Models for Private Sector Engagement in FCS

Full Description

The difficult political, economic and regulatory environment in FCS creates challenges for PPPs, where the long pay-back phase for the private sector investors and 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 the 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 1, sub-section 3) discusses each of these solutions. See also PPP Arrangements/Types of PPP Agreements. 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.

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

- **Purely private investment** – In **Somalia** 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. Source: Somalia: Amidst the Rubble, a Vibrant Telecommunications Infrastructure, Feldman 2007.

- **Management contract** – The World Bank-financed Power Recovery Project in **Guinea** 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. Source: PPP Stories - Guinea: Electricité de Guinée, IFC 2016

- **O&M contract** - In **Haiti**, 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. Source: Professionalizing Drinking Water Service Delivery in Small Towns of Haiti, Brault et al. WSP, World Bank 2015).

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.

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