



Private Infrastructure Development Group
Annual Report 2007

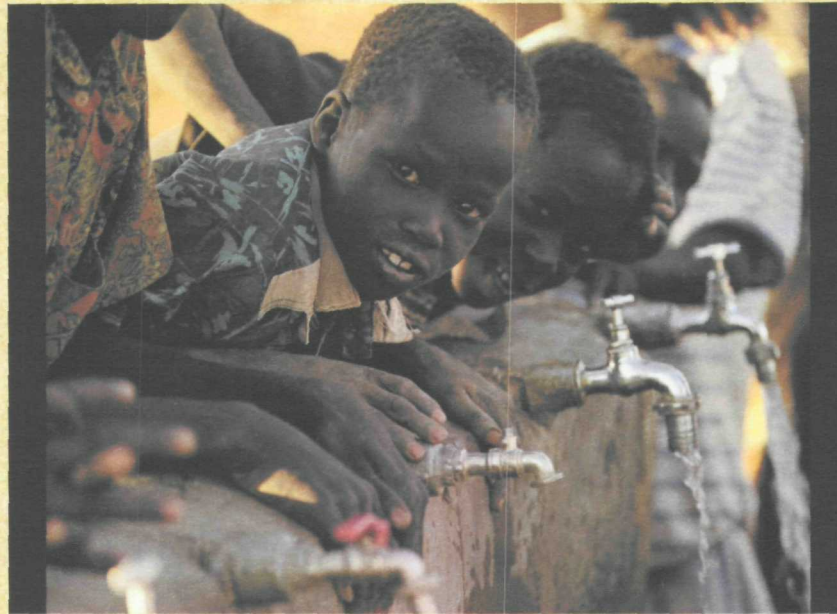
PIDG Annual Report 2007



Contents

1.	Foreword	
2.	Introduction to PIDG	6
	2.1. Aims and objectives	7
	2.2. PIDG's role in the infrastructure market	7
	2.3. Structure and governance	9
3.	The current infrastructure market and private sector participation	14
	3.1. State of infrastructure in developing countries	15
	3.2. Private sector participation in infrastructure and development impact	16
	3.3. Recent trends in private participation in infrastructure	18
4.	PIDG facilities and development impact	20
	4.1. Overall development impact of PIDG	21
	4.2. Emerging Africa Infrastructure Fund Ltd.	24
	4.3. InfraCo Ltd.	27
	4.4. GuarantCo Ltd.	31
	4.5. Technical Assistance Facility	33
	4.6. PIDG Affiliated Programmes	36
	4.7. Facilities in development	43
5.	PIDG funding and resource allocation	44
	5.1. PIDG project portfolio	45
6.	Annexes	50
	6.1. Annex 1: DAC List of ODA Recipients	51
	6.2. Annex 2: PIDG facility projects and their development impact	52
	6.3. Annex 3: PIDG monitoring and evaluation indicators	65
	6.4. Annex 4: Contacts and links	68

1



“...there is evidence that private sector investment is necessary to infrastructure development and poverty alleviation and that private provision can improve the quality and efficiency of services”

DFID (2007): LITERATURE REVIEW ON PRIVATE SECTOR INFRASTRUCTURE INVESTMENT, WORKING PAPER 2

Foreword

Although the Private Infrastructure Development Group (PIDG) has been operational since 2002, this is only our third Annual Report. Given the need to build momentum for such an ambitious initiative, progress was slow in the early years, and any Annual Report would have been rather lacking in substance. This is now far from the case. Presently, the PIDG has five operational facilities and affiliated programmes, which target a broad range of constraints to private sector investment in the infrastructure sectors of the poorer developing countries. By the end of 2007, the PIDG facilities and affiliated programmes as a family, have a total of 73 projects, spread across more than 30 countries, with an investment to date by the donor members of US\$ 254 million. This has in turn been instrumental in helping mobilize commitments totalling US\$ 7.7 billion from the private sector, by way of both equity inputs and loans from private sector banks and development finance institutions. By any reckoning, this is no mean feat for an operation which is still relatively new in the market place.

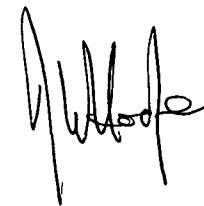
As in the previous two Annual Reports, we have opened this report with a section on the background and structure of the PIDG for those readers who are new to the concept. We have then gone on to discuss the current situation in the infrastructure market in the poorer developing countries and the role that the various PIDG facilities and affiliated programmes are playing to help mitigate constraints to much-needed private sector investments in this market. In doing so, we have highlighted a number of specific investments by way of demonstrating the type of activities in which the PIDG is currently involved and the role that a particular PIDG facility is playing in helping to take forward the overall investment.

As an initiative funded by a group of donors from the international aid community, the PIDG aims not only to contribute to the achievement

of the Millennium Development Goals (MDGs) through the promotion of accelerated economic growth, but also to help bring infrastructure services to the as yet un-served poorer sectors of the community. In this Annual Report we have therefore sought to highlight some of the direct developmental aspects of our programme.

Although, over recent years, there has been some success in attracting increased private sector investment, the recent downturn in the capital markets in the developed world presents a new challenge. It is likely, therefore, that over the next few years, PIDG will need to increase its inputs if the current forward momentum is to be maintained and support from new donor members would therefore be welcomed.

We hope that this Annual Report will not only serve to highlight the availability of the support that the family of PIDG facilities and affiliated programmes have to offer potential private investors, but also to encourage other like-minded grant donors to join our group. If the poorer developing countries are to stand any chance of achieving the MDGs, there is an urgent need for increased investment in their essential infrastructure, and the private sector has a key role to play in providing this. The PIDG is firmly committed to helping mobilise the resources, skills and capacity of the private sector to achieve the MDGs.



John Hodges, PIDG Programme Manager

2



“The funding should ... support a pragmatic approach to private sector participation that recognises the roles where the private sector can add most value ... It should also build on existing initiatives to attract much-needed private sector investment such as ... the programmes of the Private Infrastructure Development Group (PIDG).”

OUR COMMON INTEREST, REPORT OF THE COMMISSION FOR AFRICA, MARCH 2005.

Introduction to PIDG

THE PIDG MISSION STATEMENT:

“To contribute to poverty reduction through enhanced provision of infrastructure services in poorer developing countries by facilitating responsible private sector participation in infrastructure projects, with a focus on sustainable, pro-poor economic growth. ”

2.1. Aims and objectives

The PIDG was officially constituted in 2002 as a multi-donor organisation to encourage private infrastructure investments in developing countries to enhance economic growth and poverty reduction.

The PIDG provides financial, strategic and practical support to help facilitate the introduction of private sector expertise and efficiency into infrastructure investments, whilst endeavouring to ensure additionality, capacity building, sustainability and value-for-money. The PIDG has been established, and is growing, on the core ethos of

the importance of infrastructure for sustainable development and poverty reduction, and recognition of the crucial role that the private sector can play in providing required levels of infrastructure services.

The PIDG attaches particular importance to the provision of adequate and affordable services to the poorer sections of society and only permits investments in certain eligible infrastructure services. Countries eligible for PIDG support are those included in the lower income categories of the Development Assistance Committee (DAC) List of ODA Recipients. Annex 1 of this report provides a list of these countries.

2.2. PIDG's role in the infrastructure market

“The need for infrastructure improvements in the developing world is critical. Untold numbers of businesses suffer from lack of reliable power for industrial processes or because they cannot get their goods to the market. At the most basic level, millions of lives are threatened every day for lack of clean water or safe sanitation.”

INTERNATIONAL FINANCE CORPORATION (IFC)

Since its establishment, the PIDG has developed both *project development facilities* focused on improving project development and execution and *project financing vehicles* aimed at addressing financial market failures that have created constraints to private investment in infrastructure service provision. Some of these constraints include:

- The reluctance of the private sector to allocate scarce project development funds to projects in emerging markets, due to the perceived high risk nature of early stage infrastructure developments.
- The lack of development of credit and capital markets in low-income countries, which creates a reliance on foreign project finance and often unmitigatable exchange rate risk in countries where national currencies are historically volatile.
- Low incomes, along with dispersed populations, which

increases the costs of infrastructure service provision, that inhibit full cost recovery tariffs and hence the sustainability of the infrastructure service.

In response to these constraints, the PIDG donors have developed the following facilities which provide support for project development:

- **InfraCo Ltd.**, an infrastructure development company, that has been designed to assume the risks and costs of early stage project development in areas where many traditional developers have retreated.
- The **Technical Assistance Facility (TAF)**, that provides funding to PIDG investment vehicles and affiliated programmes, to support capacity building and help scope potential investment opportunities.
- **DevCo**, a division of the International Finance Corporation (IFC), which provides advisory services to governments for privatization and Private Participation in Infrastructure (PPI) transactions in infrastructure sectors in poorer developing countries.

The following financing vehicles have also been developed:

- **The Emerging Africa Infrastructure Fund Ltd. (EAIF)**, a debt fund that provides long-term foreign currency denominated loans for private sector infrastructure projects in Sub-Saharan Africa.
- **GuarantCo Ltd.** provides local currency guarantees to infrastructure projects in low-income countries in order to mitigate credit risks for local lenders. In doing so, GuarantCo promotes domestic infrastructure financing and capital market development.
- The PIDG is currently setting up a **Currency Liquidity Facility (CLF)**, a financial product designed to mitigate foreign exchange risk.

Some PIDG facilities combine project development and financing activities:

- **Global Partnership for Output-Based Aid (GPOBA)** seeks to encourage the use of output-based aid approaches to the delivery of infrastructure, linking subsidy payments to service providers with the actual delivery of ‘outputs’ to customers.
- From 2008, InfraCo will incorporate a separate project development and financing vehicle which will focus specifically on Asia – **InfraCo Asia** (previously known as the Asian Private Infrastructure Financing Facility (AsPIFF)).

The PIDG facilities maximise private sector efficiencies and the wider availability of private capital to encourage private sector poverty focused investment. At the same time, PIDG aims to create a climate in which the private sector can have confidence in the long-term stability of the projects in which it is investing.

As new constraints become apparent, PIDG will continue to explore whether there is any action that it might appropriately take in order to help address these.

2.3. Structure and governance

The founding members of the PIDG are the UK Department for International Development (DFID), the Swiss State Secretariat for Economic Affairs (SECO), the Netherlands Ministry of Foreign Affairs (DGIS), the Swedish International Development Cooperation Agency (Sida) and the IFC/World Bank. Since 2006, PIDG membership has expanded to include the Austrian Development Agency (ADA) and Irish Aid. The Public Private Infrastructure Advisory Facility (PPIAF) is an honorary member. Table 2.1 provides details on the PIDG member’s contributions to each of the PIDG facilities.

Figure 2.1: PIDG project development and financing facilities

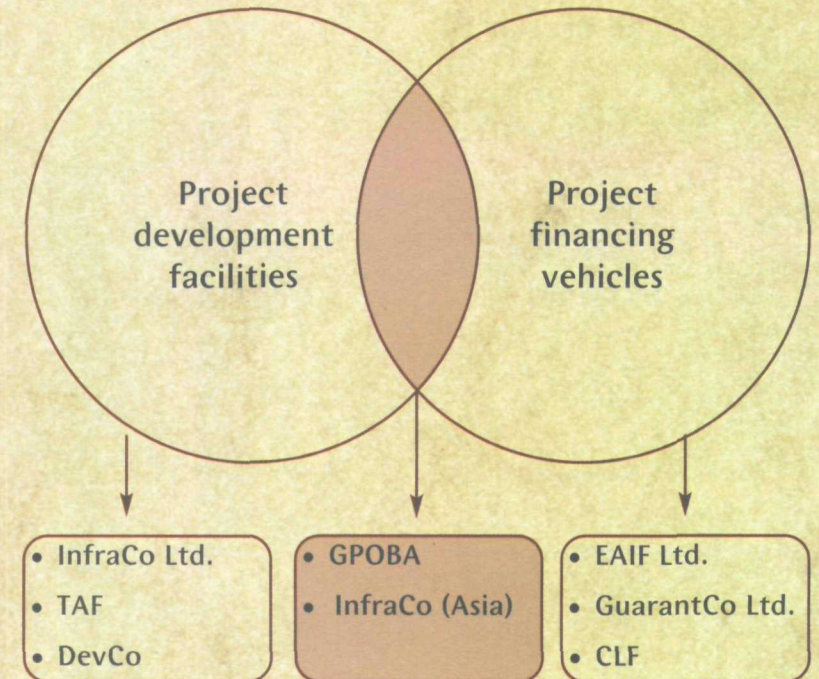
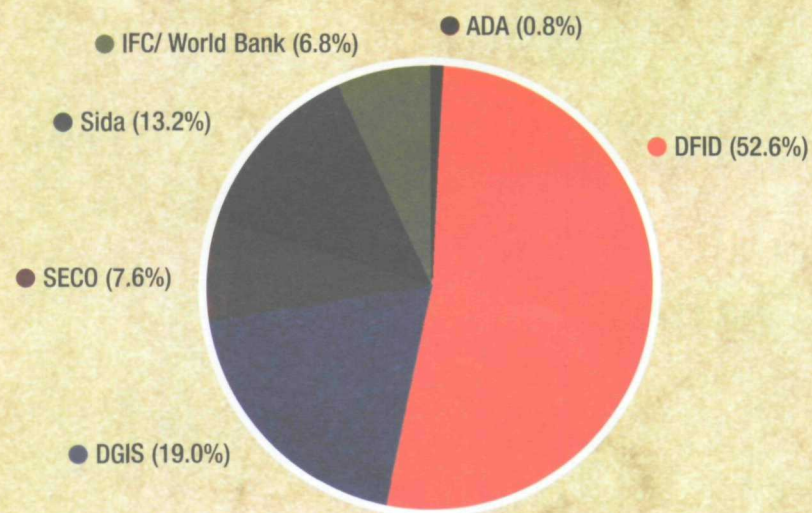


Table 2.1: Contributions of PIDG members to the facilities, affiliated programmes and for project development and administration (US\$ million)¹

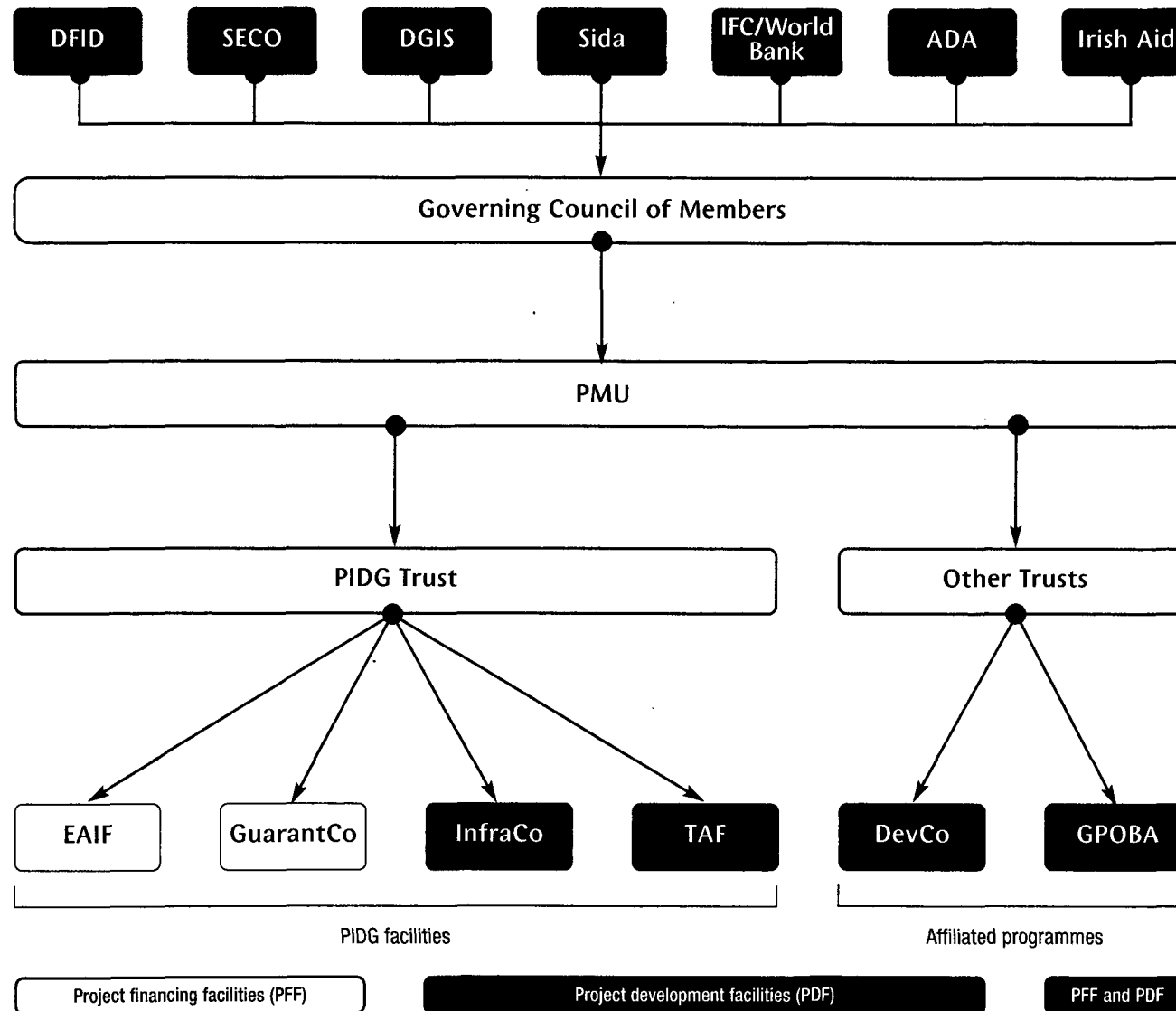
	EAIF	InfraCo	InfraCo Asia	GuarantCo	DevCo	TAF	Administration	Project Development	Totals
● ADA	-	-	-	-	1.88	-	0.21	-	2.09
● DFID	60.00	10.00	2.50	25.00	31.74	2.71	1.27	0.50	133.72
● DGIS	10.00	10.00	-	23.00 ²	3.93	-	1.13	0.12	48.18
● SECO	10.00	-	-	8.00	-	-	1.13	0.12	19.25
● Sida	20.00	-	-	7.00	3.38	2.00	1.13	0.12	33.63
● IFC/ World Bank	-	-	-	-	8.75	7.37	1.13	0.12	17.37
Total	100.00	20.00	2.50	63.00	49.68	12.08	6.00	0.98	254.22

Figure 2.2: PIDG member contributions to the facilities, affiliated programmes and for project development and administration (US\$ million)³



1. The figures represent disbursed funds through the PIDG Trust and the DevCo Trust, but excludes funds paid through the GPOBA Trust.
 2. Payments made through FMO who hold their shares in GuarantCo directly, rather than through the PIDG Trust.
 3. Supra note 1

Figure 2.3: The PIDG governance and management structure



Governance has been at the forefront of development policy and donor priorities for a number of years. Corruption, mis-management of funds and insufficient capacity for disbursement have reduced the impact of development activities in regions where institutions and governance are weak. In order to address these issues, the PIDG has adopted a commercially-driven and decentralised ownership and governance structure.

As represented in Figure 2.3 on page 11, the PIDG operates through a Governing Council, a Programme Management Unit (PMU) and the PIDG Trust.

- The Governing Council is the decision-making body of PIDG and consists of representatives of PIDG members, who provide grant and loan funding to the PIDG Trust.
- The PIDG Trust invests in, owns and manages the PIDG facilities and affiliated programmes. It is a Mauritian trust, currently administered by a UK based Principal Trustee, SG Hambros Trust Company Ltd.
- The PMU manages PIDG activities and is the central contact point for all PIDG matters. The Governing Council has appointed the Crown Agents for Oversea Governments and Administrations Ltd. of the UK for a four-year period, which expires at the end of February 2009.

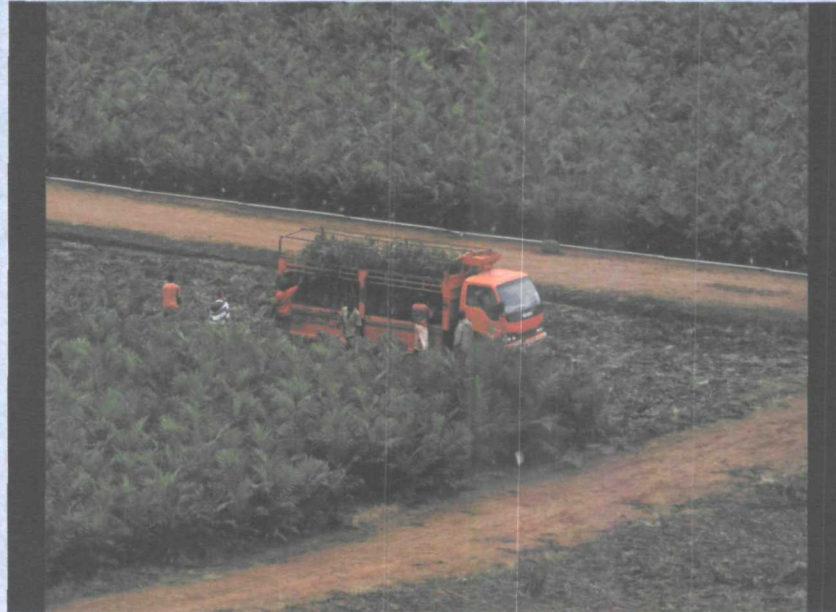
The PIDG governance structure is designed to maximise donor coordination and ensure best-practice in the funding of the facilities. Management of the facilities is highly corporate in nature, allowing a market-driven approach to investment and project development. Board members of the three companies (EAIF, InfraCo and GuarantCo) have been carefully selected through a rigorous recruitment process to ensure expertise and commitment. As a private company, EAIF, for example, is required to make a commercial rate of return.

Most importantly, the PIDG members are not represented on the Boards of the individual companies. This prevents competition between different donor interests, and reinforces the recruitment of international management teams, skills and capital to the vehicles.

PIDG cannot enter into contractual arrangements itself, since it is not a legal entity in its own right. The PIDG Trust and the PMU operate in accordance with EU Public Procurement Directives, where applicable, and therefore adhere to a transparent and value-for-money procurement policy, that uses standard documents for bidding procedures. PIDG requires all its facilities to do the same.



3



*“Where a road passes,
development follows right
on its heels.”*

NARAYAN, DEEPA, ROBERT CHAMBERS, MEERA KAUL SHAH,
AND PATTI PETESCH (2006): VOICES OF THE POOR - CRYING
OUT FOR CHANGE, NEW YORK, N.Y.: PUBLISHED FOR THE
WORLD BANK, OXFORD UNIVERSITY PRESS.

The current infrastructure market and private sector participation

Infrastructure provides the backbone for economic activity. The coverage, quality and price of the networks of electricity, transportation, water and sanitation and telecommunications determines economic growth and the potential for raising the well being of the people.

3.1. State of infrastructure in developing countries

The supply of infrastructure in developing countries falls considerably short of its demand. It is estimated that in low income countries, approximately 1.1 billion people still do not have access to safe drinking water, 1.6 billion people live without electricity, 2.4 billion people do not have adequate sanitation facilities and more than 1 billion people are not connected to road or telephone services.⁴ Lack of adequate infrastructure services severely impedes the access of the poor to required healthcare and education services, as well as potential economic opportunities through the absence of linkages with markets and information. Table 3.1 provides a comparison of infrastructure access by low-income and high-income countries.

4. Source: World Bank estimates.

5. Source: World Development Indicators, World Bank.

6. Data for 2004.

Table 3.1: Access to infrastructure services by region⁵

	Electricity consumption (kWh) per capita, 2004	Fixed-line & mobile phone subscriber per 1,000 persons, 2005	Internet users per 1,000 persons, 2005	% of urban pop. with access to improved sanitation facilities, 2004	% of total pop. with access to improved water facilities, 2004
Low income countries	374	113	44	61	75
East Asia	1,343	497	89	72	79
Europe and Central Asia	3,568	885	186	93	92
Latin America and the Caribbean	1,667	495 ⁶	156	86	91
Middle East and North Africa	1,290	388	89	92	90
South Asia	414	119	49	63	84
Sub-Saharan Africa	541	140	29	53	56
High income countries	9,563	1,337	523	100	100

Low-income countries in Sub-Saharan Africa and South Asia have significantly poorer access to all types of infrastructure services, not only in comparison with high-income countries, but also as compared to low-income countries in other parts of the world. This has contributed to the high levels of poverty and low levels of human development in these countries.⁷

While infrastructure services in developing countries are beyond the reach of many poor households, even where services are available, they are often of a poor quality. Poor quality infrastructure also impacts the growth and development of businesses, particularly small emerging businesses in developing countries. Table 3.2 below provides an indication of differences in infrastructure quality between regions.

Table 3.2: Access to infrastructure services by region⁸

	Electrical outages – days, 2006	Electric power transmission and distribution losses - % of output, 2005	Telephone faults – per 100 mainlines, 2002-04	Roads paved – percentage of total roads, 1999
Low income countries	101.4	23.0*	80*	13.3
East Asia	10.89*	7.0	32*	20
Europe and Central Asia	12.7*	12.7	16	74.3
Latin America and the Caribbean	16.84	16.7	7*	22
Middle East and North Africa	188.6	15.7	25	66.4
South Asia	67.2	25.5	88	30.3
Sub-Saharan Africa	57.0	9.3	48	12.1
High income countries	1.2	6.2	6	100

* Data for the last year available (after 1999)
^ Data for 2006

7. Source: 2007/2008 Human Development Index rankings.

8. Source: World Development Indicators, World Bank.

3.2. Private sector participation in infrastructure and development impact

“It is the private sector – from farmers and street traders to foreign investors – that creates growth.”

DFID (2006): ELIMINATING WORLD POVERTY - MAKING GOVERNANCE WORK FOR THE POOR, <http://www.dfid.gov.uk/wp2006/>

The traditional model of public sector financing and provision of infrastructure services is slowly giving way to a recognition of the potential role that the private sector can play and the benefits arising from this. Whilst it is recognised that the basic public good nature of many infrastructure services implies a role for governments, their constrained fiscal capacities and the often poor quality of public sector delivery has called traditional monopolies in service provision into doubt. It is increasingly recognised that public funding needs to be complemented by private sector investment and expertise in order to meet the current infrastructure deficit which exists in many developing countries.

Private sector investment has the potential to reduce the fiscal burden faced by governments and provides an alternative resource for infrastructure financing. However, the benefits of private sector participation extend well beyond the contribution of capital to infrastructure financing. Private sector participation tends to overcome some of the oft-cited limitations of public sector delivery - bringing in improved efficiency and productivity through competition. These and other benefits of private participation in infrastructure have been well documented (see Box 3.1).

Box 3.1: Empirical evidence of the positive impact of private sector investments in infrastructure

One remarkable example of private investment in infrastructure is in the telecoms sector, particularly in mobile telephony. According to the World Bank PPI database, more than US\$ 537 billion was invested in telecom projects involving private participation between 1990 and 2006. This has led to large advances in the coverage of telecoms services. Indeed, in Africa, the percentage of the population covered by mobile phone services is forecast to increase from 10% in 2000 to around 85% in 2010.⁹

On a more micro level, recent reports suggest that fishermen in a region of India have benefited considerably from the introduction of mobile phones – profits have risen by 8%, consumer prices have fallen by 4% and wastage of catches has completely stopped. These development impacts have been made possible through improved infrastructure integrating markets (sales of fish in other markets up the coast increased from nil to 35%) and reducing prices.¹⁰

In addition to telecoms, other infrastructure sectors have also recorded improvements in efficiency and reductions in costs with PSP. For example, a

World Bank study across a number of developing countries estimated that private investment in urban water services increased the production efficiency of the utility by a factor of two.¹¹ Another study analysed 297 utilities with PSP and 928 state-owned enterprises in low-income countries in order to assess the impact on a range of performance indicators. The data indicate that PSP is associated with an increase in labour productivity, collection rates and service quality and a decrease in distributional losses in the electricity sector. Broadly similar results are found in water supply.¹²

Private investment in the transport sector has also had several beneficial impacts. Evidence from Vietnam suggests that the existence of a paved road in a community increases the probability of girls attending primary school by 40%.¹³ Following a concession of Manila International Container Terminal in the Philippines to a private operator, container throughput increased by 385% over 12 years. Government revenues from lease payments doubled over a four-year period, while new terminal development and equipment procurement were enhanced through an improved logistics chain.¹⁴

9. Source: 'Buy, Cell, Hold', *The Economist*, 25 January 2007.

10. Source: Jensen, R. (2007): "The digital provide", *The Quarterly Journal of Economics*, Vol122, Issue 3.

11. Source: Kirkpatrick, C., Parker, D. and Zhang, Y-F. (2006): "An Empirical Analysis of State and Private-Sector Provision of Water Services in Africa", *World Bank Economic Review*, 20 (1) pp143-163.

12. Source: Gassner, K., Popov, A. and Pushak, N. (2007): "An empirical assessment of Private Sector Participation in electricity and water distribution in developing countries", PPIAF, (forthcoming).

13. Source: Willoughby, C. (2002), "Infrastructure and Pro-Poor Growth: Implications of Recent Research", DfID/ Oxford Policy Management.

14. Source: *Ibid.*

The private sector provides innovative, dynamic and sustainable strategies for infrastructure development. Other benefits include mobilisation of technical expertise and managerial competencies, skills transfer to the public sector, end-user benefits from a more competitive environment, and increased coverage and efficiency of infrastructure services. Additionally, with governance issues at the forefront of donor priorities, private sector service provision removes a potential source of corruption and patronage from state management.

Involvement of the private sector in the design and development of infrastructure opportunities can also increase the likelihood of securing private sector financing, through a more appropriately packaged investment opportunity. In addition, participation of the private sector in a transaction or sector perceived as high risk can provide a strong demonstration effect, encouraging other private sector entities to consider similar opportunities in the future

3.3. Recent trends in private participation in infrastructure

A look at the trends in private sector participation in infrastructure shows that investment in infrastructure projects with private participation in developing countries rose steadily through most of the 1990s, from US\$12.8 billion in 1990 to a peak of US\$113.7 billion in 1997. However, the bulk of this increase was concentrated in Latin America and East Asia, with 10 countries in these regions accounting for 68% of cumulative private investment between 1991 and 2001. As shown in Figure 3.1, Africa, which grew slower than any other region during this period, attracted the least investment.

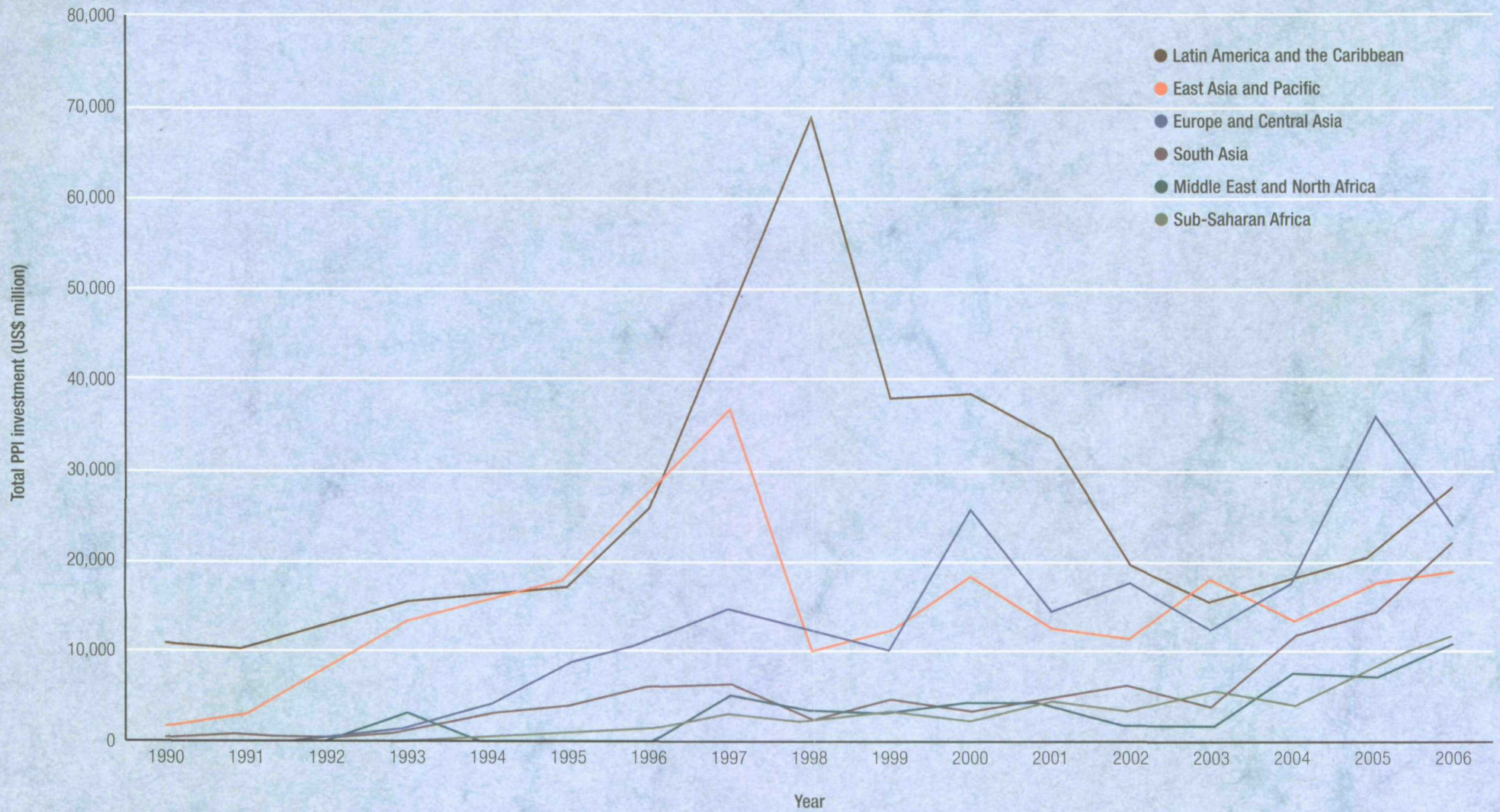
Following the peak in the late 1990s, investment in private infrastructure projects declined sharply. By 2003, private investment flows had fallen

to 1994 levels, as investors chose to exit 'high-risk' emerging markets due to recurrent financial crises and often problems nearer to home which caused them to draw in their horns. The market has, however, since shown signs of recovery, with increased growth in PPI investment in most regions between 2004 and 2006. This has coincided with strong developing country economic performances and increased international capital flows (at least prior to the recent 'credit crunch').

A crucial constraint to further improvement in this otherwise favourable trend, remains poor project bankability. There is an urgent need to address this problem if the volumes and values of private financings are to increase.¹⁵ The next section sets out the various PIDG facilities and affiliated programmes that have, or are being, developed to address this challenge.

15. The PIDG, through EAIF is presently carrying out a study to examine the constraints on infrastructure investment in Africa.

Figure 3.1: Investment in infrastructure projects with private sector participation by region, 1990-2006¹⁶



16. Source: World Bank PPI database

4



“One of the greatest returns to improved access to services (especially water) is in the time savings for women and girls and the expansion of their choices.”

UNDP HUMAN DEVELOPMENT REPORT 2006: BEYOND SCARCITY
POWER, POVERTY AND THE GLOBAL WATER CRISIS.

PIDG Facilities and Development Impact

The PIDG facilities have evolved in response to specific failures in the infrastructure markets of low-income developing countries. Each facility seeks to provide a unique solution to the market gap created by the lack of sufficient resources for infrastructure, low levels of capital market development and poor technical capacity. PIDG activities have facilitated increasing private sector infrastructure investment and have promoted, and continue to promote, the objectives of economic growth and poverty reduction.

4.1. Overall development impact of PIDG

In order to help ensure a continued and improving pro-poor focus of the PIDG facilities, during 2007 the PIDG updated and streamlined its monitoring and evaluation (M&E) framework. This framework assesses PIDG activities in terms of their development impact. The PMU recruited a development advisor to oversee the system and to track the development impacts of PIDG activities. The key indicators monitored include:

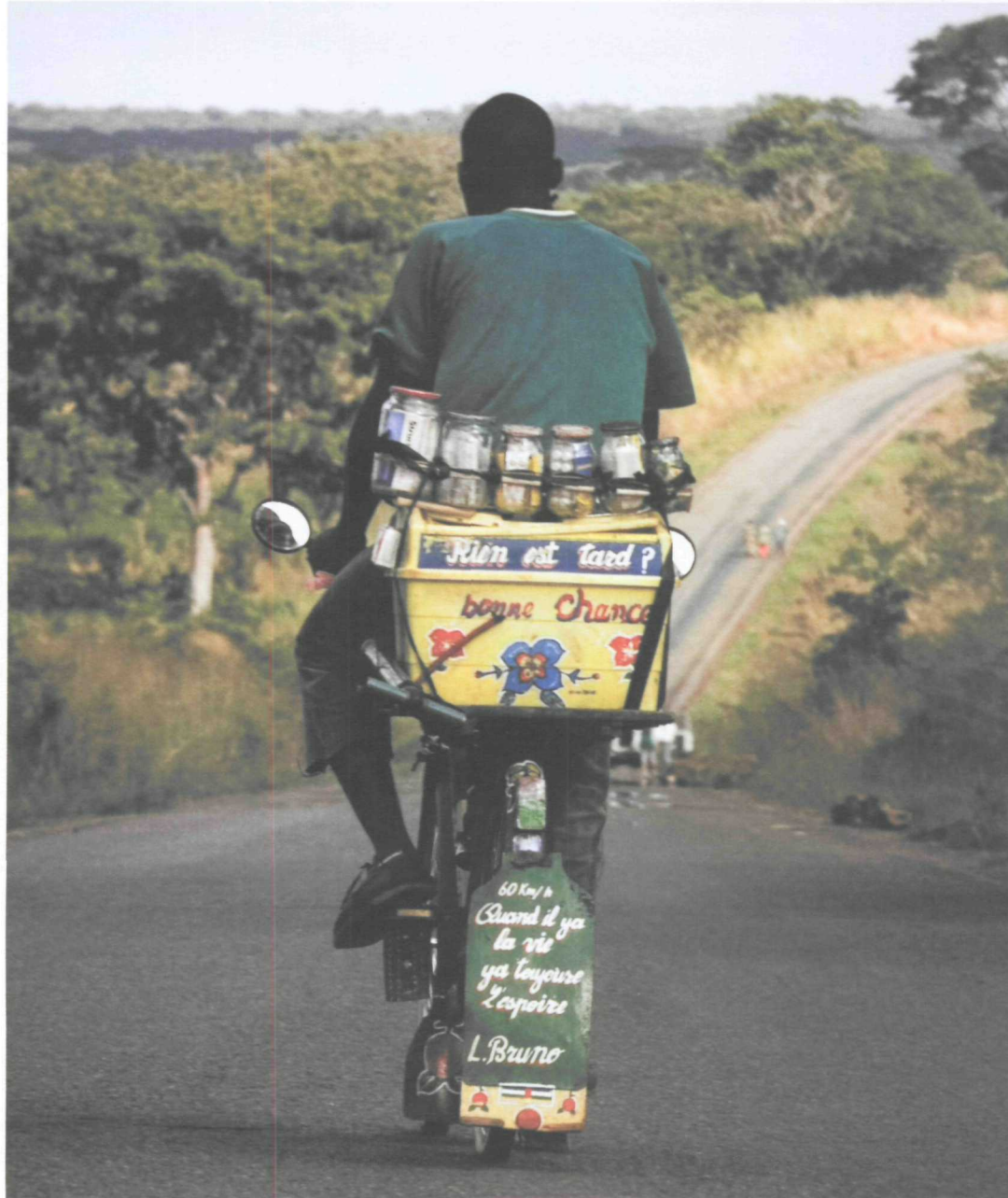
- the increase in private sector investment for infrastructure;

- improved access to infrastructure services (both in terms of additional connections and improvement in existing services);
- fiscal impact in terms of avoided subsidies by the government, revenue through up-front fees and on-going tax payments;
- the impact on employment; and
- alignment of investments with national development plans.

Annex 3 of this Report provides the standard proforma used to collect information on the development impact of PIDG activities.

Unlike many other donor facilities, a majority of PIDG projects have focused on DAC I countries. The measured development impact of PIDG projects includes:

- private sector investment commitments of US\$7.7 billion, with PSI investment committed per \$ of actual PIDG investments to date being US\$30.16;
- improved access to infrastructure services by poor households, including new and/or improved water, electricity and/or transport infrastructure for 6.3 million people, cell phone connections for over 2.6 million people;



- fiscal impact in terms of avoided subsidies by developing country governments in excess of US\$510 million and increased revenues through upfront government fees of US\$5.8 million. In addition, DevCo projects are expected to have a fiscal impact of US\$2,576 million of which US\$581 million has already been generated.
- the creation of over 10,000 direct employment opportunities, in addition to multiplier effects on employment through greater economic activity and improved business potential.

This overall impact of the PIDG is based on an aggregation of the development impact of the individual facilities and does not include benefits resulting from those interventions by GPOBA that are not undertaken in association with another PIDG facility. The development impact of individual facilities is presented in Table 4.1.

Table 4.1: Development impact arising from the activities of the PIDG facilities

Facility	Summary of project activity	Key developmental impacts
EAIF	EAIF has closed 11 projects in Sub-Saharan Africa.	<ul style="list-style-type: none"> • Investment: EAIF projects have led to predicted PSI commitments of US\$5.4 billion. • Access: Increased access to infrastructure services for a large number of poor people including 2.5 million people served with phone connections Sub-Saharan Africa, 27,500 people with new and improved electricity, transport and water infrastructure in Moma district of Mozambique, among others. • Fiscal: Upfront government fees of US\$457.4 million and subsidies avoided by the government to the order of US\$7.26 million per annum. • Employment: Immediate availability of 1,418 jobs for construction of EAIF supported projects, with additional long-term job-creation. • Countries: 36% of EAIF activities have focused on 'Least Developed Countries' and 55% on 'Other Low Income Countries' (DAC List - all DAC I). There is an additional project (covering 9% of commitments) that operates in 12 Sub-Saharan African countries.
GuarantCo	GuarantCo has three projects, with 2 on-going and 1 completed at present.	<ul style="list-style-type: none"> • Investment: PSI committed for GuarantCo projects is US\$374 million • Fiscal: Increased government revenue through taxes; GuarantCo support for Celtel in Chad has led to US\$5.8 million in upfront government fees. • Employment: Additional short-term jobs for 1,462 people based on the operations of GuarantCo supported projects, with additional long-term job creation. • Countries: GuarantCo's investments are equally divided between 'Least Developed Countries' and 'Other Low Income Countries'
InfraCo	InfraCo's has signed a Joint Development Agreement for 7 projects.	<ul style="list-style-type: none"> • Investment: Predicted PSI commitments for the projects of US\$734 million and Euro 51 million. • Access: Increased access to infrastructure services for a large number of poor people including 352 small scale farmers in Zambia; entire population of Bugala Island (22,000 people), Uganda; fishing community of Mekong River Delta Region (exact numbers not yet available). • Fiscal: Subsidies avoided by the government to the count of US\$508 million • Employment: Immediate availability of 3,600 jobs for construction of InfraCo supported projects, with additional long-term job-creation. • Countries: Around 57% of InfraCo activities have focused on 'Least Developed Countries' and 43% on 'Other Low Income Countries'.
DevCo	DevCo has thus far successfully completed 9 mandates.	<ul style="list-style-type: none"> • Investment: Total PSI commitments of US\$1.9 billion with US\$435 million being realised PSI to date. • Access: More than 6 million people expected to benefit from improved infrastructure services in water, electricity, telecommunications and transport. • Fiscal: Estimated future fiscal impact of US \$2.6 billion, with US \$581 million already realised. • Countries: DevCo's portfolio of projects has spanned across DAC 1 (50%), II (25%) and III (25%) lists.
TAF	Since its establishment, TAF has provided technical assistance for 31 projects, adding capacity and expertise to the services provided by other PIDG facilities. The development impact of TAF projects is therefore recorded as a part of other PIDG facilities.	

4.2. Emerging Africa Infrastructure Fund Ltd.

“The lack of capacity to generate enough resources to finance infrastructure projects under our control hinders the accomplishment of most socio-economic projects.”

ARMANDO GUEBUZA, PRESIDENT OF MOZAMBIQUE AT THE COMMONWEALTH HEADS OF GOVERNMENT MEETING, 2007; AGENCIA DE INFORMACAO DE MOCAMBIQUE.

EAIF seeks to increase the volume of private capital flows into private sector infrastructure projects through the provision of long term US\$ or EUR denominated debt finance.

EAIF was set up in early 2002 as the first multi-donor initiative of the PIDG, and is the first dedicated debt fund for Sub-Saharan Africa. EAIF aims to address the market gap created by the high interest-short tenor loans provided by commercial banks in the region, which are typically not suitable for infrastructure financing. Coupled with the access to private sector know-how, EAIF provides a unique solution to the need for long term debt financing for infrastructure development in the region. It operates on private sector commercial principles and thereby demonstrates the viability of long-term commercial lending into 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.

Structure and operations

EAIF is a US\$365 million debt fund and has a tiered financial structure which enables the PIDG members to provide equity through the PIDG Trust (US\$100 million), and commercial lenders and DFIs to provide senior and subordinated loans (US\$180 million and US\$85 million respectively). In 2006, EAIF was able to refinance its senior debt, lowering the cost and improving the terms, with a corresponding increase in the amount of senior debt of US\$60 million (to give the current total fund size of US\$365 million), and also including the use of a Euro lending option.

EAIF is established as a special purpose investment company in Mauritius, with the PIDG Trust being the sole shareholder in the company. EAIF is managed by Standard Infrastructure Fund Managers (Africa) Ltd, a Mauritius incorporated fund management company jointly owned by Standard Bank Group, FMO and Emerging Markets Partners. SIFMA is advised in respect of EAIF by Frontier Markets Fund Managers (FMFM, a division of Standard Bank Plc).

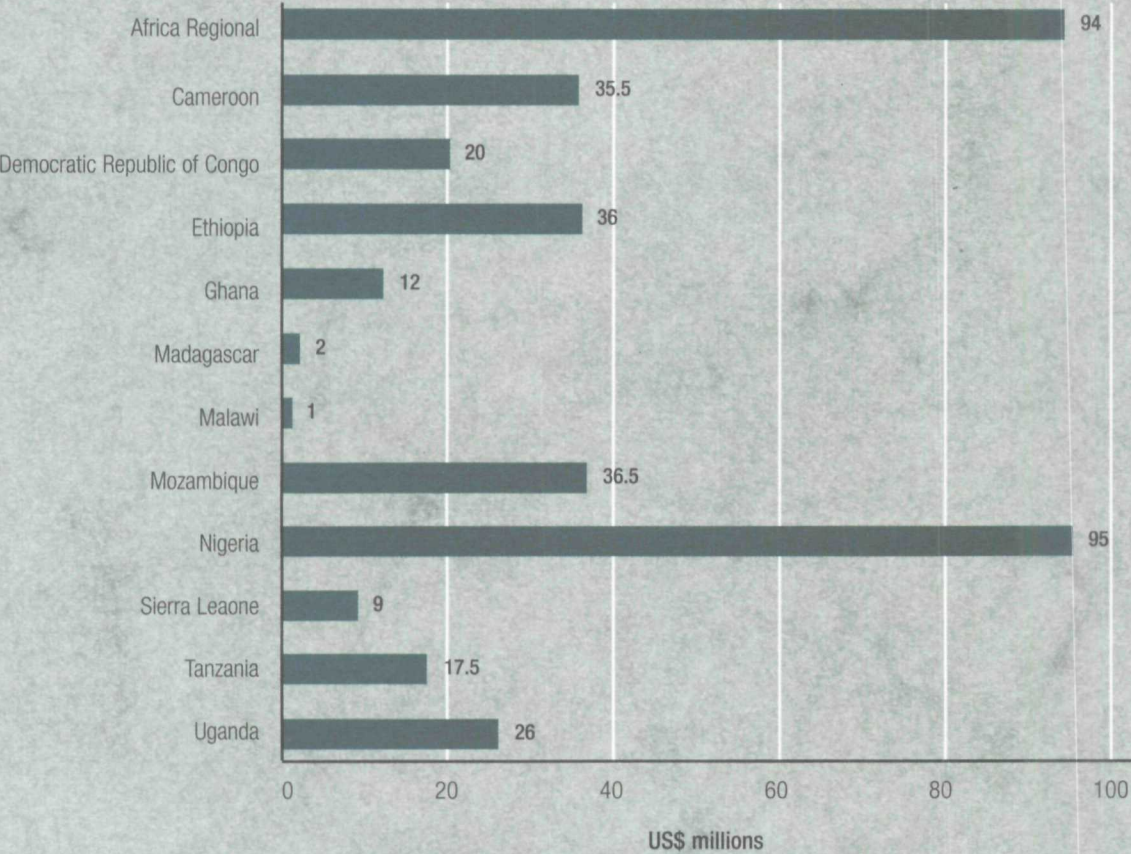
EAIF supports a wide range of sectors including telecommunications, transport, energy/power and infrastructure for agribusiness, mining and industrial developments. As of December 2007, EAIF has loan commitments amounting to US\$384.5 million in 15 projects across Sub-Saharan Africa. Annex 2 provides details of EAIF's projects and their development impact.

The types of projects include greenfield, refurbishment and rehabilitation, expansion and operation, with typical investments falling in the range of US\$10-30 million (or its equivalent in EUR).

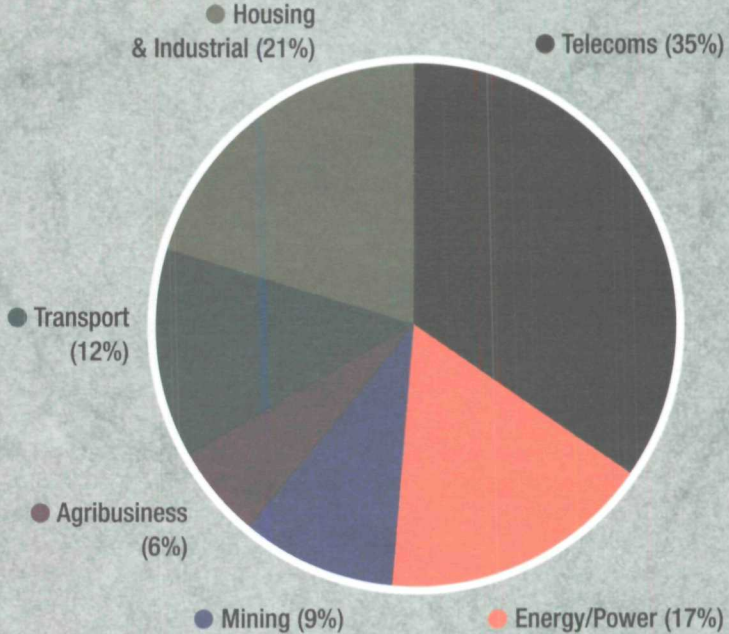
Figure 4.1 opposite provides a break-up of EAIF's portfolio by country and by sector. Box 4.1 on page 26, describes a typical EAIF project, including its development impact.

Figure 4.1: EAIF portfolio by country and by sector

EAIF investment by country



EAIF investment by sector



Box 4.1: EAIF's financing of the Seacom submarine fibre optic cable in East Africa

One of the key drivers of rapid economic growth and broad based development is the availability of modern information and communications technology (ICT) for improved access and connectivity. Improved connections and access have brought global markets together, fostered international and national trade and reduced transactions costs. The impetus to economic activity through ICT development has been crucial for poverty reduction and human development.

However, Sub-Saharan Africa has been left behind the rest of the world in terms of ICT development, as set out in the table below.

Availability of ICT infrastructure in different regions of the world¹⁷

	International bandwidth – bits per person, 2004-05	Secure servers per 1m people, 2006	Internet users per 1000 people, 2006	PCs per 1,000 people, 2005-06	Voice traffic - minutes per person, 2001-04
East Asia	97.1	88.7	38.2	6.1	1.01
Latin America and the Caribbean	161.8	156.0	88.5	43.0	11.9
South Asia	17.6	49.0	15.5	4.1	0.64
Sub-Saharan Africa	1.5	28.6	15.0	8.2	1.98
High income countries	4,529.1	440.42	523.4	575.6	170.4

Within Sub-Saharan Africa, the lowest penetration of bandwidth is in East Africa, the only coastal territory in the world that does not have access to an undersea fibre optic cable. The Seacom Undersea Fibre Optic Cable project involves the construction and operation of the first submarine fibre-optic telecommunications cable, with 1,280 gigabytes of capacity, along the East African coast. This will initially connect South Africa, Mozambique, Madagascar, Ethiopia, Tanzania, Uganda and Kenya to Europe and India, with an option to also connect to the

Middle East. In addition, during a second phase of the project, inland African countries such as Rwanda, Burundi, Zambia and others will be connected to high-speed connections with the construction of land fibre-optic cables.

EAIF will be providing US\$35 million in subordinated debt for the project, along with an equal amount from the FMO. In addition, domestic financing of US\$225 million is being raised from sources including South African investors and the NedBank. A subsidiary of the Aga Khan Foundation for Development, the Industrial Promotion Services has invested US\$15 million in equity.

Seacom will be the first provider of high bandwidth in the region, and at a much lower cost, significantly adding to a modern telecom infrastructure for the region. With the introduction of the Seacom cable, substantial increases in speed of internet connections and other telecommunications services will become possible, bringing East Africa to the same level of service as other regions of the world. Internet and broadband providers and users, who have previously not had access to high-speed services, will be linked to European and American markets. This will increase the appeal of low-wage destinations for outsourcing call centres and provide a significant opportunity for job-creation in countries with European time zones.

Mobile network operators will be able to offer increased regional services and greater capacity on existing networks. Fixed telephone line service providers will be able to reduce in-call interruptions to commercial and domestic users, as well as provide the scope for increased connections. The costs of using both fixed-line and mobile networks will fall, spreading the benefits of telecommunications to poorer groups. In addition to some licensing and landing fees, benefit to governments will be in the form of tax and VAT revenues from taxing increased telecommunications traffic.

EAIF's Project Development Facility (PDF)

EAIF now has significant distributable reserves and it has been decided to allocate part of these to project development activities. The PDF has been set up within EAIF as an additional source of grant money to augment technical assistance activities. The grants are available to all projects supported by PIDG facilities, where EAIF is providing financing or invited to provide financing to the project. In addition, grants are convertible to equity in projects where the assistance provided produces a feasible project. To date, two grants for an aggregate amount of US\$ 0.4 million have been agreed: one to support the development of a power project in Tanzania and another for a heavy equipment leasing business in Cameroon. Two further proposals are under consideration.

4.3. InfraCo Ltd.

“Economic opportunities are strongly shaped by access to infrastructure.”

WORLD DEVELOPMENT REPORT 2006: EQUITY AND DEVELOPMENT, WORLD BANK.

InfraCo seeks to address the lack of development of infrastructure projects suitable for private sector investment by acting as a principal, shouldering much of the upfront costs and risks of early stage project development.

InfraCo is an infrastructure project development company, launched in April 2005. It takes on high transaction risks associated with early stages of the project cycle with the aim of selling its equity stake to private investors once the development process has been completed. Thus InfraCo reduces the entry costs for private sector participation in

infrastructure and adds value by crowding in additional new investment.

InfraCo is compensated for its time, efforts and costs by incoming private sector sponsors, often in the form of a minority 'carried' interest in the venture. Over time it may sell its interest to national, institutional and public investors. InfraCo's involvement is designed to catalyze new investment in projects which would not otherwise be undertaken.

Structure and operations

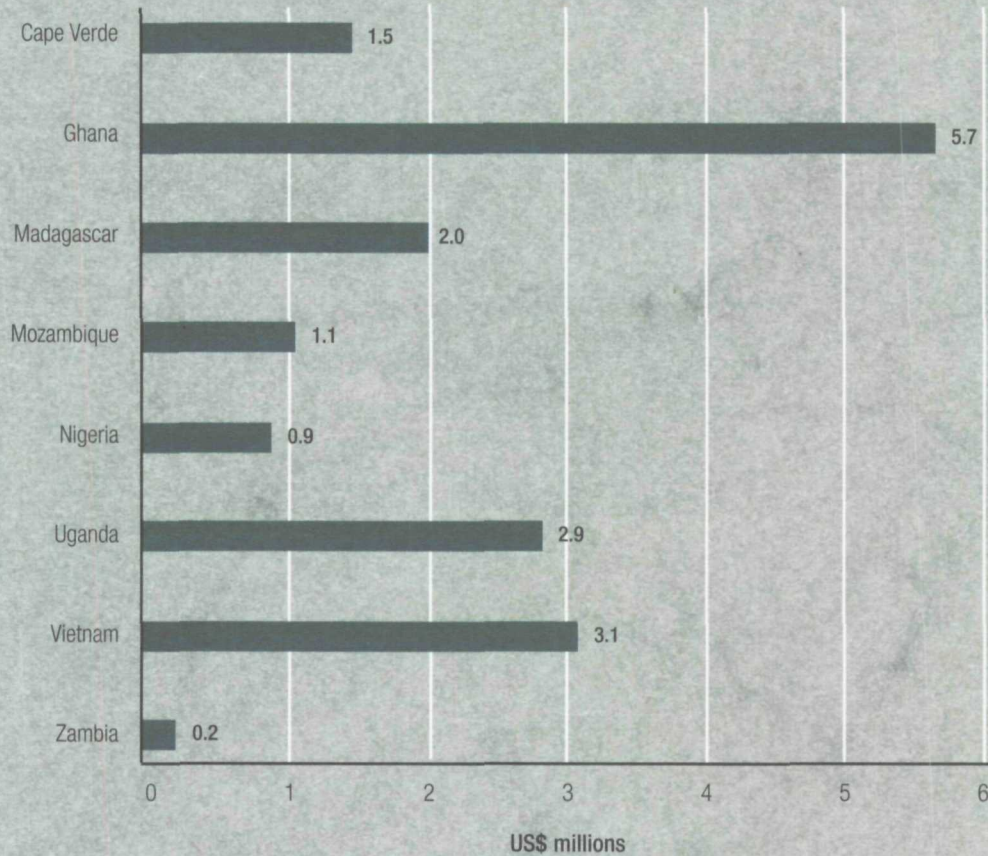
InfraCo presently has a budget of US\$20m, an increase of US\$10m since its establishment, with additional support provided by the IFC. InfraCo is managed by professionals from the private sector – InfraCo Management Services Ltd. – with strong incentives to deliver agreed outcome based performance targets.

As of 2007, InfraCo has provided investments of US\$17.4 million for developing 12 projects. Annex 2 provides details of InfraCo's projects and their development impact. All of these projects have been undertaken in DAC I countries, with a focus on Sub-Saharan Africa. PIDG is currently in the process of establishing InfraCo Asia that would focus on project development in the Asia (discussed further in Section 4.7.2).

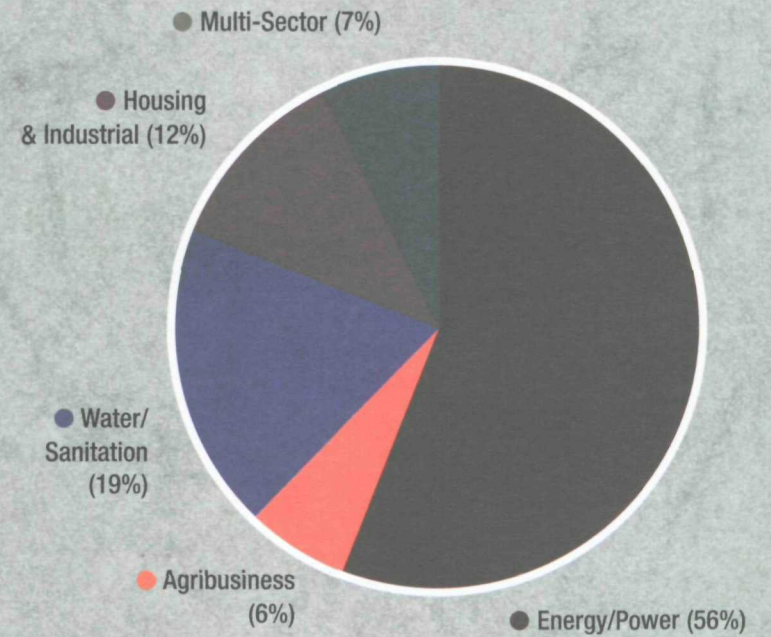
Figure 4.2 on page 28 presents the current portfolio of InfraCo by country and by sector. Box 4.2 on page 29 provides a description of a typical InfraCo project, concentrating on its development impact.

Figure 4.2: InfraCo portfolio by country and by sector

InfraCo investment by country



InfraCo investment by sector



Box 4.2: Antara Cold Storage facility project in Vietnam

In the agriculture and allied activities sector, small farmers in low-income developing countries suffer considerable losses due to wastages and spoilages of their produce. Given the perishable and seasonal nature of their produce, infrastructure facilities for suitable warehousing and storage is critical for maintaining value and providing a sustainable source of income for the farmers. These infrastructure facilities also support the development of small and medium scale enterprises along the agricultural supply chain, to provide local and international markets with greater efficiency and competitiveness. Cold storage space in Vietnam is presently supply-constrained in the face of fast growing demand. Professional cold warehouse space and expert management is lacking in the country, leading to large product spoilage rates of more than 30 percent. The system is currently dependant on old, poorly run and maintained and extremely energy inefficient warehouses.

The Antara Cold Storage project is being developed to meet this market need for new and improved supporting infrastructure in the agribusiness sector in Vietnam. The project involves the development of a public refrigerated warehouse and cold storage distribution facility in Ho Chi Minh City. The project will enhance capacity in cold warehouse space as well as transportation and tracking of goods. Additionally, it will provide infrastructure for the provision of health inspection services.

The project comprises a US\$16 million facility, with the expectation that US\$10 million of debt financing will be sourced from the IFC and commercial banks, and US\$6 million of equity that will be financed from private investors. The project client is Antara Holdings Asia Limited (AHA) and InfraCo will accumulate equity options in AHA by funding the development costs. InfraCo total development costs are budgeted for US\$1.9 million of which US\$1.1 million are committed third party expenses. In addition, the InfraCo team, with assistance from a TAF grant, has initiated a programme focused on capacity

building in the fisheries sector in the form of training sessions and will provide much needed expertise to the fishing community in the region.

The project will greatly contribute to the economic and social development of Vietnam. While the facility will benefit a variety of industries and needs, its primary user is expected to be the seafood sector, which is currently a US\$3.3 billion export industry in the country. With access to refrigerated storage, local seafood processors will expand their market-access and increase value added. The facility will enable low-income sectors of the economy to access international markets and increase exports of frozen seafood and other temperature sensitive products, bringing in valuable foreign exchange earnings. In addition, the project will boost the infant logistics industry that is presently struggling to expand.

Increased demand stability will boost the incomes of farmers and shrimpers in the Mekong Delta, a community which accounts for 17.5% of Vietnam's poor. The storage facility will ensure reduced wastage and allow the fish farmers to better manage supplies and purchases. This will enable reduced prices and increased productivity and profits by allowing greater local and external trade, integrating markets and reducing seasonal fluctuations.

The Vietnam PRSP cites the fishing industry ("agriculture, forestry and fishery production") as an area whereby "rapid poverty reduction" may be achieved through "... improving processing capability in order to raise product quality and better meet domestic and export demand, creating more jobs and raising rural incomes by developing rural industry, services and other off-farm activities." The document cites the need to make investments to support fishery infrastructure, and improve the access of poor fishery households to production inputs, information extension services, credit and markets.



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4.4. GuarantCo Ltd.

“Risk mitigation instruments are no panacea. However, they will help “bridge the gap” while a country establishes a sound legal and policy framework that will reduce risk – and even afterward can support efficient risk sharing.”

HABDECK, ODO AND TOMOKO MATSUKAWA (2007): RECENT TRENDS IN RISK MITIGATION INSTRUMENTS FOR INFRASTRUCTURE FINANCE - INNOVATIONS BY PROVIDERS OPENING NEW POSSIBILITIES, PPIAF GRIDLINES, NOTE NO. 20.

GuarantCo is a local currency guarantee vehicle that is designed to mitigate credit risks for local currency financing of infrastructure.

GuarantCo offers partial guarantees on issues of paper by private and public sector infrastructure entities, that serve as credit enhancements to facilitate the issuance of local debt instruments. The two key objectives of GuarantCo are to encourage domestic financing of infrastructure services and promote local capital market development.

GuarantCo's overall strategy is to enhance growth through local market development and efficient infrastructure services. Well-functioning capital markets are vital to facilitate private sector investment and to deliver necessary infrastructure projects that improve coverage and quality of services. Capacity building in local markets will enable projects to eventually be refinanced with reduced GuarantCo support.

Structure and operations

While set up in 2003, a management contract for the facility was awarded in 2006 to Standard Infrastructure Fund Managers (Africa) Ltd (SIFMA). Thus the facility has completed its first year of operations in 2007. SIFMA also manage EAIF, thus bringing the two vehicles closer and facilitating joint investments.

GuarantCo was established with a total capital commitment of US\$25 million, expanded to US\$73 million by the PIDG Trust and FMO. As of 2007, GuarantCo commitments are for US\$35 million across three distinct projects, with total PSI commitment of US\$216.5 million. Annex 2 provides details of GuarantCo's projects and their development impact.

The initial geographical focus for GuarantCo is Sub-Saharan Africa and the poorer countries of Latin America, South and South East Asia. Its primary aim is to tap institutional funds within these markets which cannot currently be accessed by infrastructure projects.

Box 4.3 on page 32 describes a GuarantCo project and its development impact.

Box 4.3: GuarantCo's support for the expansion of the operations of a large corrugated iron and roofing materials manufacturer, Safal Group

Despite strong growth in the sector, a demand-supply gap for coated steel roofing materials has emerged in Eastern and Southern Africa. Steel roofing materials form an integral component of the construction of solid "pucca" buildings – whether for personal housing purposes or for the construction of business and manufacturing units.

The Safal Group produces corrugated iron materials for supply throughout Africa. In order to expand its operations, the Group is developing a US\$170 million package of projects in South Africa, Kenya and Tanzania. These projects will increase the Safal Group's existing coated steel production capacity by 225,000 tonnes per year.

GuarantCo, along with the IFC, is participating in the projects for Kenya and Tanzania, providing guarantees of US\$16 million each for a total local currency bond issue of US\$32 million by the Safal Group. The projects include:

- a 75% guarantee of a US\$11m equivalent bond issue for the funding of an extension to a cold rolling steel mill in Kenya; and
- a 75% guarantee of a US\$5m equivalent bond issue with similar tenure to construct a new galvanising plant in Tanzania.

In Kenya and Tanzania, both DAC 1 countries, these investments will lead to improved quality, durability and a reduced cost of thin gauge roofing sheets. Both general consumers and agricultural users will benefit with greater affordability and better quality, while farm output will be enhanced through better storage units.

The investment in the steel roofing sector will enhance private sector productivity and will allow firms to compete in regional and international markets, facilitating exports of value added products. This will enhance foreign exchange earnings and boost future productivity as local firms become more able to compete internationally. In addition, Safal's operations will provide employment to approximately 1,300 local people in its operations.

By facilitating transactions for innovative firms such as ALAF, who pioneered steel roofing products in Africa, GuarantCo is boosting local business development. Furthermore, the project dovetails with existing housing strategy and development plans.

4.5. Technical Assistance Facility

The TAF aids public and private sector clients in attracting private capital for infrastructure financing by providing grants for technical assistance to facilitate access to and use of the PIDG facilities.

The TAF provides funding to support capacity building and help scope potential investment opportunities so as to encourage and facilitate the use of the PIDG vehicles. Lack of appropriate capacity and technical expertise of policy making bodies, regulatory agencies and privately managed projects limit the development of infrastructure projects and TAF grants aim to fill this gap by providing advisors, training, secondments, or workshops, technical and regulatory reform studies and technical assistance.

The overall objective of the TAF is to enhance the ability of potential PIDG clients to evaluate, develop and/or implement risk mitigation, financial and regulatory mechanisms, standards, systems and procedures essential for raising funds in the capital markets in association with PIDG, and to support social and economic development objectives. The TAF strategy for achieving these objectives includes providing financial grants to the PIDG facilities through three funding windows with distinct criteria:

Window 1: General Technical Assistance

Activities eligible for TAF funding under this window include support for infrastructure development strategies; policy, regulatory or institutional reforms; pioneering or pilot transactions and capacity building.

Window 2: Capital Market Development

Window 2 provides grants to facilitate capital market

development and/or strengthening, as well as, generally, the enabling market for securities development. Unlike Window 1, however, it is not necessarily project related, and may be used to address capital market issues in general, pre-or post-transaction, in a specific country or region. Window 2 is limited for use by GuarantCo.

Window 3: Output-Based Aid (OBA):

Window 3 provides grants on an OBA basis to address the issues of balancing affordability by the poor with commercial viability. Grants may be provided by TAF in conjunction with GPOBA processing and management, or directly through TAF. In addition to studies, technical assistance, and training, Window 3 may provide funds to subsidize initial fees and user charges likely to be incurred by the poor for services provided, or contributions to capital expenditure to reduce downstream cost recovery charges. OBA grants will be disbursed based on delivery of defined inputs and/or services.

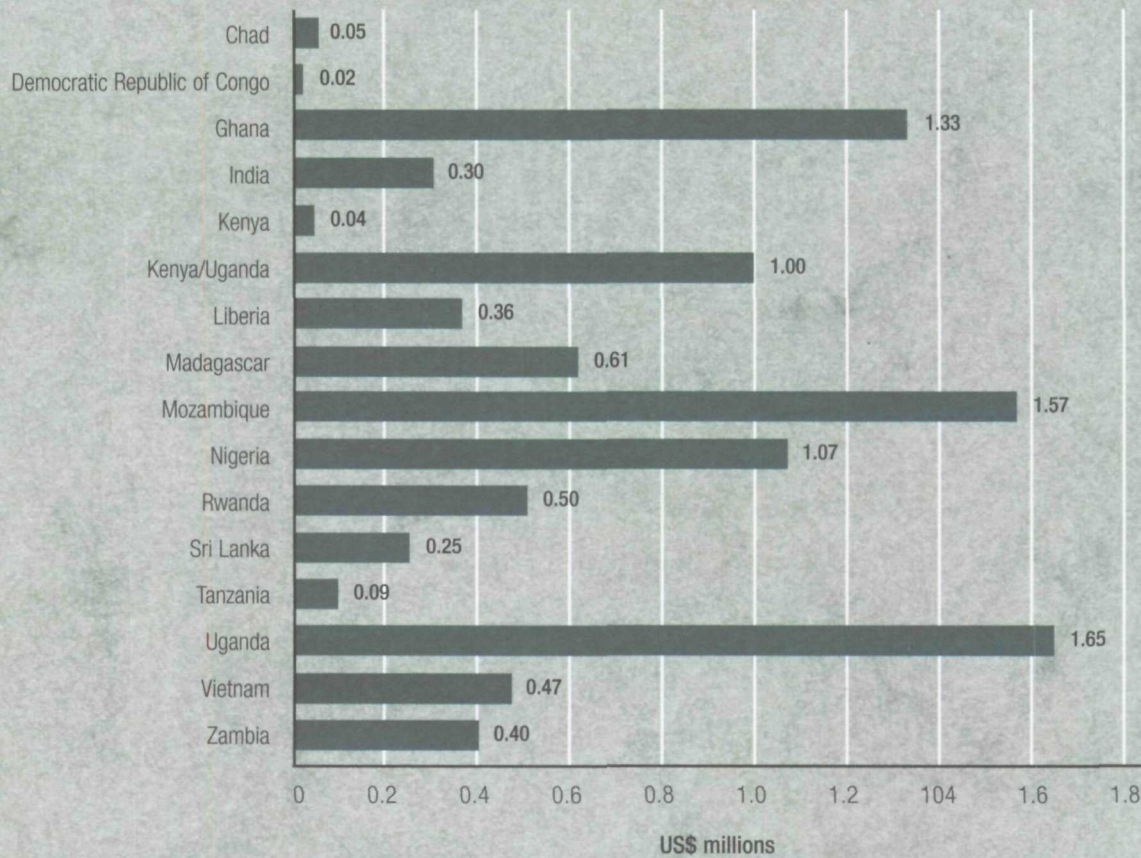
Structure and operations

The TAF became operational in February 2004 and presently has a budget of US\$20 million. Since becoming operational, TAF has committed US\$9.7m in grants to PIDG facilities across 31 projects. As TAF grants are provided to projects under the various PIDG facilities, details on TAF projects are provided in Annex 2 under the PIDG facility taking the project forward. In addition, TAF has supported a few additional projects on capacity building and technical assistance support, details of which are also provided in Annex 2 of this report.

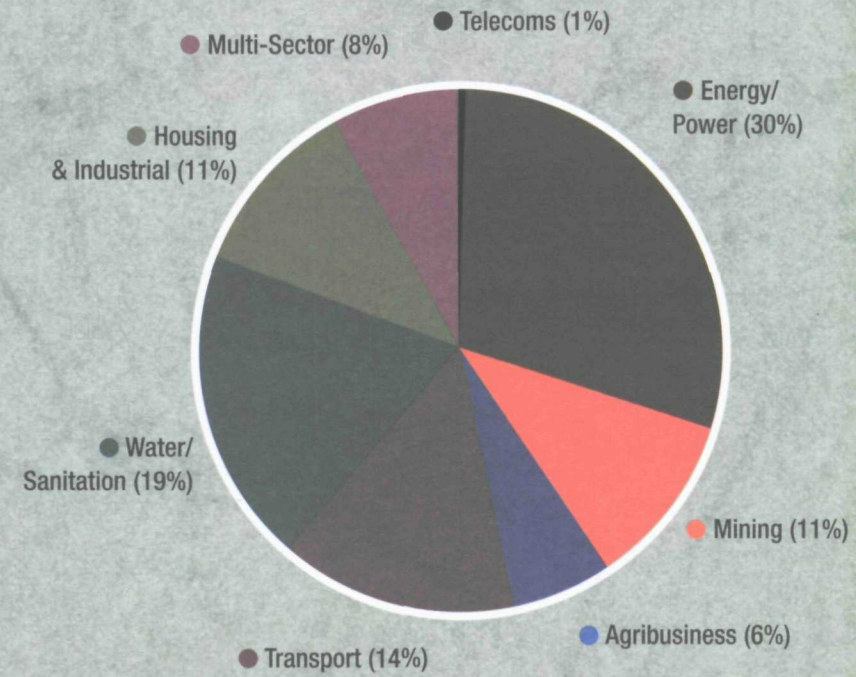
The TAF portfolio is represented by country and by sector in Figure 4.3 on page 34. The role of TAF in supporting a PIDG facility project is provided in Box 4.4 on page 35.

Figure 4.3: TAF portfolio by country and by sector

TAF assistance by country



TAF investment by sector



Box 4.4: TAF assistance for the Cape Verde wind farm project

The African archipelago of Cape Verde has traditionally relied on imported fossil fuels to meet its energy needs, which has implied extensive load shedding due to shortages in fuel supply and weakening of the country's balance of payments.

Cape Verde has been highly dependant on foreign aid and emigrant remittances, which account for 34% of its GDP. However, in the face of good economic performance over the past two decades, the country has now advanced to the level of a lower middle income country and therefore faces a major reduction in this external assistance. As a result, the country is looking beyond development aid as a source of support, and is now increasingly seeking to attract international finance and mobilise domestic investment for sustainable infrastructure development.

To address the needs for power sector development and investment mobilisation, TAF has made available a grant of US\$0.4 million to InfraCo to support the development of a wind-powered energy project on the four islands of Santiago, S. Vicente, Sal, and Boa Vista. InfraCo is supporting the development, financing, construction, ownership and operation of four wind farms (and their interconnection) on these islands, at a development cost of US\$3.6 million. The project will install approximately 30 wind turbines on the 4 selected sites, each with a generating capacity of 300 KW – 1.5 MW, summing up to an overall total of 22.5 -30MW capacity

The primary focus of the proposed TAF grant is to provide much needed capacity building in planning, evaluation, design and implementation of development activities for both government and the local private sector in a country which has seen much of its technical expertise migrate away from the island nation in the last few years. Consultant activities will include substantial knowledge transfer and capacity building, working with local government

officials and Electra (the state-owned utility company) personnel. Most of the studies proposed for co-financing by TAF go beyond the specific wind project being developed, in order to help establish and enhance capacity within Government and Electra to anticipate, provide incentives for, and plan for cost-effective, sustainable social and economic development with greater participation of the private sector

The project will lead to the provision of more affordable, reliable and cleaner electricity for the inhabitants of Cape Verde. With the displacement of fossil fuels as the energy source, the islands will benefit from renewable and environment-friendly wind power, with reduced greenhouse gas emissions, as the base for their energy supply. This will also reduce costly imports of oil by the equivalent of at least 20,000 tons of diesel each year.

With Cape Verde's transition from heavy reliance on foreign aid to attempts at greater financial self sufficiency, the project will demonstrate the viability of this shift, while helping the private sector to play a role in financing infrastructure development and services. The project is expected to generate considerable private investment with predicted PSI levels of Euro 51 million. The project will also assist with developing the country's human capital, which as mentioned above, has been depleting over the last two decades.

4.6. PIDG Affiliated Programmes

4.6.1. DevCo

“The private sector’s technical and managerial competence, combined with more sustainable pricing policies and better financial discipline, provide more resources for investing in expansion and relax the investment constraints which prevailed under public provision. In many cases the biggest gains from private provision come through increased investments to meet increasing demand and serve previously unattended consumers.”

HARRIS, CLIVE (2003): PRIVATE PARTICIPATION IN INFRASTRUCTURE IN DEVELOPING COUNTRIES - TRENDS, IMPACTS AND POLICY LESSONS, WORKING PAPER NO.5.

DevCo funds support for governments in the preparation of infrastructure projects for private sector investment.

DevCo supports infrastructure transactions in the poorest countries by providing funding for expert consultants working with IFC-led teams, preparing projects for private investment. DevCo funds can be

used to support marketing, planning and development of transactions as well as implementation support through specialised consultants. DevCo can also provide partial underwriting of IFC risks associated with advisory mandates.

DevCo covers all infrastructure sectors including water and sanitation, electricity, telecommunications, transportation, housing and solid waste. In addition, DevCo will, over the coming year, renew its focus on the Small Scale Infrastructure Programme (SSIP), which supports technical assistance and advisory services to encourage the development and expansion of small scale infrastructure providers. This adapts the DevCo model to smaller scale transactions with a greater poverty focus. Currently the DevCo SSIP programme is developing four projects in Sub-Saharan Africa aimed at improving water supply and electricity connections

Structure and operations

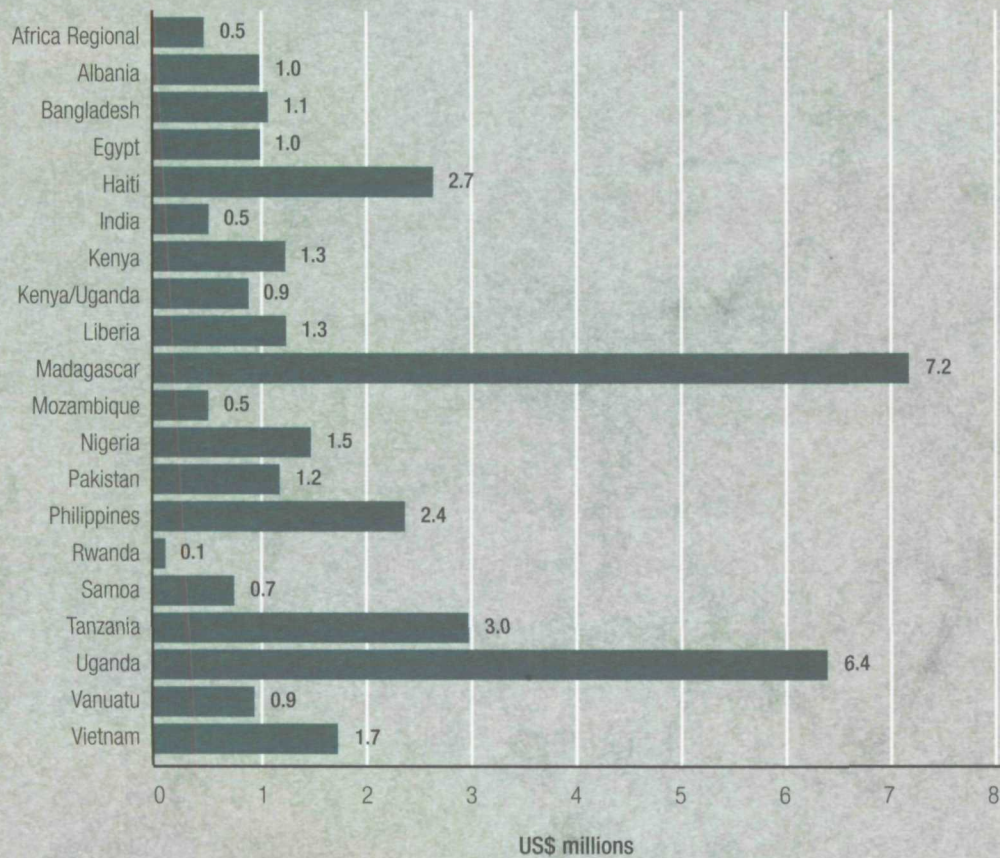
DevCo is an Affiliated Programme of the PIDG because it is funded through a designated Trust Fund at the World Bank, rather than through the PIDG Trust. Its funding base is made up entirely of PIDG members, and projects are subject to PIDG approval, making it very similar to a PIDG facility. DevCo is managed by IFC’s Advisory Services Department (CAS).

Since its launch, DevCo has received approximately US\$50 million in funding from the PIDG donors, including an IFC contribution of US\$8.75 million. As of 2007, DevCo has supported 33 initiatives (including 4 projects under the SSIP window) at a total investment of US\$35.8 million. There is currently a strong pipeline for potential investment of the remaining balance of the available funding. DevCo’s portfolio by country and by sector is provided in Figure 4.4 below.

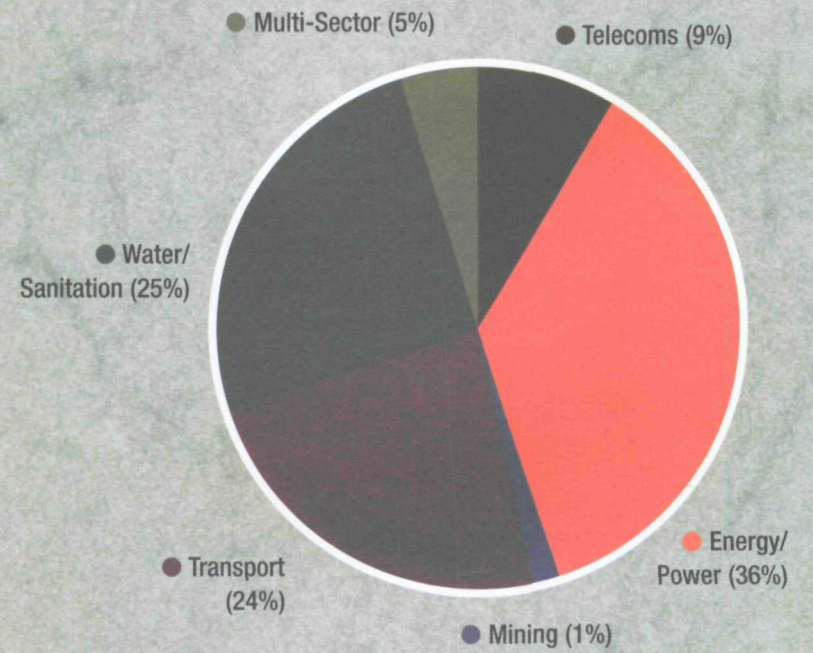
An example of DevCo support it provided in Box 4.5 on page 38.

Figure 4.4: DevCo's portfolio by country and by sector

DevCo assistance by country



DevCo assistance by sector



Box 4.5: DevCo's advisory support for the introduction of the private sector in the power sector in a post-conflict country

Liberia's infrastructure, including its electricity generation capacity and the transmission network was completely destroyed by the 14 year civil war, leaving a critical need for infrastructure development and improvement. At present, there is very little electricity supply, mostly supplied by expensive and inefficient diesel generators and at a high tariff. While there are some donor programmes in force to improve the power situation in the country, these are only temporary solutions. A more cost effective long term solution to Liberia's energy situation is increased private sector participation in hydropower. DevCo, along with assistance from GPOBA, is providing assistance to the Government of Liberia to develop a strategy for the introduction of the private sector for power generation.

DevCo is enabling specialist services to enable the review, recommendation and implementation of a medium-term power sector solution for Monrovia. Longer term strategies to bring large hydropower electricity supply back online are required but will take around five years and require financing of around US\$120m. DevCo, aided by the IFC, will ensure that investment is sustained in the period between the ending of donor support and the commencement of large-scale generation.

The ultimate aim of the project is to ensure that any potential option is attractive to investors whilst ensuring sustainable benefits to the economy.

Private sector participation is geared towards investors with established financial standing and experience in the efficient ownership, financing, management, operation and maintenance of similar facilities. The IFC is assisting with enabling regulatory mechanisms, ensuring a fair and transparent bidding process, and providing on-going advice to the government regarding longer term investment options.

An integral part of Liberia's reconstruction and development strategy is the development of the power sector to deliver economic growth and ensure access to electric services to create jobs, eradicate poverty and improve the lives of the population. By ensuring affordable and reliable supply, there will be a reduction in costs for micro, small and medium-sized firms, an encouragement of FDI into various export-orientated sectors and provide an overall boost to investment and job creation in the industry. The strategy of supporting a sustainable solution for the power sector in a post-conflict environment can serve as a catalyst to further private sector driven reconstruction.

Support to the longer term rehabilitation of Mount Coffee and associated hydro-electric dam will enable Liberia to become an electricity exporter to other West African states in the future, and provide much-needed foreign exchange earnings.

4.6.2. Global Partnership for Output Based Aid

“There is great need for more inventiveness in designing infrastructure solutions that will best respond to the particular needs of different groups of poor people in the developing countries and that will make best use of any subsidies available.”

WILLOUGHBY, C. (2002): INFRASTRUCTURE AND PRO-POOR GROWTH - IMPLICATIONS OF RECENT RESEARCH, DFID/ OXFORD POLICY MANAGEMENT.

GPOBA aims to fund, design, demonstrate and document OBA approaches for the sustainable delivery of basic infrastructure services to those least able to afford them.

GPOBA is a multi donor program, that seeks to develop and employ the innovative strategy of output-based aid (OBA) for infrastructure service delivery. Investments in physical infrastructure, capacity building, and operating budgets (i.e. on ‘inputs’) have often failed to deliver sustained improvements in service delivery, especially for the poorest. GPOBA aims to improve on access and efficiency of infrastructure service delivery by linking objectives and expected performance to ‘outputs’.

Under OBA, performance-based contracts are used to allocate subsidies that fill the gap between the cost of delivering basic services and the ability of the poor to pay the full cost of access to that service. Service delivery is contracted out to the private sector (this can also be to NGOs, community based organisations and in some cases even public utilities) and payment of public funds is tied to the

delivery of identifiable and pre-specified outputs. Explicit, credible and sustainable funding allows private operators to mobilise much-needed commercial funding, and improves aid effectiveness. GPOBA funds can be used to subsidise output-based payments, design pilot projects using technical assistance funds, and disseminate accumulated experience and best practice.

In order to roll out the lessons learned from the pilots as they proceed, a programme to upscale OBA projects has been established under the GPOBA banner. This programme includes a Challenge Fund, open to general applications from other IFIs, bilateral donors, NGOs, public and private infrastructure service providers. The first call for bids against this Challenge Fund has been significantly over subscribed and further donor funding to meet the pipeline of outstanding good applications is currently being assembled.

Structure and operations

GPOBA was established in January 2003 and operates as a multi-donor programme at the World Bank. Donor commitments to GPOBA presently are in excess of US\$220 million, currently from several PIDG members including DFID, DGIS, Sida, and the IFC, as also non PIDG members such as AusAid. Unlike other PIDG facilities, it is hoped that GPOBA can be expanded to a broader funding base outside PIDG. Accordingly, although GPOBA is a PIDG Affiliated Programme, it does not follow the normal PIDG project approval processes and has a separate approval system.

To date, GPOBA has signed 15 grant agreements for US\$52 million, with 11 grant agreements for more than US\$42 million being signed in the calendar year 2007. GPOBA commitments at present for PIDG projects amount to US\$7.5 million.

Box 4.6 on page 40 provides an example of GPOBA support and its impact.

Box 4.6: GPOBA's support for the introduction of private power generation in remote islands in the Philippines

Provision of electricity is particularly difficult where upfront costs are high, incomes are low and the population is dispersed. The Philippine islands are a case in point where affordability is low and its population of 85 million people are spread over more than 7,100 islands. Full cost recovery from user-charges is unrealistic, especially in rural areas where per capita income is less than two dollars per day.

The Small Power Utilities Group (SPUG), part of the state-owned National Power Corporation, is responsible for electricity supply to 74 of the most remote islands in the Philippines. These islands are not connected to the major grids due to non viability, and are supplied with electricity using small, isolated diesel plants. The annual cost of supplying electricity to the SPUG islands is US\$37.5 million, with additional financing of US\$1.3 billion required over the next 10 years to replace old capital equipment. However, costs are high and service is unreliable, and SPUG's annual deficit runs into several million pesos, around 40% of which is passed on to the tax payer.

Legislation has sought to vertically and horizontally unbundle the sector to enable efficient generation from the private sector. GPOBA worked with many other donor-funded programmes, including PPIAF, to support this institutional reform for the power sector. Further, GPOBA is working with DevCo to support the introduction of private power generation in the islands of Marinduque, Romblon and Tablas (SPUG I project). (In addition, DevCo is also involved two further similar schemes in Masbate (SPUG II) and Occidental Mindoro (SPUG III).)

An OBA subsidy scheme has been initiated by GPOBA to improve electricity coverage and affordability under the SPUG I project. GPOBA provided technical assistance support to help design the OBA scheme in addition to its previous support to strengthen the regulatory and institutional arrangements required for increased PSP and OBA.

The subsidy is financed by a fund raised by a surcharge on electricity users nationally. Ongoing subsidies paid to private generators are disbursed on the basis of supply. Contracts and competitive bidding minimise supply costs, ensuring funding can extend to a wider community, while other mechanisms are designed to mitigate subsidy payment risks.

The winning bidder, a consortium of local companies, offered a full-cost tariff of US\$0.13 per kWh. It envisaged a hybrid wind-diesel system, with about 30 percent of installed capacity provided by wind generation. They have arranged a supply agreement with local electricity cooperatives responsible for distribution, through a 'performance bond', and will receive a subsidy of less than three US cents per kWh once supply electricity begins, a subsidy which in the first year amounts to around 23 percent of the total cost of generation, or US\$2.8 million.

Current support given to electricity generation is regressive and has a high fiscal opportunity cost. Under the PSP agreement, it is anticipated that the current direct state subsidies will be phased out within 15 years.

Since 60,000 households are connected to services in the islands, the subsidy amounts to around US\$50 per household each year, or three percent of annual household income. Table 4.3 provides details of how the transaction improved services, reduced subsidies and expanded coverage.

Reliable electricity supply will stimulate the emergence of canneries and other fishing related industries on the islands as well as allow exploitation of mining opportunities. Other benefits include a stimulation of the tourism sector in several of the islands, contributing to higher local incomes and welfare.

Electricity sector performance comparison – before and after transaction

Service metric	Before transaction	After transaction
Reliability	Power supply was interrupted for average of 196 hours each month.	Generators are contractually and financially committed to providing electricity at all times.
Capacity	Dependable capacity was only 13MW, a third of which was rented. More than a quarter of potential demand was un-served.	There is 24.7MW of dependable capacity, with reserves to ensure reliable supply.
Cost	The cost of generation was around US\$0.23 on average.	The cost of generation is just US\$0.13 per kWh.
Subsidy	Almost US\$10m in subsidies were required in 2005.	The first year subsidy requirement is US\$2.8m.

"There is a combination here of focus on infrastructure development to create foundations for growth, social investment and attention to overcoming poverty, but doing so in a way that also creates broad based, sustainable economic growth and investment through the private sector."

ROBERT ZOELICK, PRESIDENT OF THE WORLD BANK, 2007



4.7. Facilities in development

4.7.1. Currency Liquidity Facility

Recognising the insufficient funding for infrastructure development from local capital markets and the problems associated with indexing foreign exchange rates to tariffs, the PIDG is developing an innovative financial product designed to mitigate foreign exchange rate risk in an efficient manner through the 'Currency Liquidity Facility'.

Traditionally, foreign exchange risks have been mitigated by indexing tariffs to foreign exchange rates, thereby transferring the risk and economic cost to the off-taker and ultimately the consumer. This restricts the penetration of vital services, particularly to poorer groups, since consumers are subject to abrupt increases in service costs in the event of a macro-economic shift. However, tariffs pegged to local inflation protect consumers, but leaves the operator with a shortfall in revenue and thereby deters private investment. In response to this problem, the CLF is being developed as a standby, subordinated, revolving loan that provides funds to a project if, and only to the extent that, there is a shortfall in debt service caused by real currency depreciation beyond a pre-agreed band.

In 2006, PIDG prepared a feasibility study for the establishment of the CLF, which recommended a three-stage implementation of the facility. After an initial pilot stage financed by DFI funding, the second stage will introduce private risk capital. Subsequently, all risk capital will come from private sources. In 2007, PIDG authorised the funding of the first phase to identify pilot projects with the support of the Asian Development Bank. Projects have subsequently been selected in Sri Lanka and Pakistan which are planned for implementation in 2008.

4.7.2. InfraCo Asia

The PIDG is in the process of establishing InfraCo Asia (previously known as the Asia Private Infrastructure Financing Facility or AsPIFF), which would focus on project development in the Asian continent. InfraCo Asia would serve as a sister facility to the currently operational InfraCo, which focuses on Sub-Saharan Africa (details on InfraCo are provided in Section 4.3).

Even in the fast-growing Asian regions, there is a difficulty in securing financial close on infrastructure projects that have the potential to elicit large developmental impacts in areas with high poverty. InfraCo Asia will provide equity and quasi-equity investment products alongside public and private investors, specialising in greenfield infrastructure projects in all infrastructure sectors. Priority will be given to challenging sectors that carry the greatest potential in terms of developmental impacts. Projects will, however, tend to be small relative to those sponsored by the other PIDG facilities, with a planned investment per project of between US\$5 million to US\$70 million.

In 2005, a feasibility study was completed on the need and possible structure of this facility, following which the design phase took place in 2006. Over the course of 2007, the implementation phase was advanced and the Business Plan will be submitted to the PIDG for approval in early 2008, with the facility becoming fully operational in mid 2008.

5



*“Better governance
makes infrastructure
more efficient. And
infrastructure makes
governance easier.”*

SELIM JAHAN, ACTING DIRECTOR OF THE POVERTY GROUP FOR
UNDP'S BUREAU FOR POLICY DEVELOPMENT, WWW.UNDP.ORG

PIDG Funding and Resource Allocation

5.1. PIDG project portfolio

5.1.1. By Facility

Table 5.1: PIDG funds (disbursed up to 31 December 2007) and projects undertaken by facility

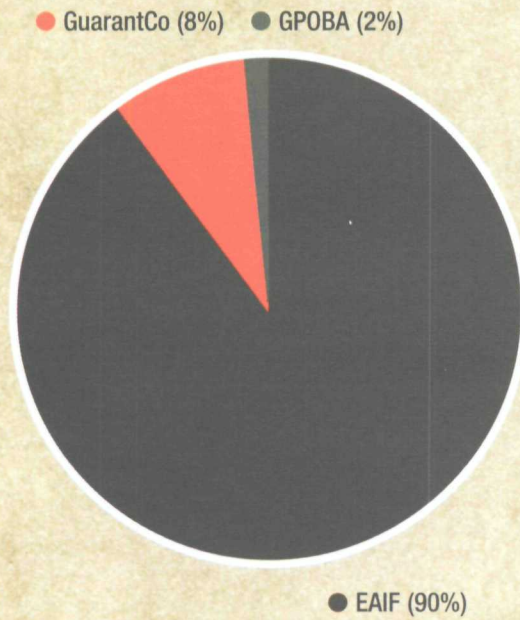
Facility	Funds US\$m	Projects
<i>Project financing facilities</i>		
● EAIF ¹⁸	384.5	15
● GuarantCo	35.0	3
● GPOBA ¹⁹	7.2	1
<i>Project development facilities</i>		
● InfraCo	17.4	12
● DevCo	35.8	33
● GPOBA	0.3	1
● TAF	9.7	31
TOTAL	489.9	96 ²⁰

18. Includes contributions from PIDG donors and lenders to EAIF.

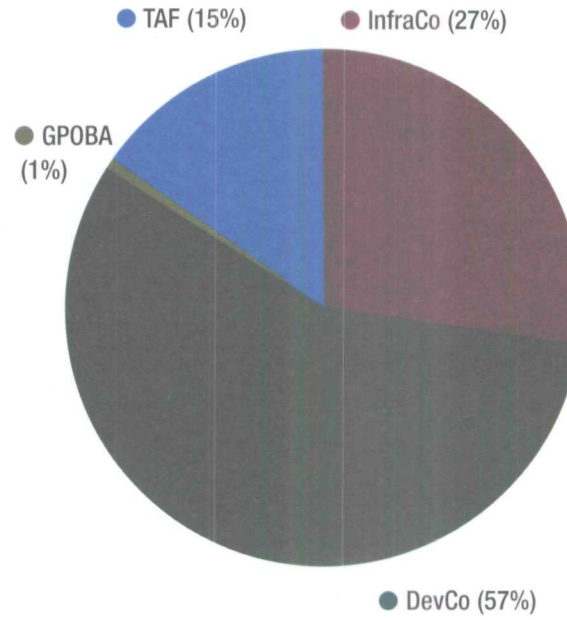
19. GPOBA projects separated according to financing and development activities. Only funding for projects undertaken in association with other PIDG facilities included.

20. A number of projects are associated with more than one facility.

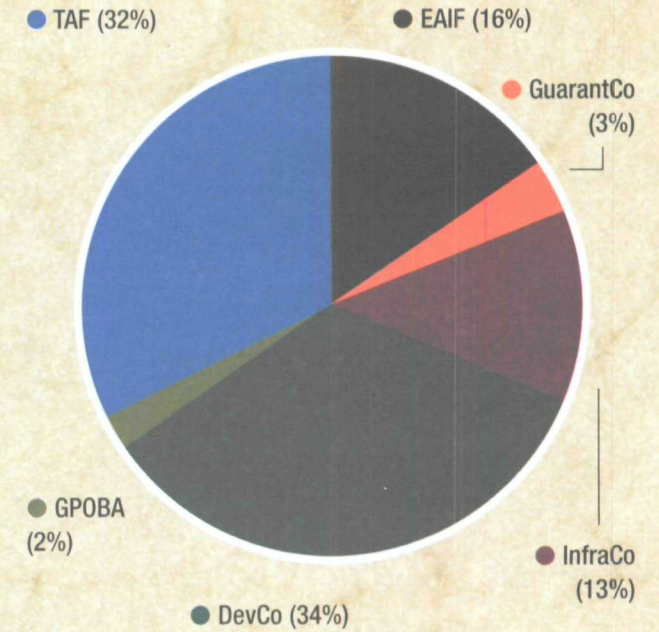
Proportion of PIDG funds (disbursed up to 31 December 2007) by project financing facilities



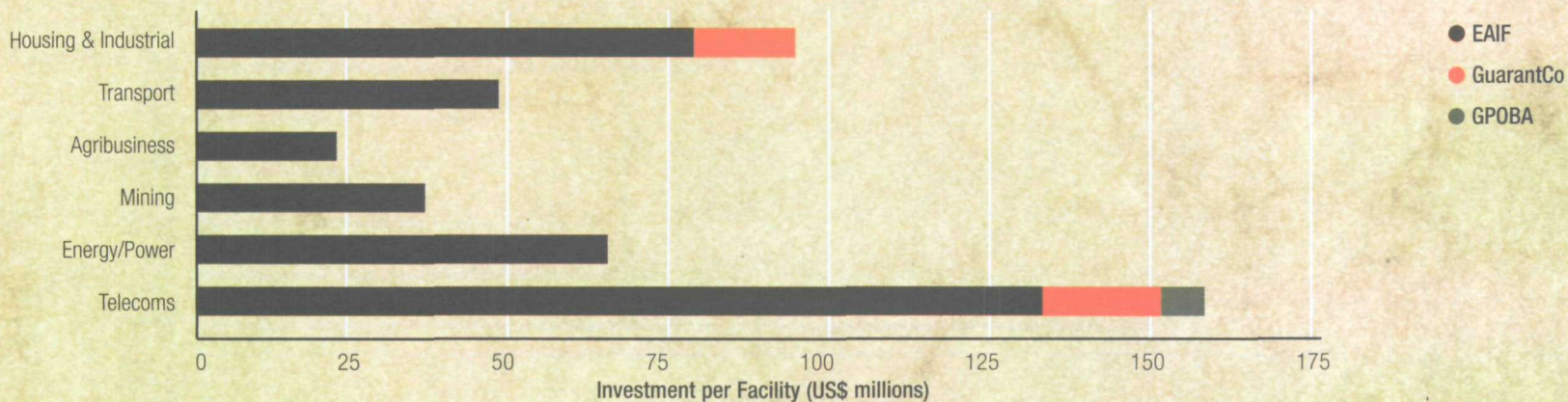
Proportion of PIDG funds (disbursed up to 31 December 2007) by project development facilities



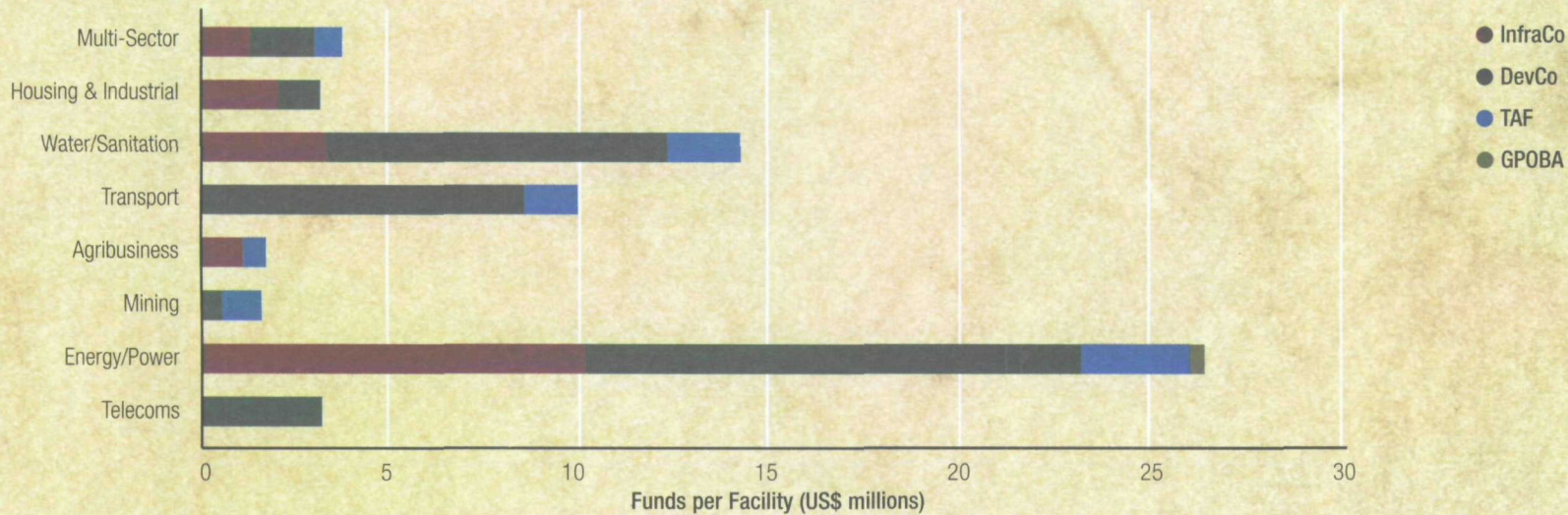
Proportion of total projects per facility



Sectoral distribution of funds committed by project financing facilities



Sectoral distribution of funds committed by project development facilities

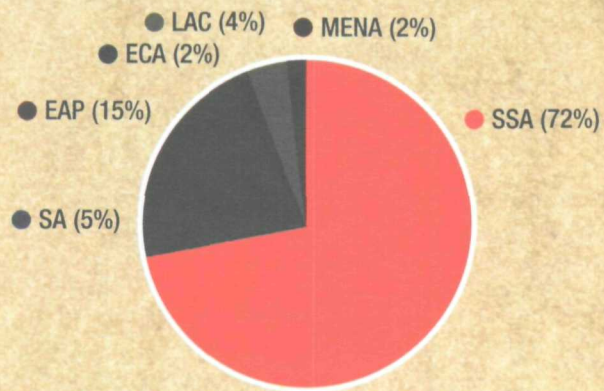


5.1.2. By region

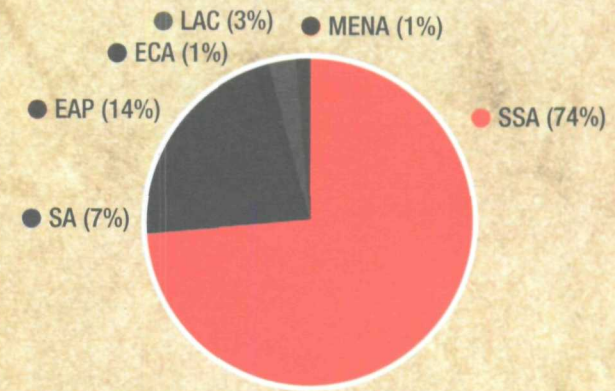
Table 5.2: PIDG funds and projects undertaken by region

Region	Funds US\$m		Projects All programmes
	Project financing facilities	Project development facilities	
East Asia & Pacific (EAP)	0	9.8	10
Europe & Central Asia (ECA)	0	1.0	1
Latin America & Caribbean (LAC)	0	2.7	2
Middle East & North Africa (MENA)	0	1.0	1
South Asia (SA)	0	3.3	5
Sub-Saharan Africa (SSA)	426.6	45.5	54
TOTAL		489.9	73

Proportion of funds committed by region per project development vehicle²¹



Proportion of total projects by region



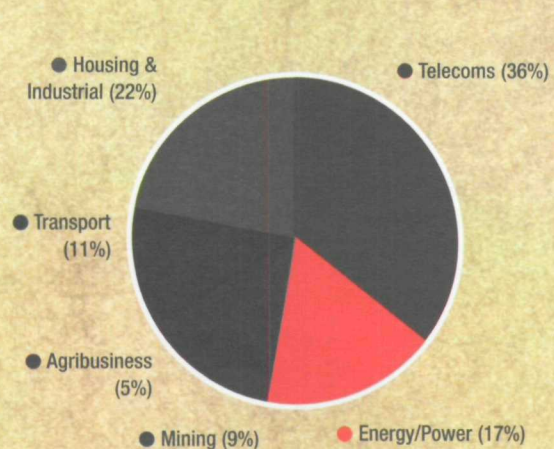
21. Note that all projects undertaken by the PIDG project financing facilities have focused on sub Saharan Africa.

5.1.3. By sector

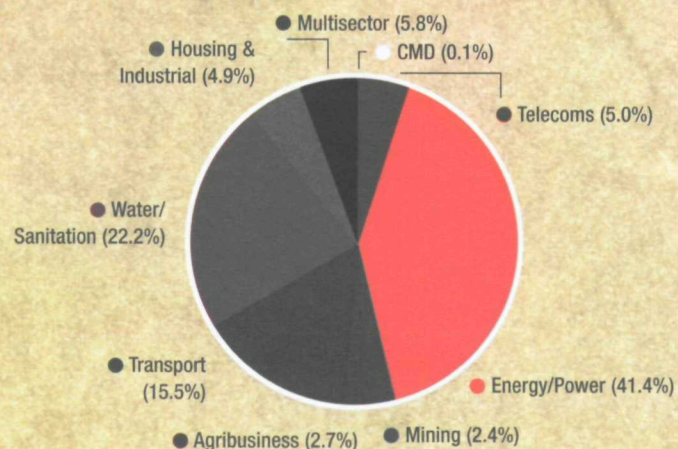
Table 5.3: PIDG activities undertaken by sector

Sector	Funds US\$m	Funds US\$m	Projects
	<i>Project financing facilities</i>	<i>Project development facilities</i>	<i>All programmes</i>
Telecoms	153.0	3.2	11
Energy/ power	72.2	26.2	21
Mining	36.5	1.5	2
Agribusiness	22.0	2.1	5
Transport	48.0	9.8	12
Water/ sanitation	0	14.0	11
Housing & industrial	95.0	3.1	7
Multi-sector	0	3.3	3
CMD	0	0.04	1
TOTAL	426.7	63.2	73

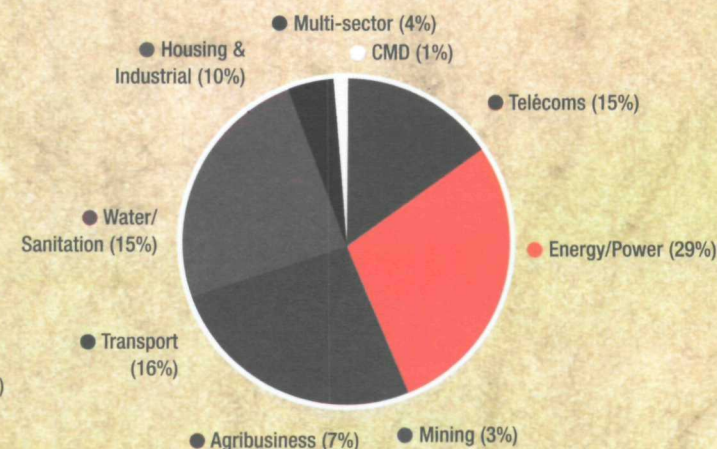
Proportion of funds committed by sector for project financing facilities



Proportion of funds committed by sector for project development facilities



Proportion of all projects undertaken by sector



6



Annexes

6.1. Annex 1: DAC List of ODA Recipients

Countries eligible for PIDG support are those included in the first three columns of the Development Assistance Committee (DAC) List of Overseas Development Assistance (ODA) Recipients set out below (January 1, 2005). This list is published by the Organisation for Economic Cooperation and Development (OECD).

Least Developed Countries		Other low income countries (per capita GNI <US\$825 in 2004)	Lower middle income countries and territories (per capita GNI < US\$826-\$3255 in 2004)		Upper Middle income countries and territories (per capita GNI US\$3256 - \$10065 in 2004)
DAC I			DAC II		DAC III
Afghanistan	Madagascar	Cameroon	Albania	Kazakhstan	Anguilla*
Angola	Malawi	Congo, Rep.	Algeria	Macedonia, Former Yugoslav Republic of	Antigua and Barbuda
Bangladesh	Maldives	Côte d'Ivoire	Armenia	Marshall Islands	Argentina
Benin	Mali	Ghana	Azerbaijan	Micronesia, Fed. States	Barbados
Bhutan	Mauritania	India	Belarus	Morocco	Belize
Burkina Faso	Mozambique	Kenya	Bolivia	Namibia	Botswana
Burundi	Myanmar	Korea, Dem. Rep.	Bosnia and Herzegovina	Niue	Chile
Cambodia	Nepal	Kyrgyz Rep.	Brazil	Palestinian Adm. Areas	Cook Islands
Cape Verde	Niger	Moldova	China	Paraguay	Costa Rica
Central African Rep.	Rwanda	Mongolia	Colombia	Peru	Croatia
Chad	Samoa	Nicaragua	Cuba	Philippines	Dominica
Comoros	Sao Tome & Principe	Nigeria	Dominican Republic	Serbia & Montenegro	Gabon
Congo, Dem. Rep.	Senegal	Pakistan	Ecuador	Sri Lanka	Grenada
Djibouti	Sierra Leone	Papua New Guinea	Egypt	Suriname	Lebanon
Equatorial Guinea	Solomon Islands	Tajikistan	El Salvador	Swaziland	Libya
Eritrea	Somalia	Uzbekistan	Fiji	Syria	Malaysia
Ethiopia	Sudan	Viet Nam	Georgia	Thailand	Mauritius
Gambia	Tanzania	Zimbabwe	Guatemala	Tokelau*	Mayotte*
Guinea	Timor-Leste		Guyana	Tonga	Mexico
Guinea-Bissau	Togo		Honduras	Tunisia	Montserrat*
Haiti	Tuvalu		Indonesia	Turkmenistan	Nauru
Kiribati	Uganda		Iran	Ukraine	Oman
Laos	Vanuatu		Iraq	Wallis & Futuna*	Palau
Lesotho	Yemen		Jamaica		Panama
Liberia	Zambia		Jordan		Saudi Arabia

* Territory

6.2. Annex 2: PIDG facility projects and their development impact

6.2.1. EAIF

Table 6.2.1: EAIF transactions which have achieved financial close

Country	Sector	Project	Financing parameters and details	Key development impact
Sub-Saharan Africa	Telecoms	Development of Celtel International BV's Africa operations	EAIF provided US\$22m in senior debt and US\$8m in subordinated debt, as part of a US\$190m syndicated facility. The loan was fully repaid in June 2006 when Celtel refinanced the project.	The project facilitated provision of mobile connections to over 2.5 million people in 12 countries, representing an increase of 70% compared to 2002. Direct and indirect employment impacts are estimated at more than 25,000 jobs.
Cameroon	Power	Construction of a 85MW heavy fuel oil fired emergency generation power plant by AES Sonel	EAIF financing of US\$32.3m in 2003 (as a part of a US\$66m syndicated facility) bridged an important initial gap enabling the project to move forward, prior to participation from a much larger financing partner. EAIF subsequently committed a further US\$2.3m in 2006.	The project underpins the generation of electricity where poor rainfall in the dry season limits hydroelectric capacity. The plant has increased national capacity in Cameroon by over 10%, with improved reliable supply of electricity, boosting productivity and economic growth.
Mozambique	Multi-sector	Development and exploitation of a Greenfield titanium- dioxide mine and associated infrastructure close to the coastal town of Moma	The developers of this titanium mineral sands project approached EAIF as a 'lender of last resort'. EAIF has committed US\$36.5m of senior and subordinated debt to the overall debt package of US\$270m.	The project is expected to be the lowest cost producer of titanium in the world. Located in one of the most under-developed regions of Mozambique, the new and improved infrastructure associated with the project will bring important social benefits to the region and is expected to employ 1,000 people during the construction phase, and a further 425 during mining operations.
Nigeria	Telecoms	Facility for the expansion of MTN's cellular telephone network in Nigeria	EAIF has provided a US\$10m loan towards this US\$200m project. US\$5m was disbursed in 2004, and was repaid in March 2006 when MTN refinanced the debt.	The expansion of services is to areas previously unserved with cellular connections and additional capacity is expected to increase the number of subscribers by 1.4 million, with an estimated 30,000 direct and indirect jobs being created. MTN is committed to training technical staff locally and investing in their development and welfare.
Ghana	Transport support	Construction and installation of a single mooring point system and conventional buoy mooring system in Tema port	EAIF provided a US\$12m loan as part of an overall US\$35m debt package for the US\$42m project. The loan was repaid in October 2006 and EAIF has now exited the project.	The project featured in the infrastructure development plans of the Government for almost six years, since the first failed tender was launched. The investments have improved Ghana's transport infrastructure, facilitating the import of petroleum products, saving Tema Oil Refinery and the Government considerable amounts of forex

Table 6.2.1: EAIF transactions which have achieved financial close (cont.)

Country	Sector	Project	Financing parameters and details	Key development impact
Nigeria	Greenfield cement production plant	Construction of two greenfield cement production lines with a capacity of 4.4 million tons per annum at Obajana	As a part of an overall financing package of US\$479m, EAIF provided a US\$30m loan, with US\$29.8m disbursed to date. The total cost of the project is US\$800m. Loan repayment has begun in September 2007, with the first repayment of US\$1.5m being received.	The project will enable reduced dependence on imports of cement and so will save forex. It includes enabling infrastructure, including a pipeline and a power plant, both of which will provide third party gas transport and electricity supply. The project is associated with training and employment opportunities, plus US\$50m annual government revenues. In addition, energy for the project is from a natural gas source which was previously being flared, thereby adding further value.
Nigeria	Telecoms	Expansion and upgrading of Celtel Nigeria's network	EAIF provided a US\$35m loan as a part of a US\$350m financing package.	The project will significantly improve access to mobile telephone services throughout the country, as well as increasing competition in the telecoms sector across the continent.
Nigeria	Industrial infrastructure	Support for the privatisation of the Eleme Petrochemical plant	EAIF has provided a US\$20m loan for capital expenditure, as part of a total financing package of US\$160m, with US\$12m being disbursed thus far. TAF assistance of US\$0.07m is helping in the finance of finance community development mapping, a socio-economic baseline survey, a monitoring and evaluation framework, and stakeholder engagement in community development planning.	The project will contribute significantly to the rehabilitation of Nigeria's industrial infrastructure through import substitution, privatisation demonstration effects and a community development programme bringing power to an area of 50,000 people.
Ethiopia	Transport /tourism	Airline expansion (funding of three Boeing 787 airliners) of the Ethiopian airlines	The EAIF debt financing of US\$36m is bridging a crucial gap enabling the airline to purchase additional new aircraft at a cost of US\$460m. The loan enabled Ethiopian Airlines to access 12 year finance that was not available in the commercial market.	The Ethiopian airline is a model business for other airlines in Africa and is the largest formal sector employer in the country. The project is expected to boost the tourism sector, bringing in benefits such as increased revenues and employment prospects. An additional 420,000 jobs in the next 10 years are estimated.
Regional	Telecoms	Funding of Capex for Celtel's subsidiaries	EAIF is providing a loan of US\$24m for expansion of operations in the DRC, Madagascar, Malawi, Sierra Leone and Uganda.	EAIF's investments will support increased coverage and market penetration of mobile networks and bring about positive impacts on employment.
East Africa	Telecoms	Construction and operation of a fibre optic cable down the East Africa coast	EAIF's loan commitment is of US\$35m as subordinated debt, as a part of AKFED financing of US\$75m, with total project costs of US\$300m.	The project has high developmental impacts through improved connectivity with global markets at reduced costs. Refer to the case study in Section 4.2 for further details.

Table 6.2.2: EAIF transactions approved but not yet achieved financial close

Country	Sector	Project	Financing parameters and details	Key development impact
Uganda	Agriculture	Development of an extensive palm oil plantation on the island of Bugala in Lake Victoria	Loan commitment of US\$22m.	The project will have a significant impact on the local economy through increased employment, long term commercial agricultural development, reduced dependence on imports and increasing self sufficiency for edible oils as well as providing support to 14,000 rural outgrower families.
Tanzania	Power	Fully integrated energy project including BOT of a pipeline and gas processing facilities, a 45 MW power plant, transmission infrastructure and distribution systems	Loan commitment of US\$17.5m.	The project will ensure increased, more reliable and affordable electricity supply through the use of environmentally friendly gas as the fuel (as compared to diesel fuel oil). This will also ensure increased economic activity and productivity.
Regional	Industrial infrastructure	Construction of steel and galvanising plants by Safal Investments	Loan commitment of US\$29m.	Production of corrugated iron from the new and improved plants will benefit households and industries with better quality and cheaper roofing materials.
Democratic Republic of Congo	Power	Refurbishment of a turbine at the Inga Falls dam (Magenergy)	EAIF's loan commitment is of US\$12m. TAF funds of US\$0.02m will be used to support a review of compliance with applicable local, international, and multi-lateral/bi-lateral environmental and social standards associated with the rehabilitation of the hydro-electric facility.	The project will increase and improve the supply of electricity for the DRC. Demonstration effects from the project assume particular importance given the difficult business environment in the DRC at present.

6.2.2. InfraCo

Table 6.2.3: Projects under development by InfraCo

Country	Sector	Project	Financing parameters and details	Key development impact
Ghana	Power	Development of a 300MW combined cycle power project in the municipality of Kpone within the Tema industrial zone	InfraCo is contributing US\$4.8m towards the development of this project. In addition, TAF assistance of US\$0.81m was used for a market study of power supply and consumption in Ghana. A second phase of TAF assistance is being provided to support project preparation activities.	The power project will meet the increasing demand for electricity in Ghana, currently growing at 7% p.a., brought about by rapid economic and population growth. The additional generation capacity will reduce power shortages and dependence on power imports. The proposed tariff of eight cents per kWh is almost a 50% saving on oil generated power. It is expected that US\$500m will be saved on generation costs.
Uganda	Multi-sector	Development of an integrated infrastructure project on Bugala Island in Lake Victoria involving power generation and distribution, improved water supply, an upgraded ferry service and new road infrastructure	Total development costs for InfraCo are expected to be US\$1.3m. In addition TAF provided grant assistance of US\$0.73m to prepare a Development Plan for the palm oil industry as well as to help finance further detailed technical, financial and environmental studies and analysis.	The new and improved infrastructure will help meet the current demand for services for a poor and isolated community of 25,000 people. There are expected to be large falls in user-tariffs for electricity, water and ferry transport.
Uganda	Water and sanitation	Development of a new privately-funded sewerage treatment plant and collection system for the city of Kampala, in conjunction with Uganda's National Water and Sewerage Corporation	InfraCo is contributing US\$1m towards the project. TAF is supporting the Government's efforts to prepare and evaluate alternative scenarios, environmental assessments, tender documents, as well as to improve the technical, financial, and regulatory capacity of the responsible government agency to encourage and facilitate private investment (US\$0.62m).	The plant will provide increased and improved sewerage and sanitation systems in Kampala, thereby resulting in better health and environmental conditions for the city.
Nigeria	Power	Development of a 105MW natural gas fired generation plant and associated transmission lines in Aba	InfraCo's contribution is expected to be US\$0.9m. TAF is also providing grant assistance of US\$0.95m.	The project would provide electric power to small industries and households in Aba at half the cost of existing generation and reduce dependence on inefficient and expensive private generators. These inefficiencies have been an obstacle to development of Aba as a commercial manufacturing hub. The project is Nigeria's first IPP and is expected to reduce fiscal spending by US\$8m per year.
Zambia	Agribusiness	Development of a partly privately funded water and irrigation system to boost agricultural production of sugar, soy and wheat	InfraCo is contributing US\$0.3m for the project. TAF support of US\$0.4m is helping in the financing of studies as well as training needed to develop the user-owned water management company to construct, operate, and maintain the irrigation system.	This participatory project will provide small scale farmers with access to water and irrigation systems, thereby enabling them to move away from subsistence farming towards economically beneficial cash crops such as sugarcane. In most areas, the irrigation would be gravity fed, limiting a need for electricity. With an increase of 30% in irrigated land, per hectare productivity is expected to rise considerably, as is its employment potential. As a result, tax revenue generated is expected to be \$0.3m per annum.

Table 6.2.3: Projects under development by InfraCo (cont.)

Country	Sector	Project	Financing parameters and details	Key development impact
Vietnam	Agribusiness	Development of cold storage facilities for the trade hub of Antara	InfraCo is contributing US\$1.1m for the project. TAF grants of US\$0.4m are being used to assist in the preparation of an Investment Review for project approval by the Government as well as technical, financial, and environmental studies.	The project will enable seafood processors to expand their market and increase their value added as well as benefit fish farmers through increased demand and price stability. Refer to the case study in Section 4.3 for more details.
Cape Verde	Power	Development of wind power on four sites in the islands of Santiago, Sal and Boa Vista in Cape Verde	InfraCo is contributing US\$1.5m for the development of the project.	Increased power supply through wind will meet the rapidly rising demand in an environmentally friendly and cost efficient manner. The project will displace a minimum of 20,000 tons of diesel per year, thereby reducing greenhouse gas emissions and avoiding expensive fuel imports.
Ghana	Housing	Development of housing for a new mining community in the Sunyani area of Ghana	InfraCo is contributing US\$0.9m towards the development of the project and TAF is providing US\$0.47m in grants.	The housing complex will be environmentally friendly, sustainable and affordable for the employees of the mining community.
Mozambique	Industrial	Development of a land reclamation project for housing development near Beira port	InfraCo is contributing US\$1.10m towards the development of the project, with assistance from TAF of US\$0.42m.	The reclaimed land will meet the shortage for housing in the area and will be equipped with all required utilities.
Uganda	Power	Establishment of a solar power renewable energy project for a remote off-grid community on Bugala Island, Lake Victoria	InfraCo's contribution is US\$0.6m.	The project will substitute renewable power for the expensive and inefficient diesel generators and car batteries that are currently being used.
Madagascar	Water/ Sanitation	Joint development project with Sandandrano (a Malagasy private company) to provide potable water to a number of municipalities on the outskirts of the capital city of Antananarivo	InfraCo is contributing US\$2m towards the development of the project. TAF grants of US\$0.22m are supporting the preparation of pre-feasibility studies.	The project is expected to bring substantial benefits to about 240,000- 300,000 people living in the outskirts of the city through the provision of piped water. Reduced time and costs of using traditional sources for water will impact economic activity in the region as well as improve health outcomes through provision of better quality water. The project will also open up the outskirts for further residential and industrial development, thereby reducing the population pressure on the inner city.
Vietnam	Power	Ninh Thuan Wind Power (30MW)	InfraCo is contributing US\$2m towards the development of the project. TAF is providing US\$0.07m to InfraCo for the project.	The project will add renewable power to an undersupplied market and help sustain economic growth and create jobs.

6.2.3. GuarantCo

Table 6.2.4: Completed transactions by GuarantCo

Country	Sector	Project	Financing parameters and details	Key development impact
Kenya	Telecoms	Expansion of activities of a large mobile phone operator, Celtel Kenya	GuarantCo provided a guarantee as part of a syndicated guarantee covering 75% of the debt service for a bond issued by the mobile phone operator Celtel Kenya worth US\$62m. The bond was launched and successfully placed with institutional investors in December 2005, with GuarantCo's exposure limit being US\$12m. The Mobile Telecommunications Company of Kuwait subsequently acquired Celtel Kenya and the guarantee was withdrawn in 2007.	This project will enable Celtel to expand its operations, especially in rural areas, improving telecoms infrastructure throughout the continent. Benefits include reduced tariffs plus improved quality and reliability of services. Celtel's bond was the largest ever listed on the Nairobi markets, contributing to local capital market development.
Chad	Telecoms	Expansion of mobile telephone network by Celtel Chad	GuarantCo is providing a counter-guarantee, along with a guarantee from the FMO, for the loan. GuarantCo's exposure limit is US\$7m. TAF grants of US\$0.05m will be used to help finance a portion of additional legal costs resulting from the use of civil law in Chad rather than English common law upon which GuarantCo guarantees have been based	The guarantee enabled the company to access additional local currency financing from two regional commercial banks. In issuing local currency debt in one of Africa's poorest countries, Celtel is reducing foreign exchange risk and transferring expertise.
East Africa	Housing/ industrial	Expansion of operations of a large corrugated iron and roofing materials manufacturer, Safal Group	GuarantCo is providing US\$16m in guarantees for company bond issues	The project will increase the quality and life-span of steel roofing while making it more affordable, boosting small businesses and consumers. It will enable farmers to improve storage, while allowing manufacturers to expand and improve their buildings. Refer to the case study in Section 4.4 for more details.

6.2.4. TAF

Table 6.2.5: Additional projects by TAF

Country	Sector	Project	Financing parameters and details
Uganda	Multi-sector	<p>Kakira Rural Development Phase I and II In the first phase, EAIF was considering a loan to a private sector entity to fund infrastructure (electricity, water, transport, education, health) supporting farmers (outgrowers) who provide raw materials to Kakira Sugarworks Ltd. TAF funding was used for feasibility studies involving local government officials and stakeholders in defining the constraints and needs of the outgrowers, and developing an outline business plan. Building on Phase I, TAF funds were again used to develop a communication outreach programme for the broader outgrower community, develop workplans for initial projects, begin the development of KORD (the infrastructure fund), and begin discussion with potential funding sources (donors, banks, etc.). Although the final project proved too small to meet EAIF criteria, the resulting studies were used to raise local equity and investment funds for much needed infrastructure.</p>	TAF funding of US\$0.14m was provided to EAIF for the phases of the project.
Tanzania	Energy	<p>Tanzania Power TAF assistance to the Government was for evaluating the potential market and need for gas versus existing hydro power. After completion of the preliminary analysis, the sponsors decided not to proceed with further investment.</p>	TAF funding to GuarantCo of US\$0.02m.
Mozambique	Agribusiness	<p>Beira Corridor TAF support was used for a study to identify priority horticultural investments in the Beira Corridor region of Mozambique and the infrastructure investments needed to support them. The results were shared and made available to potential investors.</p>	TAF provided US\$0.12m to InfraCo for this project.
Nigeria	Agribusiness	<p>Nigeria fertiliser TAF provided funds to develop a comprehensive analysis of the potential for private sector investment in a urea fertiliser factory that was operating inefficiently under public ownership. TAF support also helped facilitate open competitive bidding which resulted in selection from a qualified shortlist of bidders of well financed investors (approximately \$150 million) with highly qualified technical support.</p>	TAF funding of US\$0.05m was provided to InfraCo.
Ghana	Multi-sector	<p>Technical Assistance Programme TAF funding was used for technical assistance for the Government of Ghana and the private sector in the Government's current efforts to explore and concession activities in a number of sectors. This work is ongoing</p>	TAF provided US\$45,000 to InfraCo.
Rwanda	Power	<p>Kibuye Power Project (Lake Kivu Gas Extraction) TAF support is towards the establishment and operation of an Expert Monitoring Group to oversee, coordinate, and evaluate monitoring of potentially dangerous gas extraction activities associated with the construction of methane-fired power plants in Lake Kivu on the border of Rwanda and the Democratic Republic of Congo. The grant also will finance training of local technicians in these activities.</p>	TAF provided US\$0.5m to EAIF.
Uganda	Power	<p>Uganda 50MW Biomass TAF support is funding studies to advise Government and private sector investors and lenders on the feasibility of using bio-mass as a fuel as part of Government's efforts to encourage private provision of electricity in Uganda.</p>	TAF provided US\$0.16m to EAIF.
Kenya	Capital Market development	<p>Regional Infrastructure Finance TAF grants were used to fund a review of capital market issues in Kenya, provide advice to the Government for addressing these issues in their next budget cycle, and hold a workshop for Government officials and other stakeholders on private sector investment and capital market development.</p>	TAF has provided grant funding to GuarantCo of US\$0.04m.

6.2.5. DevCo

Table 6.2.6: Transactions successfully closed by DevCo

Country	Sector	Project	Financing parameters and details	Key development impact
Mozambique	Mining	Advisory services to assist the Ministry of Mining in the award of exploration rights for the Moatize Coal Mines	DevCo is providing US\$0.5m for the project. Agreements for the development of the mine were signed in 2004, with the project being sold at a value of US\$128m. TAF grants of US\$ 1.03m funded technical assistance and capacity building to support the Government.	The development of the coal deposit could lead to a 21 million ton p.a. mine and a 1,500 MW mine-mouth power plant, making a substantial contribution towards the sustainable development of the Zambezi Valley, while strengthening and diversifying the country's productive base.
Madagascar	Transport	Advisory services to the Government on the implementation of a PPP for the Port of Toamasina, the principal deep-water in Madagascar	DevCo provided funding of US\$0.6m for the project. The concession was awarded to a private contractor in May 2005, with operations beginning in October 2005. TAF assistance of US\$0.32m was provided for the implementation of an interim management assistance programme for the Port of Toamasina to strengthen government and port management during privatization of port activities.	During the life of the concession, it is estimated that over US\$300m will be mobilised from the operations of the container terminal in the form of concession fees, royalties and investments. The new container terminal, along with internal transport investments, will increase the port's capacity to handle export and import goods, thereby enhancing international trade. It will relieve a constraint to the supply of agricultural inputs, while also facilitating the supply of medicines and consumables.
Samoa	Transport	Advisory mandate to the Government on the implementation of a PSP transaction for Polynesian Airlines, the primary air carrier for the island of Samoa	DevCo provided US\$0.75m for the project. In September 2005, the advisory transaction was concluded, leading to the creation of Polynesian Blue, a joint venture between the Government of Samoa and Australia's Virgin Blue.	Private sector investment of US\$5m was mobilised under the project. The Government is expected to have significant fiscal benefits estimated at US\$40m from this transaction, of which US\$8m has already been realized. In addition around 75,000 passengers a year will enjoy more reliable service.
Nigeria	Transport	Advice to the Government on PSP in the Nigerian airport system	DevCo provided US\$1.5m for the project. In December 2006 a concession for Abuja Airport was successfully awarded to a joint Nigerian-foreign private sector consortium.	The project is expected to generate investment of approximately US\$370m, and will act as a pilot project for further transport concessions in Nigeria. The Government treasury is expected to have fiscal impact estimated at US\$101m in replaced subsidies and increased taxes from this transaction, out of which US\$10m has already been realized. In addition, 2.3 million users of the airport will enjoy improved quality of service.
Kenya and Uganda	Transport	Advisory project with the governments of Kenya and Uganda to design and implement a joint 25-year concession for the regionally integrated rail system from Mombasa to Nairobi and beyond, to Lake Victoria and Kampala	DevCo provided US\$0.9m in support for the project. In addition, TAF grants of US\$1m were provided to support SME components of the project.	Over US\$405m has been generated in private sector investment. The project will enhance access to international trade for landlocked Uganda and will lead to improvements in operating efficiency and quality of service. Service enhancements include four lines in Nairobi used by the poor and carrying six million passenger trips per year. RVR has a commitment to the development of SME supply chains, and has hired a consultant to enhance its Linkage Programme.

Table 6.2.6: Transactions successfully closed by DevCo (cont.)

Country	Sector	Project	Financing parameters and details	Key development impact
Philippines	Power	Advisory mandate for the Government to introduce PSP in power generation in non-grid areas (Phase I)	DevCo support of US\$0.19m for the project.	The project will provide electricity to remote areas not connected to the main grid, in a more affordable and sustainable manner. This project is estimated to reach 100,000 people and mobilize private sector investment of US\$28m. Other than this fiscal benefits for the Government of Philippines has been estimated at US\$53m.
Philippines	Power	Advisory mandate for the Government to introduce PSP in power generation in non-grid areas (Phase II)	DevCo support of US\$0.27m for the project.	The project will provide electricity to remote areas not connected to the main grid, in a more affordable and sustainable manner.
Kenya	Telecoms	Advisory support for the Government on the implementation of PSP in Telkom Kenya Ltd (TKL)	DevCo's is funding consultant support at an expected total cost of US\$1m.	The sale of 51% of TKL to France Telecom generated \$390m in fiscal revenues for the Government. In addition, the fiscal burden will be reduced in the future (TKL's losses have averaged \$27m annually in the past four years). Through private sector investment and management expertise, TKL will be able to expand the network for rural telephony in Kenya, and bring the benefits of telecommunications and internet access to a larger segment of the population. It is expected that access will increase by 672,000 people by 2010.
Kenya	Telecoms	Advice to the Government of Kenya on the structuring and implementation of the sale of a 9% share of Safaricom, a major local cellular operator that is partially owned by TKL	DevCo is funding consultant support for US\$0.25m.	The transaction has been structured and Safaricom unbundled from Telkom Kenya. An IPO of 20% of Safaricom is planned for the near future, which is expected to generate fiscal revenues for Government of around \$400m.

Table 6.2.7: Summary of DevCo's ongoing advisory projects

Country	Sector	Project	Financing parameters and details	Key development impact
Philippines	Transport	Advisory support to the Government for organising a bidding process to mobilise PSP to build, maintain and manage the extension of the existing Light Rail Transit Line 1 system in Manila	DevCo has budgeted US\$1.18m for the project. Project tender documents have been finalised and the project is ready for bidding, but is on hold pending resolution of government decision.	It is expected that investment of US\$400m will be generated, with significant improvements in transportation links for the local population.
Vietnam	Power	Advisory support on mobilising PSP for greenfield electricity generation projects	DevCo's contribution is expected to total US\$1.75m. Tender process is expected to be launched in early 2008.	The project will serve to bridge Vietnam's formidable energy demand-supply gap and cater for increasing demand for electricity over the next decade.
Rwanda	Transport	Advisory support to the Government to identify and execute strategic options for the privatisation of Rwandair, the national Rwandan airline	DevCo funding earmarked for consultants is US\$0.1m.	Fiscal benefits of US\$20m are expected from this transaction.
Bangladesh	Power	Advisory mandate to the Government on the design and implementation of one baseload gas-fired 450MW IPP project	DevCo is contributing US\$1.1m for the project	Private sector investment of US\$350m is expected to be mobilised under this transaction.
Philippines	Power	Advisory support for the Government to introduce PSP in power generation in non-grid areas (Phase III)	DevCo is contributing US\$0.27m for the project.	The project will provide electricity to remote areas not connected to the main grid, in a more affordable and sustainable manner.
Tanzania	Water and Sanitation	Advice to the municipality of Tabora on developing a PPP for water production, storage, treatment and transmission	DevCo is contributing US\$0.23m for the project. TAF is providing US\$0.07m for capacity building.	The project is expected to support up to 10 small towns, with populations between 5,000–50,000, increasing private sector management of water systems. Increased access to clean water will reduce water-borne disease, particularly among children, and to an increase in school attendance.
Egypt	Water and sanitation	Advice to the Government on the design and implementation of a concession for a water and wastewater treatment plant in New Cairo city	DevCo support of US\$1m for the project.	A total of 550,000 people are expected to be reached on implementation of this project. The transaction also is expected to generate US\$300m in private sector investment.
Liberia	Power	Advice to the Government on the introduction of PSP in the power sector, including selecting a private operator through a competitive bidding process	DevCo is supporting the project with funding of US\$1.26m. TAF grants of US\$0.36m will be used to support capacity building and institutional strengthening of the Government.	The project will improve efficiency in the power sector, which is vital to enhancing private sector growth and poverty reduction in Liberia. The project is expected to reach 40,000 people and mobilise private sector investment of US\$140m. Refer to the case study in Section 4.6 for further details.



Table 6.2.7: Summary of DevCo's ongoing advisory projects (cont.)

Country	Sector	Project	Financing parameters and details	Key development impact
Albania	Power	Advisory support for PSP in the power sector	DevCo support of US\$1m.	Increased efficiency in distribution and generation will drastically improve the supply, and lead to increased government revenue of US\$50m from the acquisition and PPP. Appropriate measures are being put into place to allow low-income sections of the population to have reliable minimal service provision at affordable cost.
Vanuatu	Transport	Assistance to the Government on the introduction of PSP in the country's national aviation sector in the form of privatisation of the national airline	DevCo is supporting the project with funding of US\$0.95m	The main benefits will arise from increased employment and investment in the tourism and construction sectors. Available passenger seats to and from Vanuatu will increase by 10% p.a. The project will lead to an improvement in efficiency, significantly reduce airfares, and eliminate the liabilities of the government in the sector.
Haiti	Transport	Advice to the Government on the introduction of PSP in the country's airport sector including selecting a private operator to operate the Port-au-Prince airport, and potentially up to 3 other airports	DevCo is supporting the project with funding of US\$1.26m.	Private sector investment of US\$50m is expected to be mobilized under this transaction.
Haiti	Telecom	Advice to the Government on the privatisation of the fixed line telecom incumbent TELECO	DevCo is supporting the project with funding of US\$1.4m.	The privatisation will promote competition and increase access and quality of telecom services in the country. The project is estimated to reach 300,000 people, mobilize private sector investment of US\$130m and provide the government with fiscal benefits of US\$100 m.

Table 6.2.8: Summary of DevCo's advisory projects that have not been taken forward to sale

Country	Sector	Project	Financing parameters and details
Madagascar	Transport	Advisory mandate with the Government to design and implement PPPs for up to 12 airports, including the international hub at Antananarivo (Ivato)	DevCo support of US\$0.8m, along with TAF support of US\$0.07m. The project has been terminated as the Government does not want to take it forward.
Philippines	Water & Sanitation	Advisory support on the introduction of PSP in the improvement of provision of water services, focusing on the districts outside of Metro Manila.	DevCo support of US\$0.47m for consultants, with estimated project costs of US\$40m. The project has been unsuccessful and has been dropped.
India	Water and Sanitation	Advisory project with the Bangalore Water Supply and Sewerage Board to introduce private participation in the city's water sector	DevCo support of US\$0.50m along with TAF grants of US\$0.3m.
Madagascar	Power	Advisory mandate with the Government for small IPPs, including refurbishment, expansion, and greenfield transactions	DevCo support of US\$1.4m.
Madagascar	Water and energy	Advisory mandate with the Government on the design and implementation of a PPP for JIRAMA, the national power and water utility	DevCo support of \$1.65m.
Pakistan	Transport	Concession of Lahore-Peshawar Segment of N-5 Highway	DevCo support of US\$0.4m.

Table 6.2.9: Summary of DevCo's advisory studies

Country	Sector	Project	Financing parameters and details
Pakistan	Water and Sanitation	Advisory project for introducing PSP in the water and sanitation sector in the district of Lahore through a possible long term concession	DevCo's support for the project is US\$0.8m.
Regional Africa	Telecoms	Advisory services for the structuring and implementation of the East African Backhaul System fibre optic loop for the EASSY project	DevCo support of US\$0.47m for the project.

6.3. Annex 3: PIDG monitoring and evaluation indicators

The PIDG has developed a comprehensive monitoring and evaluation system for the assessment of the development impact at the level of the projects, facilities and the PIDG programme as a whole. The standard proformas used to collect information is provided below.

6.3.1. PIDG facility/programme aggregate M&E sheet

PIDG Facility Name

Date Form Completed: (dd/mm/yyyy)

Indicator		Notes			
		Predicted (US\$m)	Actual to Date (US\$m)	Additional Information	
1	Private Sector Investment (US\$ million)				
	(a)	Domestic Private Sector			
	(b)	Foreign PSI / FDI			
	(c)	DFI Equity			
2	Increased Access to Asset / Service for People		Predicted	Actual to Date	Additional Information
	(a) Number of additional people served (where information available)	- total number of people served			
		- below poverty line			
		- women headed households			
		- water / sanitation			
		- power			
		- telecoms			
	(b) Improved service level (where information available)	- industrial infrastructure			
		- total number of people served			
		- change in reliability / quality of service			
		- water / sanitation			
		- power			
		- telecoms			
- industrial infrastructure					
3	Fiscal Impact		Predicted (US\$m)	Actual to Date (US\$m)	Additional Information
	(a)	Up-front fees to government: or			
	(b)	Avoided subsidies by government			



PIDG facility/programme aggregate M&E sheet (cont.)

4	Employment Effects	Predicted (no.)	Actual to Date (No.)	Additional Information
(a)	Short term (construction)			
(b)	Long term (operations)			
5	Subsidy	Total subsidies (GPOBA or other associated with this project)		
6	Poverty Focus	Specify % of Facility activities by country category from DAC List of ODA Eligible Countries		
7	Geographic Region	Sub-Saharan Africa		
		North Africa		
		South Asia		
		South-East Asia & Pacific		
		Latin America & Caribbean		
Europe & Central Asia				

6.3.2. PIDG project M&E sheet

PIDG Facility Name

Date Form Completed: (dd/mm/yyyy)

Funding Amount: (US\$Xm)

Summary Project Title & Description:

Indicator		Notes		
		Predicted (US\$m)	Actual to Date (US\$m)	Additional Information
1	PSI (US\$ million) - Total			
	(a)	Domestic Private Sector		
	(b)	Foreign PSI / FDI		
	(c)	DFI Equity		
2	Increased Access to Asset / Service for People		Predicted (No.)	Actual to Date (No.)
	(a) Number of additional people served (where information available)	- total number of people served		
		- below poverty line		
		- women headed households		
		- water / sanitation		
		- power		
		- telecoms		
		- industrial infrastructure		
	(b) Improved service level (where information available)	- total number of people served		
		- change in reliability / quality of service		
		- water / sanitation		
		- power		
		- telecoms		
		- industrial infrastructure		
3	Fiscal Impact		Predicted (US\$m)	Actual to Date (US\$m)
	(a)	Up-front fees to government: or		
	(b)	Avoided subsidies by government		
4	Change in Price (of the utility or service)			
5	Time Savings Due to New / Improved Service			



PIDG project M&E sheet (cont.)

6	Employment Effects		Predicted (No.)	Actual to Date (No.)	Additional Information
	(a)	Short term (construction)			
	(b)	Long term (operations)			
7	Other "Developmental" Impacts (include comment on overall size of impact on sector / national economy)				
8	TAF Specific Developmental Plans				
9	Subsidy	Any subsidies (GPOBA or other) associated with this project			
10	Other PIDG Facilities Involved				
11	Alignment with National Development Plans				
12	Geographic Region (choose from Sub-Saharan Africa, North Africa, South Asia, South-East Asia & Pacific, Latin America & Caribbean, Europe & Central Asia)				
13	Improve the Enabling Environment	National IFC 'doing business' index for the protection of investors National IFC 'doing business' ranking for the protection of investors			
14	Improve Government Capacity	National Country Performance Rating			
15	Poverty Focus	Specific country category from DAC List of ODA Eligible Countries			

6.4. Annex 4: Contacts and links

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Links to relevant websites

UK Department for International Development
www.dfid.gov.uk

The Swedish International Development
Cooperation Agency
www.sida.se

The World Bank
www.worldbank.org

The International Finance Corporation
www.ifc.org

Swiss State Secretariat for Economic Affairs
www.seco-cooperation.ch

Netherlands Ministry of Foreign Affairs
www.minbuza.nl

The Austrian Development Agency
www.ada.gv.at

Public Private Infrastructure Advisory Facility
www.ppiaf.org

Irish Aid
www.irishaid.gov.ie



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