

AFD AND PUBLIC-PRIVATE PARTNERSHIPS

From infrastructure financing
to the development of essential services





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In 2010, Proparco allocated a EUR 16m loan to the concessionaire of the Dakar container terminal

Public-private partnerships are based on bringing public authorities and private agents together to design, finance, build, manage or preserve a project of public interest. They involve sharing responsibilities and ownership between governments and the private sector, guaranteed by a long-term agreement. There are a whole host of formats for partnerships between public authorities and private operators: joint ventures, concessions, BOTs*, affermage contracts, management or service contracts... They can also cover a wide range of sectors: drinking water, sanitation, power generation, transport, telecoms, health and education, etc.

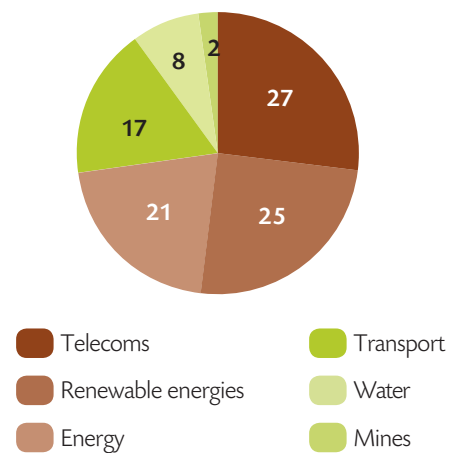
PPPs became increasingly widespread in developing countries in the 1990s. The aim was to offset the shortcomings of the public sector in infrastructure and essential services management. Many first generation PPPs failed in the wake of the financial and economic crises and were replaced by a second generation of contracts under which the private sector further limited its financial exposure (investment, exchange rate risks, etc.). The success of these initiatives is largely dependent on the quality of the institutional and regulatory framework and sectoral policies. Indeed, the authorities must play a key role by adapting the terms of the partnerships – particularly for tariffs, subsidies and private operators’ exposure – to the local socioeconomic situation. The balance between the attractiveness of projects for investors and the protection of users’ interests vis-à-vis operators that enjoy a monopoly is essential.

MULTIPLE LEVERAGING TOOLS FOR ACTIVITIES

AFD Group has a range of tools (market-rate or soft loans, equity investments, technical assistance and grants) that offers a host of possibilities to support both public and private stakeholders and fosters synergies that facilitate the development of PPPs. The Group makes long-term commitments alongside its partners. Its financing has maturities ranging between 7 and 20 years and it can catalyze the participation of other donors (development finance institutions or commercial banks) in large scale projects.

Proparco, AFD’s private sector financing arm, has wide-ranging expertise in financing concessions and BOTs. Alongside projects in the transport, water distribution and treatment and telecoms sectors, it has considerable experience in the power generation, transport and distribution sector, which accounts for half of its infrastructure financing portfolio.

Proparco’s infrastructure sector portfolio breakdown (EUR 1bn year-end 2011)



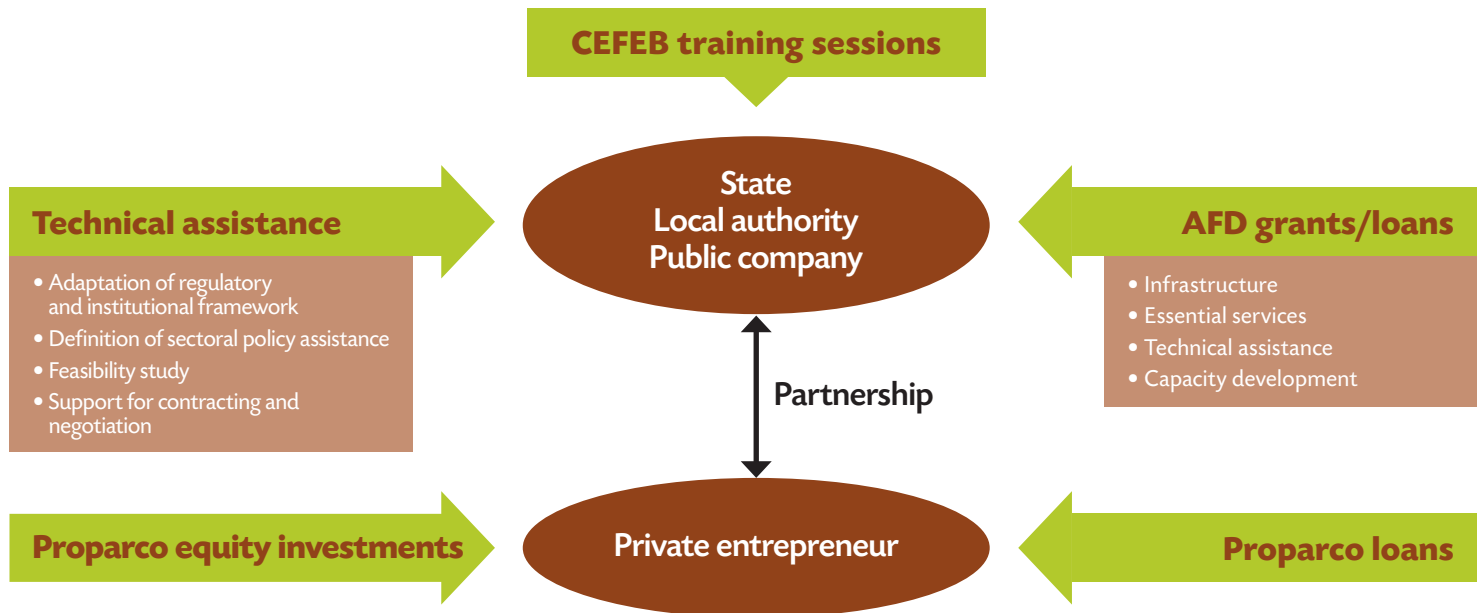
PROPARGO IS INVESTING IN THE RECOVERY OF THE KENYA-UGANDA RAIL CONCESSION

Rail transport on the Mombasa-Kampala line has fallen by almost 50% since 1970 as a result of the gradual deterioration of the infrastructure due to the lack of maintenance investments. In 2005, the Kenyan and Ugandan governments awarded a 25-year concession for rail transport services to Rift Valley Railway (RVR). The concessionaire failed to raise the financing required to upgrade the track, which therefore continued to deteriorate. The volumes of passengers and tons of freight transported fell to an all-time low in 2009. In May 2010, Citadel Capital, Africa’s largest private equity firm, took over RVR and set out to turn around the company. It raised USD 164m in debt and USD 110m in equity to finance the investment program required to improve service quality (fleet renewal and track upgrading) and for the future extension investments. Proparco has supported this operation by making a USD 10.7m equity investment in the RVR holding company via the Investment and Support Fund for Businesses in Africa (FISEA).

(* BOT: Build, Operate, Transfer)

IN ADDITION TO ITS TRADITIONAL ACTIVITY OF DEVELOPING AND FINANCING PPPS FOR MAJOR INFRASTRUCTURE, AFD SEEKS TO PROMOTE NEW TYPES OF PARTNERSHIP TAILORED TO THE SPECIFICITIES OF DEVELOPING COUNTRIES.

AFD Group operations support public-private partnerships



Although Proparco’s market-rate loans account for a predominant share of Group loans to the private sector, AFD can allocate soft loans to private operators who undertake to implement additional environmental and social activities. For example, the EUR 11m direct soft loan allocated by AFD to the Turkish cement manufacturer Nuh Cimento in 2008 has financed the construction of a dryer that transforms sludge into fuel for the cement plant. This has provided Izmit Municipality with a low-cost solution for municipal and industrial sludge disposal with a low environmental impact.

AFD also allocates direct loans to local authorities and public companies to enhance their autonomy, without necessarily requiring a government guarantee. Thanks to these non-sovereign loans, public PPP managers take a greater interest in the economic viability of projects. Working at the local level also ensures that the expectations of civil society and users are taken more into account. This is often a decisive factor for the success of this type of project. AFD finances public asset-holding companies that delegate the technical and commercial operating of their infrastructure to the private sector, for example, the Senegalese National Water Authority (SONES) and Camwater (Cameroon).

A PRAGMATIC APPROACH

AFD places a strong focus on capacity development for administrations and public companies for PPP programming, contracting and management. PPPs often involve complex contractual and financial arrangements that bind the parties for several years, sometimes even for decades. AFD supports

and finances the definition of sectoral policies and feasibility studies prior to the service delegation when the public authority requires assistance. It provides and finances technical assistance for negotiation, administrative and financial management and the monitoring of contractual undertakings. CEFEB, AFD Group’s corporate university, provides specific training sessions on PPPs for managers from partner countries during short-term seminars dedicated to this topic (for example, the “Water and Transport PPP Workshop” in Ho Chi Minh City in December 2011) or during the long-term graduate course (Master’s in Public and Private Management Capacities) that it leads in partnership with CERDI (Auvergne University). AFD sometimes directly works on adapting the regulatory and institutional framework: in 2010, it financed the development of the draft framework bill on PPPs in Syria and the drafting of the implementing legislation.



AFD promotes regional integration initiatives as some domestic markets do not always have the critical size for private investments to be profitable. For example, AFD has participated in financing a number of rail concessions that promote trade development and open up remote regions in Sub-Saharan Africa. This is the case with Camrail, which operates the North-South railway in Cameroon that facilitates Chad and Central Africa access to the Atlantic Ocean.

FINANCING OF THE NAM THEUN 2 HYDROPOWER PLANT IN LAO PDR

Lao PDR benefits from considerable hydropower potential (23,000 MW), but it remains largely unexploited. Hydropower is, however, the country's leading export sector. The 1997 Electricity Law liberalized the sector and allowed private producers



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to come into existence. In 2005, AFD and Proparco participated in financing (USD 30 m each) a hydropower scheme on the Nam Theun River with a capacity of 5,600 GWh/year. This scheme, with a total cost of USD 1.28bn, has been built by Nam Theun 2 Power Company (NTPC) under a 25-year BOT (Build Operate Transfer) contract. AFD has also allocated a EUR 5m grant to the Lao government to partially finance its participation in NTPC alongside private companies. Since the works were commissioned in 2010, the sale of electricity, 95% of which is exported to Thailand, has been generating government revenues (dividends, taxes and royalties paid to the Lao government by NTPC) estimated at USD 85m a year. NTPC is required to earmark USD 90m for major social and environmental compensatory measures to improve the living conditions of displaced persons (6,300 people), compensate for possible losses incurred by communities downstream from the project and finance the creation of a protected area on the watershed upstream from Nam Theun (4,000 km², one of the richest biodiversity areas in the region).

AFD is also taking an increasing interest in helping governments to make better use of their natural resources. AFD can, for example, facilitate financing and negotiations for public sector equity investments in mining joint ventures. This was the case in 2006 in Mozambique for the operating and treatment of natural gas from the Pande and Temane gas fields, in partnership with the South African petrochemicals giant SASOL (USD 50m loan to Companhia Moçambicana de Hidrocarbonetos).



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Ferry crossing for logs on a certified concession in Northern Congo

20 YEARS OF OPERATIONS FOR SUSTAINABLE FOREST MANAGEMENT IN THE CONGO BASIN

In the early 1990s, Congo Basin forests were subject to mining-like forest exploitation, with no concern for renewing resources. For the past 20 years, AFD has been supporting the development of forest concessions in the countries in question (Cameroon, Central African Republic, Congo and Gabon), which includes Forest Management Plans (FMPs). This tool integrates the renewal of timber resources, biodiversity conservation and the socioeconomic development aspects in each exploited forest. AFD's action has led to: (i) a first wave of financial support to the forest industry by its subsidiary Proparco (EUR 11m); (ii) five major financing operations (EUR 11m of loans and credit lines) to large concessionaires that adopt FMPs; (iii) three major technical and financial assistance projects (EUR 11m of grants) to small- and medium-sized operations; (iv) financing for institutional capacity development, research programs and conservation. The movement has gradually gained momentum and spread to all areas (academic and political). This has prompted the main Central African companies that export tropical timber to Europe to integrate different sustainable forest management tools into their operating methods. Today, out of the 31 million hectares (ha) concessioned out, almost 20 million ha are currently being developed, including 4.4 million ha certified "sustainable management" by the FSC (Forest Stewardship Council).

TOWARDS NEW MODELS AND SECTORS FOR OPERATIONS

AFD devoted a research program to PPPs from 2005 to 2010, which led to some thirty publications. A lot of research has focused on the water and sanitation sector and has studied the institutional issues of ongoing reforms in developing countries, or innovative forms of private sector participation in essential services. New models that enhance the role of civil society and small private operators have been a specific focus.

Alongside its traditional infrastructure financing operations, AFD seeks to promote innovative experiences of partnerships that meet the specific requirements of developing countries in less conventional sectors, such as health and education services or environmental protection. This can involve new institutional and contractual arrangements to regulate the informal private sector or charities that provide essential services. Other arrangements use existing tools for new applications: for example, AFD has contributed to the definition of an Economic Interest Grouping model associating governments and the industrial sector for the development of vocational training.

CREATING AN INCENTIVE-BASED COOPERATION FRAMEWORK BETWEEN THE CAMEROONIAN GOVERNMENT AND FAITH-RELATED ASSOCIATIONS

Faith-related organizations provide almost 40% of hospital services in Cameroon. They complete public services in rural areas and charge affordable prices to people on low incomes. Under the French Debt Reduction and Development Contract¹ (C2D) signed in 2003 with the government, AFD has contributed to restructuring the health sector, with a focus on developing a partnership policy between the Ministry of Public Health (MPH) and faith-related organizations. The aim is to develop their respective capacities for action, as well as synergies between the public sector and private not-for-profit sector. A joint partnership steering committee has been set up, along with a Technical Contracting Support Unit in charge of training and advising partners in negotiating and monitoring contractual relations, developing harmonized management tools and negotiating with social partners. Framework agreements and implementation contracts have been signed with the three main faith-related networks (OCASC, Ad Lucem and CEPCA). They formalize the participation of the not-for-profit private sector in the "public health service" (participation in public health programs, in the health information system, compliance with quality standards, etc.), as well as the financing from public funds of organizational and financial audits and the resulting restructuring plans. The aim is to improve the management and services of private establishments. The C2D is providing FCFA 14.9bn (EUR 22.8m) to this initiative.

⁽¹⁾ Cancellation mechanism for public debt held by the French State under the Heavily Indebted Poor Countries Initiative.



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SMALL-SCALE OPERATORS IMPROVE ACCESS TO WATER FOR THE POOREST IN MAPUTO

The water sector reform in Mozambique in the 1990s led to the creation of an asset-holding company, FIPAG (Fundo do Investimento e Património do Abastecimento de Água), the owner of infrastructure in the 16 main cities in the country. In the urban area formed by Maputo, Matola and Boane (some 2 million residents), water distribution was delegated by FIPAG to a private operator, Águas de Moçambique (AdeM), in 1999 under an affermage contract. The service provided by AdeM has deteriorated (water is only available for about ten hours a day) and the northern part of the city is not covered by the network. Since the end of the 1980s, there have been an increasing number of informal small-scale private water providers (SSPWPs) in unserved peri-urban areas, who invest in independent mini-networks supplied by boreholes. In 2005, there were some 500 SSPWPs supplying roughly 400,000 residents at prices 30 to 70% higher than the regulated tariff. Questions were raised over the quality of the water supplied, the groundwater capacity and accessibility for the poorest. Since 2005, AFD has been supporting an institutional transition process that relies on this alternative provision by financing the construction by FIPAG of 16 new water distribution systems in the north of the city under 5-year affermage contracts with SSPWPs, selected through a bid invitation on the basis of technical standards and a regulated price. The cost of new connections to these systems is also subsidized on the basis of results. This project has, through two professional associations, given SSPWPs incentives to adopt a formalization (obtaining licenses), professionalization and concentration approach in order to provide a regulated service that is truly complementary to that of AdeM.

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AFD, the *Agence Française de Développement*, is a public development finance institution that has worked to fight poverty and support economic growth in developing countries and the French Overseas Provinces for 70 years. AFD executes the French government's development aid policies.

Through offices in more than fifty countries and nine French Overseas Provinces, AFD provides financing and support for projects that improve people's living conditions, promote economic growth and protect the planet: schooling, maternal healthcare, help for farmers and small business owners, clean water supply, tropical forest preservation, and fighting climate change, among other concerns.

In 2010, AFD approved more than €6.8 billion for financing aid activities in developing countries and the French Overseas Provinces. The funds will help 13 million children go to school, improve drinking water access for 33 million people and provide €428 million in microloans benefiting more than 700,000 people. Energy efficiency projects financed by AFD in 2010 will save nearly 5 million tons of carbon dioxide emissions annually.

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PROPARCO, AFD's subsidiary dedicated to private investment, promotes private investment in emerging and developing countries in order to boost growth, promote sustainable development and reach the Millennium Development Goals. Its financing is tailored to the specific needs of investors in the productive sector, financial systems, infrastructure and private equity investment.



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FFEM is a bilateral public facility set up by the French Government in 1994 following the Rio Summit. It aims at promoting global environmental protection via sustainable development projects in developing or transition countries. The French Global Environment Facility supports physical projects in recipient countries. Its operations are learning-based and support experimental, innovative or exemplary approaches.



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