Briefing Note 5

Infrastructure in Africa: The UK Commission for Africa Report and a Role for Private Engineering Contractors

The Report of the Commission for Africa recommends an increase in aid expenditure on infrastructure of up to $150billion over the next ten years. The Report positions engineering services companies principally as 'performance contractors', not investors. Companies wishing to access this expanded market may secure commercial advantage by enhancing their social and economic performance capabilities. This includes: institutional capacity building for the public sector; support to local suppliers; and infrastructure design that broadens access for local SMEs to regional and global markets.

The Africa Commission

In the spring of 2004 the UK Prime Minister Tony Blair launched the Commission for Africa. The Commission took a 'fresh' look at Africa's past and present. The intention was to provide new inspiration on promoting development in Africa, to coincide with the UK taking on a pivotal role in 2005 in the form of the presidency of the G8 and European Union. The Report of the Commission for Africa, published in March 2005, gives a series of recommendations for the future of international development in Sub Saharan Africa. This Briefing Note looks at one aspect of these recommendations, the proposal to increase aid to infrastructure in Africa.

> "Despite its clear benefits, African governments and development partners sharply reduced, over the 1990s, the share of resources allocated to infrastructure....In retrospect... this was a policy mistake founded in a new dogma of the 1980s and 1990s asserting that infrastructure would now be financed by the private sector"
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> Commission for Africa (2005) 'Going for Growth and Poverty Reduction,' in *Our Common Interest: Report of the Commission for Africa*. London: Commission for Africa, pp233-4

➔ Provided principally by developed country government, this new expenditure on infrastructure will be directed at:

a) improving the investment climate in Sub-Saharan Africa;

(b) supporting economic integration of the different Africa's regions;

(c) enabling Africa to break into world markets; and

(d) providing direct 'pro poor' benefits, eg rural transport to health clinic.

What the Report Says

The Report of the Commission for Africa makes the following points:

➔ There has been a "policy mistake" founded in the dogma of the 1980s/'90s that infrastructure would be financed by the private sector. The private sector is unlikely to finance more than 25% of infrastructure in the developing world. For the next ten years or so, the figure for Sub-Saharan Africa is likely to be far less, despite the likelihood of increased availability and innovations in development (risk) finance.

➔ In response to this policy failing, the Report recommends additional aid expenditure on infrastructure at a rate of US$10billion/year (each year to 2010), and possibly increasing to US$20billion/year for the subsequent five years (ie to 2015).

➔ Given the prominence of (a), (b) and (c) in the Report, the main investment sectors, in expenditure terms, will likely be: power, roads, irrigation, ports, energy and telecoms.

➔ The Report suggests that key components of this new infrastructure spend will involve:

- ⇨ improving capacities of the public sector at national and municipal levels to manage an increased intensity of capital projects and higher levels of recurrent expenditure;
- ⇨ stronger focus on project 'performance', eg greater use of outcome-based performance targets;
- ⇨ minimisation of corruption;
- ⇨ maximum benefits for local small and medium scale enterprises (SMEs) as engines of pro-poor income growth, both in developing or servicing the infrastructure (eg capital project suppliers, service management or maintenance outsourcing), and enabling local SMEs (especially agricultural SMEs) to access new markets.

A Role for Large Engineering Contractors

The Report of the Commission for Africa argues that the main role for the private sector in this increased infrastructure spend will be as 'performance contractors', not as investors. If engineering services companies wish to access the US$50billion plus of new public expenditure over the next 10 years they need to develop capabilities in a number of strategic areas of social and local economic performance (see Box 1).

It is conceivable that beyond excellence in engineering design, fabrication, construction, project management, service delivery and maintenance, contractors who show a competency in these new social and local economic areas of performance, would secure commercial benefits in at least two ways. First, as these performance standards begin to pervade pre-qualification and bid evaluation criteria, contractors with demonstrable capabilities as outline in Box 1, should enjoy advantage in winning new business. Second, in the anticipation that social and economic performance targets become part of core payment terms and conditions, the same capabilities should improve profit margins on individual contracts.

Getting the Incentives Right

Briefing Note 3 in this same series is entitled: "Levers and Pulleys: Incentivising Innovation by Lead Contractors through Contract Tendering." Written with the oil, gas and mining sectors in mind, the paper suggests new strategies for using the process of contract tendering between public or private sector clients and large engineer contractors. The aim is to deploy new tendering clauses to leverage the hidden capabilities and innovation within engineering contractors, in an effort to maximise the poverty reduction and local socio-economic development impact of infrastructure investment. These strategies are equally relevant to engineering companies and public sector clients involved in infrastructure development in Africa.

A series of roundtables discussion on the subject of contract tendering and poverty reduction are being planned by ODI for the extractive industries sector and the public infrastructure sector.

Reference

➔ Commission for Africa (2005) *Our Common Interest: Report of the Commission for Africa*. London: Commission for Africa
www.commissionforafrica.org

Box 1

Infrastructure in Africa to 2015: Contractor Performance Capabilities Needed to Maximise Business Opportunities

(i) a capability in institutional capacity building for public sector agencies, integrated within both capital projects and management contracts

(ii) formation of joint ventures with national firms and a permanent in-country presence that builds long-term linkages with local suppliers and sub-contractors;

(iii) an ability to work in public-private partnerships (PPPs) with public utilities and international donor agencies

(iv) expertise in how to embed 'pro-poor' infrastructure models into more mainstream capital projects and service delivery, including collaborating with NGOs and bi-lateral development agencies who already have the necessary 'appropriate' technology.

(v) locally relevant training, employment and SME supplier support services, either as 'on-the-job' support or 'job-linked', including an ability to make use of the proposed US$100million Africa Enterprise Challenge Fund and other such business-linkage support funds.

(vi) capabilities in infrastructure design that tangibly improve the access of local SMEs to new regional and global markets, eg rural feeder road programmes integrated with highways.

(vii) incorporation of corporate transparency and anti-corruption measures into project-risk management systems.

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This series of briefing notes provides information to engineering service companies operating in developing countries. The notes aim to assist contractors to enhance their social performance, be that: to deliver effective management of the negative socio-economic impacts of project activities; or extend employment, training, infrastructure and business support benefits to communities and suppliers.