AFRODAD

AFRICAN FORUM AND NETWORK
ON DEBT AND DEVELOPMENT

THE ROLE OF PUBLIC PRIVATE PARTNERSHIPS, FINANCING AGENDA 2063 AND FIGHTING INEQUALITY IN AFRICA

INTRODUCTION

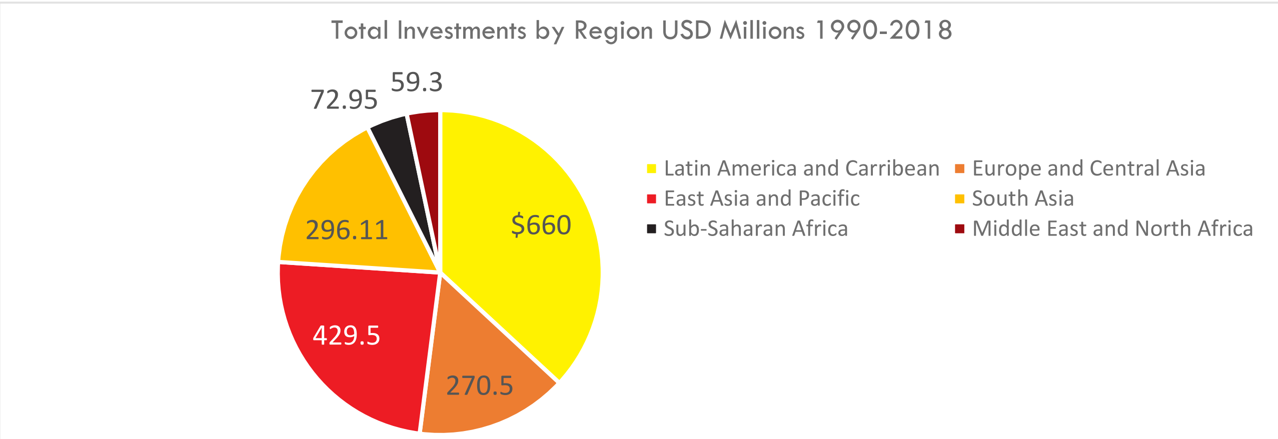
The Addis Ababa Action Agenda on Financing for Development outcome document underscores sustainable and resilient infrastructure as a pre-requisite to sustainable development, as such Public-Private Partnerships (PPPs) are expected to deliver infrastructure in furtherance of this Agenda. Recognizing the global and continental strategic visions on infrastructure development, the use of Public Private Partnerships has been on a rising trajectory as they are regarded as a solution to closing the financing gap for infrastructure development, achieving the targets of the Sustainable Development Goals (SDGs) and financing Agenda 2063 in Africa[1]. Whilst the definition of PPPs is debatable and with no common agreed position, PPPs can be defined as long-term contractual arrangements where the private sector provides infrastructure assets and services that have traditionally been provided by governments with the arrangement ensuring that there is some form of risk sharing between the private player and the public sector[2]. Such services include, roads, railways, airports, hospitals, water and sanitation plants and schools.

Recognizing that Africa's rapid economic growth over last decade has brought relatively small improvements for human development. It has been noted that one of the barriers to this has been limited enabling infrastructure. As a result, the World Bank, the International Finance Corporation (IFC) and International Monetary Fund (IMF) have been at the forefront of promoting PPPs for infrastructure development and government and business leaders across Africa have come to accept PPPs as a means of procuring and financing infrastructure projects and financing for the SDGs. This trajectory has also seen an increasing number of countries developing PPP policies and frameworks that typically reflect the institutions, procedures and rules needed to implement the model[3].

RATIONALE AND MODELS OF PPPS

Africa's involvement in PPPs has been limited as compared to other continents as can be seen in Figure 1 below. However, PPPs have grown in importance citing the fact that, African governments, some of which are largely strapped for resources, now have a greater need for infrastructure development to support the continent's population growth and services demand[4]. Cementing this need, the African Union Commission came up with Agenda 2063[5] whose Strategy for Financing the Ten Year Plan points out PPPs as one of the targeted external mechanisms from which financing for infrastructure will be derived from[6].

Figure 1: Total PPP Investments 1990-2018



Source 1: World Bank 2018

[1] Public-Private Partnerships and the 2030 Agenda for Sustainable Development Fit for Purpose?,https://www.un-ilibrary.org/deliver/f42bd4bb en.pdf?itemId=%2Fcontent%2Fpaper %2Ff42bd4bb-en&mimeType=pdf
[2] History RePPPeated, How PPPs have failed, https://eurodad.org/files/pdf/1546956-history-repppeated-how-public-private-partnerships-are-failing-.pdf
[3] SADC Banking Association, PPPs in Africa, https://www.sadcbanking.org/news/public-private-partnerships-africa/
[4] Lossa & Martimort 2012,
[5] Agenda 2063 is the African Unions blueprint for Africa's development discourse, it carries the hopes and aspirations of the African people and the strategies they intend to employ to achieve the African development aspirations
[6] Financing Agenda 2063 First 10-Year Plan Agenda 2063 Financing, Domestic Resource Mobilization And Partnership Strategy, https://www.tralac.org/images/docs/8260/financing -agenda-2063-first-10-year-plan-september-2015.pdf

Whilst the phrase 'Public-Private-Partnerships' has been generalized within the public domain as if it is a single model, PPPs take various forms and entail different dynamics in their implementation cycles. Table 1 below shows the various models, the contract cycles, how they are structured and where the models are most appropriate.

Table 1: Models of PPPs

Type of Contract	Contract Purpose	Private Sector Risk	Contract length (years)	Capital Investment	Asset Ownership	Common Sectors	Who provides sectoral planning and regulates service
Service Contract	Infrastructure Support services such as billing	Low	1-3	Public	Public	Water and Sanitation Utilities, Railways	Public
Management Contract	Management of a part or whole of the contract	Low/ Medium	2-5	Public	Public	Water Utilities	Public
Lease Contract	Management of Operations and Specific renewals	Medium	10-15	Public	Public	Water sector	Public
Build Own Transfer Contract (BOT)	Investment in and operation of a specific component of the infrastructure service	High	Varies	Private	Public/Private	Energy, Highways, Water and Sanitation	Public
Concession	Financing operations and execution of specific investments	High	25-30	Private	Public/Private	Transport, Energy	Public
Divestiture/ Privatisation	Transfer of ownership of public infrastructure to the private sector	High	Indefinite	Private	Private	Telecoms, Health and Education, Transport	Public

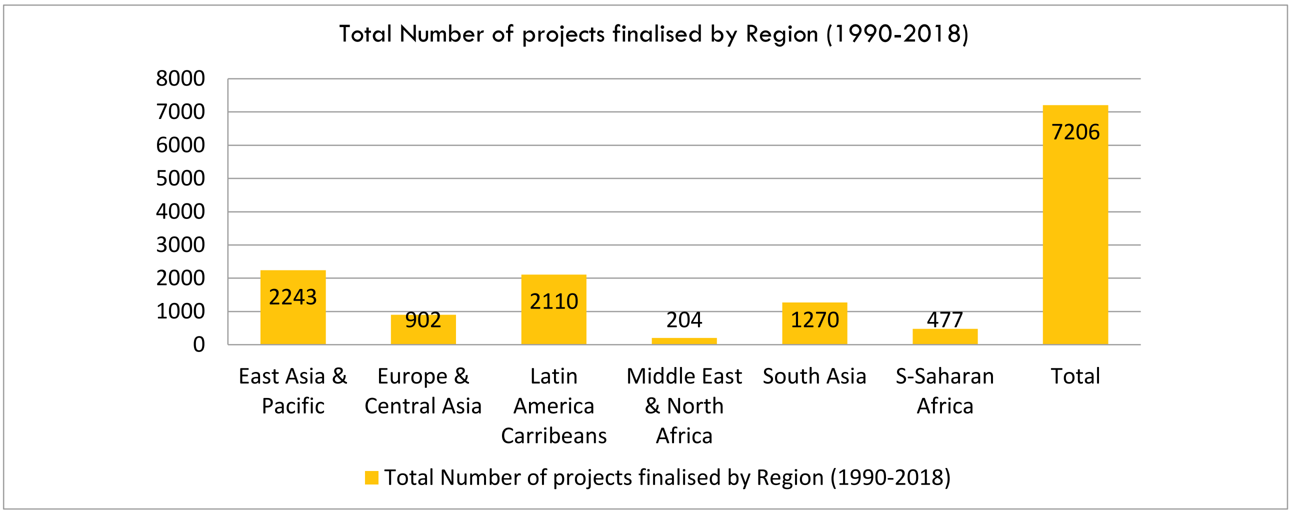
Trends in PPP Implementation in Africa

Over the last twenty years, a rising trend in developing countries of relegation to the private sector of the provision of public services has been witnessed in various forms. Not only have traditional services such as transport, energy and gas been increasingly privatized, but new or more complex services have been contracted out for which there is no precedent in the private sector[7]. Whilst the uptake of PPPs have been characterised by red-tape, private sector participation in infrastructure investment in developing countries increased from about US$30 billion in 1995 to US$140 billion in 2008/9, however engaging the private sector in public service delivery and infrastructure development remains limited in Africa[8] as can be shown in Figure 2 below. Out of the 7206 projects finalised globally between 1990 and 2018, most PPPs are accounted for by middle-income countries (MICs) and the Latin America and the Caribbean and East Asia and Pacific regions, Sub-Saharan Africa (SSA) only accounts for 477 projects just above the Middle East and North Africa who have the least PPP projects pegged at 204. This shows that in terms of infrastructural development, SSA remains lagging and this has been a result of a number of factors that include inadequate government financing for infrastructure development, inadequate and or poor infrastructure development frameworks and planning as well as unconducive investment climates.

[7] Elisabetta Iossa and David Martimort, 2012,Risk allocation and the costs and benefits of public-private partnerships, https://www.jstor.org/stable/pdf/41723338.pdf?refreqid=search%3Ab38cbe450d0dd59cf791791343fdb705

[8] Macroeconomic Policy and Financing for Africa's Economic transformation under Agenda 2063, https://au.int/sites/default/files/documents/32167-doc-macroeconomic_policy_and_financing_for_africa.pdf

Figure 2: Total Project Finalized by Region (1990-2018)

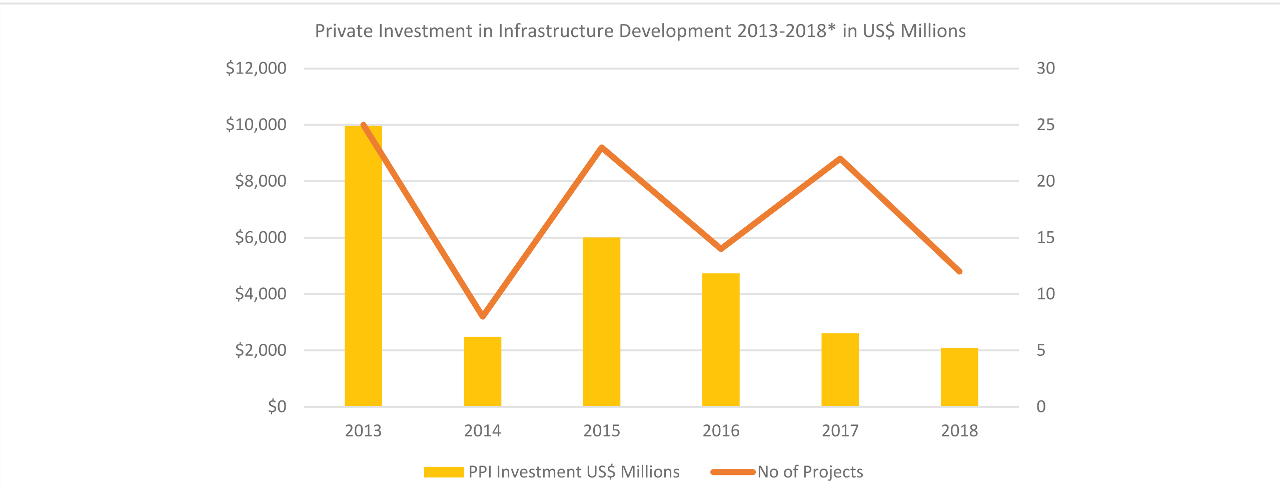


Source UNDESA 2016, World Bank 2018

Whilst the uptake of PPPs in Sub Saharan Africa have been characterised by red-tape, private sector participation in infrastructure investment in the region increased from US$40 Million in 1990 to 2,083 Billion in the first half of 2018. The total investment for the 1990 -2018 period stands at US$72,957 billion, however engaging the private sector in public service delivery and infrastructure development in the regions remains limited in when compared with other regions of the globe[9].

The introduction of Agenda 2063 in 2013 set the foundation for a 50 year strategic vision for the continent which would be financed by both domestic and external sources of finances. In this regard, FDI and PPPs have been the central sources targeted for financing infrastructural development as stipulated in the agenda. Trends of private participation as at the introduction of Agenda 2063 are shown in Figure 3 below. Figure 3 actually shows that there has been a gradual decline in private participation in infrastructure development in the SSA region with investments nose diving from US$9.957 billion in 2013 to US$2,485 billion in 2014 as a result of fewer projects having financial closure, however, private sector investments increased in 2015 to US$6,008 billion and gradually fell to US$2.083billion in the first half of 2018 projects reaching financial closure dropping from 23 to 12 in the same period.

Figure 3: PPI Investments 2013-2018

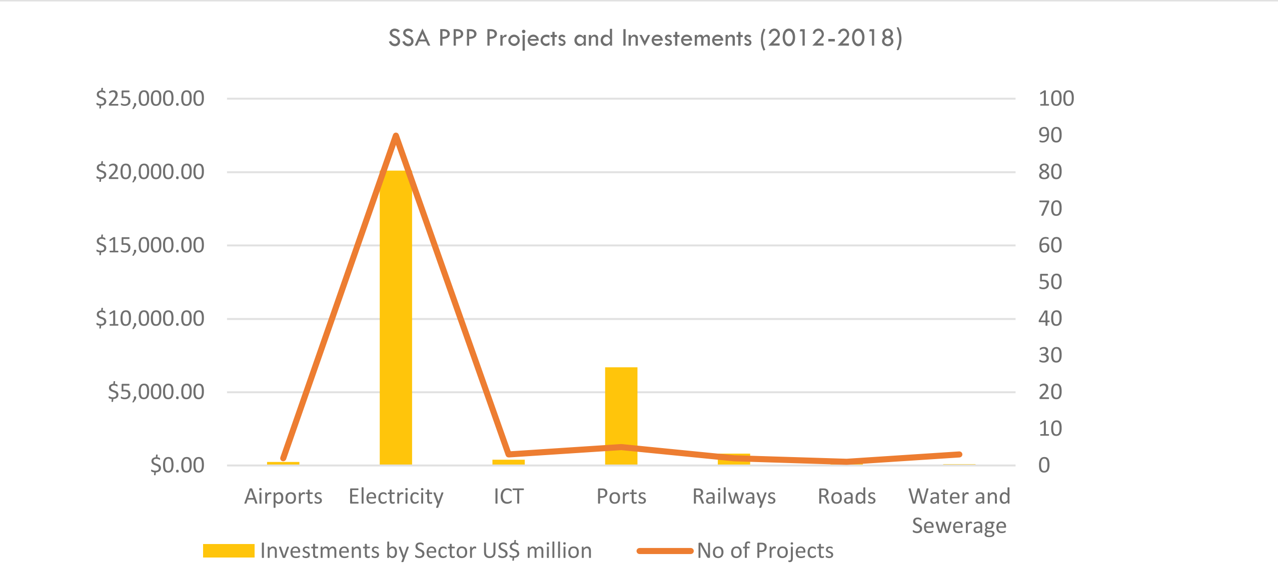


Source: World Bank PPI Database 2019 (2018 Statistics account for first half of the year)

[9] Macroeconomic Policy and Financing for Africa's Economic transformation under Agenda 2063, https://au.int/sites/default/files/documents/32167-doc-macroeconomic_policy_and_financing_for_africa.pdf

Figure 4 below illustrates investments and projects that reached financial closure in the period 2013 and the first half of 2018. It illustrates that the majority of infrastructure investments within the Sub-Saharan region are injected towards transport and energy infrastructure. Within this period, electricity or energy generation infrastructure accounted for 71% of all investments with financing amounting to US$20,1 billion. Transport infrastructural development which includes Ports, Railways, Roads and Airports accounted for 28% of investments for the period under review with US$7,936 billion having been invested for the developments. ICT and water and sewerage infrastructure accounted for US$394 and US$93 million respectively[10],[11]. The reason behind the high investments in energy and transport infrastructure emanates from the fact that these two sectors are instrumental in economic growth as energy stimulates industrial activity whereas good transport networks minimize logistical costs and efficient movement of goods and persons. These are also aligned to the region's strategic objectives on trade and industrial development as stipulated in Agenda 2063 as well as the Africa Continental Free Trade Agreement.

Figure 4: Sub-Saharan Africa Projects and Investments reaching Financial Closure (2013-2018)



Source: 1: World Bank PPI Snapshots 2019

CHALLENGES AND OPPORTUNITIES OF PPP UTILIZATION IN AFRICA

Whilst PPPs have been regarded as a panacea to financing the infrastructure gap globally. They come with their own advantages and challenges within developing countries of the South. AFRODAD together with its partners Eurodad and Latindad conducted a study in 2015 on PPPs and the evidence pointed out that PPPs often have negative impacts than positive. Using benchmarks focussed on budgetary affordability, level of efficiency in service delivery, poverty reduction and fighting inequality and democratic and transparent frameworks to manage the projects found out that:

10 http://documents.worldbank.org/curated/en/348741492463112162/pdf/114375_REVISED_4_18_PMWB_AfricasPulse_Sping2017_vol15_ENGLISH_FINAL_web.pdf

11 http://ppi.worldbank.org/snapshots/region/sub_saharan_africa

CHALLENGES

i. ***PPPs are an expensive method of financing that increases costs to the public purse***

In the preparation and implementation of PPPs, the profit motive of the business sector has conflicted with the social contract governments have with their citizens on the provision of affordable basic services. Assessments of PPPs in 2015 by EURODAD notes that PPPs are expensive and risky, have mixed development outcomes, are difficult to negotiate, are marred poor planning and project selection and generally lack transparency and accountability. Coupled with this is the concern that the majority of projects in Africa do not appear on national public accounts, have a currency mismatch brought about by loans and their repayment being in hard currency whilst project revenues and government revenues and or taxes are transacted in local currency. Over the life-cycle of projects, local currencies typically depreciate against the hard currencies and this along with other factors will lead to African projects defaulting, leading into termination and accrued debts. Strong consideration must be given to local currency financing, service and or off take payments in local currency and the inclusion of local capital markets such as pension funds and insurance funds that are highly liquid and looking for long term assets to match their long-term liabilities. The case of the Queen Mamohato Hospital in Lesotho signifies the impact PPPs have on the public purse as in 2016 the private partner Tsepong Private Limited 'invoiced' fees amounting to two times the "affordability threshold" set by the Government and the WB at the outset of the PPP. Contributing factors to cost escalation include flawed indexation of the annual fee paid by the government to Tsepong (unitary fee) and poor forecasting the unitary fee that the government could pay was pegged at US$12.9 million (M180 million) but it ended up parting with US$18.4 Million (M255.6 million) .

ii. ***The evidence of impact of PPPs on efficiency is very limited and weak with challenges in reducing poverty and inequality***

PPPs have been instrumental in infrastructure development in sectors that include transport, energy, water and sanitation. Whilst the infrastructure has been overwhelmingly welcomed in promoting economic efficiency within economic development; this has come with its share of challenges especially for the ordinary citizens who have had to carry the burden of paying off the contractual debts through the payment of service fees such as toll fees, water rates, health and education levies from their own pockets. For those who cannot afford these fees, there is automatic disenfranchised from accessing the services indirectly or directly; a scenario that violates their human rights entitlement to health services and healthy lives, education, basic housing, and safe portable water.

iii. ***Implementing PPPs poses important capacity constraints to the public sector, particularly in developing countries***

African governments have difficulties and low effectiveness levels in regulating the private sector and financial markets which are already. Some of their administrations are characterised by inadequate legal and regulatory frameworks as well as relevant technical skills to manage PPPs. Limited financial markets and infrastructure makes PPP projects more expensive in most African countries.

iv. ***PPPs suffer from low transparency and limited public scrutiny, which undermines democratic accountability and leads to corruption and illicit financial flows***

PPP implementation in most low-income countries is characterized by lack of public consultation and participation - The poor and marginalized are left out or by-passed as their governments have difficulty and or negligence in the inclusion of poor people in policy making. It is this context that PPPs have no real tangible benefits for the poor and marginalized. The low level of transparency associated with PPPs, leads to limited public scrutiny and participation and is one of the sources of criticism pertinent to social impact. In Zimbabwe's metropolitan town of Chitungwiza, the local hospital established a PPP in 2012 with Baines Imaging Group, a private entity. Through this PPP, the hospital now has the provision of access to ultrasound, CT scans and MRI services in return for fees paid by patients. However, in the process of initiating the joint venture, the public hospital did not consult its residents on the implications of the initiative thus disenfranchising them leading to public outcries by a member of parliament about the privatisation of the respective departments within the hospital, consequently making the facility expensive and inaccessible to the poor.

OPPORTUNITIES

PPPs also pose opportunities to the Africa region, but caution needs to be taken by public institutions when undertaking or partnering private sector players in the procurement of infrastructure. Whilst it is no doubt that PPPs would not necessarily cost less than their public alternative, private partners have immediate access to funds, which may not be the case with public budget cycles. Private involvement has also been credited with efficiency gains in sectors such as transport, energy and water distribution – although it should be cited that these have mainly been in developed countries such as the United States of America and the UK. Within this context, the basic success factors of PPPs outlined need to be coupled with private financing to at-least deliver infrastructure that can boost economic development, ease accessibility and contribute towards eradicating inequality and poverty.

CONCLUSIONS

Recognizing that PPPs require extensive planning for them to achieve their intended outcomes and outputs, their success are hinged on a number of factors that speak to the need for a favorable investment climate that includes strong political will, good public awareness, stable macroeconomic environment, a deep financial system, rule of law, property rights and a progressive dispute resolution mechanism. These should be supported by transparent regulations on PPPs and competitive procurement for projects as this flushes out problems of monopolies as well as negotiated arrangements which stifle transparent project procurement.

The unrealistic expectations of the potential of PPPs in plugging the infrastructure financing gap need to be revisited. There is need for the reframing of PPP expectation in a more practical manner that raises concerns on social impact taking into consideration how these project outputs contribute to the fight against poverty and inequality in the Africa region.

RECOMMENDATIONS

i. African governments should not promote the use of PPPs until there are capacity gains within public sector entities to plan, develop and manage PPP projects. This should be guided by robust PPP policy frameworks and strategies.

ii. Government ministerial departments and agencies (MDA's) involved in PPPs need to analyse the true costs of PPPs based upon comprehensive comparative analyses of procurement options and accounting practices such that they appear on national accounts to ascertain a country's debt position

iii. African governments should ensure that respective MDA's disclose all documents and information associated with public sector contracting to enable meaningful understanding and monitoring of project performance and accountability of outcomes in order to ameliorate financial risks that may be shouldered by the public sector as a result of delays and renegotiation

iv. African governments should prioritise development outcomes. PPP projects should be initiated driven by national development strategies meant to sustainably benefit societies. This entails the need for PPP projects to bring affordability of services in public sector institutions and maintain human rights-based approaches to access to public goods.

Acknowledgements: Adrian Chikowore

AFRODAD

AFRICAN FORUM AND NETWORK
ON DEBT AND DEVELOPMENT