



6th Annual CABRI Seminar

“The Role & Pitfalls of PPI”

Mandla S.V. Gantsho

CEO: Nova Capital Africa

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African infrastructure critical to growth

- Contribution to SSA growth over the last decade:
 - Infrastructure contributed 99 basis points
 - Structural policies contributed 68 basis points
- Infrastructure sectors: growth driver and limiting factor
- Raising all countries to level of the best in Africa could add 2.2 percentage points to per capita GDP growth

African countries lag behind their peers in other regions

Normalized units*	Sub-Saharan Africa LICs	Other low-income countries	Sub-Saharan Africa MICs	Other middle income countries
Paved road density	31	134	94	141
Total road density	137	211	215	343
Mainline density	10	78	106	131
Mobile density	55	76	201	298
Internet density	2	3	5	8
Generation capacity	37	326	256	434
Electricity coverage	16	41	35	80
Improved water	60	72	75	86
Improved sanitation	34	51	48	74

Source: AICD 2008

And existing services very expensive

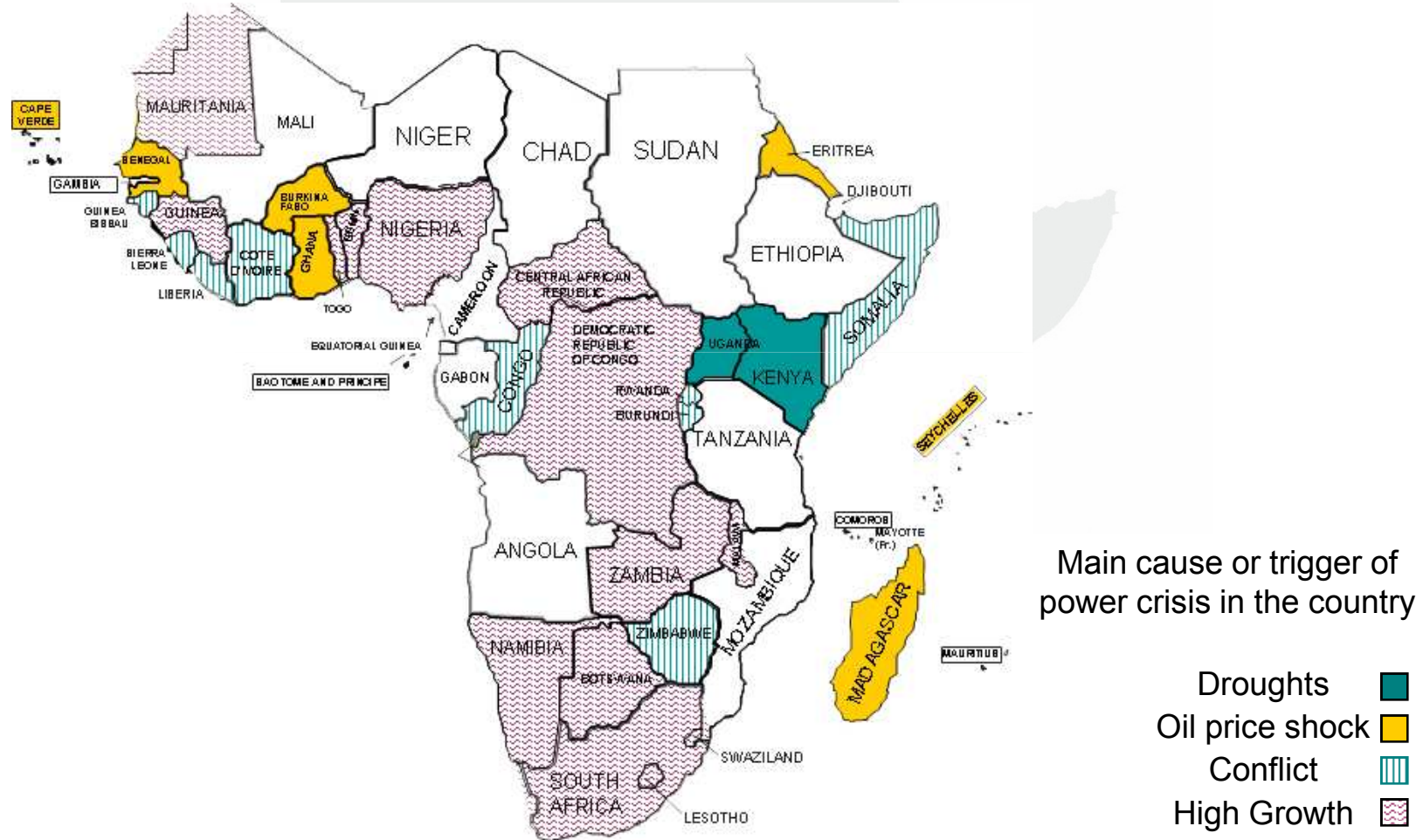
(High-end costs for SSA and other regions)	Sub-Saharan Africa	Other developing regions
Power tariffs (\$/kWh)	0.46	0.10
Water tariffs (\$/m ³)	6.56	0.60
Road freight tariffs (\$/ton-km)	0.14	0.04
Mobile telephony (\$/mo.)	21.0	9.9
International telephony (\$/min.)	12.5	2.0
Internet dial-up service (\$/mo.)	148.0	11.0

Overall price tag of \$93 bn annually for 10 Yrs.

US\$bn. pa over 10 years	Capital expenditure	Operating expenditure	Total
ICT	7.0	2.0	9.0
Irrigation	2.9	0.6	3.4
Power	26.7	14.1	40.8
Transport	8.8	9.4	18.2
WSS	14.9	7.0	21.9
Total	60.4	33.0	93.3

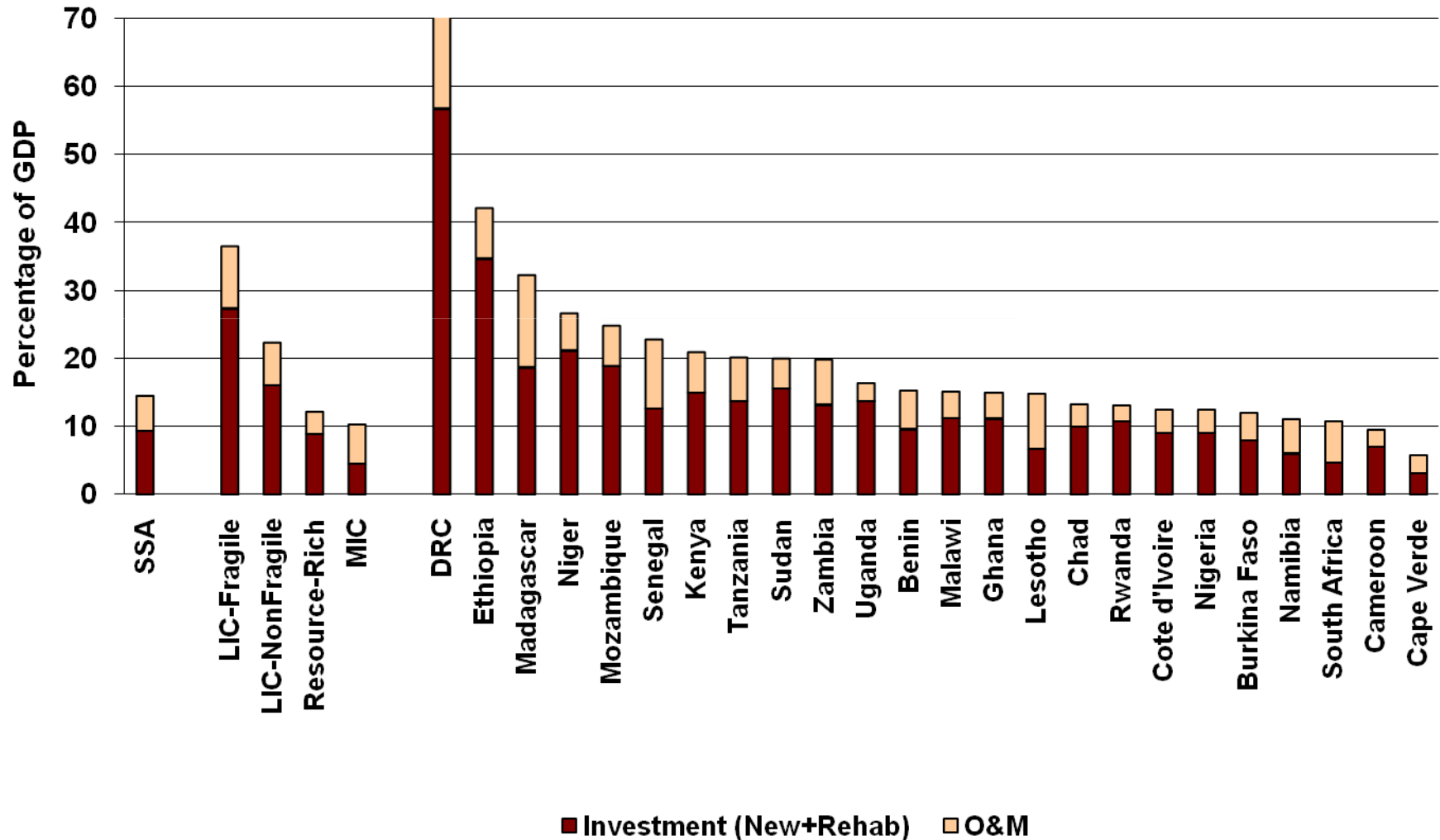
Source: AICD 2009

40 percent of spending needs are for power



Source: AICD 2009

Infrastructure needs as percentage of GDP



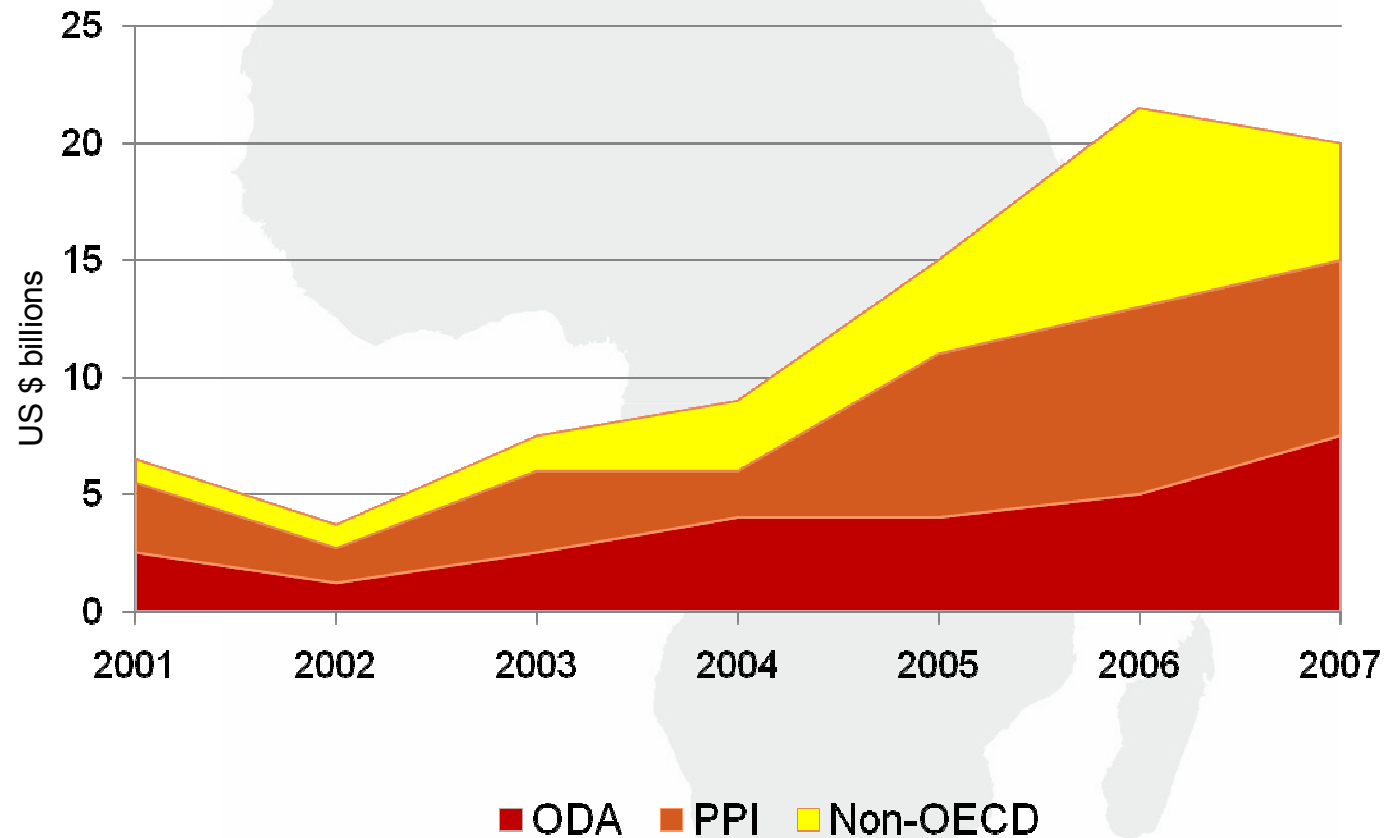
Source: AICD 2009

Existing spending of \$45 bn – much higher than previously thought

Annualized Overall Spending Flows traced to needs							
US\$bn pa	Capital expenditures					Total	Grand Total
	Public Sector O&M	Public Sector	ODA	Non-OECD financiers	Private sector		
Middle income	10.3	3.1	0.2	0.0	2.3	5.7	16.0
Resource rich	2.5	3.9	0.6	1.7	3.8	10.0	12.5
Low income - no fragile	4.4	1.7	2.6	0.6	2.1	7.0	11.4
Low income - fragile	0.7	0.3	0.4	0.3	0.5	1.4	2.2
Total SSA	20.4	9.4	3.6	2.5	9.4	24.9	45.3

Source: AICD 2009

Recent growth in external finance commitments for infrastructure



Source: Building Bridges, 2008

PPPs are key for closing the \$48bln gap

■ Management Contracts

- Affermage (electricity and WSS)
- Outsourcing – e.g., handling billing; metering; transport; cleaning
- Hybrids: rely on simpler contractual arrangements & may blend public & private money

■ Public Private Partnerships

- Concessioneing
 - BOT; BOOT;
 - BOOS; BOOST; BOR; BRT; BTO
 - BOO;

■ Privatisation

- Divestiture

PPI – a mix of different contracting forms in different sectors

	Extent of PPI	Experience	Prospects
ICT			
Mobile telephony	Over 90% of countries have licensed multiple operators	Exponential increase in coverage	Various countries could grant additional licenses
Fixed telephony	60% of countries have divested SOE incumbent	Controversial but with efficiency improvements	Various countries could still undertake divestiture
Power			
Generation	34 IPPs invest US\$2.5bn to install 3,000MW of capacity	Frequent renegotiations, costly to utilities	Likely to continue given huge capacity needs
Distribution	16 concessions and 17 mgt or lease contracts	One quarter of contracts prematurely cancelled	Movement towards hybrid models with local firms

Transport & Water

	Extent of PPI	Experience	Prospects
Transport			
Airports	4 concessions investing less than US\$0.1bn	No cancellations, some lessons learned	Limited number of additional cases viable
Ports	26 container terminal concessions invest US\$2.5bn	Few cancellations, results positive	Quite good prospects, likely to continue
Railroads	14 railroad concessions invest US\$0.4bn	Frequent renegotiations, limited investment	Likely to continue, but model must adapt
Roads	10 toll road concessions (RSA) invest US\$1.6bn	No cancellations reported	Only 8% of network meets traffic threshold
Water			
Water	26 contracts mainly mgt or lease contracts	40% of contracts prematurely cancelled	Movement towards hybrid models with local firms

Addressing the Efficiency Gap (USD 17 bn)

- Public sector budget execution ratios only 65%
- Improving services could take time & resources which not readily available
- **PS management could help address inefficiencies**
- **Management / *Affermage* Contacts - one solution**
 - Occur mainly in WSS; electricity & transport
 - PS - remunerated via performance based fees – no investment requirement
 - Investments covered by Govts, Donors, or annual cash flows
 - Benefits noted: short-term improvements & skills transfer
- **Provide solution if conditions for success met**
 - On increase since 1990s.
 - 17 in 15 countries
 - But: only 3 still in operation; 4 terminated prematurely; others not renewed (e.g. Kenya Power & Lighting Company)

Pitfalls of Management Contracts:

- General performance obligations to improve services
 - Labour productivity
 - Roll-out of service distribution
 - Leakages & illegal connections
- Condition of assets transferred – often needs refurbishment or replacement
- Transfer of personnel – labour unions hostile as may threaten members benefits
- Tariffs & subsidies – very political issue
- Uganda & RSA – short-term expatriate contracts in WSS: gave way to local managers; independence; more training; better compensation – leading to greater efficiencies

Bridging the Financing Gap (USD 31 bn)

- The private sector cannot do more than double over the next 5-10 years (+\$9 bn)
- PS comes from profit orientation
- PPPs such as BOTs – large/complex mainly in Power & Transport
- PS finance keeps project off Public Sector's books & lowers debt ratios
- Range of options to consider for financing of Infrastructure
- BUT: Increased Public, ODA & non-OECD finance also needed

In favour of Private Sector involvement

- Alternative & diversified funding sources (IFIs, FDI, local capital markets)
- Limited impact on Govts credit capacity & rating
- Improved efficiency, closely managed costs & faster delivery
- Risk Transfer from the Public Sector to the Private Sector
- Experienced industry professionals involved – ensures exhaustive appraisal of feasibility – less chance of failure
- Maintenance of public sector strategic control & transfer back to Govt at end of concession period
- PPPs help to mobilise competition to drive down project costs & improve innovation
- Transfer of technology
- Development & deepening of local Capital markets
- Local lenders, subcontractors, suppliers involved

Pitfalls of Private Sector involvement

- Distortion of development priorities by choosing projects with high financial viability over projects with economic impact;
- Financing of PPPs (debt & equity) may be more expensive than public borrowings (where Govt capable of achieving better terms);
- Long duration & high cost of supervision;
- Public/ political resistance;
- Need to mitigate forex risk where debt denominated in foreign currency;
- Some loss of control of otherwise public responsibility;
- Possible loss of income stream from sector concerned; and
- Supposed efficiency in practice may be negated by lack of competition & increased costs – wiping out “value for money” justifications for doing PPP

Conclusions

- Use of PPPs to bridge funding gap is recognized;
- PPPs being used increasingly to balance need against means;
- To achieve goals to increase PPI, governments need to ensure following:
 - Clear objectives
 - Good public leadership
 - Strong government institutional capacities for oversight & implementation
 - Sustainable, credible policy & regulatory environment where Risk allocation balanced with rewards, clearly defined between both parties

Thank You!

Nova Capital Africa
377 Rivonia Blvd, Rivonia 2128
South Africa
+27-11-275 0100
mandla.gantsho@novacapitalafrica.com