



the
hopeful
CONTINENT

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More than a decade ago, *The Economist* christened Africa “the hopeless continent,” lamenting its prospects for growth and change. Today, the tide has turned. In 2013, the very same magazine lauded the improvement in lives in Africa over the past decade, and declared that the next decade will be even better.

Many of Africa’s economies are among the world’s fastest growing. At least a dozen have grown by more than 6.0 percent annually for six or more years. But success gives rise to new challenges. Although private investment is no longer novel in Africa, it does not yet meet growing needs. A younger population and expanding middle class have new demands. Infrastructure bottlenecks threaten sustained development.

Public-private partnerships (PPPs) are an important vehicle to help Africa confront these challenges.

A widely cited World Bank Group study from 2009, “Africa’s Infrastructure: A Time for Transformation,” found that infrastructure has been responsible for more than half of Africa’s recent growth and has the potential to contribute more—but at a cost. Africa’s conventional infrastructure, which includes roads, electricity, and water, requires \$93 billion in new investment annually. Some of this can be financed domestically, but the report estimates that the annual infrastructure funding gap is likely to reach over \$30 billion.

THE INFRASTRUCTURE FUNDING GAP

Private investors have a growing interest in Africa, and enormous financial capacity relative to Africa’s needs. By creating PPP structures, public service needs can be met through incentives to private investors that need to receive fair and attractive risk-adjusted returns on investments.

PPPs are already familiar to Africa and gaining traction. From just \$1 million in PPP activity in 1993, private investment of \$13 billion was being channeled into infrastructure by 2008. The global financial crisis slowed the flow, but a recovering global economy, coupled with Africa's bright growth prospects, positions PPP models to be the wave of the future.

The potential for PPPs in Africa is seemingly limitless relative to its current level. New opportunities will arise as PPPs expand further into new sectors such as social services, tailor themselves to small and large projects, and appeal to local or regional investors alongside larger, international players.

The range and size of PPP projects has been changing as new countries and types of investors have become involved. Until recently, infrastructure PPP projects were concentrated in sectors such as power and telecoms and usually involved large investments with foreign sponsors taking the lead. More recently, the range of sectors in which PPPs have been implemented has expanded, more innovative projects have been undertaken, and local and regional investors have become involved across a wider range of countries.

HEALTH

Healthcare is a sector where a new PPP model is attracting more attention. Support services have been contracted out and new buildings delivered by private investors, while clinical services have remained in hands of government providers.

As a previous issue of *Handshake* described in detail, a groundbreaking healthcare PPP in Lesotho paved the way for further successful partnerships in Africa. In 2006, the government of Lesotho launched a project to ensure the long-term improvement in healthcare with a PPP to build a state-of-the-art 425-bed National Referral Hospital. The Queen Mamohato Memorial Hospital, as it is known, now serves a wide population.

The Queen Mamohato Memorial Hospital project is only the beginning for healthcare PPPs in Africa. Following a tour by officials of Cross River State in Nigeria, officials engaged IFC to advise on structuring a PPP for the design, construction, equipping, and operation of a 105-bed greenfield hospital in the state capital of Calabar. In June 2013, an agreement was signed for the development of a new hospital on a design-build-operate-transfer basis with an estimated capital cost of \$37 million.

More on this groundbreaking PPP, including an interview with the governor of Cross River State, can be found in the following pages. These and other examples demonstrate how PPPs can assist in efficiently delivering better healthcare services to Africa's people.

WATER

Water has traditionally been a sector where PPPs have been used to deliver services. Previous projects have tended to be large-scale investments aimed at providing bulk water supplies to urban centers. More recently, the focus of PPPs in the water sector has turned toward encouraging the private sector to provide water to smaller rural centers.

In 2007, IFC signed a mandate with Uganda's government to implement the Small Scale Infrastructure Provider Program. The program helped local investors provide water in some towns while also helping municipalities to manage these contracts and improve access to finance for the service providers. The first five-year contract was awarded to a local company in 2010 to provide services in Busembatia. In its first two years it added 400 new connections, double the previous number, and added 17 standpipes where none existed before. All the improvements added no increase to the tariff. The operator was funded by a \$100,000 loan from a local bank. As with Lesotho's Queen Mamohato Memorial Hospital, the example of Busembatia is now being used as a model. South Sudan is looking to roll out a similar program in several of its smaller urban centers.

INFRASTRUCTURE

Wars and civil conflict have had a devastating impact on African infrastructure, and increasingly private investment has become part of the solution.

The rebuilding of the electricity system in Liberia is a good example of PPPs' potential. In 2008, just five years after a civil war destroyed the power infrastructure, the government engaged IFC to attract a private operator. With the assistance of donors, they worked toward reconstructing the power system in the capital, Monrovia. In 2010, Manitoba Hydro International commenced a five-year management contract. By 2012, over 12,000 new connections had been made, revenue increased by 160 percent, and losses decreased by 21 percent. Earlier this year, the contract was extended and its scope increased.

Liberia is not the only country considering PPPs to support the rebuilding of critical infrastructure. Burundi, Democratic Republic of Congo, Sierra Leone, and South Sudan are all actively considering or pursuing PPP programs.

If Africa is to continue to grow—and maintain its promise as “the hopeful continent”—it must leap forward in developing its infrastructure. Resources from governments and donors are insufficient to meet this challenge. Smart, well-designed PPPs can make a significant contribution to fill this gap.

The potential for PPPs in Africa is seemingly limitless relative to its current level. New opportunities will arise as PPPs expand further into new sectors such as social services, tailor themselves to small and large projects, and appeal to local or regional investors alongside larger, international players. In Africa, as in the rest of the world, PPPs can step in to help where the need is greatest. **h**