

Efforts to Promote Private Sector Participation in African Infrastructure

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Structure of presentation

- Why try to attract private sector participation (PSP) in water and electricity?
- Recent trends in PSP in infrastructure (water and electricity in SSA).
- Policies to encourage PSP.
- Implications for:
 - Finance
 - Efficiency
 - Risk Allocation

Reasons for attempting to attract PSP

- Finance

Lack of finance is a major obstacle to achieving the MDGs and PSP is seen as a key to reducing the ‘financing gap’:

“In many countries such levels of investment cannot be financed by the public purse alone. To meet the needs, encouraging private investment in infrastructure is an option that governments cannot afford to ignore” (OECD 2007).

- Efficiency

- Private Sector Development

PSP in infrastructure: Recent trends

- Disappointing private sector response in 1990s →

Shorter less onerous contracts.

Privatisation replaced by PPPs.

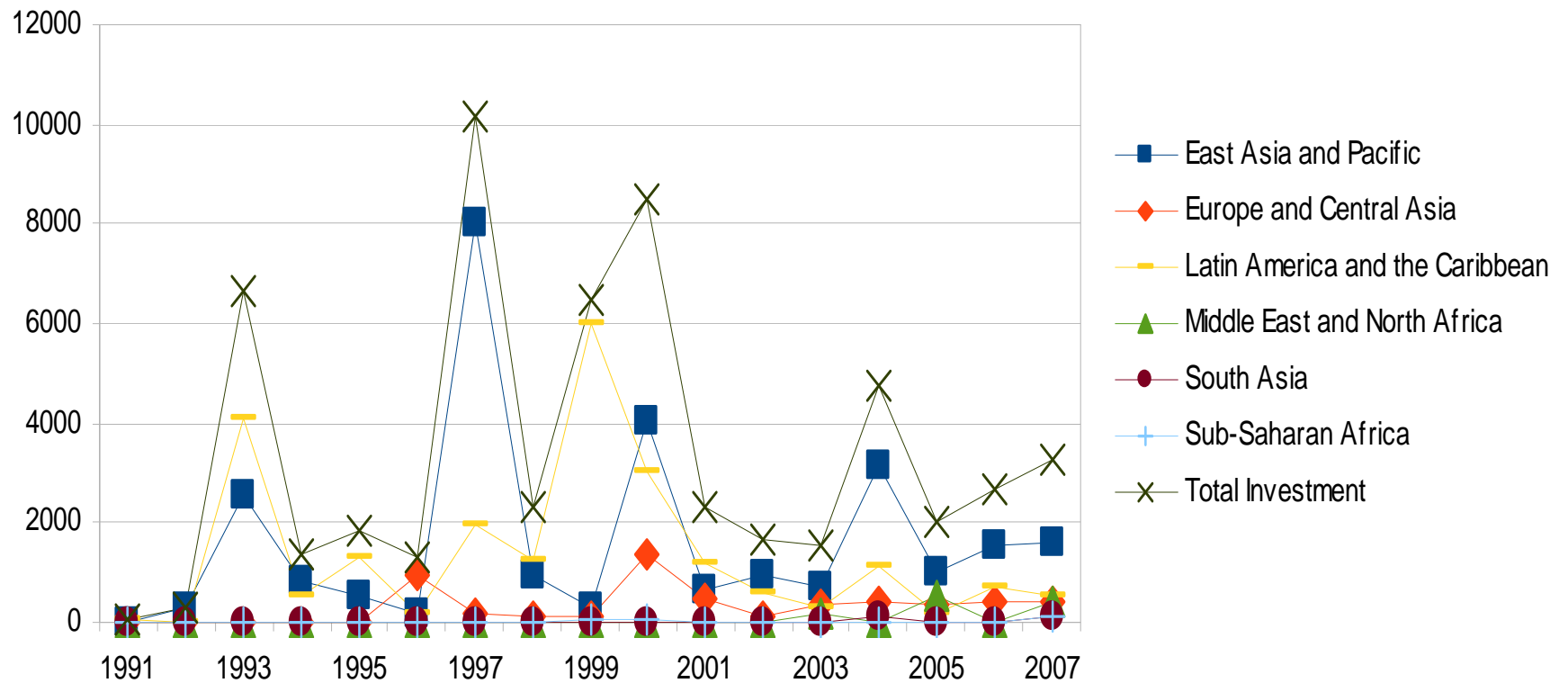
More developing country PSP – Moroccan firm awarded contract for Cameroon water; South African firm awarded contract for water in Ghana.

Greater policy emphasis on creating the right conditions for PSP (restructuring, pricing policies etc).

Private Investment Commitments in Water

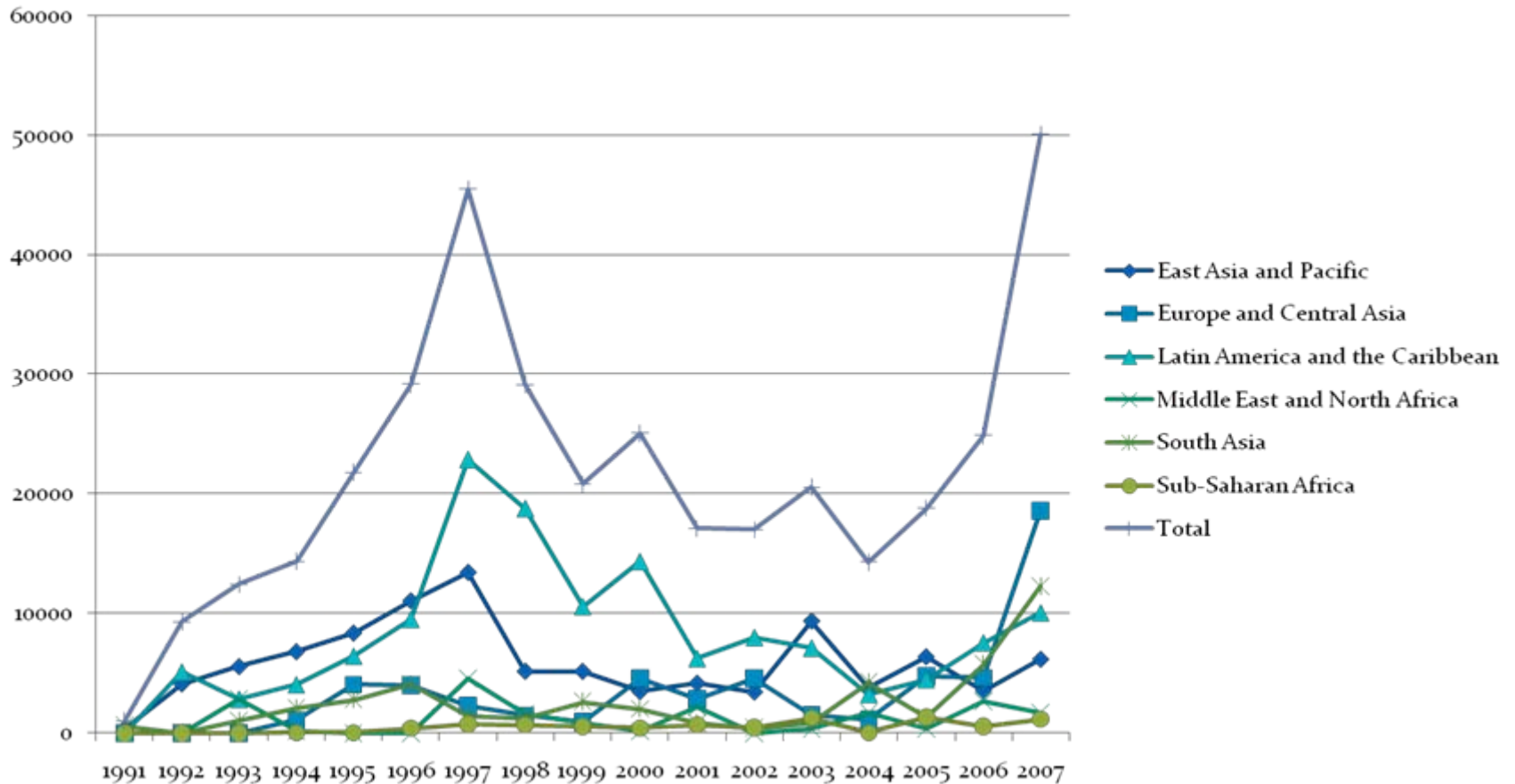
US\$m

Source: World Bank PPI database



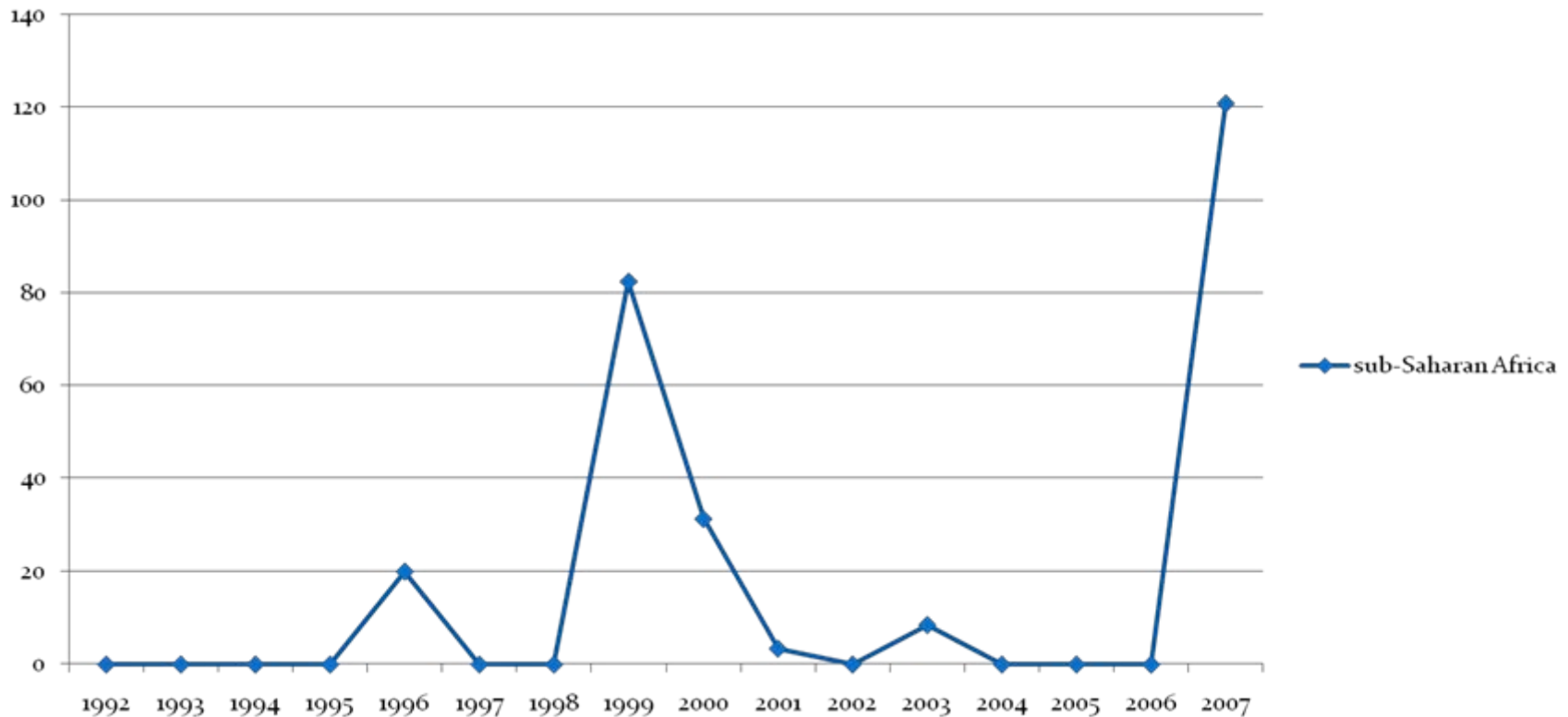
Private Investment Commitments in Electricity (US\$m)

Source: World Bank PPI database



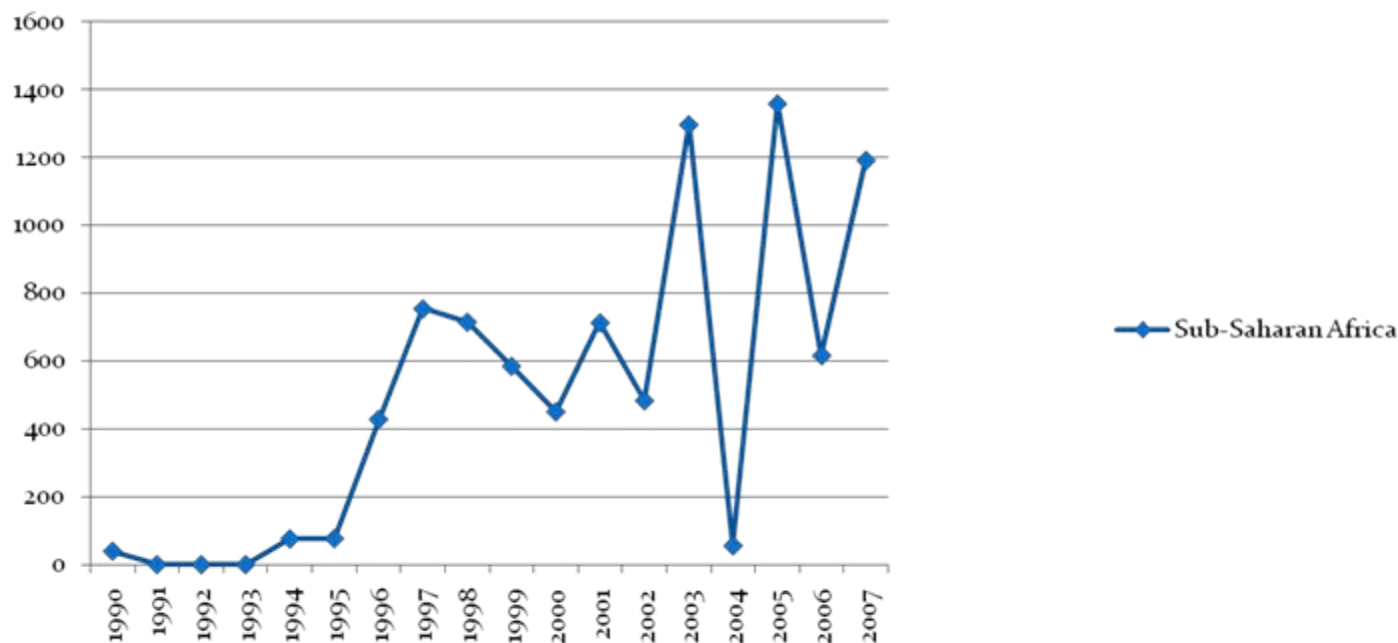
Private Investment Commitments in SSA Water (US\$m)

Source: World Bank PPI database



Private Investment Commitments in SSA Electricity (US\$m)

Source: World Bank PPI database



Policies to encourage PSP in infrastructure

- Governments:
 - Restructuring
 - Pricing
- Donors:
 - Support to governments
 - World Bank loans
 - Enabling Environment (PPIAF, Doing Business etc).
 - Support to private sector
 - IFC, MIGA, PIDG

Private Infrastructure Development Group

Est. 2002

Donors: UK (DFID), Switzerland (SECO), Netherlands (DGIS), Sweden (SIDA), Austria (ADA), Ireland (IrishAid) the World Bank

Currency Liquidity Fund	DevCo	Emerging Africa Infrastr. Fund	GPOBA	Guarant Co	InfraCo	Technical Assist. Facility
At design stage	2003	2002	2003	2003	2004	2004
	IFC/DFID	PIDG	DFID-WB	PIDG	PIDG	PIDG
	US\$15.7m	US\$365m		US\$73m		US\$3m pa
	Supports trans-actions	Lends to comp-anies	Output-Based Aid	Local currency finance	Project Develop-ment	TA to attract private capital

IFC

- In 2007, IFC new commitments reached \$10 billion, double the level of just four years previously. Planning to scale up activities in Africa.
- IFC is involved in power projects in Nigeria, Senegal, Tanzania, Cote d'Ivoire, Kenya and Uganda.
- Advisor on water reform in Nigeria, Senegal, Madagascar and Ethiopia.
- In January 2008 took a 13% stake in Veolia AMI which has private water contracts in Gabon and Niger.

“We believe that providing clean water and sanitation services is a real business opportunity”

CEO of the IFC, Lars H. Thunell, Stockholm 2008

PSP and Finance

- **Water sector** – little private sector finance. Days of big concessions are over. Investment financed by public sector.
- **Electricity sector** – investment mainly in generation - still small proportion of overall investment. But sharp increase in short term power contracts mainly in Africa.

BUT

- Using PSP for infrastructure finance creates future liabilities - a form of “off balance sheet” finance which replaces a debt with a future liability and is in effect a transfer of resources from the future to the present.
- PSP in electricity generation underwritten by long term power purchase agreements (PPAs). The short term power contracts usually charge much higher prices with more government guarantees and less transfer of risk to the private sector than traditional BOT contracts .

Impact of donor facilities

- Risk mitigation facilities not widely used (Gratwick and Eberhard 2008).
- A development institution is a valuable investment partner because of preferred creditor status.
- *“Given our governments are behind us, we are using our leverage as a fund which has connection into the European government and this is one of the reasons why we don't need political risk insurance” – Director of EAIIF*
- IFC has leveraged private finance for power projects. These private sector projects incorporate substantial amounts of development finance.

EG Azito Power Plant, Cote d'Ivoire

- Just 30 percent of finance comes from shareholder equity. Contract underwritten by a 24 year power purchase agreement where price and production are specified in advance.

IFC A loan	32	14
IFC Subordinated Loan	15	7
CDC Club Loan (development banks)	48	21
IFC B Loan	30	14
IDA PRG loan (from commercial banks but with WB Political Risk Guarantee)	30	14
Shareholder Equity	68	30
Total (US\$m)	223	100

Efficiency and PSP

- Not much compelling evidence of superior private sector performance particularly in SSA.
- Some studies find in favour of PSP (Gassner et al 2009).
- Other evidence finds no difference in performance: (Wolff and Halstein 2005 - USA; Kirkpatrick, Parker and Zhang 2004 – Africa).
- Or – while private utilities perform better (in Africa) governance and institutional issues more important (Estache and Kouassi 2002).
- And evidence indicates other factors at work (Wolff and Halstein 2005).

Allocation of Risk

- The basic principle of risk sharing: Risk should be allocated to the party best able to bear it (OECD, 2008)
- Some straightforward allocations:
 - Construction risk lies with private contractor
 - Regulation risk lies with government
- What about other risks:
 - Demand risk? Currency risk?
 - Cost pass-throughs in pricing and moral hazard?
- Risk allocation depends on bargaining power
- But less risk → less project distress.

Conclusions 1

- Evidence that the private sector raises finance and efficiency for water in SSA is not convincing.
- The private sector has contributed finance in electricity sector but at high cost and minimal transfer of risk.
- PSP can create additional challenges (fragmentation, information asymmetries, diversion of resources).
- Difficult to reconcile private and social objectives. Private provider unlikely to focus on providing service to poorest (although evidence is mixed).
- Discussions in terms of how to access huge sums to fill the 'financing gap' creates a specific mindset.
- Might be better to think in terms of how to make the best of what is available.

Conclusions 2

- World Bank approach - need to rebuild and adapt the PPI/PPP model – eg is there a new breed of operator ? (Saghir 2006)
- What about creating a new model?
- Need to avoid the ‘false start’ syndrome and begin with better understanding of the problems – and the successes where delivery is effective.
- Need to focus on individual sector and country constraints.
- Need a flexible approach and a focus on what has worked.



Thank you