PPPs in Africa

Key Messages from Work of the Independent Evaluation Group -- World Bank Group

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**Outline**

- Motivation for Africa to engage in PPPs
- Challenges for Africa
- IEG’s lessons on PPPs
Much hope rests on the private sector to help mobilize the $1.8 trillion to cover the SDG investment gap.

<table>
<thead>
<tr>
<th>Investment needs</th>
<th>Current investments</th>
<th>Potential private sector contribution</th>
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</thead>
<tbody>
<tr>
<td>3.9</td>
<td>Gap 2.5</td>
<td>1.6</td>
</tr>
<tr>
<td></td>
<td>1.4</td>
<td>0.7</td>
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<tr>
<td></td>
<td>At current rate</td>
<td>At higher rate</td>
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But we need to be realistic:
- Even in advanced economies (UK, Australia) PPPs make typically only about 5 to 10% of overall investment in infrastructure.
- In developing countries, PPPs in infrastructure is estimated to be some 4%.

Note: Figure are in US$ trillion
The relative infrastructure investment needs of many African countries are particularly acute

As a share of GDP, the investment gap in low-income countries is on average more than three times that of middle income countries – 2 different “realities” in Africa

**Figure:** Investment gap as a share of GDP

- Upper-middle income: 45%
- Lower-middle income: 50%
- Low-income: 153%
- Middle East and North Africa (AfDB countries): 52%
- Sub-Saharan Africa excl. S. Africa: 133%

Source: Jacqueline Andrieu and Jose Cabajo Martinez, *Creating Markets: A Special Challenge for Low-income Countries*, Blog, May 8, 2018, based on data from the Global Infrastructure Hub, G-20; WDI
For Africa, increasing debt levels further enhance need for private sector finance

- IMF warns about lower-income nations slipping into debt crises, in particular countries in Africa
- Debt burdens have increased by 13% of GDP in the past five years for these countries
- Share of Sub-Saharan Africa nations with debt-to-GDP ratio >50% increased from five in 2012 to more than 15 in 2017
- PPPs gain importance in this scenario, provided they are structured well

Source: Macroeconomic Developments and Prospects in Low-Income Developing Countries, IMF, March 22, 2018; Masood Ahmed, President of the Center for Global Development, in African nations slipping into new debt crisis, Financial Times, April 19, 2018; African nations slipping into new debt crises, Financial Times, April 19, 2018
Regulatory quality a challenge for countries, in particular for those with large investment gaps

**Figure:** Correlation investment gap and regulatory quality

Investment gap as factor of GDP

- Data shows that regulatory quality is negatively correlated with the relative investment gap

Legend: Regulatory Quality reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development: -2.5 (weak) to 2.5 (strong): http://info.worldbank.org/governance/wgi/#home

Source: Jacqueline Andrieu and Jose Cabajo Martinez, *Creating Markets: A Special Challenge for Low-income Countries*, Blog, May 8, 2018, based on data from the Global Infrastructure Hub, G-20; WDI; and see above legend.
In particular for Africa, regulatory quality poses a major challenge.

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Source: Jacqueline Andrieu and Jose Cabajo Martinez, Creating Markets: A Special Challenge for Low-income Countries, Blog, May 8, 2018, based on data from the Global Infrastructure Hub, G-20; WDI; and see above legend.
PPPs in Sub-Saharan Africa remain a very small market, largely in energy

- PPP investment commitments in Sub-Saharan Africa make up only a small portion (2–10 percent) of total EMDE investment.
- In the past five years, PPP infrastructure projects in the region have mainly been concentrated in the energy sector (78%)—mostly renewables—followed by transport (22%) and water and sanitation (0.5%).

Africa’s PPPs are concentrated in a few countries

- PPPs are concentrated in only a few countries: South Africa, Nigeria, Kenya, and Uganda
- Together these account for 48% of the 335 total PPP infrastructure projects in the region in the past 25 years


*Note: Number represents unique projects per country. Cross-border projects are counted once for each country.*
IEG’s work on private sector participation covers multiple infrastructure sectors

- Sustainable Transport
- Electricity Access
- Urban Transport
- Pollution Management
- Transformational Engagements
- WBG support to Public-Private Partnerships
- PPPs in Health
- Water Supply and Sanitation
- Renewable Energy
What are PPPs?

- PPPs represent an alternative to standard public procurement.
- They make sense if they provide “value for money”.

PPPs are not the “panacea” - what does it take to build successful PPPs?

Long-term political Commitment

- 50 percent of IFC AS structuring attempts failed due to lack of commitment or continuity in championship; many governments show little interest in PPPs
- Requires more than “advocating” for PPPs which may result in a fragile commitment based on uninformed or biased political consensus
- Needed: More strategic approach on PPPs, based on country level readiness and evidence on past performance

Sector reform: laws, regulations and sector management capacity

- Despite WBG’s leverage and country presence, sector reform succeeds in about half of World Bank PPP operations
- Factors: political economy factors, i.e. measure are often politically difficult to implement, limited preparedness to pay for services, limited capacity to identify PPP opportunities and prepare PPP pipeline
- Needed: gradual building of capacity, coupled with smart sequencing of interventions and continuous engagement --over several years and project cycles-- as sector reforms often took longer than anticipated

Inclusive stakeholder management

- The complex technical nature of PPPs can create a misunderstanding of their benefits and the rationale for their use, even when PPPs are successful
- Needed: Early stakeholder identification and communication to allow to develop a deep understanding of stakeholders’ interests and optimize the business case accordingly
PPPs are not the “panacea” - what does it take to build successful PPPs?

**National capacity – public and private sector**

- PPPs involve complexities at all stages of the project cycle: preparing, VfM analysis, procuring, financing, managing, re-negotiating and evaluating PPP and performance-based contracts
- Requires a wide range of skills, some of which the public sector of client countries lacks or has difficulties to attract and retain
- But also the private sector may lack expertise in PPP structuring, providing legal advice, accounting services, or providing required material inputs
- Needed: clear processes and institutional set up of responsibilities, build capacity, start with “easy” sector and simple transaction structures

**Transparency, contract disclosure and M&E**

- Data on actual long-term performance of PPPs is scarce and so are comprehensive ex-post evaluation
- Uneven practice of contract disclosure, in particular after re-negotiations
- Needed: Capacity to monitor and manage their contracts, ensuring transparency, compliance and resolving disputes to protect and defend the public interest in the case of PPP contract re-negotiations
Uncertain future of PPPs underscores the need for continuous public support

Difficulties of putting in place all the above fundamentals may explain the recent decline in private sector participation in infrastructure

- The current level of institutional investor activity in new infrastructure deals is only 0.7% of total private participation in infrastructure investment in emerging markets and developing economies (EMDEs)

Source: Stefan Apfalter and José Carbajo Martinez, Creating Markets: Are PPPs the Answer? World Bank Group experience suggests several fundamentals need to be in place for PPPs to contribute to infrastructure market creation. Blog March 20, 2018
Support to Renewable Energy in Kenya
(for access to the poor and large-scale power supply)

**Lighting Africa - Kenya (IFC+WB):** Meeting standards and scaling-up off-grid electrification

- Market assessments and business models (i.e. Pay-Go)
  - Small loans to manufacturers, MFIs, retailers, & consumers
  - Tax exemptions on imported system components

**RESULTS:**
- 2/3 of solar PV equipment sold in Kenya estimated to meet project standard
- Successfully penetrated 2 of 4 unelectrified population tiers (urban, peri-urban)

**Geothermal Development - Olkaria (WB + MIGA):** Further expand Africa’s largest developed geothermal field, with private participation

- Parallel development + exploration by KenGen (public) provided confidence to reputable international private developer
- WBG guarantee and MIGA insurance provided comfort on off-take and political risks

**RESULTS:**
- Modular expansion over time (12 MW, 48MW, 110MW & 126MW) with private capital
- In final expansion, the WB guarantee was cancelled due to confidence gained with government + sector performance, only MIGA political risk insurance required.

Source: IEG evaluation of renewable energy, forthcoming 2018
Key take aways

- A high infrastructure gap in many African countries, coupled with increasing debt levels, make PPPs particularly attractive for the region.
- But regulatory quality, long term political commitment and stability pose major challenges.
- Which explains why PPP market in Africa remains small and concentrated.
- Evaluative evidence in past evaluations offers rich knowledge base on drivers of success and challenges related to PPPs.
- Yet, long-term performance of PPPs remains largely unknown.
Thank you!

PPP relevant IEG evaluations are retrievable online: http://ieg.worldbankgroup.org/evaluations/world-bank-group-support-ppp