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Cutting Edge Practices: Project Preparation Facilities (PPFs)

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Acronyms

ACEF	Africa Clean Energy Finance Initiative
ADB	Asian Development Bank
AfDB	African Development Bank
AFESD	Arab Fund for Economic and Social Development
AFFI	Arab Financing Facility for Infrastructure
AP3F	Asia Pacific Project Preparation Facility
AWF	African Water Facility
CDIA	Cities Development Initiative for Asia
CIIPP	City Infrastructure Investment Programming and Prioritization
DBSA	Development Bank of Southern Africa
DFI	Development Finance Institution
DPWI	Department of Public Works and Infrastructure
EBRD	European Bank for Reconstruction and Development
EEP	Energy and Environment Partnership Program of Southern and East Africa
EIB	European Investment Bank
ESC	Emerging and Sustainable Cities Program
ESCI	Emerging and Sustainable Cities Program Initiative
ESG	Environmental, Social and Governance
ESMAP	Energy Sector Management Assistance Program
EU-AITF	EU-Africa Infrastructure Trust Fund
GIF	Global Infrastructure Facility
GIZ	German Agency for International Cooperation
HIO	High-Impact Opportunities
IADB	Inter-American Development Bank’s
IsDB	Islamic Development Bank
IFC	International Finance Corporation
IIPSA	Infrastructure and Investment Project for South Africa
INEP	Integrated National Electrification Programme
IPPF	Infrastructure Project Preparation Facility
JICA	Japan International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau
KZN	KwaZulu-Natal
MDB	Multilateral Development Bank
MIG	Municipal Infrastructure Grant
NEPAD	New Partnership for Africa's Development
NEPAD-IPPF	New Partnership for Africa’s Development Infrastructure Project Preparation Facility
OPIC	Overseas Private Investment Corporation
PDF	Project Development Facility

PFF	Project Facilitation Fund
PIDG	Private Infrastructure Development Group
PPF	Project Preparation Facility
PPFS	Project Preparation and Feasibility Study
PPIAF	Public-Private Infrastructure Advisory Facility
PPP	Public-Private Partnership
PPT	Project Preparation Trust
RMC	Regional Member Countries
SADC PPDF	SADC Project Preparation Development Facility
SDG	Sustainable Development Goal
SIP	Strategic Infrastructure Programme
SE4ALL	Sustainable Energy for All Initiative
SEFA	Sustainable Energy Fund for Africa
UPPF	Ukulungisa Project Preparation Fund
USICEF	US India Clean Energy Finance Facility
USTDA	U.S. Trade and Development Agency
WBG	World Bank Group

Abstract

While a shortage of infrastructure investment can be linked to the need for policy and governance reforms, evidence is also increasingly pointing to the lack of packaged and bankable projects as a key element in low levels of infrastructure provision. The reasons for project bankability failure show that proper project preparation in technical, financial, legal, sustainability, and governance areas is key to achieving a higher success rate of projects.

This research examined the growth of project preparation facilities (PPFs) globally and in Africa to detail how it has been used as a tool to boost lending activities and outline new thinking in this field. This project also looked at the performance of this facility at the Development Bank of Southern Africa (DBSA) since its inception to come up with lessons that can be learned from the point of view of what has worked and what has not. This research paper concludes by detailing several recommendations arising out of this research.

Acknowledgements

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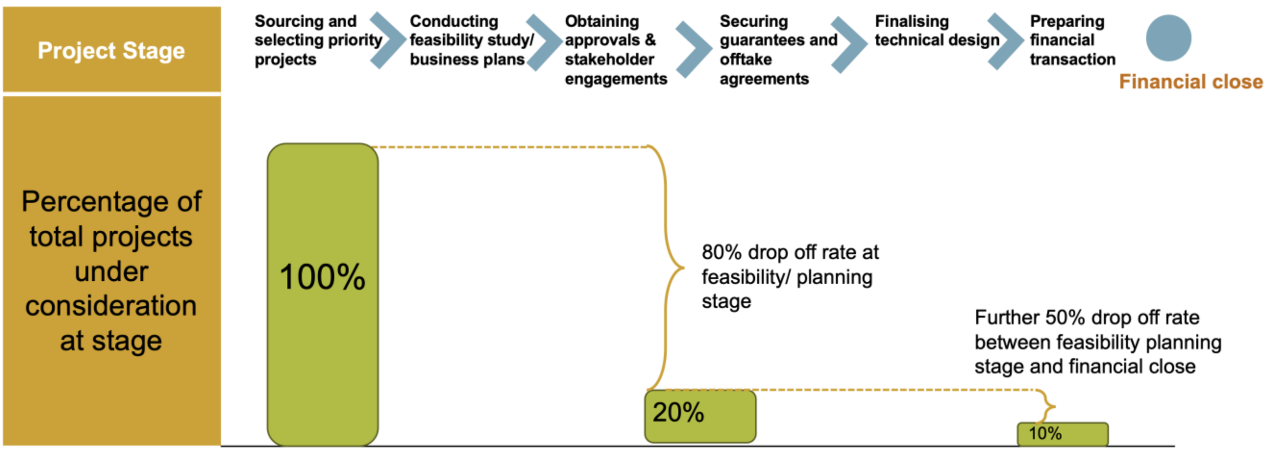
1 Introduction

In Africa it is becoming very clear that the reasons for the shortage of infrastructure investment only partially have to do with the need for policy and governance reforms. The evidence is increasingly pointing to the lack of packaged and bankable projects. In general, only about 10% of projects in Africa reach financial close because of inadequate project preparation (Casablanca Finance City Authority, 2021).

The figure below highlights the 'African Infrastructure Paradox', where in some sectors there are substantial funds available but too few viable commercial projects (*ibid*.).

Figure 1: The African Infrastructure Paradox (ibid.)



This constitutes *prima facie* evidence of the need for more and better project preparation. Many of the causal reasons for the failure of infrastructure project development proposal and /or the lack of bankability of infrastructure project development proposals in the continent include the following:

- **Insufficient project development** (unrealistic business plans and insufficiently prepared legal, financial, procurement and other baseline work);
- **No linkage to the financial sector** (projects need access to the network of finance institutions);
- **Insufficient returns** (a project must generate a revenue stream exceeding a certain minimum level for a private investor to step in);

- **High risk in the development phase** (given the long-term nature of infrastructure projects, investors are not willing to spend resources on project preparation especially given the high risk in the preparation phase);
- **Infrastructure investment (long term) versus investors (short-term preferences)** (different realities and interests between the time spans of the different interests);
- **Community resistance** (returns may be reduced, and investors' reputations may be tarnished when such happens);
- **Uncertainty on the role of private investors** (they are often unsure how, where, and when to commit capital because governments often cannot programmatically present projects);
- **Change in political guard and preferences** (infrastructure project development and execution can take many years and changes in political leadership and priorities can result in a previously supported project development proposals losing support).

The reasons for project bankability failure show that proper project preparation in technical, financial, legal, sustainability, and governance is key to achieving a higher success rate of projects. This paper focuses on the growth of project preparation facilities (PPFs) globally and in Africa to detail how it has been used as a tool to boost lending activities and outlines new thinking in this field. The research evaluates other project preparation facilities as against that of the Development Bank of Southern Africa (DBSA) and how it fares against their characteristics, features, and functions. To do so, and in addition to a broader review of PPFs, the project looks at the performance of this facility at the DBSA since its inception to come up with lessons that can be learned from the point of view of what worked and what has not.

In South Africa, while there has been considerable progress in the provision of infrastructure since 1994, the level of poverty is high and there are still extensive backlogs in infrastructure and the provision of associated services such as water and sanitation, electricity, housing, and health. Once built, these projects deliver infrastructure that requires asset lifecycle management inclusive of operation, maintenance, repairs, renewal, possibly upgrading or repurposing, and eventual decommissioning. Municipalities, the provincial and national spheres of government, including state owned enterprises (SoEs) are expected to drive public infrastructure delivery while facing several challenges, including increasing demand for economic infrastructure, ageing assets requiring upgrading, rehabilitation, or replacement.

In most instances, the demand is for both economic and social infrastructure as opposed to merely for economic infrastructure. Ageing assets are indeed a challenge but also present an opportunity for developing a large-scale green renewals programme to adapt to climate change, become more resilient, and meet the Sustainable Development Goals (SDGs). Many DFOs specifically target this opportunity and the DBSA also has a Green Fund in place.

While the need for infrastructure to uplift the plight of the poor is an imperative, the SDGs, the National Development Plan (NDP), and various government strategies also demand investment in infrastructure for various needs such as economic growth, climate change adaptation, and improved urban and regional functioning. Moreover, the purpose of PPFs is to prepare bankable project proposals. In isolation, infrastructure services provision to the poor is generally characterized by limited or no bankability due to a lack of financial returns.

1.1 What is Project Preparation?

Project preparation consists of the entire social, technical, and financial, legal and governance work required to ensure that a project is feasible and appropriate and that it can be successfully implemented. Successful project preparation can assist greatly in both delivering projects and developing a future pipeline of projects which could be funded. According to the literature, the first PPF that was established exclusively to deal with project preparation that is still operational is the KwaZulu-Natal (KZN) Project Preparation Trust (PPT).

1.2 Methodology for this research

The methodology for this research took the form of desktop research and interviews with key informants, the key objectives of which included:

- PPF as a funding enabler: origin and growth
- PPFs in developed countries
- PPFs in developing countries (challenges unique thereto)
- PPFs in Africa: The African Development Bank (AfDB) and DBSA project preparation facilities
- Lessons learned in Africa: What does not work (bottlenecks)
- Lessons learned in Africa: What works/could work (success factors)
- Prototype of a successful PPF in Africa
- Implications for the DBSA

A literature review on PPFs was completed scoping both those linked directly to DFIs and those operating independently, also including a summary of key achievements in such PPFs. This research also involved interviews with key informants responding to an interview guide. One of the respondents included the DBSA Project Preparation Division.

2 Overview of PPFs

Significant infrastructure investments are needed worldwide to achieve international commitments such as the Sustainable Development Goals (SDGs) (Oberholzer *et al.*, 2018). Developing countries face a $4 trillion annual SDG investment gap (UNCTAD, 2023). Examples of infrastructure projects required include:

- **Water** (including abstraction, storage, management, distribution, treatment, recycling and reticulation)
- **Sanitation** (collection, treatment, and safe discharge)
- **Energy** (including generation, storage and distribution, energy efficiency)
- **Solid waste management** (including collection, processing, recycling, and transfer and landfill)
- **Transport** (roads bridges, stormwater infrastructure, bus stations, railways, terminals, airports, seaports, border ports, and associated investments)
- **Information and Communications Technology** (international connectivity, backbone and network infrastructure, towers, fibre, undersea cables, data centres, and satellites)
- **Social infrastructure** (including education, healthcare, sports and recreation, law enforcement, fire, emergency services, cultural and civic facilities)
- **Food systems** (including agriculture, storage, processing, and distribution)
- **Mining and extractive industries** (including mines and processing facilities)

However, there remains a massive shortfall between the infrastructure required and actual global investment. A challenge is that “many infrastructure projects cannot be linked to finance due to a number of reasons such as a lack of bankability, insufficient project development, and high risk at the early stage of project development” (Oberholzer *et al.*, 2018).

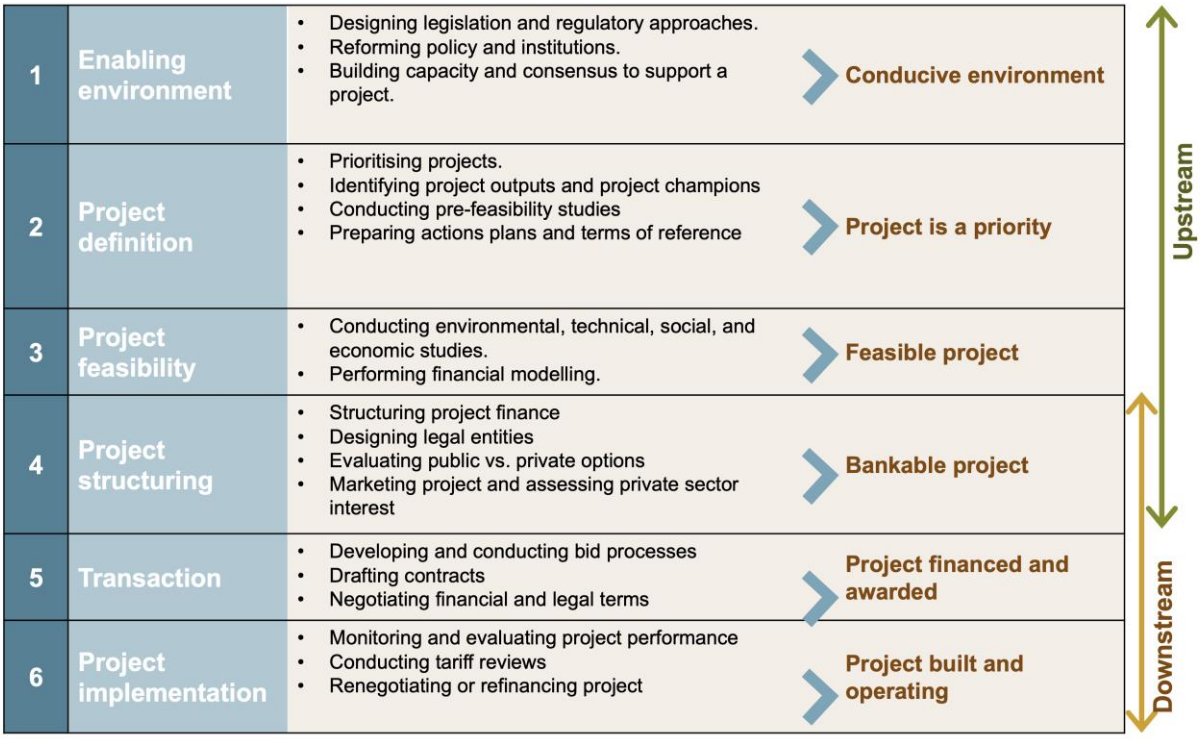
Bankability is not achieved for several reasons including insufficient project development, missing link to the financial sector, insufficient returns, high risk in the development phase, long-term nature of infrastructure investment versus short-term preferences of investors, and resistance from the local community. These reasons are clear indications that proper project preparation in technical, financial, legal, sustainability, and governance regards is key to achieve a higher success rate of projects (Oberholzer *et al*., 2018). Project preparation is critical in ensuring that projects are ready for investment.

Project preparation includes feasibility studies, developing procurement documents and concession agreements, sounding out stakeholders and end-users, economic, social, technical, and environmental studies, commercial and financial documentation and negotiation, strategic sponsor selection, and structuring equity and debt financing (Casablanca Finance City Authority, 2021).

Kortekaas (2015) elaborates, noting that many projects do not have an adequate fact base built during preliminary work. As a result, potential investors cannot be guaranteed returns on their investment. Project preparation facilities (PPFs) are mechanisms used to ensure bankable projects are available. Project preparation entails the work required to take projects from a concept to a contract award, including project definition, feasibility analysis, deal structuring, and transaction support (Kortekaas, 2015).

Key phasing and related activities are detailed in the figure below.

Figure 2: Project preparation phases



It is worth noting that the phases presented in Figure 2 above are indicative and not firm as there may be significant differences in what is included in each project phase. The Bank operates in several countries and sectors, and at times in partnership with other funders. Therefore, the phases in project preparation, and the actions and outputs of each phase may differ depending on the infrastructure delivery strategy, the financing strategy, the procurement strategy, the country-specific regulatory regiment for public procurement, and requirements for public-private partnership (PPP) contracts, the governance requirements of funders, the nature and size of the project and other factors. In South Africa, the phases of project preparation are included in the government's Infrastructure Delivery Management System (IDMS) that commences with portfolio-level planning processes and then progresses into project-level planning.

Phase 2 (project definition) should also include actions for needs identification, identification of project objectives, identification and screening of options for delivering on the identified need to decide on a preferred option for detailed project development.

Depending on the size of the project and its complexity, there is often a phase for project pre-feasibility. In Phase 3 (project feasibility), the evaluation of public versus private options is typically assessed as part of the feasibility phase. Assuming a feasible, bankable project, a draft procurement strategy is developed as part of this phase.

Phase 4 (project structuring) includes the preparation of tender documentation and draft contracts, refinement, and finalisation of the procurement strategy, and obtaining approval to proceed to the transaction phase. Phase 5 (transaction) is dedicated to the marketing the project, undertaking qualification or prequalification as appropriate, qualifying and if necessary, shortlisting qualified companies, issuing the Request for Proposals (RFP) and receiving bids, bid evaluation and adjudication, signing the contract and reaching financial close. Actions noted under Phase 6 (project implementation) will depend on the nature of the contract, for example, a build contract, build-operate-transfer contract, or any chosen option as the responsibilities of a PPF stop after Phases 4 or 5.

Similarly, the Casablanca Finance City Authority (2021) highlights several useful principles for project preparation below:

- The Project Rationale establishes the need for the project within an overall strategic infrastructure context and outlines the project scope and objectives.
- The Options Appraisal demonstrates that all relevant options have been considered and involve relevant stakeholders, and that cost-benefit analysis and other studies have been conducted to determine the best value for money over the lifecycle of the project.
- Showing Commercial Viability demonstrates that the project is feasible for all stakeholders, with a reliable supplier and off-taker market, transparent procurement processes, and appropriate risk allocation.
- Long-term Affordability analysis confirms that the project is cost-effective over its lifespan, considering available public funding, unexpected contingencies, revenue streams, and debt sustainability among other factors.
- Deliverability and Sustainability Analysis assures the successful delivery of the project and its efficient operations over its lifespan, with sufficient staffing,

financing, monitoring, and Environmental, Social and Governance (ESG) safeguards, as well as a reasonable timeframe.

In developing countries, project preparation costs typically range between 5-10% of the total investment required for a project. PPFs are one of the possible entities undertaking project preparation processes, with other potential stakeholders including government agencies, public-private partnerships, or corporate entities.

PPFs are often hosted in public finance institutions such as development finance institutions. This ensures a high fiduciary standard and a strong management talent pool (Kortekaas, 2015). They are also increasingly more multi-disciplinary, requiring an array of deep and diverse skills and expertise across technical, economic, social, environmental, and financial aspects.

PPFs can take a variety of forms, as noted by the Global Infrastructure Hub (2019):

- *PPFs that pool resources and are jointly managed*: These include the European Union (EU) Project Preparation Facility for the Southern Neighborhood (MED 5P), funded by the European Commission and led by the European Investment Bank (EIB), in partnership with the European Bank for Reconstruction and Development (EBRD), the African Development Bank (AfDB), Kreditanstalt für Wiederaufbau (KfW) and the Union for the Mediterranean, and the Arab Financing Facility for Infrastructure (AFFI) Technical Assistance Facility, funded by the World Bank Group (WBG), the Islamic Development Bank (IsDB), the EIB, the International Finance Corporation (IFC) and the Arab Fund for Economic and Social Development (AFESD).
- *Regional, sub-regional or country focused PPFs*: These include the Inter-American Development Bank's (IADB's) InfraFund, and the New Partnership for Africa's Development Infrastructure Project Preparation Facility (NEPAD-IPPF). The AfDB's Africa50 initiative provides project preparation capacity within a development-oriented, yet commercially operated innovative entity. The innovativeness of the Africa50 lies in its integrated approach of being a "one-stop shop" which combines early-stage project preparation and development work with long-term debt funding.

- *Relatively recent initiatives:* PPFs, including the EBRD's Infrastructure Project Preparation Facility (IPPF), the ADB's Asia Pacific Project Preparation Facility (AP3F) and the World Bank Group's Global Infrastructure Facility (GIF) have been launched recently.

2.1 PPF definitions

Table 1: PPF terminology (Power Africa, 2016)

Phrase	Definition
Enabling environment	The environment in which a project developer operates comprises public institutions, national and regional policies and regulations, financial institutions, and society. The extent to which this environment supports and encourages private sector project success can be improved by institutional reform, policy and regulatory planning, and financial sector development. Public sector capacity building enables and promotes private sector project development and investment and improves the public sector's capacity to act as an effective counterpart.
Project concept	The initial phase of the project during which fundamental questions such as what, why, how, and when of the project are answered. Basic financial viability is established based on an assessment of constraints, assumptions, and risk.
Project pre-feasibility	Determination of project viability and a base case that will support the commitment of funding for the feasibility study: legal and regulatory assessment, site assessment and selection, determination of initial project schedule, preliminary financial analysis and estimated tariff requirements.
Project feasibility	A refinement of the base case that will support the commitment of resources to develop the project and provide assurances that will

Phrase	Definition
	support capital investment, plan acquisition of rights, generate indicative project design, complete technical studies, determine risk mitigation and update financial analysis.
Project development	Undertaking of long lead-time activities and receipt of authorizations, acquisition of land and water rights, development of community plans, identification of vendors and EPC contractors, hiring of advisors and refinement of the project financial model.
Project structuring	Structuring of the project to the extent that project finance can be arranged: structuring of the SPV, PPA negotiations, interconnection agreements, EPC contract, O&M agreements, identification, and involvement of potential lenders.
Project financing	Arrangement of finance on terms and conditions sufficient to achieve financial close: agreement of financial plans, finalization of term sheets, finalization of debt and equity financing and lender security.
Project construction and completion	The final stages of the project, which include construction, commissioning, and commercial operations: meet all conditions precedent to give Notice to Proceed, construction, testing and commissioning and commercial operation.

3 Financial DFIs and PPFs

There is a wide range in the scope of PPFs and their activities. While generally PPFs describe their main role as the preparation of projects to a bankable stage, and the linking with financing institutions, there are significant differences in the way this is completed.

The German Agency for International Cooperation (GIZ) distinguishes between PPFs with the following properties:

- **City focus:** some PPFs have an exclusive focus on cities. In most cases, those who do not share this characteristic do not explicitly exclude activities in cities but do not emphasize them necessarily more than rural areas. So, PPFs may be characterized as either "exclusively urban" or "inclusively urban".
- **Geographic focus:** some PPFs are globally active while many of the big facilities are focused on a specific world region, such as several countries, continents, or parts of continents.
- **Thematic focus:** basically, a PPF may just work on the objective of implementing projects successfully such that operations can start. However, many PPFs have specific objectives like climate resilience or climate change mitigation and adaptation, provision of basic services, energy efficiency or poverty reduction. Most of the large PPFs have a considerable number of objectives included in their methodologies.
- **Output focus:** as part of preparation for direct project implementation and going beyond the focal point of a single project, PPFs can extend their activities to a considerable number of different outputs. They may be engaged in developing frameworks like, among others, national legislation and institutions, urban development plans or sectoral strategies. Capacity building for municipalities can be another emphasis. Regarding finance linkage, PPFs may either target development financing from development institutions like multilateral, bilateral or national development banks, or from private sources like commercial banks or capital market investors. Additional donors may be included, especially when projects have a clear focus on sustainability.
- **Partnership structure:** PPFs can also differ in their partnership structure. They can be created and hosted by a single entity but as well be the product of a multi-partner collaboration.

The table below is an example that details the complex division of roles amongst various actors in the project preparation, funding, and implementation space. These are broadly divided up in terms of hosting or fiduciary management, fund management, and task execution (Kortekaas, 2015).

Table 2: PPFs fiduciary, implementation, and execution management

PPF	FIDUCIARY MANAGEMENT (HOSTING INSTITUTION)	FACILITY/FUND MANAGEMENT (IMPLEMENTING ENTITY)	USER OF SUPPORT (EXECUTION/TASK MANAGEMENT)
NEPAD IPPF	AfDB	AfDB	Recipient
EU-AITF	EIB	ITF Secretariat	Nominated development banks/DFIs and others in an internal financiers group (e.g., PIDG, AfDB)
PPIAF	World Bank	PMU	IBRD (mostly)/recipient
AFFI-TAF	IsDB	Board / Secretariat	Participating DFIs
DBSA-EIB PDSF	DBSA	DBSA	Recipient
SADC PPDF	DBSA	SADC	Recipient
AFD-DBSA	DBSA	DBSA	Recipient
ESMAP	World Bank	PMU	World Bank
AWF	AfDB	AWF PMU	AfDB/Recipient
DEVCo	DEVCo Trust (IFC)	IFC Advisory Services	IFC Advisory Services

In a review of development banks by the Global Infrastructure Hub in 2019, key findings note that there has been an increase in the number of PPF initiatives, with all banks having at least one PPF in operation, and five banks operating multiple PPFs. Over 80% of PPFs have been created after 2015, reflecting the ramp-up of PPFs in recent years. In terms of funding, most PPFs were funded with a mixture of internally retained earnings and external donor support. Finally, the survey found that "an estimated US $600 million has been committed to PPFs across the MDB landscape since 2015, ranging in size from US $7 million to US $107 million. Nearly 200 project preparation initiatives have been launched since 2015 across primary PPFs, supported by over 200 MDB staff who are typically structured finance and/or PPP specialists. The total value of projects collectively under preparation under the MDB-led PPF initiatives since 2015 is estimated at US $50 billion" (Global Infrastructure Hub, 2019).

4 PPFs in South Africa and Globally

Several project preparation organisations and funds exist in South Africa. The Ukulungisa Project Preparation Fund (UPPF) is a joint venture which is funded by the Business Trust. The bulk of UPPF's preparation funding is committed to 24 infrastructure projects in 12 municipalities in 3 provinces potentially benefiting 104,605 disadvantaged households and with potential capital leverage of over R910 million. R196 Million in capital funding has already been leveraged for 6791 beneficiary households in three of these projects.

The KZN Project Preparation Trust (KZN PPT) was established in 1993 to support efforts to secure a pipeline of viable development projects. Currently it focuses on pro-poor projects, usually basic services. The organisation's core business is to help clients manage the project preparation process and pursue grant funding. Target groups include government, community, and donors. For each, the PPT ensures that effective and systematic project preparation occurs through professional management of project preparation funding. This approach ensures the identification and elimination of key risks at the earliest possible time and maximization of development opportunities by ensuring that projects are well conceptualised. The approach of revolving project preparation funds is used where PPT takes the risk upfront and recovers the cost once the project gets approved (DBSA, 2012).

The KZN PPT has identified several key aspects regarding project preparation as it relates to infrastructure projects. These include:

- Project preparation must entail analysis of feasibility and appropriateness

- The risks involved at different levels of the project need to be identified
- Synchronisation with the budgeting process - early stages of projects usually are not aligned to the medium-term expenditure framework (MTEF)
- A participative approach that develops capacity in all parties
- Economic, political, and social returns must all be adequately assessed
- Poor project management at early stages of project preparation stalls progress, and hinders achieving the desired outcomes
- Scaling up of institutional capability is a strategic priority
- Clarity on land reform and finalization of claims is needed to promote sustainability and reduce uncertainty.
- Poor project planning results in greater costs down the line, therefore adequate planning needs to take place (see diagram below on the Project Cycle)

Other PPFs focused primarily on the energy sector include:

- NEPAD Infrastructure Project Preparation Facility (NEPAD-IPPF) – the NEPAD-IPPF funds technical or operational activities, including advisory services, studies, technical assistance, workshops, and seminars that are part of the preparation of NEPAD regional infrastructure projects or programs.

- Sustainable Energy Fund for Africa (SEFA) – The SEFA is a multi-donor trust fund administered by the AfDB – anchored in a commitment of US$95 million by the Governments of Denmark, the United States, the United Kingdom, and Italy to support small- and medium-scale renewable energy and energy efficiency projects in Africa. This includes support to high-impact opportunities (HIO) for green mini-grids. SEFA is also aligned with the Sustainable Energy for All Initiative (SE4ALL) to support preparatory, sector planning and capacity-building activities arising out the AfDB-hosted SE4All Africa Hub.

- InfraCo Africa (a Facility of PIDG) – InfraCo Africa is an infrastructure development facility of a facility of the Private Infrastructure Development Group (PIDG) that has been designed to assume the risks and costs of early-stage project development in the lower-income countries of Africa. InfraCo Africa identifies investment opportunities and develops them to the stage where they can attract domestic and international finance. Where appropriate, InfraCo Africa can source grants to support pro-poor projects.

- The U.S.-Africa Clean Energy Finance Initiative (ACEF) – The ACEF is a financing program sponsored by the U.S. Department of State and implemented jointly by the Overseas Private Investment Corporation (OPIC) and the U.S. Trade and Development Agency. The goal of the initiative is to increase access to clean energy for African countries by stimulating increased investments in clean energy generating capacity and related infrastructure.
- U.S. Trade and Development Agency (USTDA) – The USTDA is the U.S. government's project planning agency. USTDA helps infrastructure projects reach bankability through funding for project planning activities, pilot projects and reverse trade missions, while creating sustainable infrastructure and economic growth in partner countries.
- Energy and Environment Partnership Program of Southern and East Africa (EEP) – The Energy and Environment Partnership Program of Southern and East Africa (EEP) is focused on projects in all fields of renewable energy and energy efficiency, bridging the gap between a good idea and a bankable project by providing partial financing to project proposals. These projects include various types of feasibility studies aiming at concrete investments, as well as pilot, scale-up and demonstration projects. Projects that demonstrate high innovation in delivering energy services, facilitate technology transfer, encourage cooperation and local stakeholders' participation are preferred.

The New Partnership for Africa's Development (NEPAD) identified infrastructure as one of the major drivers for economic growth and poverty reduction in Africa. As such, it established a NEPAD-IPPF Special Fund to assist African countries and related infrastructure development institutions to prepare high quality, viable regional/continental infrastructure projects that would be ready to solicit financing from public and private sources in support of the objectives of NEPAD (ADB Group, 2006). The sectors covered by the fund include Information and Communications Technology (ICT), transport, energy, and water resources management.

The NEPAD-IPPF Special Fund is specifically designed to finance "regional/continental project preparatory activities, including advisory services, studies, technical assistance, workshops and seminars**.** The NEPAD-IPPF Special Fund is tailored to urgently address project preparatory activities of Regional Member Countries (RMCs) of the Bank Group and RECs with a high probability of generating viable regional infrastructure projects that can more easily be financed through public and/or private sources" (ADB Group, 2006).

5 International case studies

In Indonesia, the Ministry of Finance established a Project Development Facility (PDF), to assist government contracting agencies in hiring transaction advisors and undertaking feasibility studies and PPP procurement. This unit focuses primarily on preparing infrastructure projects to be developed using the PPP model. Indonesia's PDF has generally been used to provide support to mid-stage activities in terms of detailed feasibility studies and subsequent transaction advisory, and not yet early-stage outline business case preparation and pre-feasibility studies (Global Infrastructure Hub, 2019).

The Kenyan government collaborated with the World Bank in February 2013 to establish a stable, predictable, and transparent investment environment, along with a pipeline of finance-worthy projects. This is aimed at three key areas of development: i) enabling environment; ii) project pipeline; and iii) project financing. The Project Facilitation Fund (PFF) was also created to support project preparatory studies for PPP projects. The PFF was established as a multi-purpose fund to provide financial assistance to:

- Support the Government Contracting Authority in the preparation, appraisal, and tendering phases of PPP projects
- Support activities of the PPP Unit
- Extend Viability Gap Funding to PPP projects, and
- Provide a source of liquidity to meet contingent liabilities arising from PPP projects.

The table below provides an overview of existing PPFs in Asia and in Latin America.

Table 3: Subnational PPFs in Asia (Oberholzer et al., 2018)

Description	Specific Information
CDIA – Cities Development initiative for Asia • Lead organizations: Asian Development Bank (ADB) & GIZ • Since: 2007 • Facility type: PPF • City focus: exclusively urban • Thematic focus: no sectoral focus • Partnership structure: multi-stakeholder Number of projects supported: more than 70 • Average support per project: USD 250,000	• Project preparation support in medium-sized cities • Prioritization of urban infrastructure investments • Pre-feasibility studies • Linking to finance
ACCCRN – Asian Cities Climate Change Resilience Network • On behalf of: Rockefeller Foundation • Since: 2008 • Facility type: PPF • City focus: exclusively urban • Thematic focus: climate focus • Partnership structure: multi-stakeholder • Number of projects supported: 35 • Average support per project: USD 350,000	• Membership-based platform • Support of individual practitioners • Generating and sharing knowledge about urban climate change resilience
UEIF – Urban Environment Infrastructure Fund • Lead organization: ADB • Since: 2009 • Facility type: PFF • City focus: exclusively urban • Thematic focus: no sectoral focus • Partnership structure: single actor • Number of projects supported: about 40 • Average support per project: USD 200,000	• Grants for technical assistance and investments
UFPF – Urban Project Finance Initiative • Lead organization: ADB	• Pooled grants from UEIF

Description	Specific Information
• Since: 2011 • Facility type: PFF • City focus: exclusively urban • Thematic focus: climate focus • Partnership structure: single actor	• Pooled grants from other urban trust funds • Framework agreements with financing partners • Knowledge provision and exchange
AAPP – Adapt-Asia Pacific Project • Lead organization: USAID • Since: 2009 • Facility type: PPF • City focus: inclusively urban • Thematic focus: climate focus • Partnership structure: single actor (extensive partner network)	• Facilitating access to climate change adaptation finance • Building national capacity for adaptation • Technical assistance • Organizing focused training and peer-to-peer learning • Promoting regional networking and training
AP3F – Asia Pacific Project Preparation Facility • Lead organization: ADB • Since: 2014 • Facility type: PPF • City focus: inclusively urban • Thematic focus: no sectoral focus • Partnership structure: multi-stakeholder	• Financial assistance for public sector agencies of member countries to support financial, legal, and technical advisory services • Support for enabling reforms and capacity building: • Upstream sector reform • Due diligence of project structuring • Preparation of information memoranda and marketing • Preparing project documentation and financial models
USICEF – US India Clean Energy Finance Facility • Lead organizations: Climate Policy Initiative & Indian Renewable Energy Development Agency • Since: 2017 • Facility type: PFF • City focus: inclusively urban • Thematic focus: renewable energy • Partnership structure: multi-stakeholder • Number of projects supported: 5 • Average support per project: USD 250,000	• Providing technical assistance • Linking projects to finance
PIDG – Private Infrastructure Development Group	• Mobilization of private sector investment

Description	Specific Information
• Lead organization: autonomous governance, membership of five European and Australian ministries as well as development finance institutions • Since: 2002 • Facility type: PFF • City focus: inclusively urban • Thematic focus: no sectoral focus • Partnership structure: multi-stakeholder • Number of projects supported (by InfraCo Asia): 12 • Average support per project: USD 500,000 (2–10 million in case of co-development and joint venture partner)	• Group of subsidiary companies focused on • Technical assistance • Provision of guarantees • Facilitation of private sector participation • Provision of debt

Table 4: PPFs in Latin America (Oberholzer et al., 2018)

Description	Specific Information
CSC – Platform of Sustainable and Competitive Cities • Lead organizations: IDB, Findeter • Since: 2012 • Facility type: PPF • City focus: exclusively urban • Thematic focus: no sectoral focus • Ownership structure: multi-stakeholder	• Planning sustainable strategies for cities - Technical assistance - Providing resources for project preparation - Partnerships with public and private institutions
ESCI – Emerging and Sustainable Cities Initiative • Lead organization: IDB • Since: 2011 • Facility type: PPF • City focus: exclusively urban • Thematic focus: no sectoral focus • Ownership structure: single actor • Number of supported projects: more than 50 • Average support per project: funding is raised by cities	• Support to national and subnational governments in development of city action plans • Project prioritization • Technical assistance • Pre-feasibility planning
Infrafund • Lead organization: IDB • Facility type: PFF • City focus: inclusively urban • Thematic focus: transport sector • Ownership structure: single actor	• Identification, development, and preparation of sustainable infrastructure projects • Linking projects to finance Providing resources to hire specialized consulting services
CFF – C40 Cities Finance Facility • Lead organizations: GIZ & C40 • Facility type: PFF • City focus: exclusively urban • Thematic focus: no sectoral focus • Ownership structure: multi-stakeholder • Number of supported projects: 2	• Providing support for climate change mitigation and adaptation projects • Technical assistance • Project structuring • Capacity development
FELICITY – Financing Energy for low-carbon Investment – Cities Advisory Facility • Lead organizations: EIB & GIZ • Facility type: PPF • City focus: exclusively urban	• Guidance on technical, financial, and economic feasibility of investments in cities • Capacity development • Facilitation of knowledge exchange

Description	Specific Information
• Thematic focus: no sectoral focus • Ownership structure: multi-stakeholder	

The Cities Development Initiative for Asia (CDIA) is an international partnership established by the Asian Development Bank (ADB) and the Government of Germany, with additional core funding support from the governments of Austria, Sweden, Switzerland, and the Shanghai Municipal Government. ADB, GIZ and KfW partner for its implementation. CDIA pursues the overall objective of developing strategies and approaches to enhance sustainable development and reduce poverty. The initiative aids medium-sized Asian cities to bridge the gap between their development plans and the implementation of their infrastructure projects.

The operational objectives of CDIA are to improve urban infrastructure services and management through:

- Providing technical assistance in structuring priority infrastructure projects to a stage where they can be financed
- Helping cities structure their projects to attract market-based international private investment
- Strengthening local institutional prerequisites for development of capital investment infrastructure projects and urban services, and
- Promoting regional dialogue and cooperation on urban management in Asia to enhance cross-learning from good local practices.

CDIA was created in October 2007 and currently has a team of 18 staff members from ADB and GIZ. The active infrastructure sectors are water, energy, solid waste management, transport, and social infrastructure. With the general regional focus being on Asia and the Pacific, current projects are ongoing in Georgia, Tajikistan, Pakistan, China, Cambodia, Indonesia, Vanuatu, and Mongolia.

For project prioritization, CDIA developed its own comprehensive approach called the City Infrastructure Investment Programming and Prioritization (CIIPP) Toolkit (CDIA, 2015). It consists of investment budget analysis, project prioritization, and investment programming and has been used in 52 cases so far.

To avail itself for project preparation support, a local government must send a letter of preliminary enquiry for CDIA support. While it is rare that cities directly apply for support, they usually approach CDIA through partner organizations. Joint discussions on project priorities, development plans and city visions follow. Three selection criteria must be fulfilled:

- The city must be a medium-sized city (population of 250,000 to 5 million)
- The city must have an urban development plan in place
- There must be an endorsement letter from the central/state level indicating in-principle support for the development of an urban infrastructure projects portfolio and its financing and the assistance request application to CDIA.

An evaluation report for the three years from 2013 until 2015 overall confirmed CDIA as a remarkable success story (GIZ, 2016): two of the three objectives indicators (concerning the creation of a partner network and the number of cities where CDIA is present) were fulfilled or respectively, even outperformed. The area where the objectives were not met concerned the use of innovative tools and processes by cities.

The US India Clean Energy Finance Facility (USICEF) is an institution created and led by the Climate Policy Initiative and the Indian Renewable Energy Development Agency. USICEF was created in April 2017 and has five staff members. The facility is focused on one single sector, or even a sub-sector, that is, renewable energy. Within this field, mini- and micro-grid power generation projects, market-based solutions like sales and distribution or energy access provision as well as renewable energy infrastructure catalysers such as projects to improve infrastructure are supported. USICEF has been engaged in five projects so far. Its beneficiaries are generally the disadvantaged communities in general. In the specific preparation process, however, targeted clients are private companies as well as both domestic and foreign investors.

The Emerging and Sustainable Cities Program (ESC), often referred to as an Initiative (ESCI), is hosted and funded by the IDB. In addition, it has a wide network of partnerships containing country donors (China, Italy, South Korea, Spain, Nordic Development Fund, Denmark, Finland, Iceland, Norway, Sweden, Chile, Japan International Cooperation Agency (JICA), Argentina), national and regional development banks in North and South America, and many various academic institutions from different continents. The initiative aims at tackling the main roadblocks that prevent the sustainable growth of emerging cities in Latin America and the Caribbean. The multidisciplinary approach identifies, organizes, and prioritizes urban interventions and is based on three pillars: environmental and climate change sustainability, urban sustainability, and fiscal sustainability and governance. The PPF relies on the principle that it is more sustainable and efficient to prevent unplanned growth in advance instead of trying to mitigate the consequences thereafter. Cities are accompanied in project development from action plans to linkage to finance.

ESCI was created in 2011 and currently employs 20 staff members. The focus is on medium-sized cities with between 200,000 and one million people in Latin America and the Caribbean. The facility is active in 26 countries. ESCI is active in most infrastructure sectors including water, energy, solid waste management, transport networks, social infrastructure, and housing. Current beneficiaries and clients of the program are city administrations, community-based associations, local and regional governments, public companies, and public development banks. ESCI's areas of support are technical assistance, capacity building and project prioritization. It works on city development plans, comprehensive pre-feasibility, and feasibility planning. It has been engaged in more than 50 projects so far.

6 DBSA and PPFs

6.1 Context

In South Africa, national government has a comprehensive grant programme for municipal service delivery. This includes the Municipal Infrastructure Grant (MIG), the Integrated National Electrification Programme (INEP), the Human Settlements Grant, the Strategic Infrastructure Programme (SIP 6) and a wide variety of funds with and without conditionalities. More recently, the president has prioritised the need to drive infrastructure as an important part of economic reconstruction. Initiatives in the Presidency, DBSA, Department of Public Works and Infrastructure (DPWI) and similar institutions are all meant to ramp up infrastructure investments, using a variety of funding models.

However, institutional capacity to implement infrastructure projects linked to these grants is not always in place. The DBSA supports the conditional grant programme and notes that it is exploring several products to improve the institutional capacity of municipalities to implement these programmes and on front-loading MTEF funding to accelerate programmes (DBSA, 2012).

Several other interventions have been made to address infrastructure backlogs. Examples include the introduction of the Urban Network Strategy, the Cities Support Programme, the Neighbourhood Development Partnership Programme, the Built Environment Performance Plans for Metros, the coordination of Built Environment grants under the Division of Revenue Act, and Capital Investment Frameworks in Spatial Development Frameworks. While the focus of this section is on Local Government, it is worth emphasising that infrastructure is delivered not only in Local Government and that the implementation of infrastructure projects is problematic in all spheres and not just in Local Government. Seen as a whole, all the above instruments are multi-purpose, but with more effective, inclusive urban and economic growth as central objectives while the Municipal Infrastructure Grant (MIG) is the one instrument that is solely focused on eradicating infrastructure backlogs for the poor.

6.2 The DBSA's Project Preparation Unit

6.2.1 Background

During the 2010/11 year a R20 million Project Preparation Facility was established at the DBSA with a minimal staff complement. The aim was to co-fund feasibility studies with National Treasury and the National Department of Health regarding new hospitals in Gauteng and Limpopo. One of the early PPF projects was the Kariba North Bank extension hydro-power project which was developed by the DBSA and AFD with grant co-funding, as part of the NEPAD PPF.

In 2010/11 the seminal Project Preparation and Feasibility Study (PPFS) facility co-funded by the DBSA and AFD entered its third phase with a Euro 1,5 million commitment by each institution, with the intention of generating R13,4 billion in investments going forward. In addition, in 2010/11 a Euro 6 million project Preparation and Development Facility (PPF) was established jointly by the DBSA and EIB. Finally, and in this year, the DBSA's partnership with Finland was strengthened with additional Euro 1 million bringing together a total of Euro 9,5 million in grant funds to provide project preparation assistance for clean energy projects in southern and eastern Africa.

6.2.2 Establishment of the PPU

It was clear that this good initial work in thinking through the development process and realizing that good preparation meant projects would be more bankable and developmental led to good results.

One result was the need to formalize the project preparation process and the Project Preparation Unit was then formally established in the 2013/14 financial year (Rakgate, 2016). Part of the logic with having good project preparation is that it reduces risk as "risk is one of the biggest challenges in securing private investment. For project funding to work, projects need to be bankable. It is here where the DBSA and other private consulting companies can play a significant role in the preparation of projects to ensure bankability and understanding of the risk involved. The preparation of projects takes a long time, and it also has a cost element to it - this should be factored in" (DBSA, 2016).

The initial purpose of the Unit was:

- To prepare sustainable priority projects within the DBSA's mandate to bankability; and
- To provide project preparation facilities and skills to prepare bankable projects (Rakgate, 2016).

In establishing the Project Preparation Unit formally in the 2013/14 year, the DBSA intended it to focus on the following areas:

- Project identification
- Feasibility assessments
- Technical assistance
- Programme development

- Project preparation funds (DBSA, 2019)

The division prepares projects from inception to bankability and supports under-resourced municipalities in unlocking key infrastructure programmes and projects. The DBSA defines its support as financial support to create capacity and guidance to prepare projects for investment by the public and private sector or a combination thereof.

The DBSA has identified several key principles in guiding project preparation. Firstly, the principle of co-funding applies whereby sponsors are required to contribute towards the funding of the project preparation activities and stages. Secondly, the funding is provided on commercial terms with the expectation of recovery of funds as well as a return for the risk taken. The DBSA also aims to obtain a Mandated Lead Arranger role on a competitive basis, and finally it will participate in the debt funding of the project on a competitive basis (Rakgate, 2016).

Project applications are available on the DBSA website, with the following information required from applicants:

- Applicant's contact details
- Summary project information: title, description, sector, geographic location, development impact, current project stage, stage for which funding is applied for, proposed project structure
- Project funding: breakdown of various funding sources for all the different project stages (source and application of funding)
- Detailed project information: technical, financial, economic, institutional, environmental – attach supporting documentation such as scoping/pre-feasibility reports, feasibility reports, etc.
- Supporting documentation: application letter, letter confirming mandate / concession (for private sector applicants), project reports, programme, financing strategy, budget and financial model, organogram, terms of reference for the next level of studies, etc. (DBSA, 2017)

By 2016/17, the focus was on a more programmatic approach in project preparation, especially in the water and energy sectors, and the under-capacitated municipalities (DBSA, 2017). Whilst these initial ideas focused on bankability, a more sophisticated appreciation of the importance of project preparation is seen in the 2019/20 integrated annual report, arguing that project preparation was being focused on infrastructure planning projects in "order to develop a project pipeline that attracts both private and public sector funding for sustainable development" (DBSA, 2020).

6.2.3 Partners

The DBSA Project Preparation Fund utilises funding from strategic partners and/or 3rd party funds it manages for the riskier, early-stage preparation activities and its own funding for late-stage projects. This approach allows the DBSA to take unique, catalysing investment positions to be able to "crowd-in" 3rd party capital (www.dbsa.org).

The figure below highlights the various channels and sources used by the DBSA's PPU in accessing funding for project preparation.

Figure 3: DBSA PPU funding types and partners

		Type of funding	Funding partners
DBSA Sponsored		• Project preparation own funding • Based on cost recovery and return (self sustaining model)	• DBSA own funding • Co-funding with sponsor/owner and other funders
3rd Party Funding	**PPDF**	• Project preparation funding • Grants	• KfW • European Union
	IIPSA	• Project preparation grants & direct capital grants with loans • Grants	• European Union • Participating DFI's: KfW, DBSA, AFD, EIB
	PPPFS	• Project preparation funding • Grants	• AFD
	Global Environment Facility (GEF) **Green Climate Fund (GCF)**	• Project preparation grants • Capital grants • Concession loans • Interest rate subsidies • Guarantees	

	Other Project prep facilities	• On project-by-project basis
		  • Equity
		  • Mezzanine
		  • Grants
			• Electra, Africa50, InfraCo, Harith - Progeny

In the 2013/14-year, the DBSA was appointed as the managing agent for a Euro 100 million Infrastructure Investment programmes for SA (IIPSA) (DBSA, 2014) and a SADC Project Preparation Development Facility (PPDF) (DBSA, 2014). The total funding mobilized for project preparation cost (including co-financing) was some R446 million in 2015/16 and R163 million in 2016/17.

Table 5: Project preparation pipeline by funder

Funder	**2020/21 (Rmil)**
DBSA	102
NTPPF	50
IIPSA	46
PPDF	85
PPFS	11
TOTAL	**294**

Recently, the DBSA has been tasked with leading the European Union-funded Infrastructure and Investment Project for South Africa (IIPSA). To this end, R400 million has been allocated to the Bank. In its 2020/21 Corporate Plan, the DBSA notes that “in deploying the facility, the Bank will partner with the Government Technical Advisory Centre and the Presidential Infrastructure Coordinating Commission. This facility will assist in identifying and developing bankable projects both in core-economic and social-infrastructure sectors. Proper project identification, comprehensive preparation, and appropriate structuring will be key to maximizing investment and ultimately magnify development outcomes within the narrow confines of our ever-shrinking fiscal headroom. Other initiatives include the development and rollout of new instruments and financing structures all seeking to solve for obstacles to accelerated development.”

6.2.4 Performance

It is important to recognise that over the past ten years, the DBSA has developed a more encompassing view of the infrastructure development value chain. In 2010/11, the DBSA's approach was simply that "the focus of our investment activities is on infrastructure funding, broadly defined, and we seek to act as a catalyst to maximise private sector access to opportunities in the provision of public funding" (DBSA, 2011). By 2020/21, we find that "the DBSA takes a holistic view of infrastructure development by addressing the entire infrastructure value chain and focusing on key long term strategic interventions. Our offering spans planning, project preparation, financing, and implementation support for economic and social infrastructure" (DBSA, 2021).

Project Preparation is now institutionalised in the infrastructure value chain which includes:

- Plan:
    - Infrastructure needs assessments
    - Bulk infrastructure plans
    - Infrastructure planning advice
- Prepare:
    - Project identification
    - Feasibility assessments
    - Technical assistance
    - Programme development
    - Project preparation functions
- Finance:
    - Long-term senior and subordinate debt
    - Corporate and project finance
    - Mezzanine finance
    - Structured finance solution
- Build:
    - Managing the design and construction of projects in social and economic sectors
    - Project management support
- Maintain:
    - Supporting maintenance/improvement of social and economic infrastructure projects

Project preparation funding is also being used by the DBSA for both undertaking a full concept feasibility study and application to the Green Climate Fund, and to conduct gender impact and environmental and social safeguard studies (DBSA, 2019). A feasibility study is also being conducted to evaluate the optimal financial and institutional model for a Public Private Sector Energy Efficiency programme in South Africa. It should also be noted that the DBSA's project preparation process also created the IPO office which is seen as an excellent model for developing this important sector.

The core project preparation services in the early stages were to be focused on South Africa, SADC and selected African countries outside SADC, namely Nigeria, Kenya, Tanzania, Ghana, Ethiopia, and the DRC (Rakgate, 2016) through:

- Funding of PP activities
- Mobilising advisors to prepare bankable projects
- Facilitating and managing project preparation activities

In the 2015/16 period, some 213 projects at a PP value of around R42,9 million were in the portfolio with some R213 billion potential value and were found in the following areas:

- R118 bn in 13 energy projects,
- R11bn in nine water projects,
- R80 bn in six transport projects,
- R3 bn in one ICT project, and
- R2bn in one social project (Rakgate, 2016).

It should also be noted that COVID-19 has seriously impacted on project preparation given its position in the investment cycle and SADC and sub-Saharan regions were particularly affected.

The following table indicates the value of projects prepared for and approved for funding by the DBSA (in R bn):

Table 6: Project Preparation: value of projects prepared and committed

Year	Actual	Target
2020/21	R1,4 bn	R0,9 bn
2019/20	R2,4 bn	R5,0bn
2018/19	R6,8 bn	R20 bn
2016/17	R0,6 bn	R9 bn
2015/16	R7,6 bn	R4,0 bn
2014/15	R6,4 bn	R4,0 bn

Source: DBSA Integrated Annual Reports (2013/14, 2014/15, 2015/16, 2016/17, 2017/18, 2018/19, 2019/20, 2020/21)

As part of this work, the DBSA developed a pipeline of potential blended finance programmes and projects for the Infrastructure Fund, to the potential value of R700 billion. During the 2019/20 year, a R400 million project Preparation Fund was signed with the National Treasury (DBSA, 2020). An initial R100 million was provided, and work began on project preparation for the first four major projects in the pipeline.

One of the primary activities noted by the division is the alignment of project preparation to key policy frameworks such as the National Development Plan, B-BBEE programmes, etc. The importance of this is being realised through the value of project preparation projects for black-owned entities approved for project preparation funding being quite significant:

Table 7: Value of project preparation projects for black-owned entities

Year	Value
2020/21	R2,2 bn
2019/20	R1,9 bn
2018/19	R3,2bn

One of the challenges noted by the DBSA in implementing project preparation is that there must be improved management of the project cycle. The DBSA in 2015 noted that the “management of the project preparation in particular tends to suffer from insufficient priority, systemisation, attention and resourcing” (DBSA, 2015).

A summary of the beneficiaries and type of projects supported by the DBSA’s PPU are detailed in the table below.

Table 8: DBSA PPU overview

Beneficiaries supported	**Project type**	**Countries**
• Eligible public sector parties (such as municipalities, state owned entities, government departments and regional bodies such as the Southern African Power Pool) • Private institutions that have obtained a licence/concession on a competitive basis from a government that is within the DBSA’s mandate.	• regional • cross-border • national • sub-national • projects with a high development impact (normally within the municipal and social sectors within South Africa), a suitable commercial return (usually embarked on by state owned entities and/or are private sector led (within South Africa, SADC, and selected sub-Saharan Africa) and/or both.	• Angola • Botswana • Lesotho • Madagascar • Malawi • Mauritius • Mozambique • Namibia • South Africa • Swaziland • Democratic Republic of Congo (DRC) • Seychelles • Tanzania • Zambia • Zimbabwe

7 PPFs in Africa: The AfDB and DBSA PPFs

As part of the terms of reference, the DBSA is profiled against the AfDB in respect of the structure and content of their PPF programmes. On the commonalities front, both institutions support the following activities to ensure bankability while differing in others. The commonalities are listed below while the differences are detailed as tabulated.

- Feasibility and pre-feasibility studies;
- Technical design and environmental or social assessments;
- Legal/transaction structuring, tendering, procurement support;
- Institutional and capacity strengthening; and
- PPP transaction advisory

1. **Mandate & Geography**	**AfDB PPF**	**DBSA PPF**
	A continent-wide facility financed via the African development Fund (ADF), currently with UA 75 million under ADF-15; Focuses on early state preparation across its 54 regional member countries for sovereign and non-sovereign projects	Primarily focused on South Africa, SADC, and select sub-Saharan African countries; Operates as both standalone PPF and as manager for dedicated funds (e.g. AFD-DBSA Fund, SADC PPDF, IPPF)
2. **Funding Structure & Financing Terms**	Provides reimbursable advances: revolving and repaid from project financing sources to recycle capital; Funded fully through concessional ADF resources	Offers a mix of loans, equity or debt based on project profile; Heavily relies on co-funding: sponsors must contribute and the DBSA may combine its own funds with grants from partner DFIs
3. **Sector and Project Focus**	AfDB targets development priorities defined in its Country Strategy Papers covering infrastructure, social sectors, climate resilience, PPPs, etc.	DBSA shows particular strength in infrastructure projects with a special focus on municipal, social, and regional integration projects that

		are often large and scalable
4. Risk-Sharing and Recovery Model	Funds are advanced early and repaid from project financing; Revolving setup fosters pipeline continuity	Applies commercial risk-return logic: expects recovery plus return on private-led projects; Offers blended or concessionary terms for Municipalities or social projects
5. Strategic Partners and Special Funds	AfDB is a member of the Project Preparation Facilities Network (PPFN) and coordinates broadly with global DFIs	DBSA hosts or manages multiple targeted facilities, namely the AFD-DBSA PPFs; Infrastructure PPF (IPPF) R 400 million for municipal/infrastructure pipeline; SADC PPDF – EU/KfW-funded grants for regional cross-border projects

A high-level comparison table of the two institutions is as follows:

Feature	AfDB PPF	DBSA PPF
Scope	Continental, diverse sectors	SA/SADC, infrastructure-focused
Finance Instrument	Reimbursable advances (ADF)	Loans, equity, debt, blending
Cost Recovery	Repaid from finance close	Commercial terms or blended recovery
Sponsor Co-Funding	Generally not required	Required-strong co-funding principle
Partner Facilities	Standalone	Manages multiple donor-backed windows
Recovery Use	Revolving Use	Standalone project commitment

8 Challenges

Through the literature review, several challenges in project preparation and PPF development have been noted. One of the main challenges is the coordination and maintenance of stakeholder commitment. This includes high-level government support, where government may be unwilling or unable to commit to subsidies. At a local level, there may be changing objectives and project scope, inadequate communication, unrealistic expectations, and unpredictable decision-making. Finally, there are challenges noted in the management of external consultants (Kortekaas, 2015).

Oberholzer *et al*. (2018) identified additional challenges including:

- Lock-in of private investors in low-return infrastructure sectors is limited, most projects are financed by development institutions
- Trigger of additional private finance through guarantees and blended finance is limited
- Many challenges at the city level are systemic and cannot be tackled by an individual project.

In South Africa, a DBSA and KZN PPT roundtable identified several key institutional challenges regarding project preparation. These include:

- Changing political agendas – risks increase with changes in political administration as continuity of projects can be jeopardized. Turnover in government can result in the loss of key skills. It is necessary to examine whether the resources expended in skills support generate sufficient benefits in the light of turnover rates.
- Capacity building – with respect to building capacity in government, investment should also be channelled towards institutional development as opposed to only individual capacity building.
- Decision making – conversion rates from approved to build projects are relatively high for KZN PPT (70 – 80%), and they are usually higher in cases where there is a predictable capital funder. However, a key factor affecting conversion rates is government prioritisation and reprioritization. Consequently, socio-political issues impacting on government decision - making can be considered as key risks.
- Impact monitoring - in planning, projects are monitored until capital approval is confirmed. Thereafter impact evaluation is costly, but necessary. Government-driven reviews would be more effective if they were conducted at project level, took account of the project impact at societal and economic levels, and included the leveraged effect.
- Rehabilitating dysfunctional environments – a critical challenge for institutions is how to operate within a dysfunctional environment and to establish what could be done to build a more functional environment. In terms of addressing a dysfunctional financial environment, it was observed that National Treasury could play a pivotal role (DBSA, 2012).

9 Recommendations

Key recommendations coming out of the research are detailed below.

9.1 Recommendation 1: The role of PPFs

PPFs must be seen as strategic partners to plan and prioritise programmatic initiatives as well as to develop a pipeline of future projects. The role of government must be to create the framework and enabling environment that will make projects bankable for developers.

9.2 Recommendation 2: Competent human and sufficient technical resources

To address the financial and human resources challenges faced by many PPF, PPU's must be adequately staffed with competent and experienced people. The key focus of these individuals must be to ensure the project is not only bankable but gets banked.

9.3 Recommendation 3: Partnerships

Partnerships are a critical way for PPFs to achieve scale and efficiency. The most important partnership for most DFIs is with government. PPFs should also consider partnering with other PPFs to identify needs and opportunities, and develop complementary value propositions for governments. PPFs must include local authorities and stakeholders from the beginning of project preparation.

9.4 Recommendation 4: Information sharing

There is a need for improved information sharing between the partners identified above. This can lead to higher efficiencies and a better information base for all role-players. National hubs of expertise could provide the right technical advice and ensure linkages with adequate sources of funding. This can include sharing information on success stories and areas of accomplishment.

9.5 Recommendation 5: Ensuring delivery happens

In some cases, government may initiate a project preparation process and then does not have funding available to carry out the work. It is important therefore to ensure that resources are not wasted, and in such cases the project preparation work could even be shared with other funders to ensure that good preparation does not go to waste.

9.6 Recommendation 6: Leveraging the private sector

The private sector is central to the identification, funding, and implementation of project preparation. However, it is necessary to structure their involvement in a way that does not compromise a fair and competitive procurement process. PPFs should demonstrate to governments that quality technical assistance in project preparation reduces inherent risks and improves chances to attract the private sector and achieve financial closure.

9.7 Recommendation 7: Funding constraints for Project Preparation

National governments should contribute to project preparation funding and financial incentives could encourage private sector investments in project preparation. At a project level, project preparation costs can be included project loans. The financial risks of project preparation can be addressed using risk mitigation instruments.

9.8 Recommendation 8: Addressing sustainability

To address areas such as environmental sustainability, PPFs should make support conditional upon clearly specified environmental requirements. A similar approach could be used for Black economic empowerment requirements. PPFs should develop expertise in climate resilience projects and their multidimensional and multi-sectoral implications.

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