



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 13.07.2006
SEC(2006) 896

COMMISSION STAFF WORKING DOCUMENT

Impact Assessment

**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND THE
EUROPEAN PARLIAMENT**

Interconnecting Africa: the EU-Africa Partnership on Infrastructure

{COM(2006) 376 final}
{SEC(2006) 983}

COMMISSION STAFF WORKING DOCUMENT

Impact Assessment concerning EU Africa Partnership on Infrastructure

EXECUTIVE SUMMARY

Following the Council's decision, on 19 December 2005 on the EU Strategy for Africa the Commission took the steps to prepare a proposal for the EU-Africa Partnership on Infrastructure.

The Partnership is the EU's response to the New Partnership for Africa's Development (NEPAD) Infrastructure Action Plan. It provides a reference framework for enhancing coherence of EC and EU Member State actions at the continental and regional level, and within national programmes. Based on the EU Strategy for Africa, it represents a concrete proposal for EU Member States to channel, in a coordinated way, their scaling up of aid to Africa.

The Partnership aims to support programmes that facilitate interconnectivity at a continental and regional level. Partnership operations will also complement the EU's sectoral approach for infrastructure at a country level and contribute to the implementation of Economic Partnership Agreements (EPAs). These approaches will assure that investments at a continental and regional level are coherent with national poverty reduction and infrastructure sector strategies. Such complementarity will also increase the sustainability of operations at regional and country levels.

In this Impact Assessment the Commission identifies three possible options for action, (i) a "no policy change" scenario, (ii) an African Agency for Infrastructure scenario, and (iii) the "Partnership" scenario. For reasons of effectiveness, efficiency and consistency the Commission prefers the third option in the form of the EU-Africa Partnership on Infrastructure.

Given the considerable level of EU financing of infrastructure in Africa, the proposed EU-Africa Partnership will have a considerable impact on the work of all EU stakeholders that support infrastructure. In Africa, this Partnership will have an impact on the African Union, the Regional Economic Communities (RECs) and many African countries as well as stakeholders that demand and benefit from infrastructure and its services. The specific impact will vary between sectors and stakeholder and over time.

Regular monitoring and evaluation will be undertaken of the operations carried out in the framework of the Partnership, to assess outcomes and impacts towards meeting the objectives of the Partnership.

1. PROCEDURAL ISSUES AND CONSULTATION OF INTERESTED PARTIES

Following the Council's decision, on 19 December 2005 on the EU Strategy for Africa¹ the Commission took the steps to prepare a proposal for the EU-Africa Partnership on Infrastructure.

To ensure that the policies and strategies outlined in the EU-Africa Partnership on Infrastructure are in line with the needs and priorities of the AU-NEPAD Infrastructure Short Term Action Plan (i-STAP), the Commission has participated in reviews of the AU-NEPAD i-STAP and contributed to the ongoing development of AU-NEPAD strategic planning. To strengthen African ownership the Commission has pursued with the AU and the NEPAD Secretariat, at all levels, a continuous dialogue on the evolution of the i-STAP and the Partnership.

Through EC-EU sectoral experts' coordination groups (transport in January 2006, energy in April 2006, water in April 2006 and ICT in December 2005) and EC-EU Member States Director Generals' meeting (September 2005) the Commission has exchanged views on consultation documents. Other consultations have included discussions with EIB and with NGOs within the framework of EU Water Initiative meetings. All views and suggestions have been very useful in the development of the Partnership and have been integrated in the final version.

2. PROBLEM DEFINITION

Under investment in sustainable infrastructure is hindering the role infrastructure and its services can and should play in contributing to accelerating economic growth, promoting competitive trade, fostering regional integration, reducing poverty and reaching the MDGs.

Transport systems, particularly road transport, that accounts for 90% of interurban transports fall well short of expectations. Rail network coverage is sparse and interconnectivity of networks is low. Many maritime ports struggle to offer competitive services and too few inland waterways are integrated into transport networks. Air transport has not fully benefited following the adoption of the Yamoussoukro Decision of 1999. Therefore, transport costs remain high, much higher than other developing regions averaging 14% of the value of all exports compared with 8.6% for all developing countries – and higher still for many landlocked countries Malawi (56%), Tchad (52%) and Rwanda (48%).

Africa's abundant energy potential is inefficiently utilised. Most fossil fuel is exported. Renewable resources are insufficiently used and only 7% of Africa's hydropower potential is converted into electricity. Therefore less than 20% of Africa's population has access to electricity and for those, power rationing and cuts are part of a daily routine. Without access to modern, sustainable and affordable energy services, job creation remains stagnant, industrial investment declines, the health and education services deteriorate, deforestation increases and the daily burden that women bear in Africa gets worse.

¹ European Council: The EU and Africa: Towards a Strategic Partnership – 1591/05 (Press 367) of 19.12.2005

Water resources are unevenly distributed and erratic rainfall exacerbates equitable country access. Many African countries suffer large seasonal rainfall fluctuations and periodic cycles of drought and flood constraining food production, ecosystem protection and economic development, particularly among the poor. Transboundary river basins suffer from fragmented management that threatens conservation and equitable resource sharing. This means that today over 300 million people – some 42% of Africa’s population - still do not have access to safe water. Similarly access to basic sanitation is denied to 60% of the population. Without clean water and good sanitation, diarrhoea and other water-borne diseases will multiply and the treatment of HIV/AIDS will be less effective

Access to modern communication services is patchy, although Africa’s communication technology is catching up rapidly. Many more people have access to telephone service in urban areas the rural areas are still far behind. The digital divide is slowly narrowing but insufficient regulatory reform could make African telecommunications services the most expensive in the world.

3. OBJECTIVES

The Partnership is EU’s response to Africa’s NEPAD Infrastructure Action Plan. It provides a reference framework for enhancing coherence of EC and EU Member State actions at the continental and regional level, and within national programmes. Based on the EU Strategy for Africa, it represents a concrete proposal for EU Member States to channel, in a coordinated way, their scaling up of aid to Africa.

In response to the problems outlined in the previous section, the general objective of the EU-Africa Partnership is to support programmes that facilitate interconnectivity at a continental and regional level. Partnership operations will also complement the EU’s sectoral approach for infrastructure at a country level and contribute to the implementation of EPAs. These approaches will assure that investments at a continental and regional level are coherent with national poverty reduction and infrastructure sector strategies. Such complementarity will also increase the sustainability of operations at regional and country levels.

3.1. Specific objectives

- **Interconnectivity:** Develop the infrastructure and services, the missing links, which secure the interconnectivity of the African continent and its different regions. Such interconnectivity will encompass trans-boundary, regional, and national infrastructure in the widest sense: transport networks, water and energy infrastructure and connections as well as telecommunication networks.
- **Transport:** reduce the cost of and improve the quality of services, removing non-physical barriers to free movement of goods and people, improving the maintenance of transport assets etc. with following themes: trade corridors without borders and barriers; better and safer roads; competitive rail services; efficient ports and safe seas and ports; and safe, secure and efficient skies and airports.
- **Energy:** fully develop access to sustainable and affordable energy services to economic and social sectors, and facilitate essential investments for generation, cross-border interconnections, grid extension and rural distribution

- **Water and sanitation:** sustainable use of available and finite water resources to meet the population's basic water and sanitation needs and contribute to improved water resources management at local, river basin/catchment, national and transboundary levels.
- **ICT:** Bridging the Digital Divide by providing adequate access to affordable ICTs through support to regulatory reform and capacity building, developing of broadband infrastructure and pan-African non commercial e-services

3.2. Policy options

When considering the best option for meeting the objectives and tackling the challenges of infrastructure and its services in Africa, the Commission assessed three policy scenarios.

In the **first option**, the baseline (or 'no policy change') scenario, the EU would retain its current approach where each Member State and the Commission support the development of infrastructure using its own methodology of dialogue with AU-NEPAD and the Regional Economic Communities (RECs). This would lead to higher transaction costs for African partners, fragmentation in the identification of priorities within regional and national infrastructure strategies and a corresponding slowdown in their delivery of improved services. Furthermore continuing such an approach, which uses different implementation and financing modalities, would introduce greater inefficiencies in the formulation and implementation of Member State and Commission operations. This would be detrimental to the management of the increased levels of aid the Partnership will receive and would fail to respond to the Council principles on aid effectiveness.²

The **second option** - an Africa Agency for Infrastructure scenario - this option foresees a "full European" participation in the Partnership – EC and EU Member States – with all infrastructure operations pooled together in the single Agency. The Agency would be supervised by a small Executive Board consisting of high level representatives from the EC, EU Member States and African personalities identified by AU-NEPAD. African institutions responsible for implementation would enter into performance contracts with the Agency that would monitor implementation and report to stakeholders. Although such an Agency could integrate an EU-wide response, there are risks associated with a lengthy establishment period for the Agency and a potential conflict with management of EDF National Indicative Programmes and bilateral cooperation agencies.

A **third option, the preferred option** – the "Partnership" scenario – brings together the Commission and Member States and through an enhanced coordination process delivers a common EU approach and strategy to supporting the development of African infrastructure at a continental, regional and country levels. The Partnership broadens the range of financing instruments by the introduction of an EC-EIB Trust Fund, open to all EU Member States.

The Trust Fund is an innovative mechanism that overcomes many of the past obstacles of EU co-financing (for example, eligibility, fiduciary responsibility, procedural and contract constraints etc.). EC grants by providing interest rate subsidies and offering co-financing opportunities will leverage increased financing of infrastructure by EIB, Member State development banks and financial institutions as well as non-ODA finance. The application of

² Council conclusions on Financing for Development and Aid Effectiveness; delivering more, better and faster – 11 April 2006 Luxembourg

the current financing instruments (e.g. the regional and national indicative programmes) will be streamlined by the enhanced coordination the Partnership brings to the infrastructure dialogue and the move towards more efficient and effective aid delivery, in line with the “European consensus.”

4. ANALYSIS OF IMPACTS

Given the considerable level of EU financing of infrastructure in Africa, the proposed EU-Africa Partnership will have a considerable impact on the work of all EU stakeholders that support infrastructure. In Africa, this Partnership will have an impact on the African Union, the RECs and many African countries as well as stakeholders that demand and benefit from infrastructure and its services. The specific impact will vary between sectors and stakeholder and over time.

4.1. Political impact

The Partnership proposes measures to *promote the integration of the African Union, the Regional Economic Communities and countries in the field of infrastructure and services* by:

- Harmonising the implementation of international and regional agreements,
- Supporting measures whereby improvements to infrastructure and services build on coherent regional trade arrangements for effectively contributing to regional integration.

The Partnership proposes measures to *support effective governance* by:

- Strengthening the capacity of continental and regional African institutions in their implementation of the vision of the AU-NEPAD Infrastructure Action Plan,
- Facilitating the effective integration international and regional agreements into national legislation and the implementation of the corresponding regulatory frameworks.

4.2. Economic impact

The Partnership proposes measures to *stimulate economic growth* in order to create the resources for an effective reduction of poverty by:

- Harmonising policies and regulatory frameworks in transport, energy and water resource management, and ICT,
- Facilitating the removal of non-physical barriers to the trade of goods and services,
- Reducing the costs of transport, particularly for landlocked countries,
- Linking transport and communications development to coherent regional trade agreements,
- Support the provision of the missing links and cross-border infrastructure of transport, energy and ICT along the Trans-African Corridors and Networks
- Improving the availability and reliability of energy service provide by cross border and regional energy infrastructure,

- Optimising the utilisation of transboundary water resources,
- Extending the access to ICT services.

4.3. Social impact

The Partnership proposes measures that *promote a positive social impact* for increasing access to basic services as laid down in MDG 7, for improving safety and security and for being gender sensitive, by:

- Extending the access to safe water and basic sanitation,
- Extending the access to modern, sustainable and affordable energy services,
- Improving road, air and maritime safety and security,
- Promoting infrastructure that responds to the needs of men and women.

4.4. Environmental impact

The Partnership proposes measures *to protect the environment* by;

- Supporting the sustainable and equitable management of water basin and transboundary resources;
- Supporting impact assessments of infrastructure development so as to mitigate any negative impact on the environment.

4.5. Operational impact

The Partnership proposes measures *to improve effectiveness and efficiency* by:

- Bringing together a wide range of European and African investment bankers that have a wide experience of commercial operations and of working with the private sector will complement the donor's long experience of development cooperation with governments and public sector bodies. Such an approach will stimulate the synergy for improving the process of project delivery from conception through formulation, financial closure and implementation.
- Supporting capacity building in key African institutions, African Union, Regional Economic Communities, which are responsible for overall planning and management of the Partnership. Increasing capacity at continental and regional level, which focuses on the trans-African corridors and networks, complements similar support at country level thereby accelerating the implementation of the Partnership's operations.
- Providing a wider range of financial instruments for implementing Partnership operations and harmonising operational procedures for reducing transaction costs,
- Blending grants with loans through the Trust Fund for leveraging additional finance for infrastructure on a 1:4-5 ratio.

5. COMPARING THE OPTIONS

In line with the new Impact Assessment Guidelines,³ the criteria used to evaluate the three “policy options” outlined in section 3 were **effectiveness** (the extent to which options can be expected to achieve the objectives of the proposal), **efficiency** (the extent to which objectives can be achieved with a given level of resources/at least cost), and **consistency** (the extent to which options are likely to limit trade-offs between the economic, social and environmental domains).

While there may be limited justification for the “no policy change” scenario, the Commission believes that continuing a “business as usual” approach with more financial resources would be an inadequate response to the problems outlined in section 2. Moreover, such a scenario would be an insufficient response to the African Union and African partners in developing a shared vision of the many ways in which infrastructure could better contribute to sustainable economic growth, supply-side trade, effective regional integration. Feedback on the second option, the Agency, from the dialogue with EU Member States indicated that such a policy scenario, which created a new institution, would not be acceptable. The Commission believes the third option of the EU-Africa Partnership is the best way to address the continent’s problems described in section 2.

6. MONITORING AND EVALUATION

To ensure that the EU action proposed (i) is in line with the priorities and policies outlined in the Partnership and summarised in this document and (ii) achieves the policy objectives by successfully addressing the problems outlined at the beginning of this document, the Commission proposes a dual process of regular **monitoring and evaluation** of progress on:

- Partnership operations in each infrastructure sector,
- Sectoral and global evaluations of the outcomes and impact of Partnership operations.

At the continental level, AU-NEPAD and the EC (headquarters and the EU Delegation in Ethiopia) will monitor investments that strengthen trans-African corridors and regional networks. Similarly, at a regional level the Regional Economic Communities will work together with AU-NEPAD and the corresponding EU Delegation in monitoring of the Partnership’s regional operations. And, at the country level AU-NEPAD and the RECs will work closely with the EC and its country Delegations in monitoring country actions that directly contribute to the Partnership’s objectives.

³ On the basis of SEC (2005) 791 of 15 June 2005 (Impact Assessment Guidelines).