SUMMARY

Transport: a condition for development

Transport infrastructure – road, rail, port and airport transport – is a core concern for all categories of population and sometimes even comes before education and health. In developing countries, transport is one of the first three household expenditure items along with food and housing. These observations underscore how important transport is for the economy: it is a vehicle for human and commercial exchanges and a structuring element of land use planning.

Efficient networks and services are one of the prerequisites for economic growth. They also make an important contribution to poverty reduction, both directly (rural tracks or local urban roads in disadvantaged neighborhoods) and indirectly (effects of mega infrastructure on the economy). At the macroeconomic level, the less economies are developed, the more transport and its effectiveness are always a condition for – and often a factor of – development.

Transport is made up of a network organized into a hierarchy that does not work if an arc is missing, whether it is a high-flow (major road) or low-flow (collection track) arc. There is no justification for giving priority to rural tracks (respectively, urban district roads) over major roads (respectively, major highways) or vice versa: everything must be taken into account and implemented within land use planning or urban development plans. As analyses of production and marketing industries show, there is a high level of complementarity between the development of agriculture or industry – a priority of most of the countries where AFD operates – and that of transport infrastructure, particularly roads and ports. In most cases, investors decide where to establish themselves on the basis of the transport network, particularly roads, that serves the area. This infrastructure is therefore a structuring element of agricultural or industrial policies.

The importance of transport projects in developing countries stems from the sector's numerous economic and social challenges:

- to support economic growth, regional integration, integration into globalization;
- issues relating to accessibility, opening up, increasing or reducing spatial disparities;
- employment issues;
- challenges relating to strong growth in demand for urban travel;
- food security and need for support in rural areas;
- issues relating to improving living conditions and environmental issues (see below);
- safety and security issues, particularly road safety which is becoming like a pandemic with 1.2 million road deaths every year worldwide (with a total cost estimated at 1.5% of GDP).

Transport, environment and climate

The construction and operating of transport infrastructure has considerable negative effects on the environment at the local level: extraction of construction materials, effects of spatial isolation, noise and insecurity for residents, air pollution. These negative effects are the drawbacks to the immense advantages of transport as a vehicle for communication and in terms of strengthening "social capital". Awareness of these negative effects must not lead to the development of transport infrastructure being stopped, but to measures being taken, depending on the case, in terms of transport projects (direct effects on the physical and human environment during the construction and operating phases) or sectoral policies external to transport in order to mitigate the impact.

However, the sector has an increasingly greater footprint on the global environment and

greenhouse gas emissions. At the global scale, due to the predominance of road transport, 95% of transport depends on oil, it accounts for 60% of its consumption (i.e. 20% of primary energy) and today represents 14% of greenhouse gas emissions. There are also considerable variations depending on the geographical areas: the sector accounts for 26% of emissions in France, but under 8% in China for example.

It is the sector where energy consumption is rising fastest. Between 1990 and 2004, the sector's CO^2 emissions rose by 36.5%. The evolution varies enormously from one area to another: 29% in industrialized countries and 61% in the other emerging and developing countries. These countries will also see the biggest increases in coming years. According to development forecasts for the sector, there will be considerable growth worldwide in the coming decades, with a threefold increase in global maritime traffic by 2025, and the global car fleet and freight transport by 2050. Once again, this growth will be widely fuelled by emerging countries.

At the same time, the international community wishes to set a target of halving global greenhouse gas emissions by 2050. In the absence of technical solutions to drastically reduce transport's dependence on oil, the fight against climate change will require a profound redefinition of – or even reduction in – mobility.

The impacts of transport on climate cannot therefore be neglected and it is important to take immediate action due to the inertia of systems and the irreversibility that is inherent to transport infrastructure (which determines the location of activities), in order to help improve the structure of energy consumption in the sector and future CO^2 emissions.

Although all means of transport are concerned, urban transport must be a specific focus. Exponential urban growth (1 million more urban dwellers every week in the world), catching up years of underinvestment in urban infrastructure in a number of developing and emerging countries, and the boom in individual motorization, provide a unique opportunity to take action on urban planning and consequently on transport supply and demand. The potential impact on carbon and energy intensity is considerable.

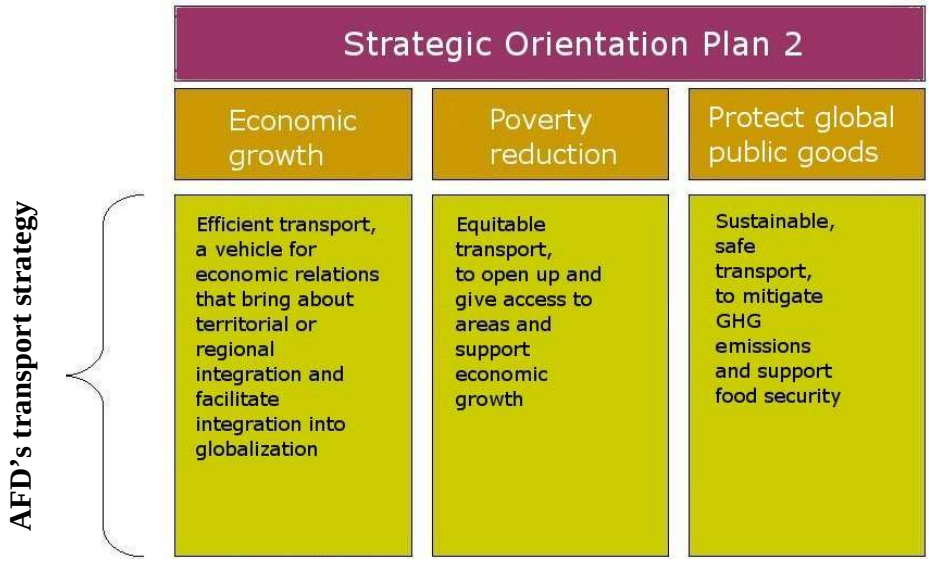
Promoting efficient, equitable and sustainable transport

Recourse to official development assistance to finance the transport sector is mainly justified by the deferred profitability / rising yields nature of the infrastructure concerned, its structuring role, investment externalities (network externality, congestion, effects on the environment) and also sometimes the constraints of public service. Long-term subsidized financing is particularly suited to these contexts.

AFD Group's added value and the effectiveness of its operations in the sector - in addition to its long experience in the sector – stem from:

- its wide range of financial instruments – sovereign and non-sovereign loans, despite constraints due to maturities that are sometimes not long enough for infrastructure with a long life span, constraints relating to sovereign debt and the recent drastic restrictions on grant volumes;
- the practically systematic institutional support provided in addition to investments and a dialogue on sectoral policy;
- its relative responsiveness and pragmatism;
- its field knowledge;
- its experience in public service delegation and public-private partnerships;
- its concern for the effects on the environment, particularly global effects (climate).

The objectives of the transport strategy translate the global strategy that AFD has set out in its Strategic Orientation Plan 2 and aim to promote effective, equitable and sustainable transport services:



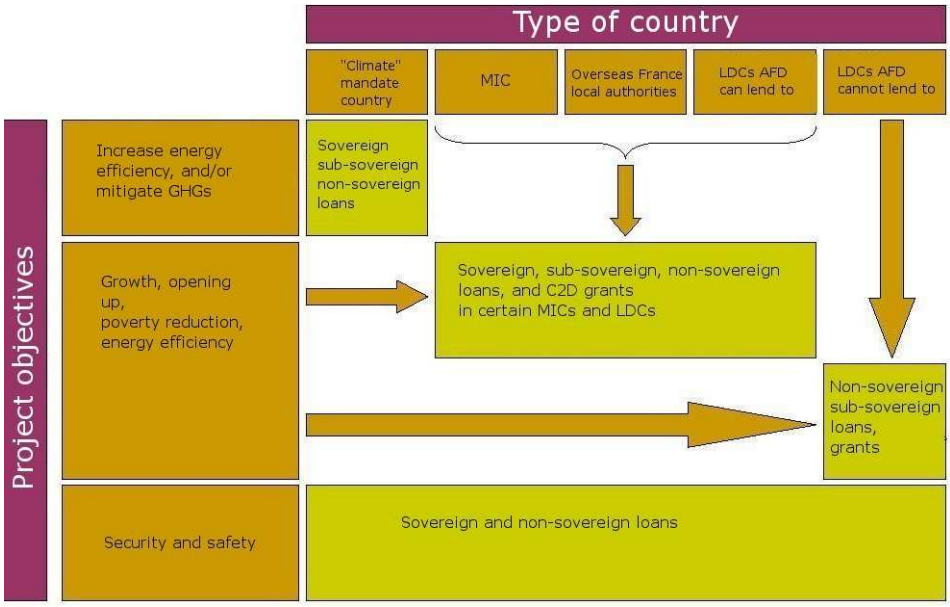
Although the focus will be on specific aspects depending on the geographical areas and strategies and constraints for AFD operations, project design and appraisal takes a **holistic approach** and integrates all sectoral issues and project objectives.

Geographical and financial breakdown and by means of transport

On the basis of a typology of AFD's intervention countries:

- emerging countries where AFD's mandate is to protect global public goods, i.e. in the transport sector to combat climate change (in short, "climate" mandate countries);
- other foreign countries: emerging countries and other middle-income countries (MICs), least developed countries (LDCs);
- France's overseas local authorities.

The geographical selection for AFD operations in the transport sector may be made as indicated in the following table on the basis of project objectives:



The breakdown by type of market and means of transport, type of country and financing instrument leads to the following targeting:

market	***type of country***	***financing***	***priority***
urban transport			
urban roads, traffic plans	all, including "climate" mandate emerging countries exclusively for integrated urban planning operations for cleaner transport	sovereign or sub-sovereign loan (grant if C2D – France's debt reduction-development contract)	**
urban / suburban exclusive right of way public transport	all	sovereign or sub-sovereign loan (possible non-sovereign loan if arrangements guarantee financial viability)	***
road vehicles (and their service infrastructure)	buses in France's overseas local authorities (possibly in "climate" mandate emerging countries)	sub-sovereign loan (in particular cases, sovereign or non-sovereign loan)	*
long distance freight and passenger transport			
major roads	LDCs, MICs, except "climate" mandate emerging countries	sovereign loan (grant if C2D)	*
rural tracks	LDCs, MICs, except "climate" mandate emerging countries	sovereign loan (grant if C2D), possibly non-sovereign loan to company in the sector	**
main line rail transport	all	sovereign or non-sovereign loan	***

ports	all, except “climate” mandate emerging countries	non-sovereign or sovereign loan (in particular cases, grant if C2D)	***
ships	France’s overseas local authorities (opening up), in particular cases, foreign countries	sub-sovereign loan, PROPARCO non-sovereign loan in France’s overseas local authorities or foreign countries	*
river infrastructure	all (niches)	sovereign loan (in particular cases, grant if C2D or classic for small opening up projects in MICs or LDCs)	**
airports and air navigation	all, except “climate” mandate emerging countries	non-sovereign or sovereign loan (in particular cases, grant if C2D)	**
planes	France’s overseas local authorities (opening up), in particular cases, foreign countries	sub-sovereign loan, PROPARCO non-sovereign loan in France’s overseas local authorities or foreign countries	*

The term “non-sovereign loan” indicates an AFD or PROPARCO loan depending on the case.

Urban public transport and long distance rail transport will be priorities, due to the issues at stake, the increasing importance of emerging countries in AFD’s client portfolio and the general development of AFD’s sub-sovereign and non-sovereign loan portfolio, as these financial tools are particularly well-suited to this type of project. When AFD operates in these sectors, particularly in emerging countries, it will systematically seek to support investment financing with institutional assistance to ensure the energy and climate aspects are better integrated into sectoral policies (development plans and urban transit plans, promotion of road-rail modal transfers, investment master plans).

Ports and airports provide opportunities for **non-sovereign financing** which will continue to be an objective. In some countries, this financing may be a sectoral priority for AFD after urban public transport.
In countries where growth and poverty reduction are the main targets, **road projects will be financed on a highly selective basis**, due to AFD’s financing constraints. Attention will be given to their institutional impact.

In all cases, AFD will seek to contribute to **improving sectoral policies**, particularly on the topics of improving governance in the sector, decentralizing infrastructure and service management (urban transport, rural transport), involving the private sector in operating, regulating monopolies – particularly by involving users as an “opposition force”, facilitating transport, regional integration and cooperation, integrated design for urban planning, space development and transport, environmental, technical and financial sustainability. Capacity building for project owners and organizing authorities, vocational training, intellectual production (research scheduled on urban transport financing, the impacts of expensive fuel on the economy and transport geography, the design of economical roads and road safety) will all contribute.

Although safety requirements are a usual component in transport and will continue to be

integrated into projects for all means of transport, a specific focus will be given to financing **road safety** operations.

For the period 2003-2008, transport as a whole (road, rail, water, air transport) and for all markets (urban, long distance, passenger and freight transport) accounted for an average 13% of AFD's financial commitments in all geographical areas. The percentage of urban transport projects (rail and road) has been rising steadily for about fifteen years and has accounted for an average 42% of total Group commitments in the transport sector for the past 6 years. During this period, the average leverage effect (commitments/State cost ratio) of Group operations in the transport sector stands at 3 which puts it within the overall average of AFD, but below other infrastructure sectors (5 in energy). Disbursement ratios (ratio between year N and the undisbursed amount at 1/1 of year N) stand at roughly 17% and are also within the overall average of AFD operations. It therefore takes just under 6 years to disburse these commitments. Moreover, roughly 70% of active transport projects (30 to 40 depending on the years) are rated A or B on the quality rating scale that goes from A to D in descending order.

All transport projects financed by AFD over the past 5 years had important targets for results: to facilitate urban transit for 3.4 million public transport passengers per day, provide transit for over 115 million tons of freight per year, rehabilitate or develop almost 22 000 km of roads, and reduce emissions by roughly 2.8 million CO_2 equivalent tons every year.

On the basis of these results, **AFD's commitments in the transport sector may rise to over 15% of its annual commitments** (25% at the World Bank), considering – in addition to the issues mentioned before – the increase in the average size of projects relating to financing in emerging countries and the increasing importance of urban transport projects in major cities.