A View on Public Private Partnerships in Africa

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ICA Annual Meetings
Tokyo, March 13-14, 2008

Outline

1. Some facts about PPPs in Africa
2. Drivers of PPPs
3. Key success factors
4. Some questions to debate
5. Support needs
6. Governments’ desirable agenda

PPPs vs Purely Public: Shared Bottlenecks?

- Economics have to square

- Public capacity is essential

Private investment necessary for quick scale up but efficient public investment is equally important to achieve timely disbursements, clear outcomes on poverty reduction and actual sustainability of investments

PPP: a reminder of what this can entail

Two main types of private participation in infrastructure

- In **existing infrastructure SOEs** (still dominant actor in most countries, except in ICT) **or government-owned assets** – through modalities ranging from short term management contracts thru concessions to privatization
- In **greenfield projects**
  - Ranging from EPC to BOO
  - With or without government shareholding
  - With or without government grants or annuity payments (subsidies)
- Sometimes with **combination** of existing assets and greenfield investment

1. Some facts about PPPs in Africa

From PPIAF PPI Database for energy (electricity and gas), transport, ICT and W&S, over the period 1990-2006

PPPs in Africa - growing importance

Sub-Saharan Africa:

- 332 projects for total investment commitment of $50 billion, almost half of projects in ICT (45%), least in W&S (6%) – with sharp increase of investment commitments in 2005-06

- Majority are greenfield projects (55%) – the dominant mode in ICT (84%) and energy (50%). Concession dominant in transport (62%). Management/lease in W&S (86%)

- Growing role of African sponsors (e.g. 25% of new energy projects in 2001-06)

- Project failure rate is relatively low at 9%. Lower in transport (5%), higher in W&S (13%). But high impact of failures on PPP image. And some signs of privatization backlash.

PPPs in Africa - growing importance (2)

North Africa:

- 56 projects for total investment commitment of $41 billion (larger projects than in SSA in average), with about a third of projects in energy and transport each.
- Greenfield dominant mode in all sectors except W&S (Management/lease)
- Mixed shareholding more frequent than in SSA
- Project failure rate: 0%

2. Drivers of PPPs

Governments’ drivers include some or all of the following factors:

- Constraints on public investment (fiscal space, SOEs financing capabilities)
- Issues with SOEs (governance, performance, service quality)
- Perceived value for money of PPPs (lower lifecycle costs or higher cost-benefit ratio)
- PPPs are an element of sector reform/policy
- Example/innovation value
- Faifth/ideology is sometimes a driver (specially with donors), though it should not be

Conversely, **in absence of adequate drivers, PPPs should not be undertaken**

3. Key success factors

PPPs’ success generally hinges on addressing following aspects:

Environment/institutional related
- Sufficient public sector capacity and incentives to manage **ALL** stages of PPPs
- Adequate legal and regulatory framework
- Strong political commitment (particularly in periods of stress)
- Gradual build-up of PPP program (to establish market confidence)
- Existence of local currency financing
- Existence of local sponsors/operators

Transaction related
- Well prepared, bankable projects (don’t underestimate transaction costs/efforts)
- Economics are right (financially viable projects, with good estimates or demand and WTP)
- Appropriate risk sharing and mitigation (realism w/o ingenuity)
- Offtaker risk is well addressed
- Flexible design to respond to changing political, financial and economic circumstances
- Selection of appropriate PP mode to suit each context
- Competition in private partner recruitment

A key success factor: recognize & address stakeholders concerns

PPP is NOT ‘Paying for Private Profit’ ……

PPPs deliver if properly designed & implemented

- Freeing up public funds (needs are spread over time)
- Efficient delivery of services (no conflict of interest in regulation of service quality)
- Innovation & best practices in service provision
- Accountability & transparency improve
- Value for money (lifecycle analysis)
- Windfalls profits can be renegotiated
- Fee increases are regulated
- Need for Government bailout mitigated through appropriate risk allocation

4. Some questions to debate

- How to address unsolicited proposals (increasing cases in SSA)? Stay away? Or help get best deal?
- Focus mainly on winners? (i.e. private investment in countries meeting success factors) And support to other willing countries to reach that stage?
- Reform first? Or PPPs first? Or in parallel?
- Are PPPs with annuity payments (liabilities) viable in fiscally constrained countries?
- What are the realistic prospects for PPPs in complex regional projects?

5. Support needs

Additional support to PPPs by ICA members should help meet success factors, e.g. through:

- Scaling up support to national PPP Units
- Outreach/support to local/emerging private players
- Country infrastructure ranking
- Documenting PPPs performance, outcomes and lessons
- Increased use of guarantee instruments and support to local currency financing
- Further support to adequate sector and regulatory environment

6. Governments' desirable agenda

- Drivers for PPP promotion are well identified, with clear objectives and strategy/policy/law
- Appropriate public capacity is established
- Make project economics square, through users' payments or subsidies or combination
- Ready for continued commitment in periods of stress
- Continued move towards adequate legal/regulatory framework
- Commitment to sector reform, in parallel with PPPs implementation
- Particular focus on SOEs governance & performance (external and internal incentives)

THANK YOU