



# INCREASING PRIVATE PARTICIPATION IN SADC INFRASTRUCTURE: POLICY BOTTLENECKS AND THE WAY FORWARD

*Insights from the NEPAD-OECD Africa Investment Initiative*

Joint OECD-SADC-IFC Seminar at TICAD V  
31 May 2013  
JICA Kamome Room, Yokohama, Japan



## Sub-saharan Africa

- Zambia
- Burkina Faso
- Mozambique
- Botswana\*
- Tanzania
- Mauritius\*
- Nigeria\*

## Asia

- India
- China
- Viet Nam
- Indonesia
- Malaysia\*
- Myanmar\*
- Philippines\*
- Lao PDR\*

## South America

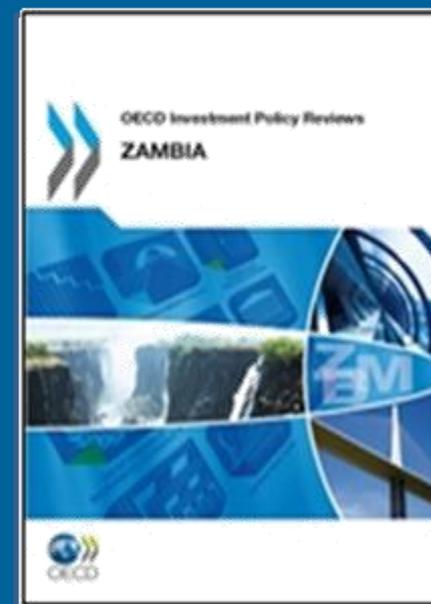
- Peru
- Costa Rica\*
- Colombia

## MENA

- Egypt
- Morocco
- Tunisia
- Jordan\*

## Eurasia

- Ukraine
- Russia
- Kazakhstan



\* On-going  
**OECD Investment  
policy reviews**



# Two linked challenges for private sector participation (PSP) in infrastructure

Growing infrastructure funding gap

- Rising population needs, esp. in energy & roads
- About USD 48 billion needed per year in Africa
- USD 100 billion needed for Southern Africa over next 5 years
- Implications for regional projects (RIDMP)

Poor quality & efficiency of existing infrastructure: a market structure issue

- SOEs: 'natural monopolies' versus inefficient management and under-investment
- Diversion of public finances towards SOE subsidies, rather than maintenance or expansion of infrastructure networks



# PSPI: what does it involve??

**PPPs** : subset of public procurement, which also encompasses alternative forms of infrastructure delivery. PPPs occupy the **middle ground** b/w full public provision (public procurement) & full private provision.

→ Extent of private sector participation →				
Low	→ Increasing share of risk shouldered by private partner →			High
Work and service contract	Management and maintenance contracts	Operation and maintenance concessions	Build operate transfer concessions	Full privatization
Traditional public procurement & SOE provision	<i>Public Private partnerships</i>			Open competition by private operators across infrastructure market

## Main distinction is allocation of risk:

- **Traditional forms of infrastructure procurement** include “Build and deliver” contracts (government acquires infrastructure assets)
- **PPPs** transfer both the construction and the operation of the asset and involve private contractors over lengthier periods of time.



# Managing the shift from public to private infrastructure investment

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- A risky transition
  - Novelty and complexity of some forms of PSPI
  - Fiscal burdens & contingent liability
- Importance of experience sharing
  - Forum of SADC 3P Network
  - Experiences from 5 SADC countries engaged in OECD Investment Policy Reviews: **Zambia, Mauritius, Tanzania, Botswana & Mozambique**
  - Harmonisation of Policies, Legal Frameworks & Institutional Arrangements



# 3 areas of reform to better attract PSPI

## I. National investment regime

- Clarity of national infrastructure investment plans
- Strength of investor protection
- Tackling restrictions on PSPI or ownership in infrastructure sectors

## II. Managing the choice between public provision & PSPI

- Legal framework for procurement (including PPPs)
- Co-ordination of agencies for procurement oversight & implementation
- Capacity of procurement agencies

## III. Creating a level playing field between public and private providers of infrastructure services

- SOE corporate governance and efficiency
- Unbundling infrastructure networks
- Regulation of utility markets (sound competition and pricing policies)

## IV. Regional co-operation on infrastructure investment

- Strategic importance of cross-border infrastructure
- Challenges for upstream & downstream co-ordination
- Financing regional infrastructure development



# I. NATIONAL INVESTMENT REGIME



# Clarifying the policy stance for PSPI, and enhancing investor protection

## Weakening investor confidence

Government commitment to opening infrastructure sectors to private participation may waver (ex: Tanzania, Zambia)

Uncertainty on what benefits are sought in pursuing private sector route (ex: Botswana)

Restrictions on ownership & procurement preferences

## Reassuring investors

Setting up clear and holistic long-term infrastructure and development plans, including role of PSPI in each sub-sector

Strengthening legal framework for protection of investors' property rights

Tackling restrictions on private and foreign investment in infrastructure sub-sectors (*incl. via procurement preferences*)



## II. MANAGING THE CHOICE BETWEEN PUBLIC PROVISION & PSPI



# *A clear legal framework for the full spectrum of PSPI*

**Choice among public, private, & hybrid provision**

- Comparative advantage of each actor to ensure best Value for Money (via Public Sector Comparator, CBA, etc.)
- Compensation mechanisms for the infrastructure provider based on performance
- Regular monitoring of SOE and private alternatives

**Setting up implementing agencies**

- Central procurement authorities (PPADB; PPRA)
- Procurement appeal authorities (PPAA; IRP)
- Privatisation authorities (PEEPA; CHC)
- Sector regulators and competition authorities

**Operational guidance for tendering**

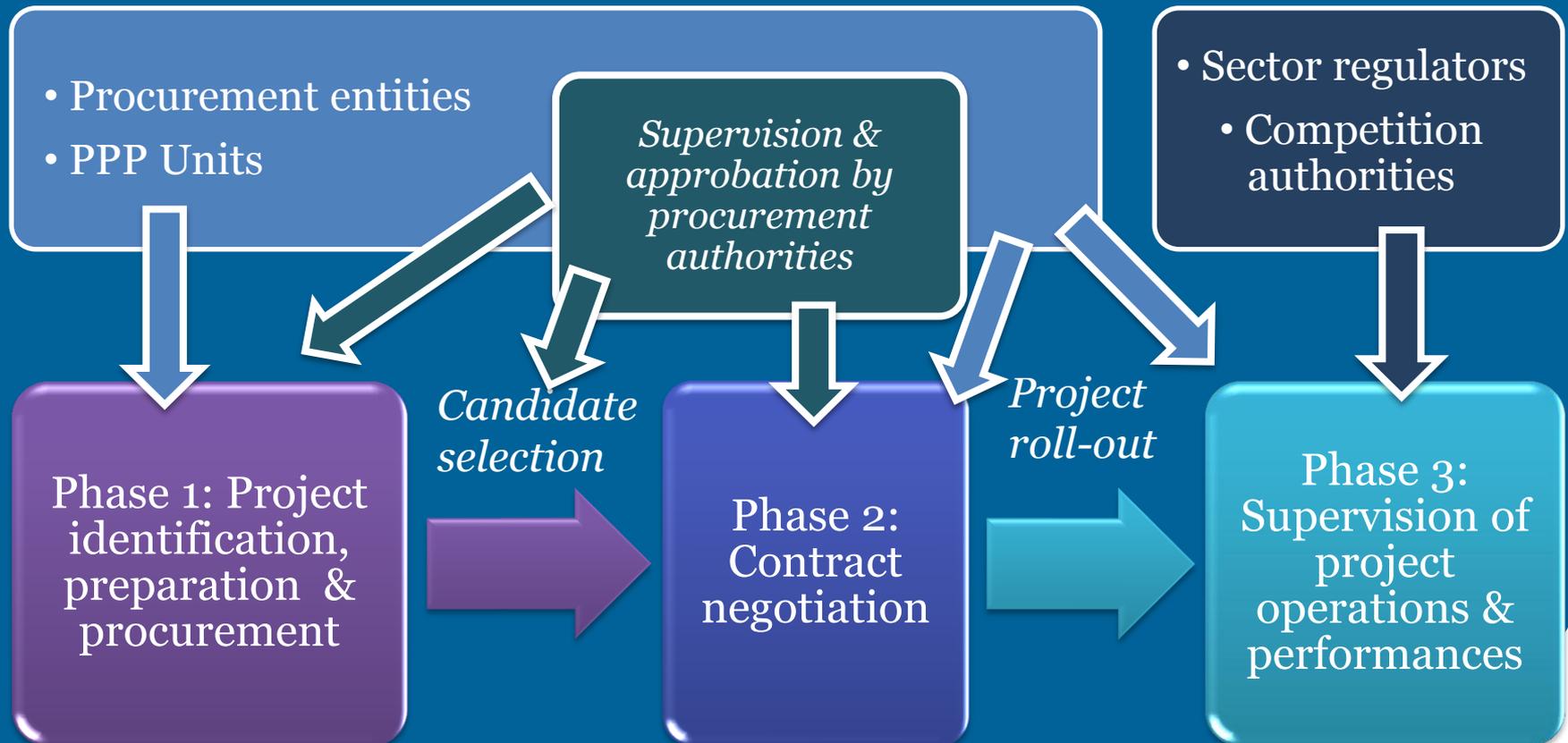
- Public Procurement Acts, standard procurement models & operational manuals establish these principles
- In addition PPP laws can more specifically lay out:
  - Principles by which PPP contracts are structured, procured, managed & reported
  - Modalities by which projects risks will be allocated
  - Institutional structure for managing and overseeing PPPs

Crucial to enhance **consistency** between PPP legislations & pre-existing and broader-spectrum legislations on investment



# Implementation of shift towards PSPI: new demands on government agencies

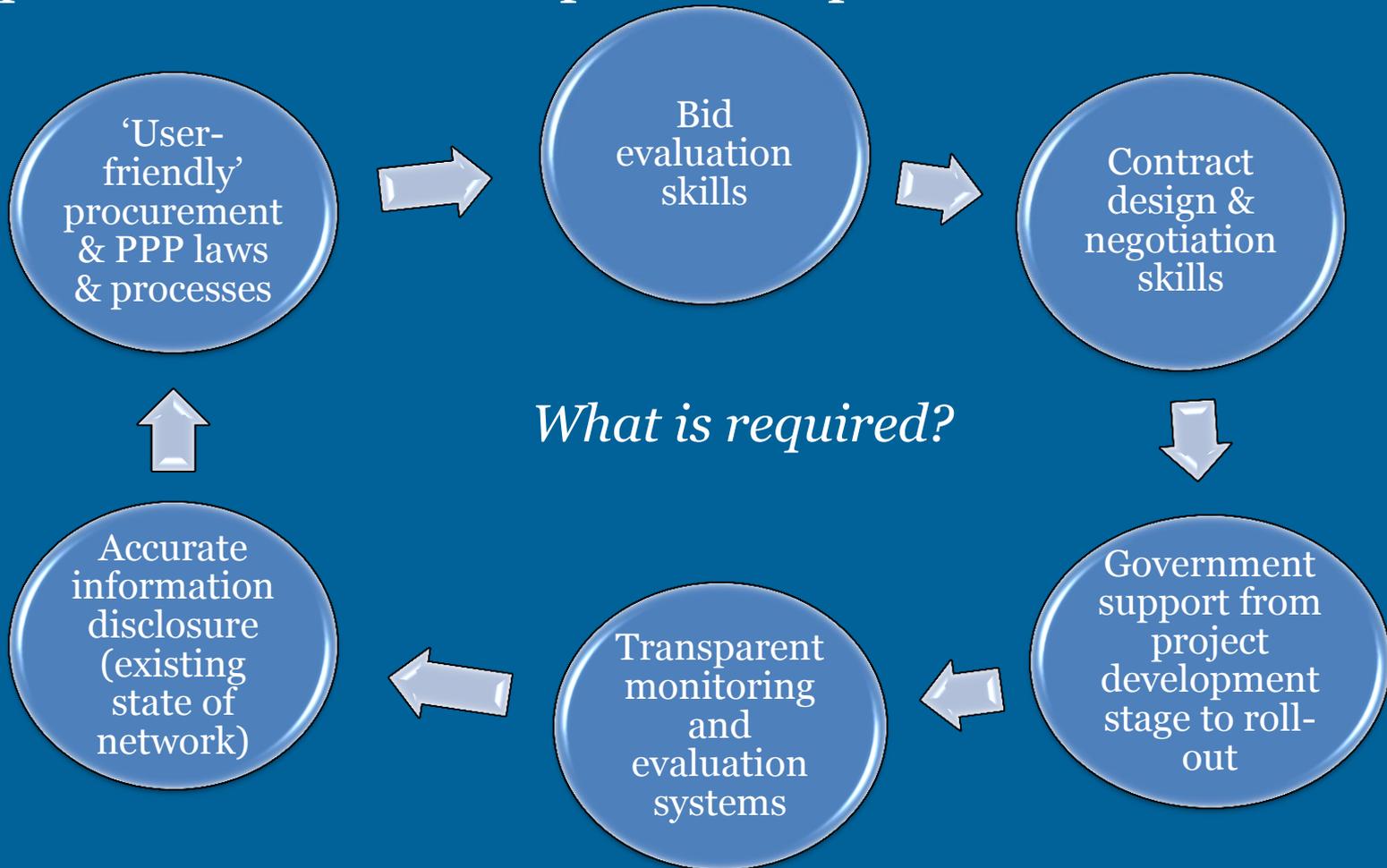
- Co-ordination of agencies in the institutional landscape for PSPI





# Capacity of implementing agencies

Poor capacity for project preparation and roll-out: partially responsible for failure of past attempts at PPPs & divestiture





# III. CREATING A LEVEL PLAYING FIELD BETWEEN PUBLIC AND PRIVATE PROVIDERS



# Managing the inter-dependence between SOEs & private investors

## Inefficient SOEs entail:

- Drain of public finances
- Poor quality of infrastructure networks
- Diversion of public resources towards production subsidies (rather than consideration of consumption subsidies)
- Detraction of private investors

## Governance can be improved through:

- Functional separation of infrastructure sub-sectors
- Power sector: single-buyer model & beyond
- Regulation and pricing of sub-sectors
  - Setting tariffs: cost recovery versus user affordability
  - ICT versus water & energy
  - Trend towards greater independence of regulators (Mauritius, Botswana)
  - Co-ordinating sector regulators with competition authorities



# THANK YOU

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