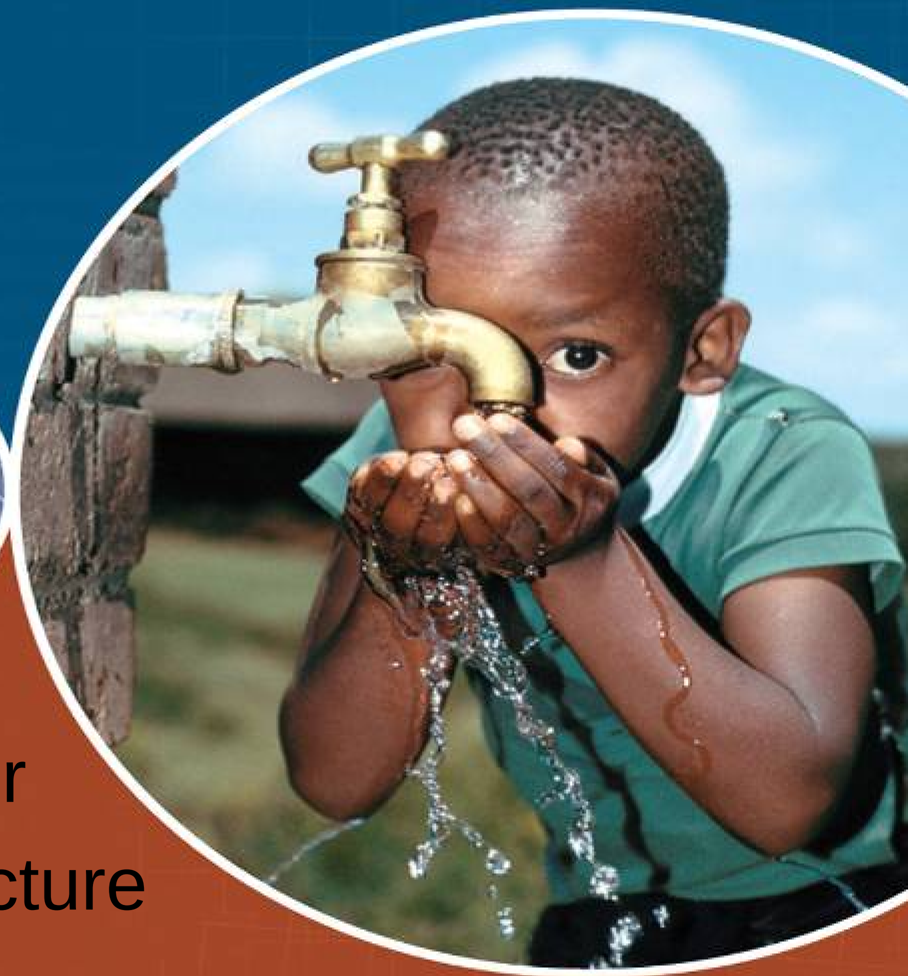

An Overview of Private Sector Interests and Needs for Infrastructure Investment in Africa

Slum Electrification Workshop

Nairobi

October 26-28, 2009

PPIAF

Overview

- Types of Partnerships?
- Who is the private sector vis a vis infrastructure in Africa?
- What are they seeking in investing in infrastructure in Africa?
- What are the implications of the financial crisis?
- Who is PPIAF? What does it do?

Types of Partnerships

- **Management contracts** delegating service(s) to private partners
- **Public Private Partnerships** whereby public ownership is maintained but service delivery is contracted to private sector
- **Debt instruments** raising capital from private local or international markets through loans or bonds

Who are the Private Sector?

- Vendors or suppliers of goods
- Service providers (ie, maintenance, revenue collection)
- Special Purpose Vehicles
- Utilities
- Banks
- Pension Funds, Insurance Companies

What is the Private Sector Seeking?

- Transparency
- Mutual agendas
- Solid project economics
- Reasonable risk allocation
- Clear tendering procedures
- Solid documentation
- Real government commitment
- Profit

Private Sector and Project Economics

Private Sector View

- Revenues to the project can be tariffs or payments from the government
- Revenues must clearly, and without doubt, cover:
  - Operating and maintenance costs
  - Capital costs
  - Realistic return on capital investments
- The private sector's first interest is that all of their costs are covered

Consequences for the Public Sector

- Having accepted that the private sector must make a profit, the public sector must determine:
  - Whether cost savings, efficiency gains, and risk transfer will deliver savings to government and customers, and
  - Whether these savings exceed the profit the private sector is taking
- The public would need to structure the transaction in such way that cost-recovery is assured
- The public sector cannot expect private firms to be interested in projects that are not covering their costs

PPIAF

Private Sector and Risk Allocation

Private Sector View

- Good project economics is essential, but things don't always go according to plan
- Who bears the cost and who gains when things don't go according to plan must be clearly defined
- Types of risk in PPP projects
  - Completion
  - Availability
  - Design
  - Political
  - Regulatory
  - Contract

Private sector will take risks on things they can control…

…and will not take risks on things they cannot control.

Consequences for the Public Sector

- Allocate risk to the parties that have the most influence and control over them
  - Don't allocate risks to private party that they can't control
  - Don't guarantee risks government can't control
- Backstop Government's credibility on things like expropriation, breach of contract,
  - Some political risks can be insured
  - Other risks may benefit from third party

Private Sector and Solid Procedures

Private Sector View	Consequences for the Public Sector
• The private sector perceives that transactions are often handled in an inexperienced manner • Uncertain time lines and bad documentation create risk and cost • Good bidders won't bid if they think the selection may be biased	• Develop predictable transaction processes • Stick to timelines • Create good documentation • Build a focused and experienced public sector team • Hire experienced advisors (which means paying private sector rates)

Private Sector and Government Commitment

The Private Sector View	Consequences for the Public Sector
• PPP projects are often driven by donor agencies • This is a source of concern for the private sector: – Once the deal is signed, the donor agencies are no longer involved – The private firm is left to deal with a government only. – …that may have had no interest in the deal to begin with	• Public sector political commitment to transactions is a must for success – projects should only be tried for if there is a genuine interest on the part of the public sector – If the government doesn't really believe in the transactoin, don't do it • Where there is public sector political commitment to a project, this must be made clear – Ministers (not consultants or officials) to present to bidders – Ministers to lead public consultation and communications campaign

Private Sector and Profit

The Private Sector's View	Public Sector Response
• The only reason to invest in a project is to make a profit • Profit comes from delivering a better service, at a lower price, than competitors – and having costs that are lower still • Higher risk demands higher profits if things work out	• Make sure that a firm can make profits by increasing efficiency and expanding and improving service – this will motivate them to do what you want • Remove unnecessary risks – this will reduce the profit required

Partnerships and the Fiscal Crisis

- Flight to Quality
- Debt Markets Tightening (Interest Rates and Tenor)
- More Reliance on DFIs
- Increased Role of Local Private Operators and Investors
- Smaller is Better
- Strong, Transparent Regulatory Environments

Public Private Infrastructure Advisory Facility

- Multi-donor facility
- Established 1999
- 16 Donors
- Managed by World Bank
- Annual budget $30 million, Portfolio: $170 million
- Average grant size of $225k, half less than $75k
- Half resources utilized in Africa
- Upstream policy and regulatory systems
- PPPs, management contracts, and debt issuances

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