitous service provider has come with the realisation that state-owned enterprises are here to stay. Therefore some other means must be found to improve what has—with some notable exceptions—been their traditionally lacklustre performance".

A more in depth focus on how the ITF can encourage private sector funding and participation in ITF-supported projects is presented in Evaluation Question B1, Section **Error! Reference source not found.**, of this report.

NEPAD / PIDA is providing the strategic framework for regional infrastructure

The launch of the Programme for Infrastructure Development in Africa (PIDA) has been regarded by a number of stakeholders as the key coordinating initiative for African Infrastructure projects. PIDA is a study that has been undertaken to identify the priority infrastructure needs for the African continent. PIDA was designed to assist in the identification and prioritisation of regional infrastructure projects. PIDA has presented its short, medium and long-term investment programme covering the period to 2040, which has officially been endorsed by African Heads of State in February 2012.

PIDA builds on the work of NEPAD (New Partnership for Africa's Development), which was, since 2001, the initiative through which the overarching vision and policy framework for accelerating economic co-operation and integration among African countries has been provided. The key instrument of NEPAD in terms of infrastructure is the NEPAD-IPPF, which is a project preparation facility, playing a catalytic role in mobilising resources for the preparation of regional infrastructure projects and programmes. The extent to which the ITF is complementary with this and other instruments is assessed in section 3.3.

The recent High Level Panel recommendations to the G20 provide some key recommendations for the future of regional African infrastructure

The G20's 2010 multi-year action plan on development resulted from the group's Seoul Consensus, and defines infrastructure as one of the nine development priorities. It seeks to build on the momentum created by existing initiatives to develop project pipelines, improve capacity and facilitate additional investments. The action plan calls for the formulation of comprehensive infrastructure action plans by multilateral development banks, and it recommended the formation of a high-level panel to review ways to encourage large-scale infrastructure investments.

In 2010, a High-Level Panel for Infrastructure Development was established within the G20, comprising high profile individuals with specific expertise in private investment and infrastructure development. The panel was instructed to provide regional recommendations for scaling up and diversifying financing for infrastructure needs, including public, semi-public and private sector resources, and to identify, with multilateral development banks, a list of concrete regional initiatives.

The Panel made concrete recommendations to the G20 on how public funds can be used as a catalyst to generate greater levels of private investment for infrastructure in Africa — for example, through the Sokoni initiative, which is intended to enable greater availability of future public funds to be used for specific pro-poor infrastructure projects. Furthermore, even though the High Level Panel has not sought to look at pro-poor infrastructure or safeguards, there is a focus on the importance of transparency and building local capacity.⁵⁸

The High Level Panel on Infrastructure Recommendations to G20 report of 26 October 2011 includes many recommendations that may be relevant to the strategy and direction of the ITF. Key points include the emphasis on the current insufficient pipeline of bankable projects as a major cause of the widening infrastructure gap, more so that the absence of funding. In order to address this insufficient pipeline, it is essential to contribute to building local capabilities. Furthermore, it is noted that success in infrastructure investment, especially for PPPs is

⁵⁷ Regional Economic Communities : Southern African Development Community (SADC), Common Market for Eastern and Southern Africa (COMESA), Community of Sahel-Saharan States (CEN-SAD), East African Community (EAC), Economic Community of Central African States (ECCAS), Economic Community of West African States (ECOWAS), Arab Maghreb Union (UMA) and Intergovernmental Authority on Development (IGAD)

⁵⁸ High Level Panel on Infrastructure – Recommendations to G20 – Final Report, October 2011

dependent on well designed projects, and therefore effective project preparation.⁵⁹ This suggests that TA has an important role to play in building the pipeline of bankable projects.

A second key point of this report is the importance of creating an appropriate enabling environment to encourage private sector participation. This point is not at all inconsistent with other views expressed throughout this evaluation. Key enablers of this are flexibility in procurement processes to accommodate PPPs, the “lead bank approach”⁶⁰ to streamline procedures, and pilot projects to test local capacity to deal with a large number of donors and multiple processes.

HIPC Debt Sustainability framework to assist in understanding IRS

This is a framework that takes into account the characteristics of low-income countries’ economies and their debt. It explicitly links the risk of debt distress to the size of the debt burden, exogenous shocks, and the quality of policies and institutions. What distinguishes it from other frameworks is that it is forward-looking rather than retrospective. It looks at twenty-year projections of debt burden ratios under a baseline scenario as well as several alternative scenarios. It further provides country risk ratings based on policy-dependent indicative debt-burden thresholds. Finally, it recommends a borrowing strategy and possible financing responses from lenders. This annual process is of particular interest to PFG financiers, as it provides information to creditors on debt sustainability prospects and risks, so that they can modulate their financing accordingly. Furthermore, this framework could provide more guidance to ITF in defining the strategy and objectives for the use of IRS.

There has been a stronger “results” focus in recent years

Since 2007 there has been a growing focus on aid effectiveness, which has been amplified by the global financial crisis, turning more attention to justify each dollar spent given the rising needs for investment with diminishing resources. The international focus on aid effectiveness seeks to improve the way aid is delivered and managed to ensure it has the maximum positive impact, reducing poverty and achieving value for money. Donors to the ITF are therefore demanding more evidence of what ITF funds are being used to achieve.

The Global Financial Crisis has impacted investment in African infrastructure on the whole, particularly the private sector

The global food, fuel and financial crisis significantly slowed economic growth in Sub-Saharan Africa, from an average of about 6.5% over the period 2004-2008 to 2.8% in 2009. Africa also saw a 20% drop in private sector investment in 2009 from the shocks of the financial crisis.

The ICA has noted the following key impacts of the crisis on African infrastructure⁶¹:

- The risk profile throughout the world, and therefore for each project, has changed;
- There is increased volatility in pricing, which has an impact on the ability to accurately estimate total project cost, often resulting in additional financing gaps that need to be filled at short notice;
- The onus for development has fallen more to equity players and Development Finance Institutions (DFIs);
- Project finance requires collaborative blending of equity and debt;
- DFIs have to operate in a more coordinated manner when deploying teams and capital;
- Need for DFIs to establish a broader platform to work more closely together and leverage off each others’ due diligence⁶²;
- DFIs need to work more closely with private sector players;
- Strengthening of regional jurisdictions as larger infrastructure projects are likely to have cross border characteristics;
- Projects are still being implemented, however:
 - Timelines are moving out;
 - Marginal projects are falling off the radar; and
 - Greater focus on operational efficiencies.
- A key success factor is strong and sustained Government support in all instances.

The financial and economic crisis has amplified the already widening gap between available resources for external assistance and financing needs. This situation has heightened the need for stronger donor/financier coordination and a more comprehensive approach to accelerate access to financing, maximising the leverage effect and enable greater flexibility to adapt to changing conditions.

The situation exacerbated by the financial crisis has also encouraged the adoption of loan-grant blending (LGB) mechanisms, as there is a need to maximise the leverage effect of grant elements and encourage both public and private financing by making projects more bankable. From the EU perspective the financial crisis has turned the focus to achieving policy goals more effectively (particularly aid effectiveness), optimising financing packages for beneficiaries, promoting donor cooperation, and enhancing visibility of EU aid.

Unpredictability in the cost of inputs has impacted the ability to accurately estimate total project costs and therefore financing needs. A particular example of this was the ITF-supported Beira Corridor project in Mozambique. Due to the financial crisis, CCFB’s (promoter of rail

⁵⁹ High Level Panel on Infrastructure – Recommendations to G20 – Final Report, October 2011

⁶⁰ High Level Panel on Infrastructure – Recommendations to G20 – Final Report, October 2011, page 6

⁶¹ A presentation by Macquarie Bank consultants to a PPIAF/ICA Secretariat workshop; March 2009

⁶² Which has been stated between AFD, KfW and the EIB

component of project) initial estimated project cost of USD 152.5m was found to be insufficient. The project cost was subsequently revised to USD 210m (Euro 142m – project cost considered by the EIB). The main reason for the increase in cost was primarily due to abnormal and unprecedented increase in prices of materials, labour beyond what would have been foreseen by normal commercial prudence. Despite this, CCFB managed to implement the works as scheduled, thanks to the IRS made available by the ITF.

9.3 Private sector participation for the ITF

Increased focus on private sector participation

Private investment in African infrastructure projects is inherently risky, due to political instability, underdeveloped human resources and financial systems, poverty, and crime. Governments must promote pro-development policies in the long run so that economies can prosper and infrastructure investments can therefore generate the expected benefits. If there is no backing for private participation in infrastructure, there is little chance the project will be successful. For these reasons, private investment in African infrastructure has not taken off as expected.

Private sector involvement is one objective of the EU-Africa Partnership for Infrastructure, and it is an issue facing the entire continent and all funding mechanisms. This however demonstrates the need for the ITF to contribute towards improving this situation, as only limited progress can be made in bridging the infrastructure gap with only public sector funds.

In terms of the ITF, in the context of the Great East Road Rehabilitation project, EU and LuxConsult personnel indicated that there is no commercial case for private sector borrowing – there is not enough traffic on the GERR to allow for some collection of tolls for users, and there could be competing routes shortly on rail, etc, for freight entering Zambia. Furthermore, it has been recognised that there need to be more ITF-supported projects in the water sector. Water has been one of the toughest sectors for the private sector to penetrate, not only because governments are wary of tendering these projects to private players, but also because it's been difficult to make these projects bankable without significant government backing.

There are many obstacles to private sector participation in African infrastructure, the most significant of which is the need for institutional reform, and particularly the creation of enabling legislation as well as the establishment of credible and apolitical regulatory bodies, improved transparency and good governance practices. Institutional reform, whilst beyond the scope of just the ITF, and requiring dialogue between the EU, Donors, the AUC and RECS, can be addressed through ITF activities. For example, Technical Assistance applied appropriately can assist in creating a better enabling environment for private sector participation, through strengthening local capacity and competencies.

Furthermore, enabling legislation for effective PPPs to take place and the inefficiencies which are currently costing Africa an estimated USD 17b per year⁶³, have to be addressed to create the type of productive environment required. A focus on PPPs however requires firstly identifying those sectors where the return of capital – whether public or private – is greatest in terms of long-term returns in relation to human welfare, productivity and economic growth.

Various ITF discussions have recognised there needs to be more dialogue between donors and the private sector. ITF donors/financiers can play a big role in mitigating risk and can assist in creating PPPs. Furthermore, direct grants can be used for seed equity. This said, private sector participation will not be appropriate for all projects, and projects must be assessed on a case-by-case basis as to whether the private sector should be involved.

The members of the PSC support initiatives aimed at providing greater coherence and visibility at a continental level and encourage African countries to reinforce efforts in this area. They moreover call for intensified contacts and cooperation with relevant private sector organisations for their involvement in the funding of regional infrastructure in the context PPPs.

How does PIDG engage with the Private Sector?

PIDG helps to overcome the obstacles to private sector infrastructure investment through a range of specialised financing and project development facilities and programmes.

DevCo: multi-donor PIDG Facility established by the International Finance Corporation (IFC) and the UK's Department for International Development (DFID). DevCo supports infrastructure transactions in the poorest countries by providing funding for expert consultants to prepare projects for private investment.

EaIF: set up in 2001 as the first multi-donor PIDG facility, it is a US\$501 million debt fund that makes long-term loans for private sector infrastructure development in Sub-Saharan Africa. While EaIF lends on commercial terms, it aims to support projects that promote economic growth and reduce poverty, benefit broad population groups, address issues of equity and participation, and promote social and cultural rights

GuarantCo: a facility funded through the PIDG Trust and FMO, which provides local currency guarantees to infrastructure projects in low-income countries in order to mitigate credit risks for local lenders. GuarantCo offers partial guarantees which serve as credit enhancements to

⁶³ AICD, "A Time for Transformation", Foster, Briceno-Garmendia, *et al.*, 2008

facilitate local debt instruments. GuarantCo's two key objectives are to encourage domestic financing of infrastructure services and to promote local capital market development.

InfraCo Africa: identifies investment opportunities and develops them to the stage where they can attract domestic and international finance (known as 'financial close'). By taking on the high costs and risks of early stage project development, InfraCo Africa makes infrastructure projects happen in situations where the private sector would not otherwise be willing or able to invest. InfraCo Africa aims to recover its development costs, with profit where conditions allow, through the sale of its project ownership rights to incoming private investors.

Infrastructure Crisis Facility - Debt Pool (ICF-DP): directly addresses the continuing liquidity crisis in emerging market infrastructure financing, caused by the withdrawal of major commercial financial institutions from emerging markets during the recent global financial crisis.

Technical Assistance Facility: Through the issuance of technical assistance grants, and through the provision of advisors, training, secondments and workshops, TAF provides mechanisms for delivering short-term and medium-term projects of technical assistance and capacity building.

9.4 Approvals and CIP as at 5 July 2011

1) Approved and on-going Grant Operations

| Grant Operation | Region | Sector | Type | PFG Lead Financier | Co-Financiers | Grant Amount | Date of approval |
|---|-----------------------|-----------|------|--------------------|----------------------------|--------------|------------------|
| Felou Hydropower Plant | West Africa & Sahel | Energy | IRS | EIB | WB, OMVS | 9 335 000 | 10/07/2007 |
| WAPP - CLSG Interconnector | West Africa & Sahel | Energy | TA | EIB | KfW, AfDB, WB | 3 000 000 | 16/10/2007 |
| Ruzizi Hydropower Plant | Central & East Africa | Energy | TA | EIB | | 4 200 000 | 29/05/2008 |
| Beira Corridor | Southern Africa | Transport | IRS | EIB | WB | 29 000 000 | 18/12/2008 |
| OMVS Gouina Hydropower | West Africa & Sahel | Energy | TA | AFD | tbd | 1 000 000 | 18/12/2008 |
| WAPP - Coastal Backbone Interconnector | West Africa & Sahel | Energy | TA | EIB | tbd | 1 750 000 | 27/03/2009 |
| Update of the WAPP Masterplan | West Africa & Sahel | Energy | TA | EIB | n.a. | 1 450 000 | 22/10/2009 |
| Port de Pointe Noire | Central & East Africa | Transport | IRS | AFD | EIB, BDEAC, PAPN | 6 600 000 | 10/11/2009 |
| | | | TA | AFD | | 2 000 000 | 14/12/2009 |
| ECOWAS Electricity Regulation | West Africa & Sahel | Energy | TA | AFD | n.a. | 1 700 000 | 10/11/2009 |
| Benin - Togo Power Rehabilitation | West Africa & Sahel | Energy | IRS | EIB | KfW, WB, CEB | 12 250 000 | 10/11/2009 |
| Mozambique Backbone (CESUL) | Southern Africa | Energy | TA | EIB | AFD, tbd | 700 000 | 14/12/2009 |
| Jomo Kenyatta Intern. Airport Extension | Central & East Africa | Transport | TA | EIB | AFD, WB, KAA | 5 000 000 | 14/12/2009 |
| Expansion of Port of Walvis Bay | Southern Africa | Transport | TA | KfW | AFD, EIB, DBSA, JICA | 450 000 | 14/12/2009 |
| Sambangalou Hydropower Plant | West Africa & Sahel | Energy | TA | AFD | tbd | 350 000 | 14/12/2009 |
| Kibuye-Goma-Birembo Interconnector | Central & East Africa | Energy | TA | KfW | tbd | 800 000 | 15/04/2010 |
| Mount Coffee Hydropower Plant | West Africa & Sahel | Energy | TA | EIB | tbd | 1 500 000 | 15/04/2010 |
| Rehabilitation of the Great East Road | Southern Africa | Transport | IRS | EIB | | 25 000 000 | 29/06/2010 |
| | | | TA | EIB | AFD, AfDB, EC | 1 000 000 | 29/06/2010 |
| Rehabilitation of the Great East Road | Southern Africa | Transport | IRS | AFD | | 13 700 000 | 05/07/2011 |
| Kampala Water – Lake Victoria WATSAN | Central & East Africa | Water | IRS | AFD | AFD, KfW, GoU | 14 000 000 | 29/06/2010 |
| | | | TA | KfW | | 8 000 000 | 29/06/2010 |
| Lower Orange River Hydropower | Southern Africa | Energy | TA | EIB | tbd | 1 600 000 | 29/06/2010 |
| Engaging Banks in Energy Transition Projects | Central & East Africa | Energy | TA | AFD | n.a. | 2 000 000 | 29/06/2010 |
| AXIS - The African Internet Exchange System | African Continent | ICT | TA | Lux-Development | tbd | 5 100 000 | 19/08/2010 |
| Satellite eMedicine for Africa | African Continent | ICT | TA | Lux-Development | tbd | 4 000 000 | 23/08/2010 |
| Capacity building for BOAD | West Africa & Sahel | Energy | TA | EIB | n.a. | 900 000 | 23/08/2010 |
| Access to Douala | Central & East Africa | Transport | IRS | AFD | | 5 700 000 | 16/09/2010 |
| Namibia Transport Master Plan | Southern Africa | Transport | TA | EIB | | 560 000 | 09/11/2010 |
| Tanzania Backbone Interconnector | Central & East Africa | Energy | IRS | EIB | AfDB, WB, JICA, Korea EDCF | 24 323 000 | 14/12/2010 |
| Seychelles Submarine Cable | Southern Africa | ICT | DG | EIB | AfDB, SCSCCL | 4 000 000 | 14/12/2010 |
| UMOJANET (Study for the West African part) | African Continent | ICT | TA | AFD | tbd | 1 350 000 | 14/12/2010 |
| Mauritania Submarine Cable Connection | West Africa & Sahel | ICT | IRS | EIB | local telecom providers | 1 574 000 | 03/02/2011 |
| Mozambique Backbone (CESUL) | Southern Africa | Energy | TA | AFD | EIB, tbd | 1 500 000 | 19/02/2011 |
| WAPP - CLSG Interconnector | West Africa & Sahel | Energy | TA | EIB | KfW, AfDB, WB | 1 750 000 | 23/03/2011 |
| Multi-modal Rail Expansion of the Port Dar Es Salaam | East Africa | Transport | TA | KfW | tbd | 257 000 | 23/03/2011 |
| Transboundary Water Supply Calueque (Angola) - Oshakati (Namibia) | Southern Africa | Water | TA | KfW | tbd | 2 400 000 | 25/05/2011 |
| Muchinga Hydro Power | Southern Africa | Energy | TA | PIDG | tbd | 2 619 000 | 05/07/2011 |
| WAPP IC Ghana-Burkina-Mali | West Africa & Sahel | Energy | TA | AFD | tbd | 1 200 000 | 05/07/2011 |
| Kazungula Bridge and Border Project | Southern Africa | Transport | TA | AfDB | tbd | 1 000 000 | 05/07/2011 |
| Maputo Airport | Southern Africa | Transport | TA | AFD | tbd | 1 600 000 | 05/07/2011 |
| | | | | | | 206 218 000 | |

2) Grant Operations cleared in principle:

| Grant Operation | Region | Sector | Type | PFG Lead Financier | Grant Amount | eTPC | date of CIP |
|--|-----------------------|--------|------|--------------------|--------------|---------------|-------------|
| Geothermal Risk Mitigation Facility | Central & East Africa | Energy | DG | KfW | 30 000 000 | 1 000 000 000 | 09/11/2010 |
| Development Program for the Niger Basin: Kainji Hydro Power Plant Rehabilitation | West Africa & Sahel | Energy | IP | KfW | 6 000 000 | 170 000 000 | 23/03/2011 |
| Itezhi Tezhi | Southern Africa | Energy | IRS | EIB | 30 000 000 | 300 000 000 | 23/03/2011 |
| Transmission Line Kafue-Livingstone | Southern Africa | Energy | IRS | EIB | 6 200 000 | 70 300 000 | 05/07/2011 |
| | | Energy | TA | EIB | 350 000 | | 05/07/2011 |
| Africa Sustainable Energy Facility | African Continent | Energy | DG | EIB | 5 000 000 | 50 000 000 | 05/07/2011 |
| | | Energy | TA | EIB | 3 000 000 | | 05/07/2011 |
| | | | | | 80 550 000 | 1 590 300 000 | |

3) Completed Grant Operations:

| Grant Operation | Region | Sector | Type | PFG Lead Financier | Approved Grant Amount | Grant Amount disbursed | Grant Amount cancelled |
|-------------------------------|-----------------------|--------|------|--------------------|-----------------------|------------------------|------------------------|
| Ethiopia-Kenya Interconnector | Central & East Africa | Energy | TA | KfW | 550 000 | 337 415 | 212 585 |
| Caprivi Interconnector | Southern Africa | Energy | IRS | EIB | 15 000 000 | 15 000 000 | 0 |
| Gibe III ESIA * | Southern Africa | Energy | IRS | EIB | 1 300 000 | 22 400 | 1 277 600 |
| EASSy | Central & East Africa | ICT | TA | EIB | 2 600 000 | 2 600 000 | 0 |
| | | | | | 19 450 000 | 17 959 815 | 1 490 185 |

9.5 Contribution of case studies projects to ITF expected impacts

| Project contribution to poverty reduction | Project contribution to economic development and trade | Economic viability of the Projects | Social & Environmental Impact |
|--|---|--|---|
| Beira Corridor Project (Mozambique) | | | |
| <p>Project documentation has not specified expected outcomes in relation to poverty reduction, however it is mentioned that the port of Beira, which is the second city of Mozambique with a population of around 600 000, is the foundation of the city's economy. The rail line has the potential to impact positively a population of over 4 million living in the provinces that it crosses.</p> | <p>In 2007, almost 40 % of GDP was generated from the export of goods and services, much of this transiting through its ports. The port of Beira acts as a gateway for the Beira corridor, which provides access by road and by rail to the interior of the country as well as to land-locked Zimbabwe, Zambia, Malawi and potentially DR Congo. However there are no quantitative expected outcomes with respect to economic development and trade available in the ITF application documentation.</p> | <p>For the port component, there is an expected ERR is 16%, whilst for the rail component, the expected ERR is 18 %. The financial model provided to the EIB during appraisal indicated a base case expected real financial internal rate of return (FIRR) for the Sena line alone as 14%.</p> | <p>For the port component, the dumping of the dredged material constitutes a risk for flora and fauna and for coastal erosion, in particular in view of the huge quantities to be dredged (about 8 million m3). The implementation of Environmental Management Plan included in the SES has therefore been incorporated into EIB's loan conditions.</p> <p>For the rail component, in 2004 CFM undertook and disclosed an Environment Audit and Management Plan (EAMP). The recommendations of the EAMP are binding on the concessionaire. The requirements are, inter alia, incorporated into the works contracts the concessionaire has with contractors as well as the procedures manuals used by the concessionaire. CFM, the promoter of the port component, prepared and disclosed a Resettlement Action Plan (RAP) in 2004. CFM is responsible for implementing the plan, the cost of which is included as part of the World Bank's project.</p> |
| JKIA upgrading and rehabilitation Project (Kenya) | | | |

| Project contribution to poverty reduction | Project contribution to economic development and trade | Economic viability of the Projects | Social & Environmental Impact |
|---|--|--|---|
| <p>There is no particular reference to poverty reduction outcomes in the ITF application documentation, however it is mentioned that the expanded facility at full capacity is estimated to require 1,087 staff up from the current 712 staff employed by KAA. This will result in 375 new direct permanent jobs plus 1,875 indirect employments resulting from indirect, induced and catalysed activities.</p> | <p>Once again there are no specific quantitative expected outcomes with regard to economic development and trade, however the following qualitative arguments are provided.</p> <p>Long distance tourism and other exports are significant industries in Kenya, making adequate air transport accessibility particularly important. Nairobi acts as a national hub distributing throughout Kenya inter-continental traffic flows, African international traffic, as well as domestic flows. Nairobi Airport had a throughput of 4.8m passengers in financial year ending (March) 2008, accounting for 71% of passenger throughput of Kenyan airports.</p> <p>According to the recent economic impact study prepared for AFD, which takes into account all jobs at the airport, the project will result in 3,666 new direct full time equivalent jobs plus 5,195 indirect and induced jobs.</p> | <p>The project, which is expected to generate and economic rate of return of 12%, will generate economic benefits by accommodating future traffic growth which would otherwise have to follow alternative, less convenient travel arrangements or not travel at all, as well as endure congestion and longer passenger processing times while in the airport. Even with a very pessimistic demand scenario, supposing traffic would grow only by 3.5% per year (instead of the already conservative 5%) would result in an economic return of 7%.</p> <p>Assuming airport charges remain at current levels in real terms (assuming charges are revised with inflation), the project will yield a small, positive financial return of about 2%.</p> | <p>The ITF specifically will address technical and capacity building support for KAA itself and provide support to the relevant environmental agencies to enable them to better appraise and monitor the longer term effects of similar projects.</p> <p>A limited EIA on the Project, including public consultation, has been carried out in 2006 and an environmental impact license has been issued by the National Environment Management Authority NEMA. According to this EIA the project is not considered to have a significant adverse impact on the environment, and does not involve any resettlement. As this EIA has some shortcomings, in particular with regard to alternatives, land use, air quality and noise, biodiversity and cultural heritage, a review and update of the EIA for the ongoing JKIA expansion project has been included in the terms of reference of the NASP consultant and its satisfactory completion will be a condition for disbursement of the Bank's loan. Furthermore, the Bank will require the promoter to implement Environmental Management Plans and mitigating measures as defined by the revised EIA, including regular monitoring and reporting.</p> |
| Benin-Togo power rehabilitation | | | |
| <p>There is no particular reference to poverty reduction outcomes in the ITF application documentation, however it is mentioned that the project will positively impact local employment as the workforce for the annual maintenance of the line corridors and of access roads will be recruited by CEB among the population living near the lines.</p> | <p>Once again there are no specific quantitative expected outcomes with regard to economic development and trade, however the following qualitative arguments are provided.</p> <p>The project consists of three components aimed at refurbishing and extending the transmission networks of Togo and Benin. The project will enable the promoter to substantially improve the reliability of supply, to reduce the use of low-efficiency local</p> | <p>The project's overall financial impact has been assessed by calculating the incremental discounted transmission cost. Based on a 10% discount rate and 25 years average life-span of the investment, the project's discounted supply cost is 2-3.5 EUR/MWh. This specific cost is reasonable for a 2-year investment programme of this nature.</p> | <p>Environmental and Social Impact Assessments (ESIA) of the two lines –Onigbolo-Parakou and Sakété-Tanzoun-Ouando have been reviewed by the Bank's services and address the typical impacts of overhead transmission lines. The two projects are expected to have significant social impacts as they require the resettlement of 123 families (about 640 people) along the line routing of Onigbolo-Parakou and of 61 families (about 682 people) along that of Sakété-Tanzoun-Ouando. The Resettlement Action Plans (RAPs) prepared for both lines clearly identify the measures that need to be implemented, including compensation to the families and the communities concerned. Implementation of the RAPs for the three components will involve NGOs and will be closely monitored by the two</p> |

| Project contribution to poverty reduction | Project contribution to economic development and trade | Economic viability of the Projects | Social & Environmental Impact |
|--|---|---|---|
| | <p>generators and to decrease network losses. The promoter is mostly dependent on electricity imports from Ghana, Ivory Coast and Nigeria, as well as Niger, making it highly vulnerable to changes in import conditions and availability.</p> <p>On average, the access to electricity is limited to 25% of the population; access reaches 50% in urban areas and remains below 2% in rural areas. This corresponds to the average figures for sub-Saharan African countries. For the next decade the energy demand is projected to grow at an average rate of 9% p.a.</p> | <p>The project will generate significant economic benefits. For the two project components Onigbolo-Parakou and Sakété-Tanzoun-Ouando these benefits include: a) the improvement of reliability of supply, b) the reduction in use of low-efficiency local generators and c) the reduction of network losses. The reduction in network losses is significant and estimated at 24.3 GWh/year; the corresponding benefit, valued at an average generation cost of 72 EUR/MWh (import + CEB production), is 1.7 MEUR/yea</p> | <p>national environmental agencies.</p> |
| Port Autonome de Pointe Noire (PAPN) Project (Republic of the Congo) | | | |
| <p>There is no particular reference to poverty reduction outcomes in the ITF application documentation, however it is mentioned that temporary employment required during the works has been estimated at around 3 200 man-years. For operation and maintenance, the project will safeguard some 250 permanent jobs within the PAPN and the concession holder.</p> | <p>Once again there are no specific quantitative expected outcomes with regard to economic development and trade, however the following qualitative arguments are provided.</p> <p>The project will provide support to a company in the commercially-run public sector within the framework of a public-private partnership that includes the award of a private concession for the container terminal. The project will help to create a favourable environment for economic development by upgrading infrastructure vital to the external trade of the Congo and of the sub-region.</p> | <p>With a base scenario for container traffic (national traffic + 6% per annum and volumes of trans-shipment traffic guaranteed by the concession holder), and assuming constant unit revenue throughout the life of the project, the resulting return for the project in real terms is 19%, a particularly high level for this type of port investment. The Bank has received no precise information on the concession holder's investment costs, operating costs or maintenance costs, and it is therefore impossible to calculate the financial return for the terminal operator, which should normally be in the region of 10%-12%.</p> <p>The economic rate of return of the project can be considered as being similar to its financial rate of return, for two reasons: a) The project has no impact on local traffic,</p> | <p>The PAPN will appoint an environmental manager (supported by an international control office), and the construction firm will be required to draw up special plans for quarrying and handling waste, particularly dangerous waste.</p> <p>As regards the port operations, the main risk is water pollution. Although a signatory to the MARPOL convention, the PAPN – like many African ports – does not comply with its provisions. The project will be an opportunity to begin bringing the port into compliance with its MARPOL obligations. The firm of international consultants will draw up the Environmental and Social Management Plan (ESMP) for the port.</p> |

| Project contribution to poverty reduction | Project contribution to economic development and trade | Economic viability of the Projects | Social & Environmental Impact |
|--|--|---|---|
| | | <p>and trans-shipment traffic could be handled in other ports at a similar cost, and b) Fees paid by the concession holder reflect the increased levels of productivity and the reduction in maintenance costs achieved as a result of the project.</p> | |
| Satellite-enhanced Telemedicine and eHealth for Sub-Saharan Africa | | | |
| <p>Whilst there are no quantitative outcome targets set in terms of poverty reduction, this is a key focus of the infrastructure, which is intended to deliver a variety of services for education, clinical services, surveillance and management to the sub-Saharan citizens and health workers.</p> <p>Satellite-based communication technologies could address the lack of access in the region and provide a viable option for the expansion of a tele-health programme. This would allow policy makers to extend the reach of their health networks to more of their population, particularly those in remote areas who are most vulnerable.</p> | <p>A quantitative economic analysis to assess the impact of satellite-enhanced Telemedicine and eHealth activities across sub-Saharan Africa was carried out by PriceWaterhouse Coopers in 2008. For most of the interventions, the study focussed its impact assessment on only those populations which were outside the mainstream telecommunications networks.</p> <p>The results of the study suggested that based on the potential application of Telemedicine and eHealth services considered from a number of case studies(*), there are large potential economic benefits generated in terms of lives saved, reduced impact of illness, healthy years preserved, and the improved well being impact on individuals</p> | <p>In the long term, newly developed eHealth and Telemedicine services will be maintained only if they are economically sustainable. Development of suitable economic models for long-term sustainability is a major challenge. In combination with the three other horizontal studies, the study on sustainability, liability and business is considered mandatory in order to reach political consensus and endorsement from the stakeholders, decision makers, and donors, by creating evidence on the long-term effect of nowadays investment. Furthermore it is mandatory to concretely demonstrate whether and how business opportunities and liabilities (in terms of externality, commercial services etc) can be produced on this infrastructure with a possible return of the investment.</p> | <p>Alongside the direct benefits from health interventions, implementation of projects along the lines of the case studies would provide significant wider social and economic benefits. These potential applications could be expected to increase both technical and general skills and knowledge in the communities into which they would be introduced, thereby increasing the economic and social capabilities of these communities.</p> <p>Finally, the impact of these interventions could help to improve the perceived attractiveness of more remote locations by lowering the risk of disease and increasing access to skilled health care. This should lead to an increased willingness by skilled workers and investors to access these areas to promote economic activity.</p> |
| Rehabilitation of the Great East Road | | | |
| <p>There is no particular reference to poverty reduction outcomes in the ITF application documentation.</p> | <p>The Great East road is strategic given that it connects Zambia with Malawi, but also economic in that it represents a lifeline along which nearly all agricultural inputs and outputs travel in the highly fertile and productive Eastern Province of the country.</p> <p>The project is expected to generate savings in</p> | <p>The rate of return at 12% discount rate for the most economically attractive solution is 16%.</p> | <p>The project is, in any case, categorised as requiring a full EIA under applicable domestic legislation, the Environmental Protection and Pollution Control Act 1990 as well as the EIA Regulation of 1997. Therefore, an EIA procedure, in accordance with applicable standards, needs to be undertaken and submitted to the Competent Authority (Environmental Council of Zambia) for approval.</p> <p>The project road also crosses the Sinda National Forest for a distance of 9 km which will</p> |

| Project contribution to poverty reduction | Project contribution to economic development and trade | Economic viability of the Projects | Social & Environmental Impact |
|---|--|--|--|
| | <p>transportation operating costs, in travel time as well as reduce the risk of road accidents. The road will serve local (about 50% of trips), regional/inter regional (45%) and international (5%) passenger and freight traffic. This road section is the key transport link for Eastern Province (population 1.7m of whom about 90 per cent rely for their livelihoods on the agricultural sector). The project feeds the Nacala Corridor, which, when fully upgraded, will offer a significantly shorter route to/from the sea for Zambian exports and imports than other existing routes through South Africa and Tanzania.</p> | | <p>trigger additional domestic regulation as well as Bank due diligence. The extent to which any strategic environmental assessment has been undertaken is to be clarified.</p> |
| Caprivi Interconnector | | | |
| <p>There is no specific reference to poverty reduction in the project documentation however it should be noted that if NamPower generates higher than modelled income through wheeling power South-North-South within SAPP, then NamPower has expressed its willingness transfer any such excess (capped at the equivalent of the grant/subsidy) into a development account to be used for rural electrification or regional projects in the North of Namibia (principle project area).</p> | <p>To address the anticipated electricity shortfall in Namibia, NamPower has identified several projects to secure energy supplies for Namibia and position itself as an energy trader of note in SAPP, enabling it to offset thermal surpluses and/or deficiencies against hydro resources in other SADC countries. The most immediate one being the Caprivi Interconnector. The justification for subsidising the Caprivi Interconnector are the huge economic benefits in the magnitude of Euro 170 million (NPV to Namibia and SAPP) which warrant a subsidy.</p> <p>The objective of the Caprivi Link Interconnector is to provide an interconnector between the Namibian, Zambian and Zimbabwean transmission networks. Diversifying supply options not only reduces Namibia's reliance on a single supplier, but also positions NamPower strategically to optimise energy trades between SAPP member countries.</p> | <p>By offering a subsidy to NamPower, the ITF helps facilitate the investment into the economically preferable option and it partly compensates NamPower for the higher investment cost and for the fact that their future share in the economic benefits of the project is uncertain today.</p> <p>As the southern African region is in a net energy deficit there is a premium on long term Power Purchase Agreements. In the case of the Caprivi Interconnector the price of securing hydro based energy from Zambia would make the project financially non viable. The alternative to this would be to buy coal based energy for Zimbabwe, which is not politically acceptable to the DFIs or to construct their own coal (base load) and/or diesel (peaking) power plants which is both environmentally and financially unattractive.</p> <p>NamPower has calculated that a subsidy on hydro power from Zambia of Euro 14.78m</p> | <p>A stable and functional SAPP would make it more attractive for particularly Zambia as well as Angola and DR Congo to commit to constructing hydro power stations (see outline above).</p> <p>A strong and stable SAPP considerably reduces the incentive for all SAPP members to build small, relatively inefficient and polluting, fossil fuel projects for peaking needs.</p> <p>Caprivi Link reduces transmission losses and thus increases energy efficiency.</p> |

| Project contribution to poverty reduction | Project contribution to economic development and trade | Economic viability of the Projects | Social & Environmental Impact |
|---|---|---|---|
| (i.e. 0.18 USD cent per kWh), would make the project financially viable. | | | |
| Kampala Water – Lake Victoria WATSAN | | | |
| <p>This project particularly seeks to address issues faced by the urban poor. The situation of the urban poor is particularly challenging. In the informal settlements less than 10% of the population has access to a house or yard connection with the majority using public stand posts, protected and unprotected springs and uncontrolled wells. Customers of public stand posts pay 5 to 10 times the subsidised price to private vendors while using springs and wells for drinking water bears considerable health risks due to poor sanitary and hygienic conditions. Overall, an improved supply security of Kampala as the main revenue area of National Water and Sewerage Corporation (NWSC) is crucial for the water utility to live up to its social and environmental mission mandate</p> | <p>There is no particular reference to economic development and trade outcomes in the ITF application documentation, as this is not the particular focus of the project, however it is recognised that Lake Victoria has a very important function as an economic resource.</p> | <p>The financial impact of the proposed investments for NWSC results from improved cost-efficiency of treating, distributing and selling drinking water at higher quantities. The expected benefit is an increase in revenues due to higher treatment capacities, an extended supply area with a higher customer base, and reduced water losses through restructuring and rehabilitation of the distribution network.</p> | <p>Lake Victoria is an economic resource and source of drinking water that is shared between several countries, giving rise to a regional interest regarding sound practices on water supply, sanitation and waste management. The improvement of sanitary conditions and watershed protection contributes to environmental protection.</p> <p>Kampala is the largest of the urban centres on Lake Victoria and is experiencing the same intense urbanisation pressures as the other towns around the Lake. Development of new infrastructure and replacement of existing assets has not followed the pace of population growth or the needs of economic development throughout Metropolitan Kampala.</p> |
| Ruzizi Hydropower Plant | | | |
| <p>There is no particular reference to poverty reduction outcomes in the ITF application documentation.</p> | <p>The new investments seek to contribute alleviate the great energy deficit of the region, and the funding of the project is aimed at supporting initiatives of the Economic Community of the Great Lakes Countries (CEPGL), a sub-regional organisation composed of Rwanda, DR Congo and Burundi.</p> | <p>The ITF grant is being used to finance additional and complementary studies for the preparation of this project, mainly focusing on its economic and financial viability and its institutional arrangements, including water flow management and interaction with the existing plants and additional technical studies for the interconnection of South Kivu and North Kivu and their interface with the CEPGL interconnected network.</p> | <p>Studies prepared by Fichtner in the first phase and financed by EC-Kigali, included a preliminary assessment of the social (including the need for resettlement) and environmental impacts of the project. The Fichtner study provides important baseline information and analysis that will be used in a full Environment and Social Impact Assessment (ESIA) study for the Ruzizi III project that will be undertaken by SOFRECO. The ToRs for this study are currently under preparation.</p> |

| Project contribution to poverty reduction | Project contribution to economic development and trade | Economic viability of the Projects | Social & Environmental Impact |
|---|---|--|--|
| Seychelles Submarine Cable | | | |
| <p>This project contributes indirectly to poverty reduction through economic development. The government's equity investment financed through the ITF grant generates dividends to the government which, according to the terms of the grant, should be directed to providing Internet access to schools and hospitals, therefore creating social and economic benefits to the country.</p> | <p>By providing cost-efficient broadband telecom infrastructure that will address the present and future needs for connectivity and capacity, the SEAS cable will remove a major barrier to the Internet's development and, therefore, to the economic and social development in Seychelles. In addition to enabling significantly higher availability and therefore quality of service, it is estimated that the decreases in capacity prices would have a direct effect to the consumer Internet prices which are expected to fall over 35% in the year of introduction of the cable.</p> | <p>The base scenario for the project profitability results in a real (with a 10% discount rate) financial return (rFIRR) of -2.8% and a FNPV ($r = 10\%$) of USD -5.5m. The economic return (ERR) of the project is expected to be significantly higher, due to positive externalities, particularly in the form of increased availability of international connectivity, resulting in lower consumer prices and higher uptake of communications and particularly Internet services (30% corresponding to a total economic value of USD 108m (ENPV)).</p> | <p>The results of the ESIA study shows only moderate or minor, temporary and reversible impacts on the environment. During construction, the project's social impact will be positive, but limited to some employment opportunities during refurbishing of Landing Station and the cable shoring work. More important is the Project's broader social impact most of it generated indirectly, including those associated with the efficient provision of international transmission bandwidth that may prompt projects on the commercial sectors of tourism, financial services and fishing and on education, with a global positive effect on Seychelles economy.</p> <p>Furthermore, the government's equity investment financed through the ITF grant generates dividends to the government which, according to the terms of the grant, should be directed to providing Internet access to schools and hospitals, therefore creating social and economic benefits to the country.</p> |

9.6 Analysis of value for money for each case study project

| Project | ITF amount (Euro m) | TPC (Euro m) | Total leverage | Rating of ITF importance ⁶⁴ |
|------------------------|---------------------|--------------|----------------|--|
| Caprivi Interconnector | 15 | 302 | 20.13 | Very important |

Value add and importance of ITF

Nampower has self financed around 53% of the project cost with each of the EIB, AFD and KfW funding Euro 35m each. Additionally, the ITF has provided a further Euro 15m. However, the basis of Nampower's own funding is important. Most of their equity is funded through a N\$500m bond issue, with further balance sheet financing and a small loan from the Development Bank of Namibia. While the ITF has leveraged highly, it has leveraged public money in the main, and has only leveraged 1:10 of private capital.

As commented above, the IRS has been used for up front interest payments. While this has not impacted the total disbursement from the ITF, the impact has been greater. Calculations are that the IRS of Euro 15m is actually worth Euro 28m as a consequence of the upfront disbursement. Borrowers get their grants quicker, it fundamentally impacts project economics and also allows the disbursement of monies to be undertaken and completed quicker. There seems to have been sufficient funding in place to make this project work. However, the ITF money has allowed for the economics to be less marginal by capturing the regional economic benefits from the construction of the link. Based on conversations with Nampower, without ITF funding the project would have been below the hurdle rate for projects of this type.

| Project | ITF amount (Euro m) | TPC (Euro m) | Total leverage | Rating of ITF importance |
|------------|---------------------|--------------|----------------|--------------------------|
| Ruzizi III | 4.2 | 460 | 109.5 | Very important |

Value add and importance of ITF

The ITF financing has been relatively modest with regard to the overall cost of the project (Euro 460m), since it is composed of technical assistance.

It however has had significant non-financial leverage effects in terms of raising interest from international financial institutions and bilateral donors as well as structuring an efficient institutional framework for the project.

It is worth mentioning the involvement of the various IFIs, since in the wake of the EU and the ITF technical studies, the World Bank, the AfDB, as well as numerous bilateral development organisations, have expressed their interest: KfW (Germany), AFD (France), FMO (the Netherlands), CTB (Belgium), DBSA (South Africa), ADA (Austria). So the PPP will allow with the involvement of private shareholders in the project.

According to stakeholders interviewed, the European Union delegation or the project promoter, the whole project would not have been possible without the ITF funding these technical/institutional capacity studies, and it would have been very difficult to have other IFI's finance this type of studies.

⁶⁴ Qualitative rating determined by evaluation team. This is based on a qualitative assessment of the value add and importance of the grant operation in view of the status of the project when the ITF intervened, and the presence and role of different financiers.

| Project | ITF amount (Euro m) | TPC (Euro m) | Total leverage | Rating of ITF importance |
|----------------|---------------------|--------------|----------------|--------------------------|
| Beira Corridor | 29 | 189 | 6.52 | Important |

Value add and importance of ITF

Interest rate subsidy of EUR 29 m, which allows the Mozambican Government to meet the necessary HIPC conditionality requirements. It is important to recognise, when measuring leverage of ITF that DANIDA and ORET were involved in the project prior to the intervention of the ITF. Only ORET was financing dredging component in the beginning, and DANIDA went through approval process in 2006. Therefore it makes sense that the DANIDA financing of Euro 3m and ORET's Euro 10m be discounted from the leverage calculation. The same goes for World Bank IDA financing of Euro 85m - it is difficult to justify that the ITF leveraged this financing considering the IDA has been involved in the Beira Corridor since 1985, after Mozambique joined the Bretton Woods Institutions.

Furthermore, in a sense, the intervention of the ITF delayed the implementation of the project, as the scope was widened and the involvement of an increased number of financiers required coordination and collaboration.

Nevertheless the project promoter praised the ITF for the ease of access to and rapid availability of ITF financing, which was an essential requirement to accelerate the implementation of the project, from their viewpoint.

| Project | ITF amount (Euro m) | TPC (Euro m) | Total leverage | Rating of ITF importance |
|----------------------|---------------------|--------------|----------------|--------------------------|
| Port de Pointe Noire | 2 (TA), 6.6 (IRS) | 128.4 | 14.9 | Less important |

Value add and importance of ITF

EIB: Euro 29 m (43% of the debt); Agence Française de Développement (AFD): Euro 29 m; Banque de Développement des États de l'Afrique Centrale (BDEAC): Euro 9.1 m; self-financing by the PAPN: Euro 54.6 m.

Interest subsidy from the EU-Africa Infrastructure Trust Fund: approximately Euro 6.2m to enhance the concessionality of the AFD loan, which is the direct loan to the Port (the AFD didn't want the loan to go through the Congolese state in order to make the financial profitability closer to the economic profitability of the project). It has to be mentioned that the Congolese Treasury has challenged that concessionality of the loan, arguing that 2.5% over 35 years was not viable/not concessional. It was, however, according to the PAPN criteria, which has accepted the loan.

The EIB does not plan to subsidise the rate of its credit to the PAPN since this credit benefits from the sovereign pricing of the Congolese state which will however have to check that its commitment to the project is judged acceptable by the IMF and that the IMF (which in the case of Congo does link the external debt of state-owned companies to the one of the state) does not have any objection to the terms of the credit envisaged by the EIB.

ITF grant for technical assistance Euro 2.0m, to finance capacity building for the financial and accounting staff of the Port Authority, thus helping to improve the management of the Port Authority and decrease the credit risk for the Port's lenders.

=> Overall ITF assistance has been a windfall for the Port authorities who were not expecting this. In the absence of the ITF however the project promoter stresses that would have gone to the sub-regional debt markets where it would have been in a position to levy funds independently, given that the PAPN is the only company in Congo Brazzaville in a position to finance itself on the private debt markets (and the only such African company in francophone Africa with the Port of Dakar).

| Project | ITF amount (Euro m) | TPC (Euro m) | Total leverage | Rating of ITF importance |
|------------------|---------------------|--------------|----------------|--------------------------|
| Benin-Togo Power | 12.25 | 73.2 | 5.98 | Less important |

Value add and importance of ITF

The total project cost is estimated to be Euro 73.2m and is co-financed by EIB (47.8%), World Bank (24.6%), Kredit Anstalt für Wiederaufbau (19.1%) and the Promoter (8.5%). The proposed EIB contribution with a long-term, subsidised loan will allow CEB to complete investments which are fundamental to improve reliability in the electricity supply, a key factor for the development of Benin and Togo. As HIPC countries, both Benin and Togo are constrained in terms of the financing costs they can bear for their respective public sector investments and therefore the ITF interest rate subsidy is of significant importance.

World Bank through IDA's involvement in the power sector of Benin and Togo dates back to 1978, and they financed an ENGINEERING AND TECHNICAL ASSISTANCE PROJECT in 2000 for Benin-Togo Power Rehabilitation. It is therefore difficult to justify that the intervention of the ITF leveraged World Bank financing. Therefore, despite the importance due to HIPC concessionality requirements, leverage effect should be revised downwards given the history of World Bank intervention in the Power sector in Benin and Togo.

| Project | ITF amount (Euro m) | TPC (Euro m) | Total leverage | Rating of ITF importance |
|----------------|---------------------|--------------|----------------|--------------------------|
| JKIA Extension | 5 | 184.2 | 36.8 | Less important |

Value add and importance of ITF

The total project cost is estimated to be Euro 184m, and co-financed by AFD (35.9%), EIB (32.8%), World Bank (7.0%), with the balance (24.3%) financed by own funds. The project has benefited from Euro 5m grant from the ITF for technical assistance and capacity building and environmental activities in close cooperation with AFD. During the joint AFD/EIB appraisal a number of potential areas were highlighted that might benefit from technical assistance/capacity building as well as addressing environmental issues. This additional support is therefore intended to provide technical and capacity building support for KAA itself and provide support to the relevant environmental agencies to enable them to better appraise and monitor the longer term effects of similar projects. The real impact of the ITF in leveraging funds is questionable and it appears as though loans from AFD, WB and EIB would have been forthcoming without ITF intervention.

Once again it is difficult to justify that World Bank funds of Euro 12.8m have been leveraged by the ITF intervention, as the World Bank has been involved in upgrade plans for JKIA over many years through the Air Transport Donor Technical Co-ordination Group (ATDTCG).

| Project | ITF amount (Euro m) | TPC (Euro m) | Total leverage | Rating of ITF importance |
|-----------------------------------|---------------------|--------------|----------------|--------------------------|
| Rehabilitation of Great East Road | 25 (IRS), 1 (TA) | 250 | 9.62 | Important |

Value add and importance of ITF

All of the funding for this project has been publicly sourced from the AFD, EIB, EU and AfDB. There are no private sector funds. All of the commitments for funding seem to have been made at the same time. It seems that the EIB money might have come at the same time as the ITF involvement, although this is not clear from interviews in Zambia.

In this loan there is a blend of TA and IRS. The TA seems to be adding the promise of value – it should contribute to successful contracting of works and contribution to capacity building (providing that TA needs can be determined and allocated between the EIB and AfDB consultant). The IRS, whilst appearing to make the loan from the EIB affordable for the GOZ (which is a HIPC country), only seems to be subsidising EIB loan. The real value of the ITF seems to be limited - it appears as though financing from the AfDB and EU was in place. The AFD then joined in with the EIB. Parts of the investment would have certainly occurred without the ITF, but there would have been missing "lots" in the works contracts. EIB money (which is linked to the IRS) has assisted with this.

| Project | ITF amount (Euro m) | TPC (Euro m) | Total leverage | Rating of ITF importance |
|---------|---------------------|--------------|----------------|--------------------------|
|---------|---------------------|--------------|----------------|--------------------------|

| Project | ITF amount (Euro m) | TPC (Euro m) | Total leverage | Rating of ITF importance |
|----------------------|---------------------|--------------|----------------|--------------------------|
| Lake Victoria WATSAN | 14 (IRS), 8 (TA) | 212 | 9.64 | Important |

Value add and importance of ITF

Given the priority of Lake Victoria to AFD, KfW and EIB, and the large number of related projects in the region, we believe all three DFIs would have financed this project regardless of the ITF. However, it is recognised that in the absence of ITF funding the scope of the works would have been reduced. Furthermore, it is noted that AFD own grant funds of Euro 50m would have been limited to Euro 30m in the absence of the ITF (Euro 14m). The Ugandan Government turned to AFD, EIB and KfW with a request to finance the project. A preliminary financing plan suggests AFD would provide debt of Euro 64m, the EIB Euro 70m, KfW Euro 30m plus a Euro 10m grant, the Borrower Euro 30m in equity, while EUR 8m worth of Technical Assistance would be grant financed, relating to planning, optioneering, project preparation and hydraulic analysis in Kampala. The ITF grant of Euro 14m will be used to blend with AFD's own resources in order to achieve terms compatible with the integrated debt strategy for the Government of Uganda. Grant financing to complement own resource lending is required to meet the Ugandan Government's financing needs in a way that is (i) cost effective; (ii) sustainable; and (iii) consistent with broader macroeconomic priorities. To this end, the IMF-supported programme in Uganda calls for the Government to a priori assume external debt on concessional terms. A loan is considered to be concessional if its grant element is at least equal to 35 percent.

| Project | ITF amount (Euro m) | TPC (Euro m) | Total leverage | Rating of ITF importance |
|----------------------------|---------------------|--------------|----------------|--------------------------|
| Seychelles Submarine Cable | 4 | 27.2 | 6.8 | Important |

Value add and importance of ITF

Total project cost is estimated at USD 35m. The project will be financed through 40% equity (USD 14m) and 60% debt (USD 21m). The equity contributions for SCS are split between the following three shareholders: GoS (40% equivalent to USD 5.5m, funded with an ITF grant through EIB as lead financier) and the two main telecommunication operators (Cable & Wireless Seychelles, 35% equivalent to USD 5m and Airtel, 25% equivalent to USD 3.5m). The long-term debt of USD 21m will be co-financed at equal shares by AfDB and EIB, both PFG financiers. Whereas EIB's loan is secured by a sovereign guarantee, AfDB relies on firm offtake agreements of the two private operators. ITF allocation is to finance the GoS's equity contribution in SCS.

The planned ITF grant element of USD 5.5m would with the current estimates shift the project to have a positive NPV, and be well proportioned to the deficit in order not to create excessive returns for the project. Moreover, it seems that the government's equity investment financed through the ITF grant generates dividends to the government (3% per annum) which, according to the terms of the grant, should be directed to providing Internet access to schools and hospitals, therefore creating social and economic benefits to the country.

The statutory dividend paid to the government is 3% of the equity investment, corresponding to a yearly dividend of USD 181,500 and cumulatively USD 2.7m with a NPV of USD 1.1m. However, with the current estimates of sales and costs, the total dividend accrued to the government from SCS would be USD 4.9m converted to current prices (NPV), only slightly below the initial equity input and therefore the grant value. It seems therefore that the ITF grant in place for this project will contribute to make it financially sound.

| Project | ITF amount (Euro m) | TPC (Euro m) | Total leverage | Rating of ITF importance |
|----------------------|---------------------|--------------|----------------|--------------------------|
| Satellite e-medicine | 4 | TBD | TBD | TBD |

Value add and importance of ITF

The satellite-enhanced Telemedicine and eHealth Programme proposal consists mainly of four horizontal studies that will address the following subjects: (i) governance, (ii) regulatory aspects, (iii) interoperability (system of systems) and (iv) sustainability, liability and business. Each of these studies shall be conducted with an estimated budget of Euro 1m and the ITF Grant would be used to finance the four studies. This project is too early in its development to make a reasonable conclusion regarding the impact of ITF funding.

9.7 Comparative description of infrastructure investment facilities

| | Regional criterion | Financing instruments | Covered sectors | Project lifecycle level of intervention | Innovative dimension |
|---|-----------------------|---|--|---|---|
| ITF | Yes | Blending mechanism (TA, DG, IRS and IP) | ICT, transport, energy, water | Project preparation and implementation | Blending mechanisms and regional dimension |
| NEPAD IPPF | Yes | TA | ICT, transport, energy, water and sanitation | Project preparation | Regional dimension |
| DBSA Development Fund | No Municipal level | TA grants (with focus on capacity building) | Infrastructure | Project preparation | Existence of the Siyenza Manje programme (project implementation task force) providing hands-on support to municipalities. |
| IFC (through involvement in several facilities) | No | Loans, Syndicated Loans, Equity Finance, Quasi-Equity Finance, Equity and Debt Funds, Structured Finance, Intermediary Services, Risk Management Products, Local Currency Financing, Subnational Finance, Trade Finance | Infrastructure (Focus on renewable energy and energy efficiency projects, and water) | Project preparation and implementation (investment) | Support to private sector Diversity of financial instruments |
| PIDG InfraCo Africa | No | Equity Finance | Infrastructure | Project development | Support to private sector InfraCo Africa aims to recover its development costs through the sale of its project ownership rights to incoming private investors. |
| PIDG Emerging Africa Infrastructure Fund | No | Long-term loans | Infrastructure | Project implementation | Support to private sector First dedicated debt fund for Sub-Saharan Africa (2001) |
| PIDG TA Facility | No | TA grants | Not specified | Project preparation and implementation | Specific support to capacity building Support activities and interventions mainly in the public sector |
| PIDG DevCo | No | TA grants | Infrastructure | Project preparation and implementation | Managed by the IFC Supports infrastructure transactions |
| ACP-EU Water Facility | No | Pooling mechanism offering direct grants, IRS and technical assistance | Water and sanitation | Project implementation (calls for proposals) | Combination of grants and other sources Two objectives: improving water management and governance, and co financing drinking water and sanitation infrastructure |
| ACP-EU Energy Facility | No | Pooling Mechanism blending grants from the 10th EDF Energy Facility with loans from the EU multilateral and bilateral finance institutions | Energy | Project implementation (calls for proposals) | Blending mechanism Encourage the participation of the private sector |

| | | | | | |
|-------|----------------------|-----------|----------------|-----------------------------------|--|
| PPIAF | No National level | TA grants | Infrastructure | Project preparation (early stage) | Support to governments to develop specific infrastructure projects with private sector participation |
|-------|----------------------|-----------|----------------|-----------------------------------|--|