



AFRICAN FORUM AND NETWORK
ON DEBT AND DEVELOPMENT

65.6



42.9



RECOMMENDATION SUBMITTED BY AFRODAD TO THE INDEPENDENT EXPERTS MEETING ON FINANCE, MONETARY AFFAIRS, ECONOMIC PLANNING AND INTEGRATION

Fanwell Kenala Bokosi, PhD, Executive Director
African Forum and Network on Debt and Development (AFRODAD)

SESSION:**MOBILISING PRIVATE INVESTMENT IN PUBLIC PROJECTS**

These recommendations are focused on Public-private partnerships (PPPs) and follow the years of work that AFRODAD has done in the area of PPPs.

BACKGROUND

PPPs are increasingly promoted as a way to finance development projects and as a new way to entice the private sector to finance public projects. Following the FFD conference in Addis Ababa in 2015, there has been an increased urgency by many African governments to use PPPs as means to deliver on the SDGs. A number of African states have put in place changes in national regulatory frameworks to allow for PPPs, as well as provide advice and finance to PPP projects.

However, it is important to note that despite the promotion of PPPs, private finance only provides about 15–20 per cent of total infrastructure investment globally. The majority of funding for infrastructure in both developed and developing countries is the domain of the public sector. While private sector has the potential to contribute to funding infrastructure development, it is the improvement of the public sector delivery that will be critical to address the continent's infrastructure needs.

While PPPs can provide Member States the opportunity to leverage resources from the private sector, PPPs are complex contractual undertakings and bear borrowing risks. To avoid that the contingent liability of PPPs turns into a debt burden, Member States must strengthen PPP frameworks and regulation at the national and regional levels. This requires legal, managerial, and technical capacities to clarify the roles and responsibilities of contracting partners, provide clarity in case of litigation, plan and monitor implementation effectively, and carry out robust investment appraisals and financial analysis.

EVIDENCE

AFRODAD together with its partners (Eurodad and Latindad) conducted a study in 2015 on PPPs and the evidence shows that they can often go wrong, sometimes very badly. The report used the following framework to analyse PPPs, taking into account:

1. Budgetary affordability of PPP options as compared with public procurement alternatives;
2. Level of efficiency in delivering the services, including a fair and comprehensive risk assessment;
3. Poverty reduction and the fight against inequality, which means assessing the sustainable development impacts of PPPs, including affordable access to the poor and impacts on the environment;
4. Democratic systems in place to manage the project, which includes project selection criteria and the ability to adequately negotiate, manage and monitor projects throughout their lifespan. This also implies considerations in relation to transparency and accountability mechanisms.

THE FINDINGS OF THE REPORT

1. PPPs are, in most cases, the most expensive method of financing, significantly increasing the cost to the public purse;
2. PPPs are typically very complex to negotiate and implement and all too often entail higher construction and transaction costs than public works;
3. PPPs are all too often a risky way of financing for public institutions;
4. The evidence of impact of PPPs on efficiency is very limited and weak;
5. PPPs face important challenges when it comes to reducing poverty and inequality, while avoiding negative impacts on the environment;
6. Implementing PPPs poses important capacity constraints to the public sector, particularly in developing countries;
7. PPPs suffer from low transparency and limited public scrutiny, which undermines democratic accountability and leads to corruption and illicit financial flows.

RESEARCH FROM OTHERS

These findings on PPPs have also been confirmed by a more recent report by the European Court of Auditors (2018) analysed PPPs in Europe funded by the EU-Funds and concluded as follows:

1. PPPs cannot be regarded as an economically viable option for delivering public infrastructure;
2. There were widespread short comings and delivered limited benefits and that the EU funds used in PPPs were an inefficient and ineffective spending;
3. Value for money and transparency were undermined due to
 - (i) unclear policy and strategy
 - (ii) inadequate analysis,
 - (iii) off-balance sheet recording
 - (iv) a balanced risk sharing arrangement, it was inappropriate, incoherent and ineffective.

RECOMMENDATIONS TO THE MINISTERS

Based on the analysis above AFRODAD therefore submits the following recommendations

- 1. Do not promote more intensive and widespread use of PPPs until some issues raised above have been addressed**
- 2. Analyse the true costs of PPPs**
 - i. Base PPPs on sound comparative analysis of best procurement option;
 - ii. As PPPs are an expensive form of debt, sensible accounting practices should be adopted, for instance:
 - iii. Include PPPs in national accounts, i.e. they get registered as a government debt, and therefore are part of debt sustainability analysis, rather than being off balance sheet; and

- iv. Explicitly recognise the risk of hidden contingent liabilities should the project fail, through adequate risk assessment;
- v. Select the best financing mechanisms, including examining the public borrowing option, on the basis of an analysis of the true costs and benefits of PPPs over the lifetime of the project, taking into account the full fiscal implications over the long-term and the risk comparison of each option;
- vi. Ensure that the necessary administrative capabilities and clear PPP policies and strategies to implement successful PPPs are in place.

3. Be transparent and accountable

- i. Member States should proactively disclose documents and information related to public contracting in a manner that enables meaningful understanding, effective monitoring, efficient performance, and accountability of outcomes in order to mitigate the financial impact of delays and re negotiation on the cost of PPPs borne by the public sector.

4. Put development outcomes at the forefront

- i. Projects should be designed and selected to benefit everyone in society through the delivery of sustainable development outcomes, in agreement with national and democratically driven development strategies. This means ensuring affordability of the services for the public sector and the users, as well as addressing equity concerns in terms of equitable access to infrastructure services, and avoiding negative impacts on the environment.
- ii. Member States should develop clear outcome indicators and effective monitoring to measure the impacts of PPPs on the poor, from the project selection phase to the operational phase of the project.



African Forum and Network on Debt and Development
31 Atkinson Drive, Hillside
PO Box CY1517, Causeway
Harare, Zimbabwe
Tel: +263 4 778531/6
Fax: +263 4 747878
Website: www.afrodad.org