



FIDIC AFRICA 2021  
— Infrastructure Conference

# PROJECT PREPARATION AND REGULATORY CHALLENGES IN ADDRESSING AFRICA'S INFRASTRUCTURE DEFICIT

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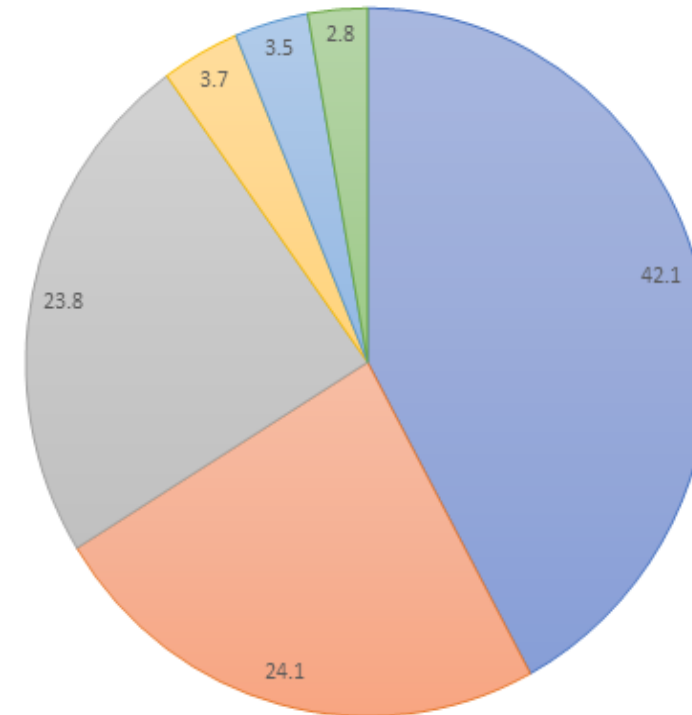


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INFRASTRUCTURE CONFERENCE



# INTRODUCTION

- ~ US\$1.2trillion infrastructure funding needs (2017 – 2025)
- Annual funding deficit “US\$68-108 billion (*pre-Covid estimates*)
- Main funding sources: Governments, China, Bilateral & DFIs
- Private sector nominal (4%)
- Increased infrastructure spending in East and Western Africa
- Shift from concessional lending to long term finance a major concern being rising public debt



■ National Governments ■ ICA Members ■ China ■ Arab Co-ordination Group ■ Other Bilaterals/Multilaterals ■ Private Sector

## Generic PPP Process Sources of Infrastructure Financing Commitment in Africa in 2017 (by Percent)

Source: Infrastructure Consortium for Africa's 2017 infrastructure financing trends in Africa report



# Case for Public Private Partnerships (PPP)

- Africa's infrastructure deficit offers investors a compelling investment case
- Investment not forthcoming owing to a number of hurdles that pose a threat to firm investment commitments and accelerating infrastructure development in the continent
- That become even more urgent given stretched fiscal budgets, insufficient domestic revenue bases, and impact of Covid-19
- Need for more private investment (domestic, regional and international) to partner with African governments
- Need for innovative financing mechanisms that harness capital to fund typically large scale and complex infrastructure projects
- Public-private partnerships (PPPs) seen as one mechanism to involve private sector
- Successes have been limited owing to policy uncertainties in implementation of PPP frameworks in most countries in Africa
- Timelines for concluding most PPP arrangements are on average 4-5 years



# Case for Public Private Partnerships (PPP)

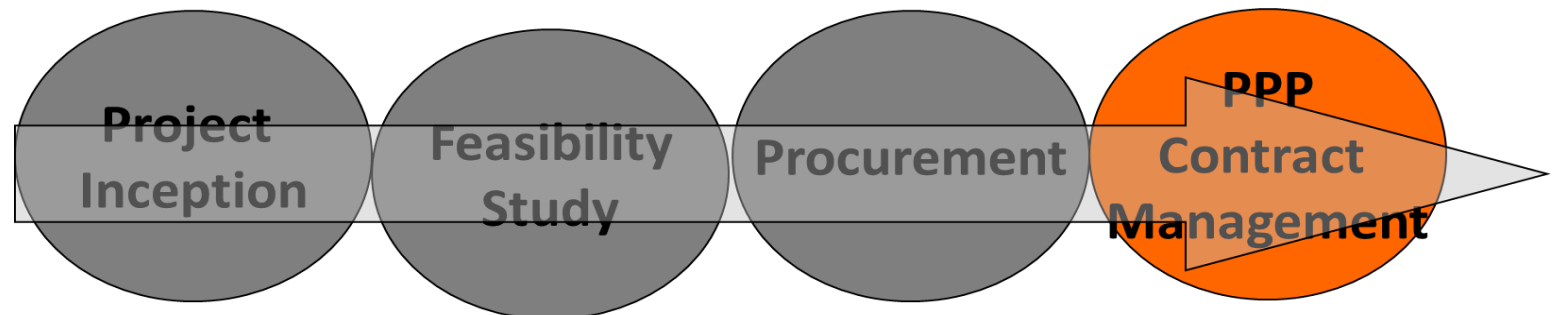
## *Key Considerations*

- Uncertain policy positions
  - Changes in governments; with incoming governments, wanting to review transactions initiated under predecessor
  - Most countries' PPP frameworks underdeveloped
  - Capacity issues
  - Investor confidence
  - Unsolicited bids or privately initiated proposals (PIPs)
- Project Preparation
  - Takes time
  - costly

# Public Private Partnerships (PPP)

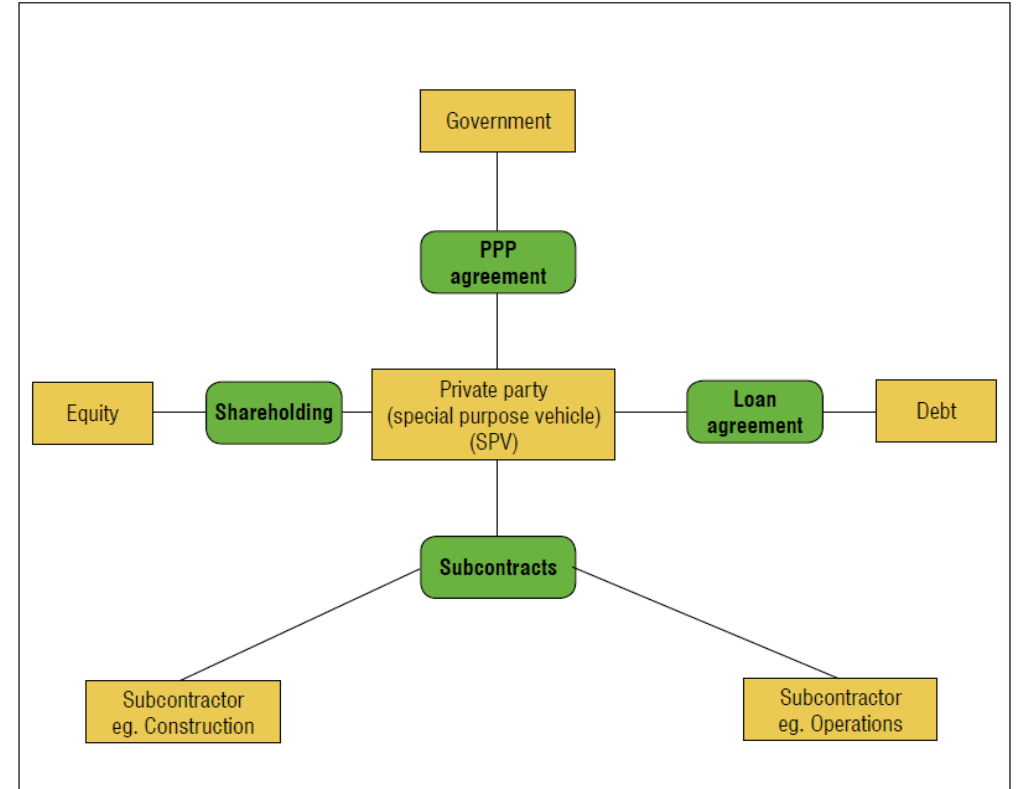
- Feasibility Study
  - Technical
  - Financial
  - Operational
  - Legal
- Quantify project risks
- Transfer risks to private party at end of procurement process
- Typical timelines 3-4 years (in reality longer)
- Not all countries in Africa have well-developed PPP laws and/or capacity (where there are laws)

- Different Forms of PPPs
  - *Design, finance, build, operate and transfer (DFBOT)*
  - *Design, finance and operate (DFO)*
  - *Design, build, operate and transfer (DBIOT)*
  - *Equity partnerships or Joint Ventures (JVs)*
  - *Facilities management*
- Private party performs a public function or used state property



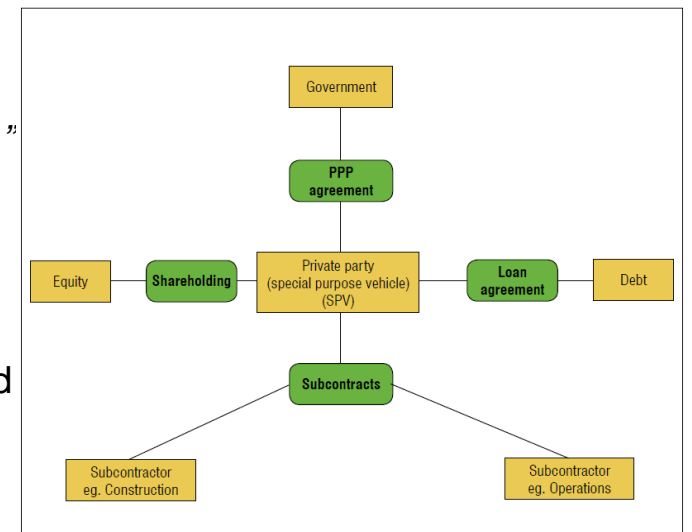
# Public Private Partnerships (PPP) *Kenya*

- S61 of PPP Act No. 15 of 2013 (PIPs)
  - *“for a project and procure the construction or development of a project .... Without subjecting the proposal to a competitive procurement process, ...”*
  - Emergencies to ensure continued service delivery
  - Where exclusive rights over intellectual property necessary for the project
- Uncertain policy positions
- Lack of capacity to implement PPPs
- By 2019 (6 years)
  - < 5 PIPs issued
  - Need to revisit the PPP Act and its application to address significant infrastructure backlog



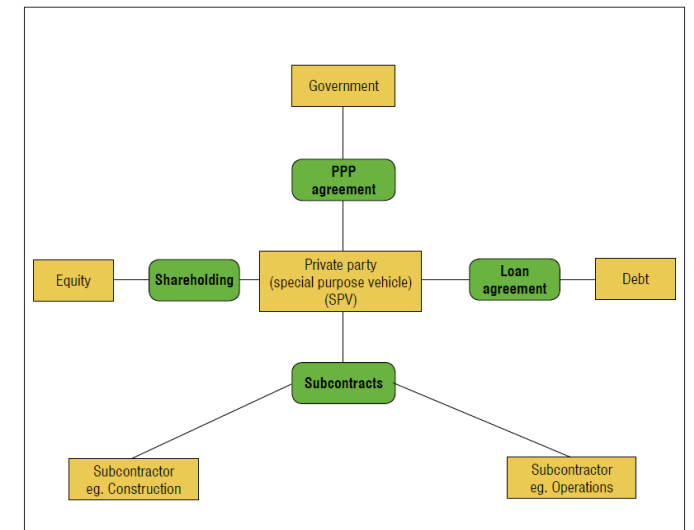
# Public Private Partnerships (PPP) *South Africa*

- Probably one of most advanced PPP legislative frameworks in the continent
- S76 of Public Finance Management Act and Treasury Regulations 16 (national and provincial)
- Competitive bidding – PPP agreement will
  - (a) provide value for money;
  - (b) be affordable for the institution; and
  - (c) transfer appropriate technical, operational and financial risk to the private party.”
- Contracting department or entity expected to undertake BFS that becomes basis for evaluation
- Limited public funding for project preparation
- Risk too high for private sector to undertake project prep without assurance will be awarded
- No provision for unsolicited bids or PIPs in provincial / national government
- S197 South African Constitution – “contracts for goods or services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective.” Uncertain policy positions
- No room for private sector participation in developing strong pipeline of viable projects



# Public Private Partnerships (PPP) *Uganda*

- S34 Public Private Partnerships Act, 2015 makes provision for unsolicited bids
  - Alignment to national imperatives as set out in the NDP
  - Proposes to favour large infrastructure projects.
- s34(6) – an unsolicited bid shall be subjected to a competitive bidding process, notwithstanding
  - introduces a level of uncertainty and risk for the submitting private party
  - Discourages private investment in project preparation
  - Although provision for compensation by the winning third party should the submitting party not be successful - very little incentive for private party to invest significant project preparation resources only to receive compensation merely their investment and not a significant upside
- No room for private sector participation in developing strong pipeline of viable projects



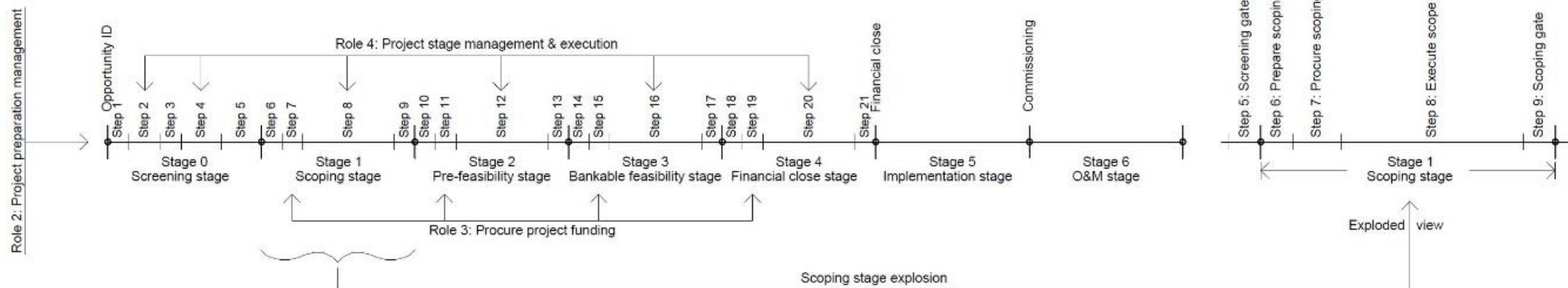


# Project Preparation

- Typically 1-2% of project budget
- Dearth of government project prep funding (~1-2% project cost)
- Different Stages:
  - *Stage 0: Screening*
  - *Stage 1: Scoping*
  - *Stage 2: Pre-feasibility*
  - *Stage 3: Bankable feasibility*
  - *Stage 4: Financial close*

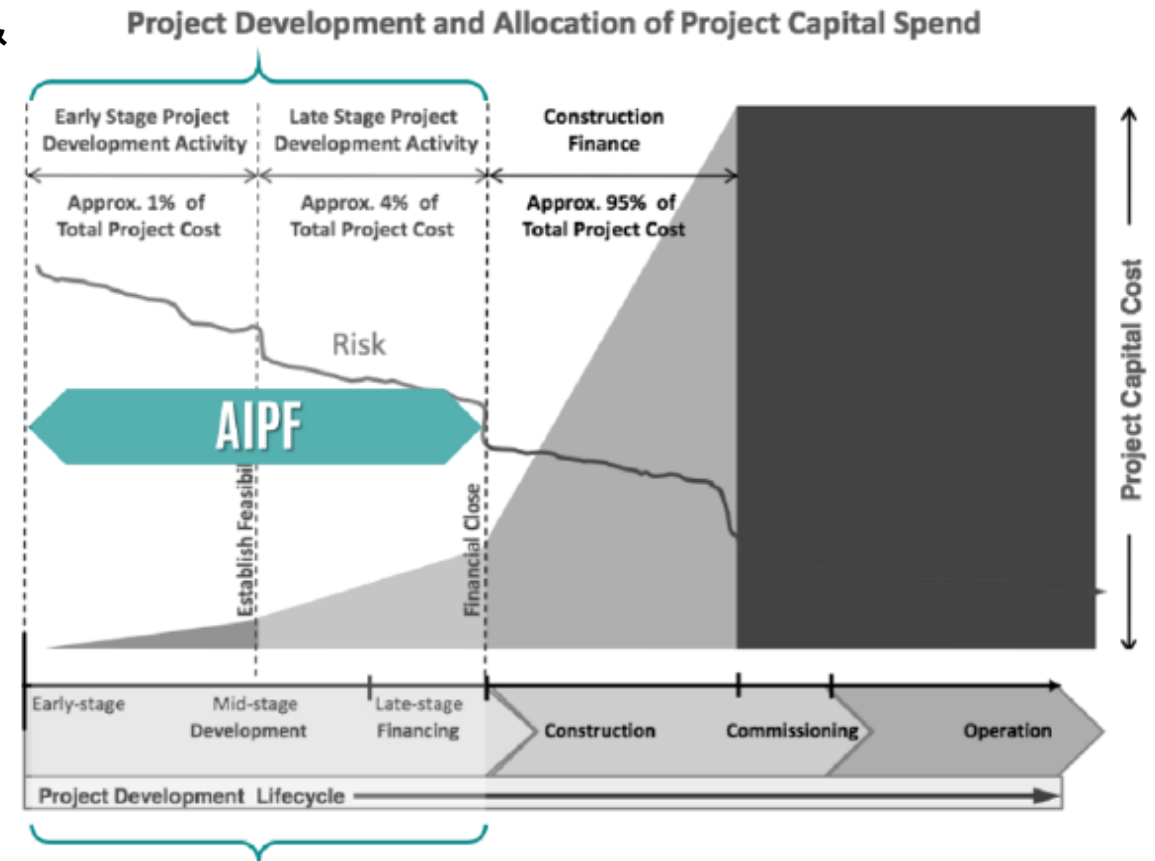
Project stages post financial close are:

- *Stage 5: Implementation*
- *Stage 6: Operation & maintenance*



# Project Preparation: *African Investment Preparation Facility (AIPF)*

- Private sector partners undertake project prep with hope contracting partner will award them rights to implement project
- Most projects never implemented (bankability, social & environmental impact, country risk, etc.)
- Emergence of project preparation facilities (PPF)
  - Most small and fragmented facilities
  - Despite US\$1.2bn uncommitted funds from 19 PPFs still large financing gap
  - Accessing PPFs not easy
- Shift to PPPs on mostly unprepared projects:
  - Business models being challenged
  - Urgent need to invest in project prep
- Bigen's African Investment Preparation Facility (AIPF)
  - Creation of pipeline of fundable projects
  - Blending social & financial value to attract investment
  - Project engagement with other PPFs on co-investment or syndication basis





# Concluding Remarks

- Realities in Africa – small size of private sector
- Growing emphasis on PPP as mechanism for bridging infrastructure deficit requires more innovative mechanisms to attract private sector participation
  - Incentives for private sector investment in project preparation
  - Should improve pipeline of projects implemented
- Need for review of PPP legislative frameworks
  - More enabling and certainty
  - Increased efficiency and reduced timelines
  - Clearer procedures to support standard PPPs and PIPs
- Africa's youthful population, urbanisation, and growing middle-class, support the case for increased private sector investment to unlock Africa's positive long-term growth prospects
- Opportunity for private sector to contribute to bridging the infrastructure backlog.



# Thank You



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