Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 12-May-2020 | Report No: PIDA28196
### BASIC INFORMATION

#### A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Project Name</th>
<th>Parent Project ID (if any)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>P171967</td>
<td>Regional Infrastructure Finance Facility (RIFF) Project</td>
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<table>
<thead>
<tr>
<th>Region</th>
<th>Estimated Appraisal Date</th>
<th>Estimated Board Date</th>
<th>Practice Area (Lead)</th>
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<tbody>
<tr>
<td>AFRICA</td>
<td>08-May-2020</td>
<td>01-Jul-2020</td>
<td>Finance, Competitiveness and Innovation</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Financing Instrument</th>
<th>Borrower(s)</th>
<th>Implementing Agency</th>
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<tbody>
<tr>
<td>Investment Project Financing</td>
<td>Trade and Development Bank (TDB), Common Market for Eastern and Southern Africa (COMESA) Secretariat</td>
<td>Trade and Development Bank (TDB), Common Market for Eastern and Southern Africa (COMESA) Secretariat</td>
</tr>
</tbody>
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#### Proposed Development Objective(s)

The Project Development Objective is to expand long-term finance to private firms in selected infrastructure sectors in Eastern and Southern Africa.

#### Components

- Project and Infrastructure Finance
- COVID Infrastructure Sector SME Response
- Technical Assistance

### PROJECT FINANCING DATA (US$, Millions)

#### SUMMARY

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Total Project Cost</td>
<td>325.00</td>
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<tr>
<td>Total Financing</td>
<td>325.00</td>
</tr>
<tr>
<td>of which IBRD/IDA</td>
<td>325.00</td>
</tr>
<tr>
<td>Financing Gap</td>
<td>0.00</td>
</tr>
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</table>

#### DETAILS

World Bank Group Financing
International Development Association (IDA) | 325.00
---|---
IDA Credit | 315.00
IDA Grant | 10.00

Environmental and Social Risk Classification
High

Decision
The review did authorize the team to appraise and negotiate

Note to Task Teams: End of system generated content, document is editable from here. Please delete this note when finalizing the document.

Other Decision (as needed)

A. Introduction and Context

The Common Market for Eastern and Southern Africa (COMESA) region includes some of the fastest growing economies in Africa. It stretches from Tunisia to Eswatini including 21 countries and 557 million people uniting for “economic prosperity through regional integration”. The Regional Economic Community was initially established in 1981 as a Preferential Trade Area and transformed in 1994 with its focus being the formation of a large economic and trading unit capable of overcoming some of the barriers that are faced by individual states. Several COMESA countries, notably Democratic Republic of Congo (DRC), Djibouti, Ethiopia, Kenya, and Rwanda were among the fastest growing countries in the world with economic growth between 5 and 10 percent during the 2016 and 2017 period.

These gains are threatened by the COVID-19 pandemic. In the short-term, economic growth in Sub-Saharan Africa (SSA) is expected to decline from 2.4 percent in 2019 to -2.1 to -5.1 percent in 2020, the first recession in the region in 25 years. Additional scenarios in Eastern and Southern Africa show a potential decline in GDP growth between 4.5 percent (optimistic scenario) and around 7 percent (pessimistic scenario) compared with a no-COVID scenario (Africa Pulse April 2020). The pandemic is affecting countries with strong value chain participation (e.g. Ethiopia, Kenya, Tanzania), and reducing foreign financing flows in the form of lower foreign direct investment, foreign aid, remittances, tourism revenues, as well as capital flight. The direct impact of COVID-19 on economic activity from a wider spread of the virus in the region and disruptions caused by containment and mitigation measures imposed by governments are severely affecting economic activity. The COVID-19 crisis is also contributing to increased food insecurity as currencies are weakening and prices of staple foods are rising in many parts of Africa. The COMESA region includes many countries affected by Fragility Conflict and Violence (FCV) in the Horn of Africa and in its Southern part.

The pandemic will increase fiscal deficits in a context of heightened debt vulnerabilities. Dwindling government revenues are causing a fiscal crunch. The problem is compounded by the larger and riskier debt positions and an increase in external borrowing costs. Before the pandemic, public debt vulnerabilities were a
growing concern. Nearly half of COMESA member countries were in debt distress or in high risk of debt distress. The total debt outstanding grew on aggregate from 31.6 to 63.6 percent of Gross Domestic Product (GDP) between 2012 and 2019, as a result of large public infrastructure spending and shift from concessional debt toward non-Paris Club bilateral lenders and commercial creditors.

Regional coordination and sowing the seeds for future resilience will enhance the policy response (Africa Pulse 2020). Regional coordination would mitigate the economic fallout, and pre-COVID priorities in the COMESA region included increasing intraregional trade (from 7 percent of total COMESA trade in 2017), building regional markets in energy and digital inclusion. Building long-term economic resilience involves policies supporting sustainable investment in resilient infrastructure in energy, transport, water and urban development. The need for supporting the provision of long-term funding to private infrastructure to support the economic recovery, is therefore higher than ever of account of the COVID-19 crisis.

B. Sectoral and Institutional Context

COMESA countries suffer from ailing infrastructure. As at 2014, the region was estimated to have a US$60 billion funding gap for infrastructure i.e. US$28.4 billion for railways, airports, ports, roads and border posts, US$31 billion for electricity and US$630 million for ICT. Deficits like these have a clear impact on competitiveness, growth and poverty reduction. Narrowing SSA’s infrastructure gap could potentially have a large impact on growth and poverty reduction by increasing GDP per capita for an estimated 1.7 percentage points per year.

The largest infrastructure deficit is to be found in the power sector. The total installed capacity for electric power in the 21 COMESA countries is about 90,800 megawatts compared to Brazil with over 150,000 megawatts (but one third of COMESA population). Effective generation of electricity in COMESA is less than the installed capacity by 20-30 percent due to drought, lack of maintenance or rehabilitation, and general system losses of electricity in transmission and distributions that are higher than the international average of 12 percent. It is estimated that such energy deficit causes about 2 percent loss of GDP growth in most COMESA countries. More than 640 million Africans – over 60 percent of the region’s population – have no access to energy, and more than half of these are in COMESA countries.

Heavy borrowing for infrastructure had risen sovereign debt levels pre-COVID 19. SSA’s debt to GDP ratio rose sharply – the median ratio increased from 35 percent in 2010 to over 50 percent in 2018 and public expenditure for infrastructure has been a key contributor. Ethiopia’s government gross debt rose from 39.6 percent of GDP in 2010 to 61 percent in 2018 under borrowing for infrastructure (e.g. Africa’s largest dam, railways, industrial zones). Uganda’s public debt climbed by 22 percent in the fiscal year 2017/18 with borrowings to develop hydropower and transport projects. Kenya borrowed in total US$4.7 billion to finance the Standard Gauge Railway that is 8 percent of its public debt stock. The moratorium on IDA countries’ debt repayments from official bilateral creditors announced in April 2020 will provide much needed relief to fight the COVID-19 pandemic. But structural issues remain on sovereign debt sustainability, and on how to finance infrastructure needs.

Given the high and rising debt to GDP levels and the large gap that still exists in infrastructure provision, it is imperative to develop alternate sources of financing, enhance capacity to structure projects and improve the enabling environment. Private investment into Africa’s infrastructure remains low, averaging only US$6 billion/year. This level is limited by the lack of bankable projects for the private sector. Banks could do more,
since the ratio of private sector credit to GDP in SSA is only 17 percent as of 2018 (47 percent in South Asia and 54 percent in Latin America and Caribbean), however they are constrained by international rules on assets and liabilities matching. Therefore, new long-term finance sources are needed to help bridge the infrastructure finance gap.

**Attracting private finance in infrastructure requires a comprehensive approach.** This approach includes five pillars: (i) an enabling environment to mobilize private capital; (ii) sound public debt management; (iii) the origination of bankable projects; (iv) long-term finance; and (v) risk mitigation instruments. This integrated approach has been successfully piloted in Kenya, but it took several years, and results are only starting to emerge. Kenya had a track record with Public-Private Partnerships (PPP) in the energy sector, which helped expand them to other sectors. Initiated between 2013 - 2015, seven PPP projects prepared under the Infrastructure Finance and PPP operation (P121019) are now in active procurement. Kenyan pension funds have been trained in project finance for the past two years under the Financial Sector Strengthening Initiative (FIRST Kenya Infrastructure Finance - P163792) and fifteen leading pension funds representing US$2 billion in assets have formed a consortium to look for investment opportunities. World Bank provided technical assistance to the Government of Kenya to develop a robust framework for assessing and managing fiscal commitment and contingent liabilities in PPPs. Issues in sovereign debt management are being addressed through the Development Policy Operations series and ongoing technical assistance.

**The imperative for action on supporting the provision of infrastructure finance has expanded in light of the COVID-19 economic fallout.** The pandemic is expected to dry up long-term finance. As economic activity dips, financial inflows to banks decrease, interbank markets tighten, risk aversion rises, and commercial banks ration their available liquidity to short-term lending. Thus, it is expected that long-term finance from commercial lenders, which was already scarce, will significantly dry up in the coming months, and will particularly affect the infrastructure finance market. An initiative that supports the long-term finance market for infrastructure, and provide comfort to commercial lenders, is therefore needed even more urgently. Infrastructure investments can be a driver to quicker economic recovery, both in terms of sustaining investment activity and creating jobs in the near term, but also in terms of building an essential foundation for longer term recovery and growth.

**The proposed operation seeks to address the long-term finance gap through a regional approach focused on private financing of infrastructure, working with country engagements on the other pillars.** It also serves as a response to the COVID-19 pandemic through contributing to economic recovery efforts. The operation seeks to build financial and technical capacity in a regional institution to provide a larger and sustainable source of infrastructure finance, while also working on improving the enabling environment. Mobilizing private investment into infrastructure is time and resource intensive, complex, requires multiple and coordinated projects, and a conscious effort to build specialist institutions and capacity on infrastructure. As a result, it cannot be easily replicated in every COMESA country. Hence, the objective is to leverage Trade and Development Bank (TDB), the development bank of Eastern and Southern Africa, and the COMESA Secretariat, to initiate some of these changes through a regional approach. Not every country can develop their own infrastructure development bank and PPP institutions. In the spirit of promoting private sector investment, the project will not fund any sovereign borrowing for infrastructure or other activities.

**Several COMESA countries are making efforts to mobilize private investment into infrastructure.** (i) Ethiopia: At the inception stage, Ethiopia approved a PPP Law in January 2018 with WB’s support through two technical assistance projects in the past three years i.e. Support for Instituting a PPP Framework (P157623) and PPP
Capacity Building (P168405). As part of the Ethiopia Macroeconomic, Fiscal and Debt Dialogue (P162271), the Bank is providing capacity building in the assessment, management, and monitoring of fiscal risks and contingent liabilities with a focus on Infrastructure PPPs and State-owned enterprise related PPPs. (ii) **Uganda**: The PPP Act was approved in 2015 and an operational PPP Unit is in place. Uganda has a significant portfolio of Independent Power Producers in the Energy sector. In the roads sector, a number of expressway PPP projects are under consideration, the most advanced being the Kampala – Jinja Expressway supported by International Finance Corporation (IFC) advisory. WB technical assistance, Mobilizing Long-Term Financing for Infrastructure (P162655), strengthened the institutional framework for PPPs and sought to identify potential demonstration transactions for institutional investor engagement. (iii) **Tanzania**: The Tanzania PPP Support Program (P149535) is helping the country to re-establish its PPP program, which is anchored on a PPP Policy of 2009 and a PPP Act of 2010. The program provides advisory services to identify potential projects, with an emphasis on municipal PPPs. (iv) **Malawi**: The advisory services Mobilizing Long-Term Finance into Infrastructure (P169383) provides advice to the Government of Malawi on mobilizing long-term private finance for infrastructure. The WBG is supporting the Mpatamanga hydro dam. (v) **Mozambique**: A PPP framework that regulates the issuance of guarantees and on-lending exists in the country and is largely being enforced. The Bank team is also working with the Ministry of Finance in developing a credit risk management framework. The WBG is supporting the Temane gas Independent Power Producer.

**Trade and Development Bank (TDB) is a commercially driven development bank.** Between 2016 and 2019, the asset size has grown from US$4.2 to US$6.7 billion and the loan book from US$3.4 to nearly US$5 billion. Non-performing loans have decreased from 2.85 to 2.3 percent of total loans. TDB has a strong capital base with a capital adequacy ratio of 36.1 percent as of December 2019, and a callable capital of US$1.5 billion partially guaranteed by the Lloyds market. TDB achieved investment grade status in June 2018 with Baa3 and BBB- from Moody’s and Global Credit Ratings, respectively, which is higher than most countries in the region. This rating reflects TDB’s sound risk management policies which have helped to improve its asset quality; credit enhancement undertakings with investment grade rated insurers; and the diversity of its funding/support base including equity from shareholders and debt (including debt capital market).

**TDB is refocusing its intervention towards project and infrastructure finance.** While its business has traditionally been dominated by lending to sovereigns, TDB’s corporate plan (2018-2022) underscores project and infrastructure finance as one of the Bank’s key strategic pillars i.e. “... the Bank will seek to support infrastructure in Member States with regional effects, notably in the areas of power, transport and ICT including initiatives that advance the East African Power Pool and Southern African Power pool formations, among others.” The project and infrastructure finance portfolio grew from 27 percent of the total loan portfolio in 2016 to 37 percent in June 2019. TDB has recruited six senior infrastructure finance experts in the past two years and expanded its business origination capacity through the regional coverage banking teams and is keen to expand further in this strategic direction. At present, TDB has 28 infrastructure projects in its portfolio in the sectors of energy, water and sanitation, transport and logistics, and telecommunications; this includes corporate finance transactions as well as PPPs.

**Working with TDB is one way to mobilize private finance into infrastructure in COMESA countries, using a regional specialized entity.** There are no other similar institutions to scale-up infrastructure finance in the COMESA geographic area, and this operation creates a platform for other partners to come in. TDB’s current pipeline on Project and Infrastructure Finance shows that on average, one dollar of TDB’s financing would leverage 5.7 dollars of private capital and debt. TDB has been working on infrastructure and PPP alongside 20 development finance institutions like African Development Bank, European Investment Bank, Commonwealth
Development Corporation, US EXIM Bank. Past projects with high development impact include the Lake Turkana Wind Power in Kenya and the Coral South Floating Liquified Natural Gas in Mozambique ("infrastructure deal of the year" 2019 in African Banking Awards). TDB has co-financed three transactions with the IFC.

**COMESA Secretariat’s mandate includes the expansion of cross-border infrastructure.** COMESA is a free trade area with a strategy to promote regional integration, but intra-regional trade remains structurally low. Trade is not only about goods, but covers also movement of services, capital and labor, which are constrained by the low level of infrastructure development. As a result, COMESA has recognized infrastructure development as a priority, and its Secretariat is working on a conducive enabling environment via: (i) the development of model policies and regulations and (ii) the development of priority regional physical infrastructure – for Transport, ICT, and Energy; and (iii) the development of legal and institutional frameworks.

**C. Proposed Development Objective(s)**

**Development Objective(s) (From PAD)**

The Project Development Objective is to expand long-term finance to private firms in selected infrastructure sectors in Eastern and Southern Africa.

**Key Results**

The PDO will be measured by three indicators: (a) Total amount of private investment mobilized, (b) Number of direct beneficiary firms and (c) Average maturity of TDB’s Project and Infrastructure Finance Portfolio.

**D. Project Description**

**The Project is an Investment Project Financing, with a credit line and technical assistance.** TDB will borrow the US$300 million IDA SUW credit for components 1 and 2, and a US$15 million IDA regular credit to finance its technical assistance needs (sub-component 3a). IDA 19 allows creditworthy regional organizations to access IDA regular credits as long as the intervention benefits IDA countries. The COMESA Secretariat will be the recipient of the US$10 million grant for the technical assistance (sub-component 3b).

**Component 1: Project and Infrastructure Finance Facility (US$225 million)**

This credit line will provide long-term finance to project finance and infrastructure sub-projects that meet development impact criteria. Currently, TDB can only lend up to 10 years owing to its current funding structure. The average maturity of its funding for the Project and Infrastructure Finance portfolio is about 7 years. With IDA SUF, TDB will be able to extend the terms of its financing up to 18 years. This will increase the affordability of finance for private sponsors, thus making proposed project finance initiatives more viable. Sub-projects will be selected using robust prioritization criteria. It is expected that half and possibly more of the proceeds will fund renewable grid and off-grid energy projects. By avoiding increases in countries’ debt and mobilizing private capital for infrastructure the operation will support the conditions for broad-based recovery in line with the corporate WBG response and the Africa framework for a response to COVID-19.

**Component 2: COVID Infrastructure Sector SME Response (US$75 million)**

This component will facilitate access to debt financing to off-grid small and medium sized (SME) energy companies. It is expected that a number of solar home system (SHS) companies may benefit, since the COMESA region is the one where the model “pay as you go” solar is the most developed. Mini-grid companies may also benefit. The sector has been affected by the COVID-19 economic fallout, but a scenario of sharp drop in sales...
due to COVID-19 would leave sufficient demand for the facility. This component will also enhance the liquidity of SMEs involved in infrastructure value chains affected by the COVID-19 crisis.

**Component 3: Technical Assistance (US$25 million)**
The technical assistance of US$15 million IDA regular credit will provide the needed expertise to support TDB’s strategic decision to scale-up project and infrastructure finance, contribute to building the market for project finance and strengthen its capacity on E&S (sub-component 3a); and US$10 million grant will help COMESA Secretariat support the enabling environment for private infrastructure finance with a focus on building a regional off-grid energy market (sub-component 3b).

<table>
<thead>
<tr>
<th>Legal Operational Policies</th>
<th>Triggered?</th>
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<tbody>
<tr>
<td>Projects on International Waterways OP 7.50</td>
<td>Yes</td>
</tr>
<tr>
<td>Projects in Disputed Areas OP 7.60</td>
<td>No</td>
</tr>
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**Summary of Assessment of Environmental and Social Risks and Impacts**

The Project will apply OP 4.03 (World Bank Performance Standards for Private Sector Activities) for TDB operations while the Environmental and Social Framework (ESF) will apply to the COMESA Secretariat, a regional institution owned by 21 member states. OP 4.03 is considered more suitable for TDB since its Environmental and Social Management System (ESMS) incorporates IFC Performance Standards as the underlying technical standards for project financing, and all its private sector clients – who are the focus of this project - are using them. The project is categorized as FI-1 in accordance with OP/BP4.03. This categorization is based on the review of the prospective project activities and an expectation that, in accordance with BP4.03 paragraph 21, potential adverse environmental and social risks or impacts may be high.

**TDB’s ESMS.** TDB has an ESMS with a well-formulated E&S Policy and clearly articulated institutional commitments to integrating E&S sustainability across all its operations, complete with an exclusion list. The ESMS includes clear process flow and procedures that are linked to credit and investment cycles, which conforms to the international best practice. TDB has a system in place for the screening and review of subprojects submitted to it for financing, and in line with financial intermediary project, the Bank will follow TDB’s risk categorization as stated in the ESMS. A few areas for improvement to enable TDB to effectively manage social risks were jointly identified by the WB and TDB. These relate to the management of risks associated with stakeholder engagement and information disclosure, grievance redress mechanism including grievance redress procedures and receipt interface as well as disclosure of the same, gender-based violence (GBV) and labor influx. Within three months from effectiveness, TDB will complete a review of its E&S policy to strengthen the procedures for the management of these risks and to require its clients to have systems in place for E&S risk management.

**E&S Risk management approach.** The risk management approach is documented in the Environmental and social action plan (ESAP) and financing agreement and consists of: (i) a gradual approval process; (ii) E&S
capacity strengthening and (iii) List of Excluded Activities. (i) Gradual approval process: For the first few projects being funded under RIFF, the appropriate E&S instruments will be shared with the WB for approval prior to TDB committing funds to the sub-borrower, as TDB builds a track record and strengthens E&S capacity. This gradual process will be described in the project operations manual. (ii) E&S capacity strengthening: To address the potential increase in sub-projects and additional supervision needs, within three months from effectiveness, TDB will submit to the World Bank a plan to strengthen E&S staffing capacity, commensurate to the sub-projects to be supported under RIFF. Dedicated independent third-party E&S monitoring for category 1 subprojects under RIFF will report to TDB on the state of E&S implementation of such projects on a quarterly basis, and the same will be put in place for category 2 projects when TDB and World Bank agree on the need to do so. (iii) List of Excluded Activities: Based on the outcome of the Environmental and Social assessment conducted in line with PS1, some subprojects may be ineligible for financing under RIFF. A list of Excluded Activities has been agreed with TDB, in line with TDB’s own ESMS exclusion list. This list includes circumstances where risks are particularly difficult to mitigate and will only apply to the IDA credit line for infrastructure and project finance (component 1). If a sub-project has involuntary resettlement above pre-agreed thresholds of physical and economic displacement, TDB will seek clearance from IDA to use RIFF for such a sub-project.

**Stakeholder Consultations and Information Disclosure:** These are requirements under the World Bank’s OP 4.03 and its performance standards, and are critical for activities that apply PS1, PS5, and PS7. They are subsets of the entire subproject cycle. Stakeholder engagement and information disclosure will be required for all concerned parties including those affected by subprojects and others that may be involved in service delivery under RIFF. For example, in a subproject involving land acquisition, the project affected persons, relevant civil society organizations and government entities that are involved in land issues would have to be consulted, engaged and relevant information disclosed to them as necessary. TDB will ensure robust stakeholder engagement and information disclosure processes in all subprojects financed under RIFF and maintain evidence of such consultations and information disclosure to ensure the people affected by subproject activities are not only engaged in the process but also able to make decisions from informed points of view. The provisions for stakeholder engagement and information disclosure in TDB’s ESMS will be strengthened.

**E. Implementation**

**Institutional and Implementation Arrangements**

**The Project will have two implementing agencies, TDB and COMESA Secretariat.** TDB will implement the two credits. COMESA Secretariat will implement the IDA grant. COMESA Secretariat is already an implementing agency of an IDA Project under the Great Lakes Trade Facilitation Project (P151083). A Steering Committee will be established to facilitate coordination between the two institutions.

**The COMESA secretariat will have a dedicated project team.** It will appoint a project coordinator from their senior staff supported by a procurement expert and financial management expert, and the project will support as needed with experienced consultants in technical areas, legal, Environmental and Social expertise and off-grid energy.

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| Practice Manager/Manager: |
| Country Director: | Claire Kfouri |
| | 12-May-2020 |