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GRIDLINES

Sharing knowledge, experiences, and innovations in public-private partnerships in infrastructure

Responding to surging demand for PPIAF assistance in Africa

A response combining traditional and new approaches

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A new view of private participation in infrastructure appears to be emerging among public officials in Africa. Many now seem to agree that developing infrastructure is critical for reducing poverty and promoting sustained economic growth, that the private sector has an essential contribution to make in this effort, and that while expanding the private sector's participation in infrastructure is challenging under any circumstances, it is more difficult in Africa than anywhere else. This new view has led to a surge in demand for assistance from PPIAF, and PPIAF is responding through a strategy combining its traditional "upstream" work with a greater focus on innovative new approaches to private participation in infrastructure.

PPIAF has always committed more funds to Sub-Saharan Africa than any other region. Indeed, since its establishment in 1999, PPIAF has directed almost a third of its funding (US$33.8 million) to Africa. But in early 2005 it began to see a sharp increase in demand for its services from the region. In fiscal 2006 this surge in demand translated into a 49 percent increase in financial support for activities in Africa—from US$4.4 million in fiscal 2005 to US$6.6 million.

PPIAF's largest funding recipients in Africa are Kenya (11.2 percent of the regional total), Nigeria (6.8 percent), Malawi (4.3 percent), Tanzania (4 percent), and South Africa (3.9 percent). Among infrastructure sectors, transport (18.5 percent) and water (17.4 percent) have received the most funding. For the first time PPIAF has also received funding requests from regional organizations such as the New Partnership for Africa's Development (NEPAD), the Infrastructure Consortium Secretariat at the African Development Bank, and regional economic communities like the Economic Community of West African States (ECOWAS) and the Southern African Development Community (SADC).

Responding to demand—and fueling it

PPIAF has responded to this growth in demand—and in some ways may have fueled it—in two ways. First, in 2005 PPIAF opened a second African office, in Dakar, Senegal, to extend outreach efforts in West Africa and better serve francophone Africa. The Dakar office now works with PPIAF's office in Nairobi, Kenya, to coordinate project management activities in Africa.

Second, in early 2005 PPIAF began implementing its first regional strategy for allocating its outreach and dissemination resources in Africa. The strategy maintains PPIAF's traditional demand-driven focus but also allows it to more proactively offer the services in which African leaders are increasingly interested. It emphasizes working with regional organizations and adds a new focus on assisting with project devel-

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opment facilities and with units to facilitate sustainable public-private partnerships (or PPP units). It also underscores PPIAF's willingness to support a wider range of such partnerships, including management contracts, transactions involving local operators and investors, and smaller projects that engage the community.

The regional strategy also reinforces PPIAF's core focus on such activities as building capacity, supporting legal and regulatory reform, and building consensus around strategies and techniques for involving the private sector in infrastructure. These "upstream" activities, sometimes only indirectly related to downstream infrastructure projects, are in more demand than ever as managers of the project preparation facilities established by donors, development finance institutions, and regional economic communities realize that their assistance is mostly suited to relatively mature projects, for which upstream preparation is essential but often missing.

A new African realism

Driving the growth in demand for PPIAF assistance appears to be a new realism among many African officials about the problems and potential of private participation in infrastructure in the region. PPIAF's interactions with clients suggest that this new realism reflects tacit agreement with three basic propositions.

A new realism among African officials is driving the growth in demand for PPIAF assistance

First, over the past 10 years African governments have become more acutely aware of the importance of infrastructure in reducing poverty and promoting sustained economic growth. This awareness may stem in part from the international focus on Millennium Development Goals. Whatever the source, this new awareness has been paralleled by a sharper realization of how far behind Africa is in access to infrastructure services. According to most measures Africans have less access to infrastructure than people in any other developing region (see Leigland and Butterfield 2006). The socioeconomic impacts of this lower access are increasingly being recognized in Africa.

Second, African officials have a new understanding of the critical role for the private sector in financing and managing infrastructure. Even combined, the government funding and official development assistance (ODA) available for infrastructure investments in Africa fall far short of the region's needs. Moreover, the government funding has been declining since the early 1980s (Estache 2005). The percentage of ODA allocated to infrastructure has declined over an even longer period. In 1973 the share of ODA for infrastructure was almost 45 percent; by 2003, after three decades of gradual reduction, it was just over 10 percent. Private investment by itself will not solve the infrastructure development problem in Africa, but African leaders increasingly understand that it will be an essential part of the solution.

Third, African leaders and policymakers have gained a growing appreciation of the challenges of expanding private participation in infrastructure. In 1990–2004 Sub-Saharan Africa managed to attract just US$39.4 billion in investment for 245 infrastructure projects with private participation across all sectors—an average of US$2.6 billion annually.[1] Indeed, Africa ranks last among the developing regions in investment in such projects, garnering just 5 percent of the developing world total over the 15-year period (table 1). To make matters worse, the investment has been highly concentrated. About half has gone to just one country, South Africa, and another 14 percent to Nigeria. And more than 70 percent has gone to just one sector, telecommunications.

Regional organizations have taken a leading role in championing the new view of private participation in infrastructure and in driving the effort to make it a more realistic option for Africa. NEPAD is encouraging the regional economic communities to include cross-border infrastructure projects involving the private sector in their long-term development plans, and some, such as ECOWAS and SADC, are creating project development facilities to identify and package these

projects. Donor-capitalized project preparation funds have been established at the African Development Bank and the Development Bank of Southern Africa. Many African countries are now establishing PPP units. Most of these activities have involved PPIAF support of one kind or another.

TABLE 1
Investment in infrastructure projects with private participation, by region, 1990–2004

Region	Investment (US$ billions)	Share of total (percent)
East Asia & Pacific	199.2	23
Eastern Europe & Central Asia	138.7	16
Latin America & Caribbean	391.0	45
Middle East & North Africa	42.1	5
South Asia	55.4	6
Sub-Saharan Africa	39.4	5
Total	865.8	100

Source: World Bank and PPIAF, PPI Project Database.

Some PPIAF activities in Africa

PPIAF supports a range of activities to facilitate private participation in infrastructure in Africa. The following ones (completed or ongoing) are representative of the types of assistance now in demand in the region.

Providing policy and regulatory support for transactions

By March 2006 Kenya and Uganda had both signed a 25-year concession with a private operator to run the Kenya-Uganda railway. The concessionaire is Sheltam Trade Close Corporation (South Africa), a firm associated with the Comazar Group, Africa's largest private rail operator. The deal, considered the most ambitious privatization transaction in East Africa, is expected to bring as much as US$450 million in investment. The transaction followed upstream PPIAF-financed activities: PPIAF helped Uganda's government develop a strategy for privatizing its railways, approved by its cabinet in 2001, and assisted Kenya's government in developing a framework for independent regulation of its rail sector in 2002.

Engaging small enterprises in PPPs

The Ghana Community Water and Sanitation Agency requested PPIAF funding to study the potential for local small and medium-size enterprises to take on a greater role in providing small-town water service, and to develop the tools water boards would need to negotiate contracts for this purpose. The PPIAF-funded activity also included implementing two pilot projects. Communities took part in tendering the projects and deciding how they would be managed. The management models are big improvements on traditional community-driven approaches in Ghana, and a national workshop was held to start replicating them in other small towns.

Regional organizations are driving the effort to make private participation a more realistic option

Preparing and packaging projects

Tanzania's government asked PPIAF for help in identifying, appraising, and packaging three infrastructure projects in the Mtwara Development Corridor, a regional spatial development initiative of the governments of Malawi, Mozambique, Tanzania, and Zambia. A small team of expert consultants will work closely with the National Development Corporation of Tanzania to complete the appraisals. It will also give the agency advice on establishing a PPP unit that will continue to develop infrastructure activities in the corridor. Several staff members from SADC development finance institutions will be seconded to the Tanzanian agency so that they too can benefit from the "on the job" training.

Identifying best practices for project development

Projects involving public-private partnership are at the center of much of the infrastructure investment planning by NEPAD and the regional economic communities. But the region lacks a tested methodology to help the public partners develop such projects in responsible, accountable ways. The sophisticated methodologies adopted by other countries (such as the United Kingdom) may not be suited to most African countries, with nascent markets for these projects. NEPAD

requested PPIAF assistance in developing a succinct set of generic, user-friendly guidelines for carrying out all the analytical work needed in conceptualizing and appraising public-private projects.

Developing institutional capacity to oversee PPPs

In Kenya, which has many infrastructure projects with private participation under way or in preparation, the oversight of such projects is dispersed among different ministries and departments with no harmonized legal framework or comprehensive guidelines. The government asked PPIAF to help create a strategic framework with clear guidance, appropriate legal provisions, and an effective institutional setup for efficiently implementing these projects. The PPIAF-funded study will investigate the costs and benefits of establishing a PPP unit to guide policy and project development and, if such a unit is found to be cost-effective, help in designing it.

In addition, PPIAF is helping set up or strengthen PPP units in Botswana, Malawi, Mozambique, South Africa, and Tanzania. It is also working with ECOWAS on a project development facility and has advised the SADC Secretariat and the Nigerian government on similar facilities.

Building consensus around PPI

In June 2005 PPIAF and the World Bank sponsored a conference in Cape Town bringing together more than 200 policymakers, financial experts, civil society representatives, and private sector investors and operators to assess private participation in infrastructure (PPI) in Africa and its impacts on the poor. Discussions were unusually frank, particularly on the shortcomings of some past efforts. The conference led to a general appreciation of the need to develop innovative new approaches to private participation in infrastructure—approaches that better combine sustainability of projects with benefits for the poor.

Note

1 The Private Participation in Infrastructure (PPI) Project Database includes only low- and middle-income countries, as classified by the World Bank. Country classifications and project information are updated annually. All U.S. dollar amounts are in nominal terms as posted on the PPI Web site (ppi.worldbank.org).

References

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GRIDLINES

Gridlines share emerging knowledge on PPP and give an overview of a wide selection of projects from various regions of the world. Past notes can be found at www.ppiaf.org/gridlines. Gridlines are a publication of PPIAF (Public-Private Infrastructure Advisory Facility), a multidonor technical assistance facility. Through technical assistance and knowledge dissemination PPIAF supports the efforts of policymakers, nongovernmental organizations, research institutions, and others in designing and implementing strategies to tap the full potential of private involvement in infrastructure.

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