



► Feature Article: Bringing Down the Barriers to Infrastructure Development in Africa

Maude Vallee, Chief Legal Counsel, Acting Head of Operations, African Legal Support Facility

The imperative of leveraging Public-Private Partnerships (PPPs) to meet the infrastructure development challenges in Africa is no longer a point of dispute. The African Development Bank estimates that Africa's infrastructure funding gap has grown to reach USD 170 billion annually, and a recent report by the Global Infrastructure Hub (GIH) of the G20 emphasizes that African countries "do not have the resources to ramp up infrastructure spending on their own, even with backing from aid agencies and multilateral donor institutions, [making] private sector investment [essential]" (quoted in Bavier 2018). As such, the focus has shifted to how PPPs can be most effectively integrated into the planning and implementation of infrastructure projects, with the objective of maximizing their contributions to sustainable economic growth and alleviating poverty.

During Evaluation Week 2018, panelists were invited to consider the key parameters

that affect the development of PPPs, from a variety of perspectives. The exchanges highlighted some of the key catalysts for PPPs to fulfill their full potential, as well as mechanisms for leveraging development efforts. The most notable of these catalysts was identified as: the need for establishing sound institutional and legal frameworks, building a pipeline of bankable projects which are attractive to investors, alongside efforts to plan and prepare projects carefully to mitigate failure, and securing high-level political support and intergovernmental coordination.

The ingredients necessary for ensuring the successful implementation of PPPs are widely recognized throughout the development and investment communities. The recent Africa Investment Forum also highlighted the wealth of resources which can be accessed under the right conditions, including from private equity funds and private institutional investors such as insurers, pension funds, and sovereign wealth funds.

Yet, the confluence of factors that are necessary to inspire, catalyze and grow the volume of PPPs across the African continent has thus far remained ►

- elusive, with a number of reasons underpinning why these transactions have failed to gain momentum.

Firstly, there is strong evidence that the adoption of a legal and/or institutional PPP framework does not in itself provide sufficient impetus to give rise to PPP projects. Many infrastructure projects, particularly in the power sector, are predominantly governed by energy sector legislation, and accountable to the relevant ministry, while in the case of large-scale projects, an ad hoc regime may apply. These create additional layers of complexity which private sector partners are less inclined to be willing to navigate. They also have the potential to create divisions and conflict between responsible agencies and ministries who may have jurisdiction over particular aspects of a PPP operation.

Secondly, the allocation of private investment to infrastructure has tended to be concentrated in particular sectors across the global landscape. To date, the PPP interventions of the African Development Bank are primarily focused on the sectors usually described as economic infrastructure: power, transport, water and ICT. According to the World Bank, in the past five years, PPP infrastructure projects in Africa have mainly been concentrated in the energy sector (78%), mostly renewables, transport (22%), and water and sanitation (0.5%). It is thus less intuitive for the private sector to focus on basic service delivery, which is most-needed to alleviate the needs of lower income populations.

Thirdly, despite the existence of abundant financial resources, African governments are still struggling to finance the feasibility studies and invest the needed human and capital resources to structure and market projects in a manner that is viable, and appealing to their private sector counterparts.

Despite these challenges, well-selected and well-structured PPPs continue to harbor the greatest potential for bridging Africa's tremendous infrastructure funding gap and accelerating the delivery of services that can improve lives of Africans. This requires project design and implementation, which ensure that risks are appropriately allocated to the partners who are best equipped to manage them. This should also apply at a broader level to include all the key actors that can support the process, including governments, multilateral development banks (MDBs), private sector actors, as well as banks and other financing partners.

From the perspective of African governments, this implies that there is a need to take clear and decisive actions to instill confidence within their PPP frameworks and how they are operationalized. Governments can also ensure that regulatory frameworks are reformed to more broadly guide institutional investment in Africa.

Governments must also demonstrate the willingness and capacity to assure investors that they will remain ►



► actively engaged throughout the life of the PPP, and that the terms of their agreements will remain in place irrespective of political and/or economic evolutions on the ground. Governments must be consistently responsive to other project stakeholders, the project must be highlighted as a priority among the government's strategic objectives, and all ministries and agencies involved must have a clear mandate and transparent engagement processes.

Conversely, MDBs must continue to help governments to identify the sectors and projects that are best-suited for PPPs, to build pipelines of viable and socially-responsible projects, to improve access to infrastructure preparation facilities, to mobilize loans and equity in support of private investment, as well as to support the development of financial instruments that will allow for the success of projects which are not intrinsically the most appealing to investors, such as within the water sector or social infrastructure (health, housing, education, etc.).

The private sector will be expected to leverage its technical expertise, to innovate, and most of all, to deliver efficient project management capabilities that ensure the successful design and implementation of projects, and to transfer management and structuring skills back to governments in a seamless and timely manner.

Banks and financial institutions will have a key role to play in reducing financing costs for projects, increasing the volume of quality projects that they are able to finance, and ensuring that they develop the capacities to properly quantify project risks. This can include working with MDBs to leverage technical assistance, and, where available, guarantees that would better position the commercial sector to finance project operations and mitigate the balance sheet risks.

Given the current concentration of PPP projects in a small number of sub-Saharan African countries (mostly in South Africa, Nigeria, Kenya and Uganda), the focus for countries seeking to follow suit should be on building quick wins through smaller scale project operations which can provide learning experiences for larger-scale and more complex project operations. This should help to rapidly develop the capacity to prepare, develop, manage, monitor and evaluate PPPs, and ensure they are executed in line with the public interest.

Bavier, J. 2018. Ten African nations face \$1 trillion infrastructure funding gap. Reuters, [online]. Available at: <https://www.reuters.com/article/us-africa-infrastructure/ten-african-nations-face-1-trillion-infrastructure-funding-gap-idUSKBN1JT2AZ>

eVALU

