**Engaging the private sector to promote investment in public infrastructure delivery**

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**Introduction**

Inadequate infrastructure is a key constraint to economic growth, and especially so in developing countries. It is generally acknowledged that the public sector is responsible for providing adequate and reliable infrastructure to spur a country’s growth and development. However, many governments, especially in the Third World, fail to meet this responsibility, with infrastructure and services lagging behind and very often inadequate to meet demand, frequently leading to congestion, service rationing and unavailability. Several reasons account for this inability to provide the required infrastructure and quality of services; key amongst these is the persistent lack of resources and/or the inability to effectively manage available resources.

Managing the risks of a balanced and sustainable financial sector, whilst trying to maintain robust growth, are key issues confronting growth and development. These risks include high inflation leading to higher-risk premiums, as well as funding pressures for infrastructural development and economic growth. To contain some of these pressures on existing financial and economic systems, most governments are turning to the private sector for the provision of core infrastructure through public-private partnership (PPP) initiatives.

**PPP initiatives and difficulties attracting private sector to the Third World**

In Ghana we refer to the private sector as being the ’engine of growth’. In this regard, the private sector is expected to assume some of the risks, and also bring on board the expected level of knowhow and expertise, to increase infrastructure and improve services in the public sector. The private sector is seen as complementary to the public sector for the delivery of needed infrastructure and efficient, effective and reliable provision of services to promote economic growth.

Governments are also confronted with several challenges in attracting the private sector as an alternative source of provision of infrastructure and services to spur growth. It is important and imperative to identify ways in which the private sector would be attracted and be willing to share in the risks involved in the provision of public sector infrastructure and services.

Quite often, the private sector is keen to partner with governments but faces a range of regulatory, political, economic and governance challenges.

One of the key challenges in getting the private sector involved in the provision of public infrastructure is the provision of an enabling framework for private sector participation in infrastructure development: one that meets private sector needs, as well as the social and political objectives of governments.

The lack of institutional capacity, including the quality of project teams (both implementation and monitoring), and the ability to match the interests of multiple and different stakeholders has been a closely related factor.

**The case of Ghana**

The Government of Ghana in the last few years has identified a great need for the involvement of the private sector through PPPs to be able to reduce the huge deficit in infrastructure due to limited available budgetary resources. The deficit ranges within a sustained spending of a minimum of about US$1.5 Billion annually over the next decade. The government expects to derive some benefits from this initiative, especially through the provision of better infrastructure using private sector financial, human and technical resources to be able to free resources for equally more important uses. To this effect the National Policy on Public–Private Partnership (PPP) was developed to provide a clear and consistent process to guide the implementation of PPPs in Ghana. The identified clear process involves the entire project lifecycle costs including, but not limited to, project identification, appraisal, selection and procurement, operation and maintenance, performance monitoring and evaluation.

Some of the expected benefits from implementing projects through PPPs include improving the quality, cost-effectiveness and timely provision of public infrastructure and services for Ghana. Furthermore, PPP options provide the government with greater value in ensuring that the whole lifecycle costs and returns of investments are realised. It also provides a tool for the rigorous assessment and sharing of risk with private sector entities.

In Ghana, the PPP initiative is part of the government’s continued commitment to open up key services to competition. Again, PPPs are considered when they provide the government with better value for money options as opposed to fully private or fully public service delivery options.

The Government of Ghana has therefore put in place a very comprehensive and robust regulatory, legal and institutional framework to promote the use of PPPs in Ghana.
In attempting to attract the private sector, governments may deem it important to have local content input (industrial participation) that draws on the resources of domestic companies. Unfortunately, there are often challenges with identifying experienced local contractors who also have the requisite managerial direction, financial backing and engineering capacities to perform creditably. It is always reassuring for private sector entities that are willing to go into partnership with governments when the required regulatory regime is in place to protect and confirm the government’s commitment to engaging the private sector on a comprehensive and committed basis: not least in order to effectively enforce contracts and agreements.

Furthermore, there is the lack of well-established legal counsels, as well as the skills, to provide the necessary legal capacity for both the public and private sector agencies. This situation is clearly a disincentive and makes it unattractive for private sector investors to partner governments in the provision of public service infrastructure and services.

Perceptions of unstable political environments with high political risks are quite rife, and there are fears around issues of expropriation of assets of private companies by governments that inhibit private sector participation; often these perceptions and fears are grounded in historical events that give strong credence to private sector apprehension.

In financial and commercial terms, the certainty and stability of long-term revenue streams for the private sector, be it payments from budgets or from projects undertaken, is key to sustaining private sector interests.

In most developing countries there is no comprehensive and effective public investment management system in place to ensure comprehensive planning – including project selection, preparation, implementation, maintenance, monitoring and evaluation of projects. This apparent lack of effective project preparation often leads to long gestation periods for project take off, high project costs and, ultimately, poor projects. Thus, projects have very often been inadequately prepared, leading to exorbitant costs to governments and the private sector entities. Without the comprehensive preparation processes, service delivery is also affected and projects don’t deliver what they were expected to deliver, at great cost to the taxpayers and the country.

Project finance is also normally complicated with several entities playing different roles, causing ill-prepared projects, which are not bankable in such a way as gives value for money, both for the public and private sector entities. This is a great disincentive to private sector participation. To avert this situation in Ghana, there is a proposed public investment management process that will analyse and procure projects through a well-planned and synchronised process with all programmed budgeting and financing activities.

The availability and cost of domestic long-term debt funding is critical to sustaining private sector participation in infrastructure development. Domestic funding where available provides a cushion for domestic lending and promotes domestic or local involvement and participation in projects. Availability of domestic funding implies that foreign currency risks and transfer exposure will be minimised to a large extent. This is because receipts in local...
currency will be used to service expected payments of domestic loans, as opposed to external debt funding for such projects.

The private sector, through acquired entrepreneurial attitudes, is normally averse to providing equity and dilution of equity and most often will match its risks with its rewards before undertaking infrastructure projects.

The lack of an effective communication process and mechanism poses a great challenge to engaging the private sector parties. Very often due to misconceptions and lack of adequate knowledge, the private sector is not very conversant with the public sector processes, procedures and activities. The apparent lack of policy framework for effective communication, including the ability to clearly explain the institutional, legal and regulatory framework and disseminate the associated materials and information for both the public and private sector entities, inhibits the promotion of private sector participation in economic development activities. The lack of understanding of the true concepts and intent of private sector participation often leads to misrepresented media reports.

**Conclusion**

Governance issues are key to facilitating or mitigating private sector participation. Unless there is a clear policy framework for effective, efficient and transparent project implementation, in such a way that meets investor needs and social and political objectives of government, then scepticism, disinterest and reluctance to partner with the government are the likely results.

To promote private sector involvement in infrastructure delivery there is a need, therefore, for immense political buy-in, leadership and commitment in ensuring that the requisite policy framework is put in place to catalyse private sector involvement. There is also the need to ensure that the necessary legal framework and processes are adequately undertaken to promote its participation.

There should be in place a very comprehensive public investment management system to identify, prepare and plan projects that need private sector investment prior to the identification of sources of funding. This would include undertaking sector policy work, analysis and full project development and financing activities. It would also entail the training of professionals and public and private sector entities to understand the modalities for private sector engagement.

Effective communication, including stakeholder consultations and continuous engagement with the private sector and involving identified bodies such as industry groups and chambers of commerce, would assist in identifying the needs and requirements of the private sector and seek the necessary remedies for such effective engagement.

The measure of success in PPPs is that value for money for the public sector is effectively achieved and the private sector is adequately compensated for its equity investment and financial and human resources provided.

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Mrs Apenteng has supported and advised the Commonwealth Secretariat, WAIFEM, Debt Relief International-UK, World Bank, Crown Agents, MEFMI, Cameroun, Nigeria, Ethiopia, Suriname, Guyana, Zambia, Uganda, The Gambia and Sierra Leone on effective financial management practices. She is also a director on the governing boards of the Public Procurement Authority, SIC Life Company Limited, Campus Plaza Company and the National Food Buffer Stock Company in Ghana.

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Privatisation in Nigeria’s electricity production sector

The privatisation of the power sector is expected to lead to one of the biggest advancements in the Nigerian economy since Africa’s most populous nation first embarked on its structural adjustment programme in the mid-1980s.

‘Today is a very significant day for Nigeria, significant because this is the issue of public–private partnership in action’ – Tony Elumelu, CEO of Transcorp/Woodrock (preferred bidder for the Ughelli Power Plc generating plant) at the signing of agreements between corporates and the state-owned Nigerian Bulk Electricity Trading Plc (February 2013).

In 2012 President Goodluck Jonathan’s administration appointed the Canadian firm Manitoba Hydro International to manage the national grid under a three-year contract to operate the state-owned Transmission Company of Nigeria (TCN). Five power generation plants and ten distribution companies were sold to private investors in September 2013, dissolving the notoriously inefficient Power Holding Company of Nigeria (PHCN).

Although Nigeria is Africa’s second biggest economy and its leading oil producer, more than half the population has no access to electricity. For households and businesses connected to the grid the experience has been an endurance of frequent and often long daily power outages. Most companies and wealthy households must rely on private electricity generators for backup, which can be expensive in fuel costs.

Despite spending, on average, US$2 billion annually on the power sector, successive federal governments have struggled to find a lasting solution to the underperformance of the PHCN, which until recently did not produce much above 3,000 MW for a nation with an estimated demand of more than 10,000 MW. But since President Jonathan launched his administration’s Roadmap for the Power Sector reform in August 2010, on-grid generation has been above 4,000 MW. There has been more gas to fuel thermal generation plants as well as additional output from four new plants under the National Integrated Power Project (NIPP).

The government hopes the reforms will boost supplies to 14,000 MW by the end of 2013 and 40,000 MW by 2020. This may seem over-ambitious given current levels of production, but officials say it is feasible given that more than 40 new electricity generation plants are currently under construction or have been licensed to be built. There are investment and financing agreements for the power sector with a number of major international companies and financial organisations, including the USA’s General Electric and Germany’s Siemens, as well as the export-import banks of the USA and China. In 2012 South Korea’s Daewoo Engineering and Construction signed a memorandum of understanding to facilitate the production of 10,000 MW while China-based Sinohydro-CNEEC Corporation agreed to build a 700 MW hydro power station in Niger State at a cost of about $1 billion.

The government has also taken steps to make the power sector more attractive to private investors by adjusting existing pricing regimes that hitherto limited the ability of producers to make a profit. In June 2012 the authorities launched a new Multi-Year Tariff Order (MYTO) that provides for a phased increase of electricity retail tariffs over the next five years. According to Sam Amadi, chief executive officer of the Nigerian Electricity Regulatory Commission, ‘the MYTO has restored confidence in the Nigerian electricity supply industry. This confidence is more important than the increase in generation [and] will spur investment in sustenance and sustainability of electricity supply’.

Disappointments are likely as the realities of transforming a sector that has been impaired by decades of neglect and mismanagement become more evident. The biggest challenge could arise in getting the available energy to consumers. Although existing power plants can produce about 6,000 MW, the poorly maintained transmission infrastructure struggles to deliver more than 4,000 MW. Unlike generation and distribution companies that are partly privately owned, the transmission system remains under state ownership. Officials are aware of the financial implications of this and are exploring ways to involve private investors in financing transmission infrastructure projects.

Less progress is visible in implementing long-standing plans to reform Nigeria’s inefficient downstream oil sector to end decades of dependence on imported petroleum products and perennial fuel shortages.
Strong opposition from powerful trade unions and politicians seeking to maintain the status quo have thwarted attempts to privatise state-owned refineries and abolish fuel subsidies. The failure to deregulate has stopped many private investors from building new refineries, despite the government having issued several licences to private companies in recent years.

The Minister of Petroleum Resources, Diezani Allison-Madueke, said in October 2012 that the government plans to spend around $1.6 billion on the turnaround maintenance and upgrade of its three refineries.

It aims for the repairs to be completed by the fourth quarter of 2014. The state-owned Nigerian National Petroleum Corporation (NNPC) is also working on a $23 billion deal reached with the China State Construction Engineering Corporation (reached in May 2010) to build three new refineries in Nigeria with a total capacity of 750,000 barrels per day, as well as a petrochemical complex.

Nonetheless, many economists remain sceptical about the prospects of the government achieving its twin objectives of getting private investors to build refineries and turning Nigeria into a net fuel exporter.

These changes are unlikely to occur without Nigeria’s rulers mustering the political will to push through controversial reform of the downstream sector. Deregulation and liberalisation of the sector is one of the objectives of the long-stalled Petroleum Industry Bill (PIB). Initially introduced to parliament in 2008 and presented again in modified form in July 2012, the PIB also aims to restructure the NNPC into a profitable concern, raise taxes paid by international oil companies and increase development funding for populations living in petroleum producing regions.


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