

Another unknown in post-COVID PPPs in Africa: Resumption of foreign direct investment

Full Description

In 2019, private investment commitments to public-private partnership (PPP) projects within low and middle-income countries amounted to [\\$97 billion across 409 projects in 62 countries](#). Africa's share of these private investment commitments—approximately \$7 billion—represented a small portion of the total. The World Bank's data for the first half of 2020 is expected to be released shortly, but early indications from the research team point to an even more precipitous decline.

The data is representative of the fact that Africa's efforts to mobilize PPP funding have lagged behind that of other regions. In 2019, Sub-Saharan Africa mobilized \$6 billion in private investment across 23 PPP projects—accounting for a 19 percent decrease in investment levels compared to 2018. North Africa, Egypt, Morocco, and Tunisia combined mobilized \$752 million.

Recent months have led to a period of examination about what is critically needed for countries to work their way through a crisis. This has included taking stock of PPP projects and their capacity for public service delivery during a pandemic.

[What the pandemic has particularly highlighted is the need to rethink the way Africa approaches PPPs.](#)

Above all, it has emphasized the importance of prioritizing projects with clear and tangible sustainable development outcomes, which implies promoting a higher level of social inclusiveness and minimizing negative impacts on the most vulnerable populations. Indeed, this moment increases the value of initiatives such as [people-first PPPs](#), developed under the aegis of the United Nations Economic Commission for Europe in support of the Sustainable Development Goals.

Yet, [one crucial unknown remains the present ability of PPPs to attract foreign direct investment in the first place](#). The decline—if not the near-eradication—of foreign investment during the pandemic has highlighted the need to rely on a mix of domestic private sector players, along with government and other foreign parties, to achieve financing objectives.

To date, most private funding had come from foreign investors and partners. For example, across Sub-Saharan Africa, 83 percent of total funding in 2019 was from development finance institutions (that is, multilateral and bilateral donors) and the remaining 17 percent was from other international sources.

There is a very practical reason for increasing the role of the domestic private sector: when African (or other) economies lack sufficient foreign exchange for foreign investors to repatriate earnings from their investments, those investors easily lose interest. With that kind of vulnerability, future projects will face a shrinking pool of qualified and interested foreign investors ex ante.

This reduced pool will, by extension, raise the risk that the quality of output (goods or services) may not meet required standards specified in PPP contracts. It could also mean that disputes over quality and delivery will trigger protracted and costly disputes. Furthermore, such a pattern will add to the risk premium, making the PPP more costly in the first place and raising the bar for financial sustainability. Therefore, we need a more prominent role for domestic private investors, creditors, contractors, and professionals to offset these risks.

Deepening the involvement of the domestic private sector entails an important development dimension that transcends immediate PPPs. It means a focus on developing domestic financial markets and integrating them across the continent to provide cross-listings and to enrich investment options for African institutional investors seeking yield and long-term cash flows to meet matching financial obligations.

[By extension, expanding the role of the domestic private sector as active investors will reduce the foreign exchange challenge for national governments, allowing profit “repatriation” to actually flow using local currency units.](#) After all, the importation of critically needed supplies comes in through a multitude of entry points, much like the exports that are needed to generate the foreign exchange to pay for the supplies in the first place.

PPPs are typically focused on several key objectives: sound design that benefits from a balanced regulatory environment; good governance and transparency; financially sustainable structures; and ultimately, better and more efficient delivery of public services and infrastructure. Therefore, it is expected that the increased prominence of domestic parties will enhance prospects for successful design and implementation of people-first PPPs.

While the PPP concept is predicated on “value for money” and adequate returns for private sources of capital to take on—and mitigate—risk, [the end objective of “value for people” projects is increased capacity to render higher quality services that are needed by the entire public.](#) Therefore, the approach is a blend in incentives that seeks to optimize returns in an economic, financial, and social sense simultaneously.

As we look ahead to Africa’s needs, PPP projects will continue to be necessary for public services, modernized infrastructure, connected financial markets, and regional integration to achieve the critical mass and scale needed for continent-wide resilience in the face of exogenous shocks.

However, legitimate questions remain in terms of how to prioritize investments so that they can boost growth and resilience while achieving the quality of life and social objectives that are at the heart of sustainable economic development. To do so, revision of PPP legal and institutional frameworks that favor People-First PPPs combined with a more prominent role of the domestic private sector will improve prospects for achieving these objectives.

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