

## International Development Association

### IDA Investment Lending in Africa

#### Technical Note No. 4

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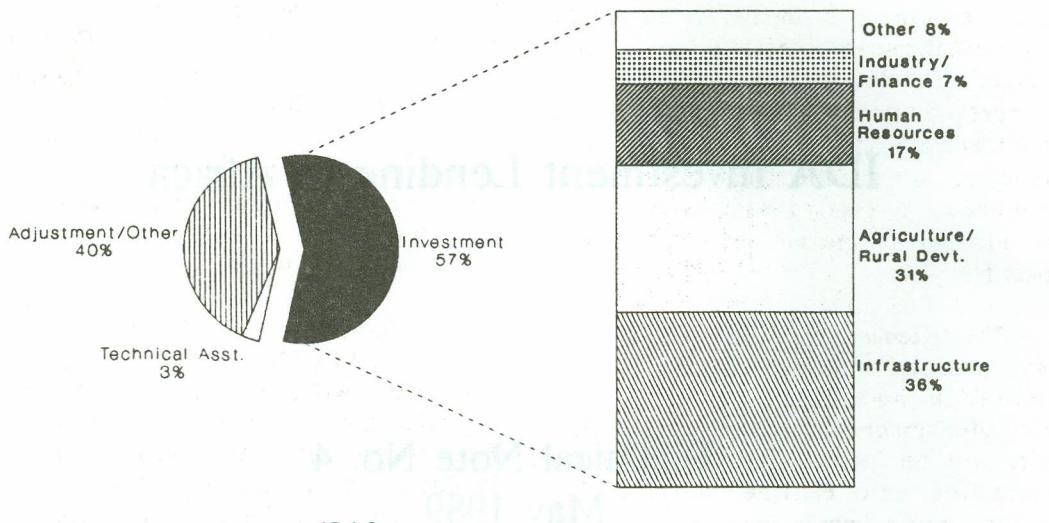
The broad outlines of IDA's proposed programs for the IDA9 period were discussed in the IDA9 working paper "IDA's Sectoral Programs and Country Allocations." A number of IDA Deputies have asked for more information on IDA's investment lending in Africa. This note addresses this request, and discusses this lending in the context of sectoral strategies. It then discusses briefly IDA's focus in technical assistance projects.

1. Lending for investment projects is expected to rise from 57 percent of IDA lending to Africa during IDA8 to 65 percent during IDA9, as shown in the figure below. While the shares of this lending going to human resources and industry and finance are expected to rise sharply, lending for infrastructure and agriculture are expected to continue to dominate investment lending. Lending for infrastructure will continue to focus on maintenance, rehabilitation and selective building of basic infrastructure necessary to support the productive sectors. IDA's support in agriculture will focus on the

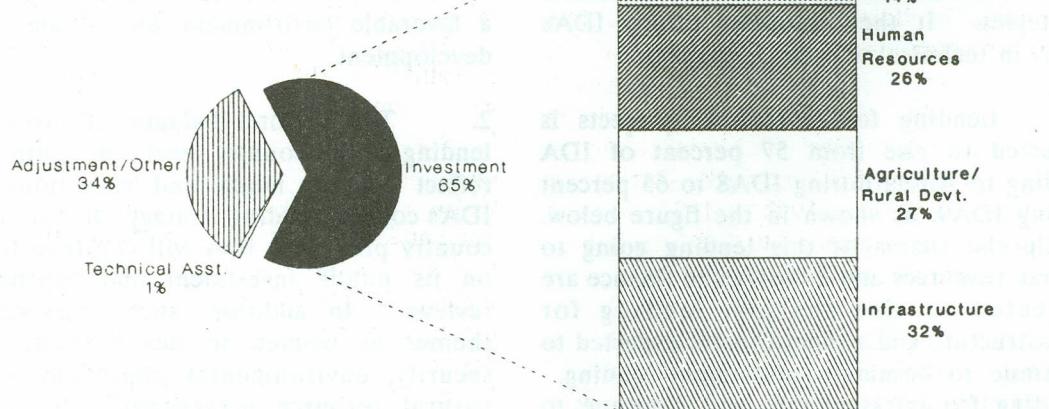
introduction and use of improved agricultural technology. In human resources, the major challenges will be to tackle the 3.5 percent annual population growth rate facing the continent, as well as the lack of health care services, inadequate access to quality schooling and clean water supply. Finally, IDA's lending for industry and finance will seek to promote a favorable environment for private sector development.

2. The sectoral balance of investment lending at the country level will continue to reflect country needs and conditions, and IDA's country lending strategy. In developing country programs, IDA will continue to rely on its public investment and expenditure reviews. In addition, such cross-sectoral themes as women in development, food security, environmental improvement and natural resource management, institution building, and private sector development will be increasingly reflected in projects in all sectors.

## PROJECTED IDA ALLOCATIONS IN AFRICA



IDA8



IDA9\*

\* Based on Projected FY91-92 Program.

## Infrastructure

3. Lending for infrastructure is expected to be approximately 32 percent of investment lending in Africa during IDA9. The focus of these investments will be on increasing the returns on existing investments, but during the IDA9 period the share of new projects needed for longer-term development is expected to rise. Improved telecommunications, improved or new roads and railways systems, increased efficiency of power sources, and better urban services are all necessary for the sustainability of the adjustment reforms put in place over the past few years.

4. The telecommunications sector in most African countries is in need of urgent rehabilitation and expansion to support ongoing adjustment efforts. In this sector IDA support will be increasingly geared to the commercialization of existing enterprises and regulatory improvements with the object of achieving an efficient flow of information through an accessible and reliable telecommunications network. IDA's involvement in Ghana reflects this important goal. Ghana's economic recovery program needs improvements in the telecommunications sector to facilitate increased activity in the industrial and financial sectors. The next telecommunications project will focus on the rehabilitation of the long distance, the exchange and external cable networks, and the provision of spare parts for existing equipment. In addition, a substantial technical assistance component is being developed, designed to train manpower and to create a regulatory body. A major component of the project will be to catalyze additional resources for the expansion of the network. During the period of the project, 1992 to 1996, demand is expected to exceed 140,000 subscribers against an installed capacity of 76,000.

5. Lending for energy and power will continue to emphasize increasing efficiency of existing facilities rather than expanding energy generating capacity. The type of lending envisaged is illustrated by the first energy project in Malawi, approved in FY89, which will assist the Government in formulating and

implementing an integrated program to make Malawi's energy resources more economically efficient, while addressing environmental concerns in the sector. The fuelwood component includes reforestation, which will both protect the water catchment area and reduce soil erosion. In addition it will finance more fuel-efficient technologies for household stoves, and tobacco curing. Further the project will support the protection of heavily depleted or environmentally fragile areas by assisting forestry staff to promote the use of environmentally safe sources of wood. A training component will educate local communities on the sustainable utilization of the indigenous forest.

6. Tackling the backlog of rehabilitation of roads and building up related maintenance capability will be the most compelling objective for the transport sector in Africa. For example, future transport sector projects in Zaire and Sudan are planned to combine high priority rehabilitation and reconstruction works with institutional reform to improve the efficiency of road maintenance operations through increased accountability, better utilization of equipment and increased reliance on contractors. In both countries better roads are essential to support agricultural production and the development of domestic markets.

7. Railways are a small, but important element of IDA's activities in the transportation sector. Road competition and the prolonged economic downturn in many African countries have worsened the situation of African railways; many contribute only marginally to the supply of transport services while remaining a heavy burden on public finance. Most railways will continue to play an important role in the transport sector; they will, however, have to do so in a much more open and demanding environment determined by lesser reliance on mandatory allocation of traffic, renewed competition from private truckers and buses and increased diversification of transit routes. The formulation and implementation of restructuring programs based on cost reduction (including most importantly, payroll), increased managerial autonomy, improved maintenance and increased attention to

marketing and transit efficiency will all be important. For example, in Uganda IDA is expanding its support in the sector through a railways project, approved in January 1989, which finances both repair and rehabilitation, and the institutional strengthening of the railways, in particular the accounting and supplies departments and the signalling and telecommunications services.

8. IDA's investment operations in the urban sector will address the inadequacy of basic shelter and urban services. For example, in Ethiopia, an integrated urban/rural development project, planned for FY89, will finance the development of houses and supporting facilities in Addis Ababa and several smaller towns, support for micro- and small-scale enterprises in those towns, and institutional development to strengthen municipal administration in the areas of planning, budgeting, accounting, financial management and revenue improvement.

## Agriculture and Rural Development

9. Agriculture is expected to remain about 30 percent of investment lending, reflecting its dominant share of production in Africa. It is expected to be an even larger share of total IDA lending to Africa, reflecting IDA's continued support for adjustment reforms in the sector. While adjustment lending in this sector will focus on eliminating price distortions and improving marketing systems, investment lending will complement these programs through the financing of the development of new technologies and improved agricultural practices. Programs for research and extension, which will continue to emphasize the training and visit system,<sup>1/</sup> are now being implemented in 20 African countries. All of these projects have important institution building, food security and women in development components.

10. IDA's approach in agriculture is exemplified by a planned future agricultural services project in Senegal, which will aim to increase farmers' incomes and improve opportunities for rural women through improved linkages between extension and research, and a more coordinated approach to extension services. The project will include a reorganization of field extension responsibilities and staff, improvements in monitoring, evaluation and financial management services, implementation of a functional literacy program for farmers and a contribution to a fund for on-farm trials.

## Human Resources

11. Human resource lending will expand substantially during the IDA9 period to 26 percent of investment lending in Africa compared with 17 percent during the IDA8 period, reflecting IDA's commitment to supporting governments' population growth reduction efforts, improved access to quality health and nutrition care, to education and to clean water and sanitation.

12. Most population projects will continue to be approached within the overall framework of health development, but the approach will vary by country. In some countries, free-standing population projects will be undertaken. IDA population projects have evolved to focus on institution building of service agencies, education and demand creation. An example of this is Kenya, which has had a National Family Planning Program since 1967, with IDA support since 1974. The third population project, approved in FY88, incorporates a major women in development component through its promotion of Safe Motherhood. The project is also notable for its focus on promoting demand for population services. The project supports institutional development, the establishment of a management information system, a research and evaluation capacity, the initiation of district population and multisectoral

1/ See Box 2.2, p.11, in "IDA's Sectoral Programs and Country Allocations," IDA9 Discussion Paper No. 2, March 1989.

population programs, and the buildup of NGO programs on information, education and communication, 2/ expansion and service delivery.

13. In other countries, the approach taken will be the integration of population and health projects, which is exemplified by a second population, health and nutrition project in Lesotho, planned for FY90. The project will support strengthening of the health ministry in its efforts to develop a program for reducing the population growth rate. It will also support the provision of contraceptives, a pilot household food security scheme, staff training in controlling disease, and rural and urban health services.

14. Budgetary constraints and inefficiency in the education sector have led to a stagnation of enrollment growth and a deterioration of quality. IDA's planned expansion of support for education will assist governments in coping with fiscal constraints by supporting adjustment and investment programs that increase efficiency and adjust the financing basis of African education systems. Once policies are in place that help to contain educational costs and improve cost recovery, priority can be given to restoring educational quality.

15. These priorities in the education sector are illustrated in a fifth education project in Uganda, planned for FY91. Policy components of the project will address the efficiency and cost recovery issues. Project components will finance specific inputs designed to increase the quality of education. The project is expected to finance textbooks, laboratory and science equipment, library books, the rehabilitation of physical facilities, the conversion of dormitories to classrooms, and the strengthening of school management, the examination system and the planning and budgeting capacity of school systems.

16. IDA's principal objective for investment lending for water and sanitation will be to restore sustainability and resume

expansion of coverage. Many African countries are facing rapidly worsening problems of waste disposal and environmental pollution in their cities. Once sanitation strategies are in place, IDA lending will focus on institutional strengthening of implementing agencies, and the rehabilitation of existing water supply systems. For example, Ghana's five-year rehabilitation and development plan for water supply and sanitation will be supported by a water sector rehabilitation project, planned for FY89. It aims to improve water supply throughout the country by continued institutional strengthening of the Ghana Water and Sewerage Corporation, and to rehabilitate existing water supply systems which are only operating at a fraction of their capacity.

## Industry and Finance

17. Lending for industry and finance during IDA9 will reflect IDA's commitment to supporting the creation of a favorable environment for private sector development. Reform or privatization of public sector enterprises should further aid in the development of a productive business climate.

18. In the financial sector, IDA will increasingly lend to private sector banks and industry through a line of credit. In Mozambique a key objective of the government's Economic Rehabilitation Program, underway since 1987, is to create a supportive environment for development and rehabilitation of small and urban enterprises through increased bank capacity to mobilize deposits and conduct appraisal-based lending. A small and medium enterprise development project, planned for FY90, will be the third IDA project in support of this adjustment program. It will channel a line of credit through the government-owned Bank of Mozambique (BOM) for onlending through the commercial segment of BOM and the two major private sector banks for financing fixed assets and working capital of private sector

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2/ See Box 2.7, p.25, in "The Evolving Role of IDA," IDA9 Discussion Paper No. 1, January 1989.

small and medium enterprises. Technical assistance to promote institution building in the public and private sector banks to enhance their capacity to deliver and manage this credit is a key component of the project.

19. The major focus in lending for industry is improvement of the performance of public enterprises. To develop a commercial business environment in which these and private firms can thrive, IDA is supporting the rehabilitation, restructuring, and sometimes privatization of public enterprises. In Mozambique an industrial enterprise restructuring project, planned for FY90, will support this aspect of the Government's Economic Rehabilitation Program. The project will build on reviews, undertaken with support of an earlier IDA credit, of 40 major public enterprises. Based on these reviews, it will finance the rehabilitation of select enterprises including equipment replacement, spare parts and raw material inventories, operational support to strengthen enterprise management, and financial restructuring through recapitalization and debt/equity conversions or joint venture arrangements with foreign or local private partners. A technical assistance component will strengthen the Government's capacity to implement this rehabilitation program.

## Technical Assistance

20. The projected decline in lending for free-standing technical assistance projects does not reflect a decline in IDA support for technical assistance, but rather its increasing embodiment, as illustrated in the examples

above, in most IDA supported projects. Technical assistance in the recent past has focused on support for the implementation of adjustment programs. During IDA9, technical assistance, whether in free-standing projects or otherwise, is also expected to provide increasing support for longer-term institutional development. Priority will be given to addressing the underlying, systematic deficiencies in local capacities. A second technical assistance project in Somalia, planned for FY91, for example, will support government reforms in public sector management, the removal of administrative obstacles to export promotion and diversification, institutional developments in the financial sector, and the rehabilitation of the industrial sector. Such projects are intended to pave the way for a smoother adjustment process, and more efficient investment programs.

21. While this presentation is focused on investment lending, it is important to stress that IDA's adjustment lending is not a separate and independent program. At the country level, adjustment and investment are viewed as complementary. Structural adjustment lending and sector adjustment lending in agriculture, industry, trade, finance and energy, provide the policy environment which permits the returns to investment in all sectors to be realized. Investment lending in infrastructure, human resource development and productive activities, in turn, is critical for achieving the supply response on which successful adjustment is predicated. In designing country programs in Africa, IDA will continue to balance its support of policy reform and investment according to the specific needs of the country concerned.