Infrastructure in Fragile and Conflict-Affected States

Full Description

Countries are classified as fragile and conflict-affected states (FCS) for diverse reasons. The **OECD Principles for Good International Engagement in Fragile States** (OECD 2007c) describe FCS as facing development challenges "such as weak governance, limited administrative capacity, chronic humanitarian crisis, persistent social tensions, violence or the legacy of civil war." Conflict-affected states differ from post-conflict states, and fragility takes different forms depending on the strength of their institutions and their ability to enforce the rule of law. A legacy of corruption and cronyism, as described in **the Brookings paper on multinational engagement to support economic growth** (Nelson 2014, 10), hinders trust between the public and private sector.

These conditions create uncertain, high-risk business environments that the private sector is reluctant or even unable to engage with. More than 70 percent of FCS rank in the bottom quartile of the **World Bank Group's Doing Business rankings** (DB). In addition, essential infrastructure facilities are usually scarce and in poor condition; access to public services is limited; and the quality of service delivery is poor.

The **OECD report on service delivery in fragile situations** (OECD 2008b, 21) shows that the lack of government capacity to provide services creates a vicious cycle of poverty that reinforces fragility and may exacerbate or renew conflict.

These create challenges for PPPs, where the long pay-back phase for the private sector investor/lenders leaves them exposed to public sector risk over an extended period. This means that classic PPP models are not well suited to such situations and either

- More traditional government-pay models may be needed; or
- The normal PPP models will need to be heavily modified or underpinned; or
- A more limited ambition to create some form of private sector service provision (short of PPP) may be pursued as an interim phase of development.

More likely, a mixture of all three solutions will need to be considered as part of an overall program of reform. Additionally, in those situations in which private finance is obtained at a high-risk premium, it is important to include mechanisms within the contract to trigger refinancing as and when risk within the given FCS country decreases. Refinancing project debt is discussed in greater detail in Considerations for Government.

Private provision of public services can alleviate these sources of fragility and create economic opportunities to spur economic growth. Even where private investment is limited or contracts cannot be long-term, private involvement in the provision of services—managing operations and delivering service—can be critical to creating the conditions for the emergence of a virtuous cycle of peace, stability, growth, poverty alleviation, and shared prosperity.

As countries have varying degrees of institutional development, governance, or capacity already in place, private sector engagement should be tailored to each country's specific context. Various forms of private engagement can be used. Those that have lower capital requirements and short-term horizons, such as management contracts, affermage, lease contracts, and O&M contracts, are particularly appropriate. The affermage, lease contracts, and O&M contracts, are particularly appropriate. The **APMG PPP Certification Guide** (APMG 2016, Section 3.2) discusses each of these solutions. Business opportunities generating foreign currencies such as ports and airports are also more likely to attract quality investors, as are telecommunications and energy projects, particularly in the generation sector.

The most common success factors in attracting the private sector are:

- Open and transparent procurement processes, free of bribery and corruption
- Rights of redress at international courts, especially in case of change in government and/or expropriation of assets or removal of concession rights
- Ability to collect revenues and tariffs
- Ability to ringfence and expatriate foreign currency revenues
- Affordability of the tariffs for local users and if not, local government and donor support to bridge the gap
- Fairness of local employment laws
- Most importantly, security and the rule of law

Three examples of successful private sector engagement in the provision of services in FCS are set out below:

- Purely private investment – In **Somalia** (Feldman 2007), the collapse of the central government in 1991 resulted in the destruction of the telecommunications sector. Slowly, private operators began providing satellite communication devices to meet the demand. This ultimately culminated in the creation of a network of private operators in 1998. By 2007, despite the lack of a cohesive government in place, the country's telephone coverage reached 87 percent.
- Management contract – The World Bank-financed Power Recovery Project in **Guinea** (IFC 2016) brought in Veolia-Seureca, a private French consortium, to manage the operations of Électricité de Guinée. This management contract is designed to improve EDG's technical, commercial and financial performance and enhance the electricity services for approximately 300,000 households.
- O&M contract - In **Haiti** (Brault et al. 2015), the Rural Water Supply and Sanitation Project significantly increased access and sustainability of water services by utilizing O&M contracts with small, private operators throughout the Sud region.

These types of engagements may allow FCS governments to gain proficiency in negotiating contracts with private sector companies. They can also contribute to building trust and credibility with private sector partners.

Including the private sector in a reform dialogue that supports the implementation of transparent, inclusive, and efficient policies and regulatory practices may enhance the investment climate and incentivize private investment. **Cambodia** has regularly convened the Government-Private Sector Forum since 2001. The resulting reforms generated $69.2 million in cost savings to the private sector as of 2015. **The CIPE article on public-private dialogue** (Bettcher et al. 2015) provides a methodology for conducting this dialogue.

FCS also often suffer from capacity deficits in the public and local private sector, making public-private engagement and collaboration challenging. It may be difficult to select an appropriate partner and design a good agreement—particularly when some firms are willing to pay bribes or when officials request bribes to influence procurement. Governments have benefited from the advice of experienced transaction advisors to design and implement competitive tender processes.

If, however, PPP-like structures as defined in this Guide are to be used, for instance in post-conflict countries, it may be necessary to include multilateral institutions that can provide guarantees and insurance products that reduce the risk for private investors. Likewise, mechanisms can be put in place to ringfence foreign revenues; arbitration can be moved offshore; profit repatriation can be regulated by treaties.

With the support of PPIAF, the World Bank and several academic institutions created the **Body of Knowledge on Infrastructure Regulation** (PURC 2012), a website which provides guidance and links to more than 500 references on regulation. The site helps governments define regulatory standards, and includes a section with specific guidance on infrastructure in FCS.

Several examples of project development organizations that may act as offer such products are:

- **IFC Infraventures** (Infraventures), a global infrastructure project development fund that provides early stage risk capital and experienced project development support (Infraventures 2015)
- **InfraCo,** comprised of (InfraCo Africa) and (InfraCo Asia), project developers in lower-income countries established by the Private Infrastructure Development Group (PIDG)
- **Pacific Region Infrastructure Facility** (PRIF), which supports infrastructure development and maintenance in Pacific Island Countries through investment coordination, research and technical assistance

Some countries also find it useful to outsource contract enforcement to an independent party in attract quality investors. Although investing in the capacity of the public and private sectors should be the long-term goal, governments may use skilled intermediaries and transaction advisors in the short term to compensate for these deficiencies as recommended in the **Brookings paper on multinational engagement to support economic growth** (Nelson 2014, 11).

The diversity of situations in FCS countries does not allow for generalizations on the proper path for infrastructure delivery. Improving legislation, building capacity, and fostering a good investment climate may not be enough. In some cases, PPPs can survive very difficult conflict situations—as in Cote d'Ivoire where the PPP utility company continued to deliver electricity to its customers during its civil war. And PPP projects may be successful when the investment climate for private sector participation is sufficiently enhanced, as in the Pamir Private Power Project in **Tajikistan** presented in The Pamir Private Power Project.

The Pamir Private Power Project

In **Tajikistan**, the Gorno-Badakhshan Autonomous Region suffered from major energy shortages following independence from the Soviet Union in 1991 and a subsequent five-year civil war. Economic and human development were choked by this lack of energy.

To improve this situation, the Government of Tajikistan signed a 25-year PPP agreement with Pamir Energy to upgrade and operate the region's out-of-date hydroelectric utility with financial and technical assistance from the Aga Khan Fund for Economic Development, the World Bank, the Swiss Economic Cooperation Office and the IFC.

Although the project faced numerous challenges in implementation due to difficulty in securing contractors and materials, it was finished on time and on budget in 2006. It later faced issues with the population's adjustment to higher energy tariffs and a culture of non-payment but these challenges were overcome over time and Pamir was eventually even able to grow energy output enough to export to Afghanistan. As of 2016, the project is providing renewable energy for 226,000 people in Tajikistan and 28,500 in northern Afghanistan with an eye for expansion to a further 170,000 in Afghanistan over the next five years.

Sources: (Jumaev 2016); (WB 2012b)

Key References

Infrastructure Challenges and How PPPs Can Help - Private participation in infrastructure in Fragile and Conflict-Affected States

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