Infrastructure Public-Private Partnerships in Africa

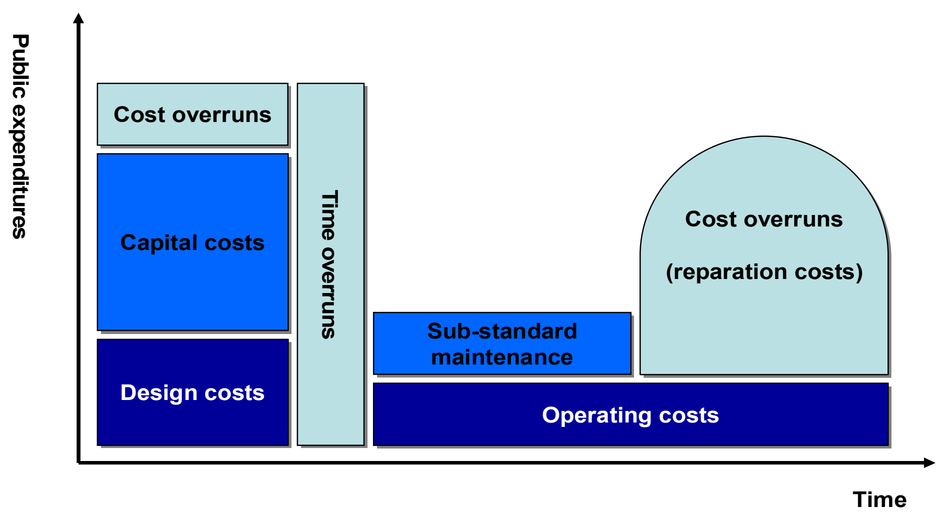
Introduction

The overwhelming majority of investment in African infrastructure continues to be delivered through traditional procurement techniques, using public capital - figure 1. Over the last ten years, access to infrastructure services has practically not progressed in Sub-Saharan Africa (SSA), and coverage has even declined in some countries. Affordability is often a constraint for households to connect to networked infrastructure services.

Estimates of the capital and operating investments needed to bridge the access gaps and keep up with the pace of economic growth vary widely, but it is clear that despite a scale up in ODA to infrastructure from $5 billion in 2005 to about $5.6 billion in 2006, donor money, although important and growing, will always continue to be small when compared to overall investment needs on the continent. Even with significant new resources from China and India, African Governments will have to look to growing revenues from the proceeds of economic growth and increased participation by the private sector to meet needs.

Infrastructure investment in Africa using private capital has grown over the last decade or so, particularly in the energy and telecommunications sectors. This has been accompanied by the privatisation of some monopolies, with attempts at shifting the cost burden from taxpayers to consumers. Long-term concessions have always been awarded in the roads, ports and water sectors, again using revenues from user tolls or tariffs to provide long-term financial underpinning of investments. The involvement of private sector capital in social infrastructure e.g. housing, healthcare and education is not common.

Figure 1



It is rare to find African governments stimulating private sector involvement within the context of an overall procurement policy for infrastructure, so that privatisation, concessions, output-based performance contracts and other forms of public-private partnerships (PPPs) can be assessed alongside public provision as potential options - figure 2. However, other Governments around the world are increasingly comfortable using private money to finance infrastructure projects. In the past two years the flood of money to infrastructure funds has been astonishing[1]: the world's 20 largest now have nearly $130 billion under management, 75 percent of it raised in 2006 and 2007. Taking into account leverage, a billion dollars of equity funding could, in some situations, pay for up to $10b billion in projects. Investment in traditional brownfield opportunities in the developed world will not satisfy demand and bidding for these deals is already intense. Funds will increasingly be looking for opportunities in emerging markets. Does Africa stand to benefit?

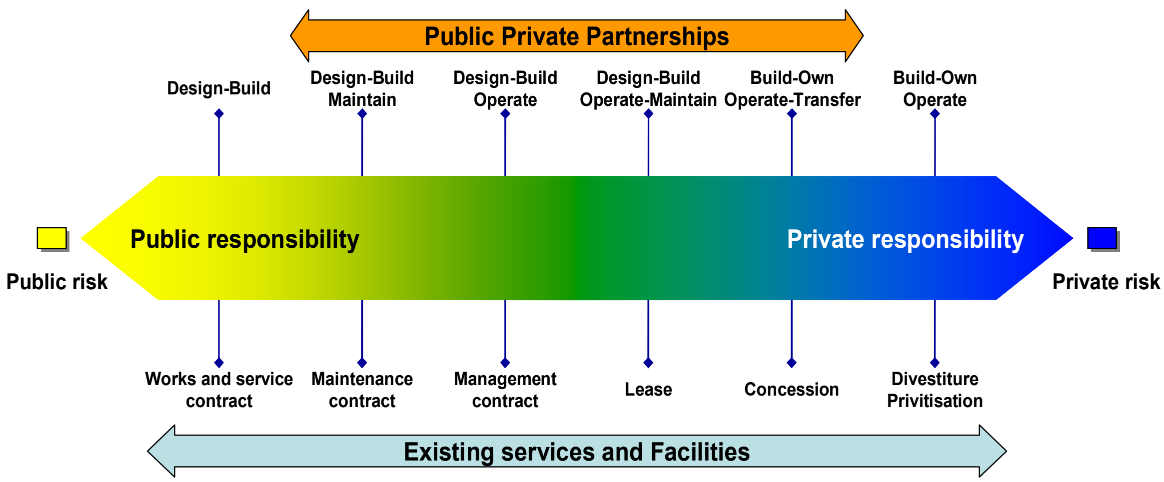


Figure 2

Isn't public sector finance cheaper and so better value for money?

No, not always. PPPs are a form of procurement which are designed to complement other public procurement and public service delivery methods not replace them. The main objective of a PPP is to ensure the delivery of public infrastructure and services cost-effectively, by leveraging private sector expertise and innovation. Value for money drivers include:

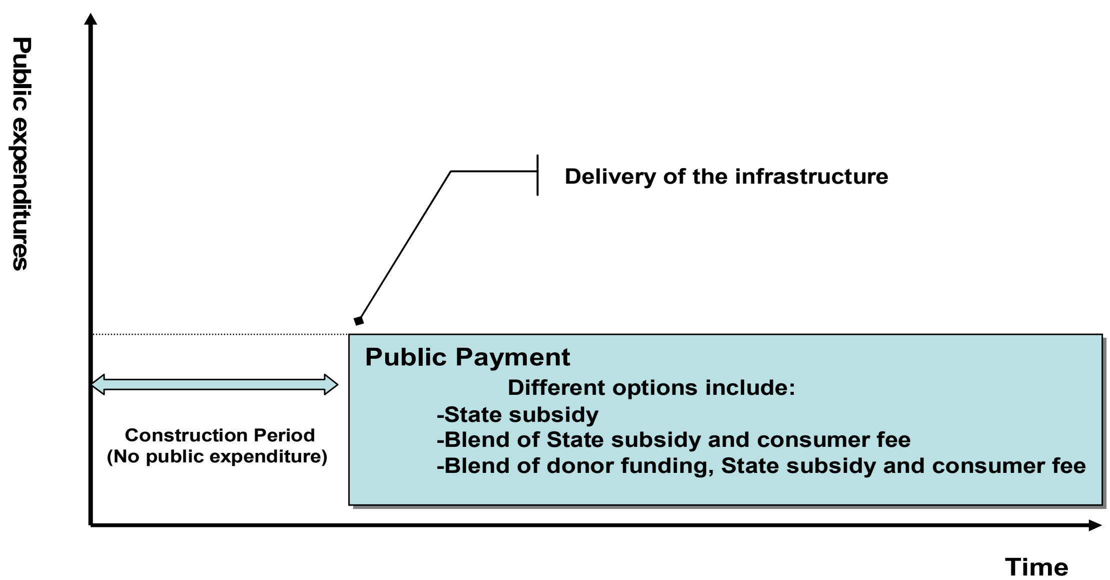
- Contracts are output-base and fixed-price (mostly). The public sector will know the true long-term cost of an investment in its infrastructure
- Competition for delivery results in innovation and efficiency gains
- Private sector capital is at risk to long-term performance. A powerful incentive which goes far beyond the simple profit incentive of an outsourcing contract.
- Risk transfer to the private sector
- Strengthened planning processes ensuring that both the capital and maintenance portions are fully funded over the long term

[1] *How investors can get more out of infrastructure. McKinsey and Company, February 2008*

Where does the accountability for the delivery of public services lie?

Under PPPs Ministers and their officials always remain accountable for the delivery of public services. PPPs are not about privatisation. They are about delegating delivery of certain public service outputs to the private sector, where and only where, they offer a more cost effective solution. For example, in some PPPs, Governments become bound to make regular contracted ‘service’ payments needed to pay for asset maintenance and the delivery services which are provided by the private sector over a long period of time – figure 3. The high start-up costs are covered by the private sector. For private investors to recover their invested capital they must not only ensure that a new hospital or road gets built on time, to budget and is operational, but that it is maintained to an agreed standard over the full working life of the asset. The Government is prevented from giving-in to short-term budget pressures and is prevented from cutting back on essential maintenance work – sustainability is guaranteed over the long-term. For countries without access to international capital markets (and without developed local bond markets) PPPs are the only remaining method to get infrastructure projects built now.

Figure 3



Are there other benefits?

Governments and the public at large in Africa have overall negative views on PPPs performance and outcomes, even though there haven’t been enough comprehensive assessments of the economic, financial, allocative and distributive impacts their impacts. The World Bank PPI database indicates that between1990-2006, a total 332 PPI contracts were concluded in SSA countries representing investment commitments for about $50 billion. With only 4% of investments commitments either cancelled or distressed, the incidence of failed PPI projects is not higher in Africa than in other regions.

It does have to be recognised that overall benefits of PPI have been less than expected by all stakeholders - especially in cases where there was weak regulation or lack of competition or limited investment responsibility by private players. Necessary increases in the price of services, either to account for increases in fuel prices or local currency devaluation and other factors, or because average prices of infrastructure services were initially below cost-recovery levels, have not helped.

Importantly, with the necessary enabling environment PPPs can accelerate the pace and scale at which investment is made in public infrastructure in Africa. In addition to value for money there are other reasons for a Government to embark on a PPP programme:

- Reform – both of public and private sectors in terms building new capacity, new skills and new ways of working;
- Contestability – PPPs present an alternative by which current public service performance can be compared;
- Increased transparency – long-term contracts creates a high-degree of transparency in the true long-term costs of delivering public services
- Antidote to short-termism and false economies
- Legacy of change in the way infrastructure assets and services are delivered

What is required at the country-level?

The move from conventional procurement to PPP – a move from input-based to more output-based contracts – is a big change. Some of the requisites include:

- Strong political commitment
- Long term political stability
- Legislative framework - including transparent and predictable regulation. For example a robust tariff policy free of political interference.
- Policy framework
- Institutional reform
- Capacity – to design, contract and regulate private sector participation
- Sound communication with stakeholders
- Quality control – PPP is a sophisticated procurement method
- Strong financial markets and a competitive private sector
- Access to long-term financing – particularly local financing

Admittedly, these requisites are not yet met in many countries on the continent. However Egypt, Morocco, Malawi, Uganda and South Africa are just some of the countries that are at various stages of setting up government units dedicated to helping to promote PPPs.

Possible ICA actions

Capacity building

- Scale up support to fledgling PPP units i.e. focussing on those countries with favourable conditions.
- Provide increased support for private national actors, in particular small local providers
- Enhance internal donor PPP skills mix
- Increased help to countries to help them develop bankable projects and regulatory environments

Advocacy

- More support to communication of benefits of PPPs
- ICA Secretariat to disseminate guide to PPPs
- Support to continuous assessments of PPPs performance and outcomes

Coordination and

- Enhance information flow on PPP prospects, co-financing, lessons learned etc
- Ensure that internal incentive structures are set up to ensure staff consider and evaluate possible PPP solutions (there is still evidence of donor money crowing out private capital).
- More sustained engagement with China, India and Arab partners

Project preparation

- More sustained engagement with regional DFIs involved in the preparation and promotion of PPPs
- Target IPPF for number of PPP deals structured