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Improved Infrastructure with PPPs in Africa

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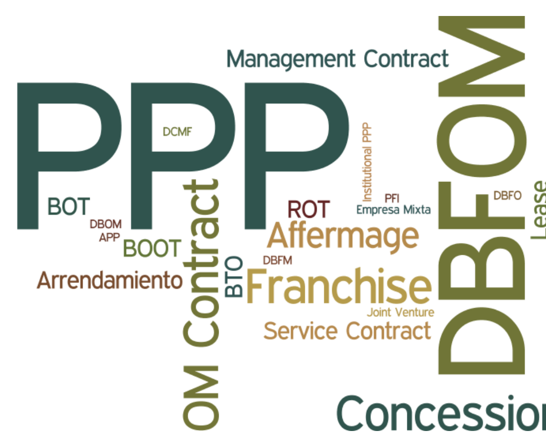


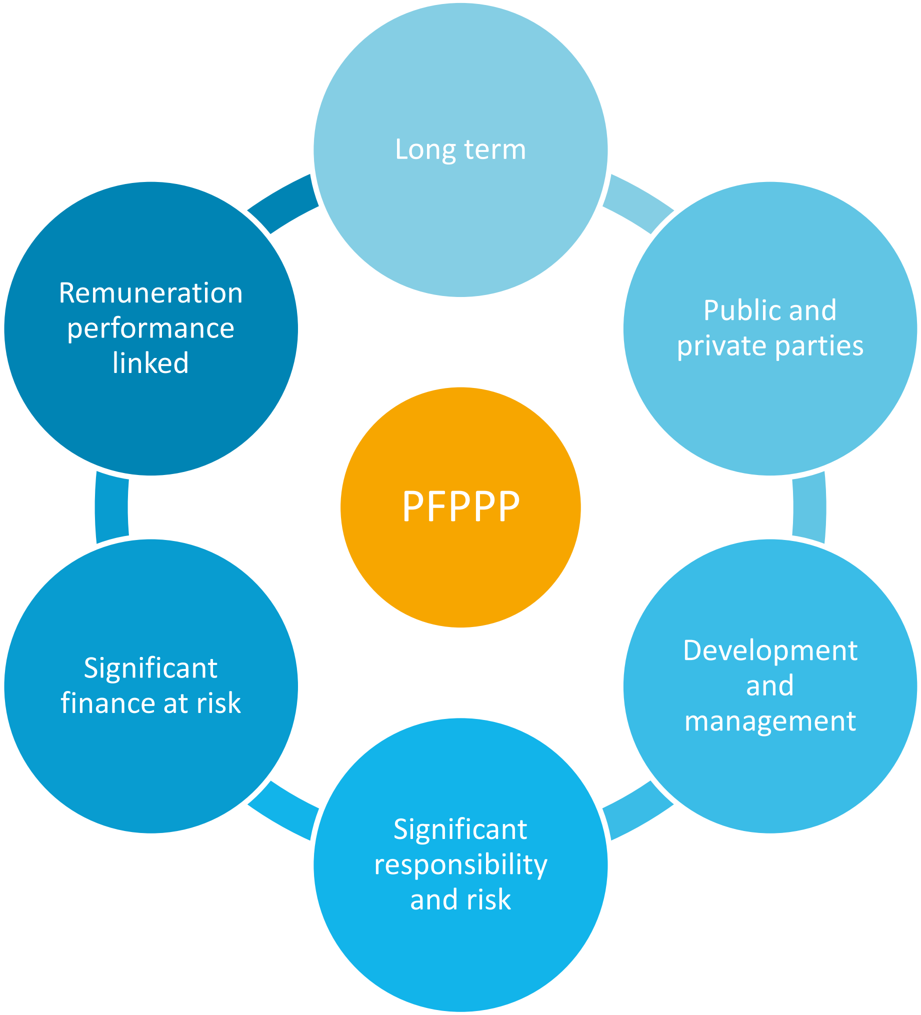
 Source: https://ppp-certification.com

Session agenda

- ✓ WHAT is a Private Finance PPPs?
- ✓ WHY use Private Finance PPPs? To what purposes?
- ✓ BEWARE of Wrong motivations
- ✓ PPP Value drivers
- ✓ Conditions for accessing PPP's benefits
- ✓ Adapting the PPP Approach to the Macroeconomic and Financial Context of emerging market

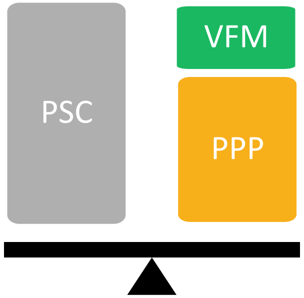
What is a (Private Finance) PPP

- "A long-term contract between a public party and a private party,
- for the development and management of a public asset (including potentially the management of a related public service),
- in which the private party …
  - bears significant risk and management responsibility throughout the life of the contract,
  - provides a significant portion of the finance at its own risk,
  - and remuneration is significantly linked to performance and/or the demand or use of the asset or service so as to align the interests of both parties"



Why use PPP? To what proper purposes?

1. Acceleration of infrastructure development
   - Using PPP as an alternative financial mechanism to fund public infrastructure projects
   - Through private partner's financing of projects, PPPs can provide financial flexibility especially in EMDEs in short term budget management, reducing the need to allocate resource in budgets in the short term.
2. Increased efficiency and quality of public infrastructure provision (VFM)
3. Harnessing private sector innovation and efficiency
4. Stimulating growth and development in the country



"But only for the right projects, with the right conditions"

Beware of the wrong motivations and related pitfalls

1. Accounting (deliberate?) illusion

   - Pre-financing made available by private sector may allow to circumvent fiscal restrictions ("off balance sheet" treatment) : this may create a "PPP bias"

   => Beware: PPP magics does not trick rating agencies

2. Consequences of "free (easy) money perception"

   - Fiscal and budget long term sustainability may become at risk: more projects implemented than affordable and/or temptation to undertake unaffordable projects!!
   - Lack of care in Project selection and tender organization

PPP Value Drivers

Six Factors for incremental efficiency in a PPP

1. Cost management
2. Lifecycle cost management
3. Risk transfer
4. Innovation
5. Reliability and effectiveness
6. Utilization

→ Are to be confirmed/appraised, protected / maximized in the contract and tender and after

And 3 factors of overall efficiency

a. Quality reliability/upfront commitment
b. Demonstration effects
c. Transparency and assurance

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"But only for the right projects, with the right conditons"

Conditions for accessing PPP’s benefits

Project must meet the following conditions:

- To be sensible
- To be suitable
- To be properly prepared and appraised
- To be properly structured
- To be properly tendered
- To have the PPP contract proactively managed

The tender process is to confirm the existence of potential benefits, protect them and maximize them.

Adapting the PPP Approach to the Macroeconomic and Financial Context of emerging market

Dealing with market Restrictions

(Un)Availability of long-term finance

Budgetary restrictions / financial capacity of the government

Country risk perception

Challenges for EMDEs – the need to adapt

k-infra
Infrastructure Knowledge & Best Practice

Availability of long term finance (in revenues currency)

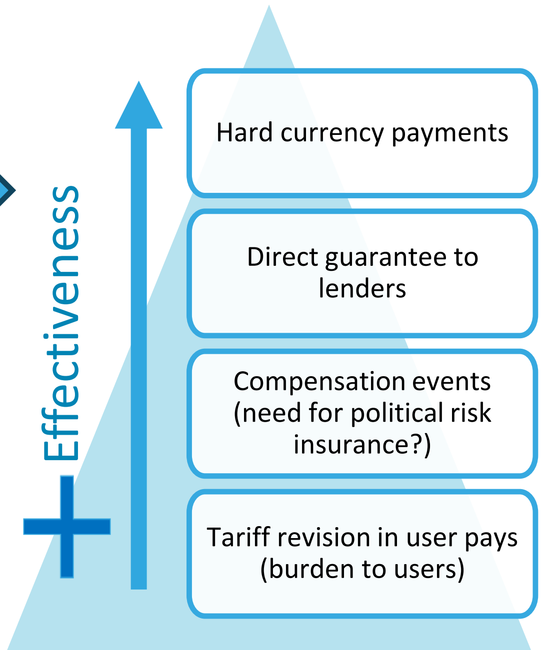
- Need for cross border financing (requires hedging availability or government insuring/guaranteeing)
- Strategies: reduce size, concentrate in hard currency revenue makers; DBOM or service/management PPP

Budgetary restrictions / financial capacity

- PPP contracts have to be paid for and burden may be overwhelming
- Strategy: rely on revenue makers/user pays (but check user affordability); concentrate in *non capital intensive* or service PPP

Country risk perception

- Country risk covers many aspects including political risk and business climate
- Strategy: promote / work on access to political risk insurance and A/B loans



Strategies to de-risk currency risk

Other special considerations for EMDE

During project preparation (pre-tender)

- What about interactions with the market (roadshow, market sounding)?

During qualification stage

- Prequalification VS Preselection?
- Neutrality of the qualification criteria for non national players

During bidding stage

- What bout "compétitive dialogue"? How and when to use it?
- What about financial requirements required at bid stage?
- Coordination between the commercial and financial closing?

General point:

- The timing of PPP tender procedure: the best ever investment: giving time to bidders

Overall…

PPP? A global concept…

- With various understanding across countries and jurisdictions
- But with some form of internationally recognized “best practices” in its different aspects:
  - projects selection and appraisal and structuring
  - tender preparation, and organization up to closing
  - contract management

… needing a local practice

- International “best practice” cannot be applied without considearation to the local context
- Specific knwoledge of the local market, and sector organisation, where it is applied, is required
- Clear understanding of the administrative, institutional and political organisation is necessary to adapt the PPP concept succesfully

Thanks you for your attention

Contact

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