

Infrastructure Concessions

RERA NEW COMMISSIONER TRAINING
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PROTEA HOTEL, ARCADES, LUSAKA, ZAMBIA

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Summary and key Issues

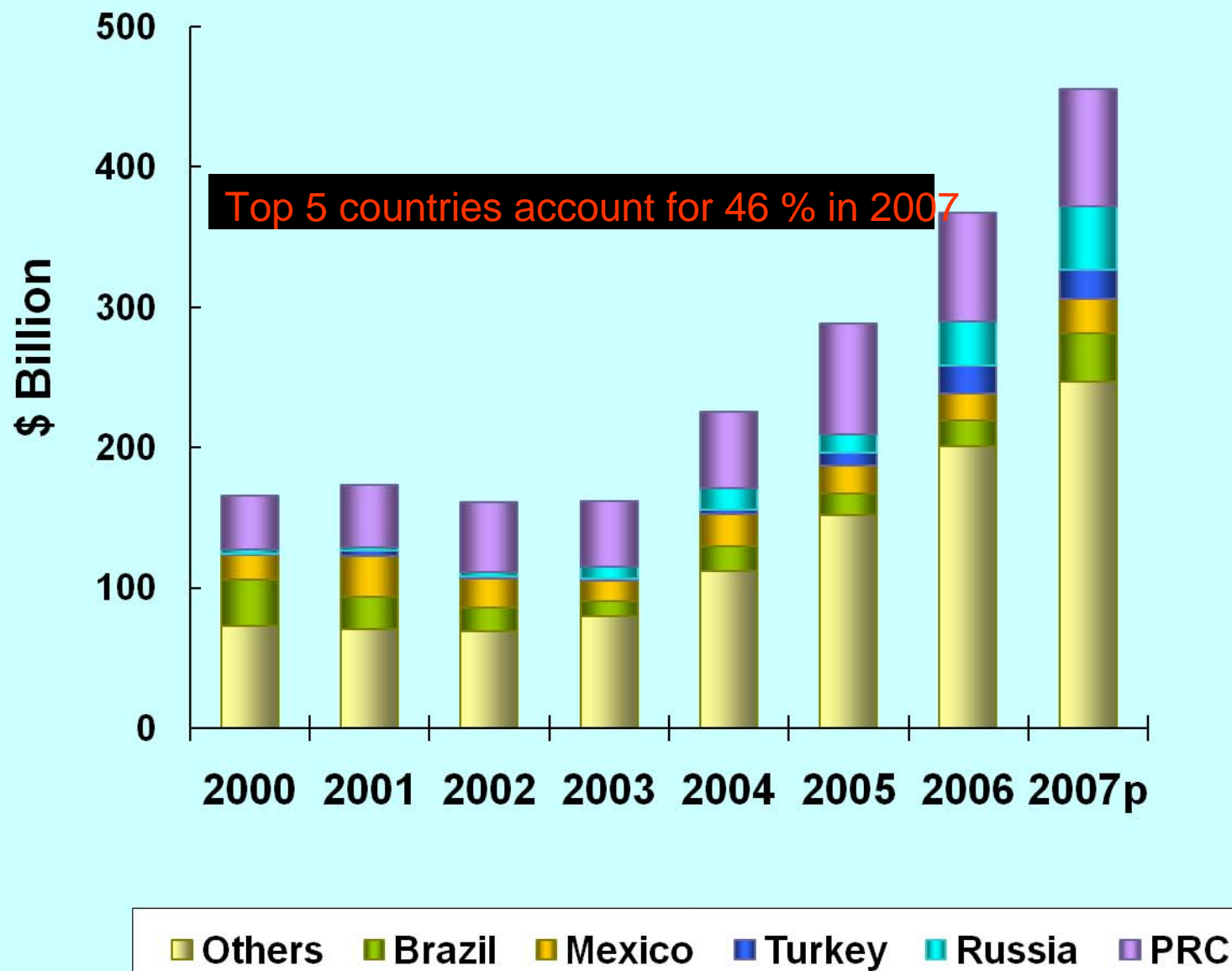
Private investment in infrastructure sectors in sub-Saharan Africa falls short of need

Government's roles and the expectations of private investors in concessions

A fair and transparent bidding process

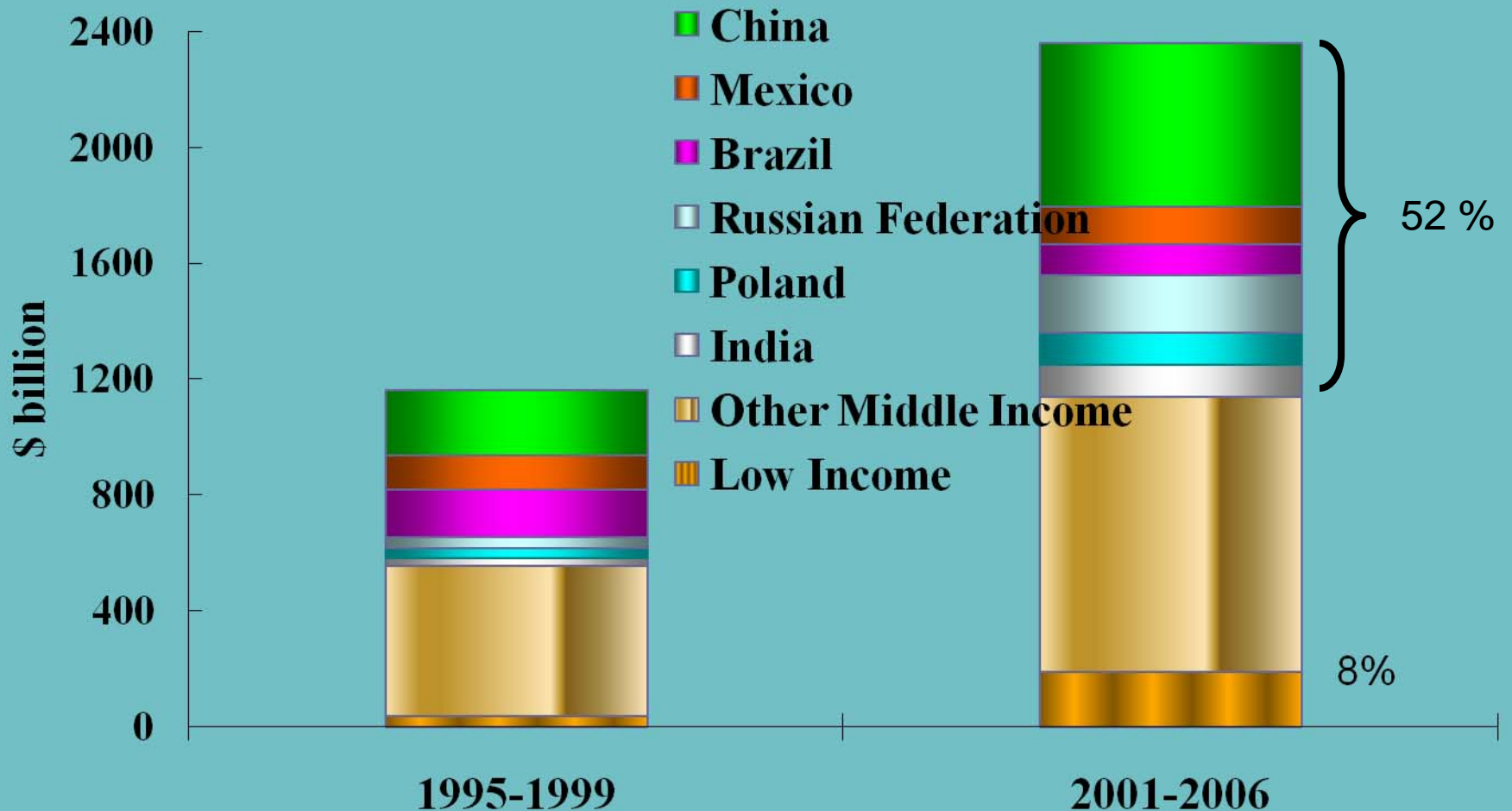
The balance between regulatory discretion and contracts

FDI inflows to developing countries



Source: World Bank (Dailami)

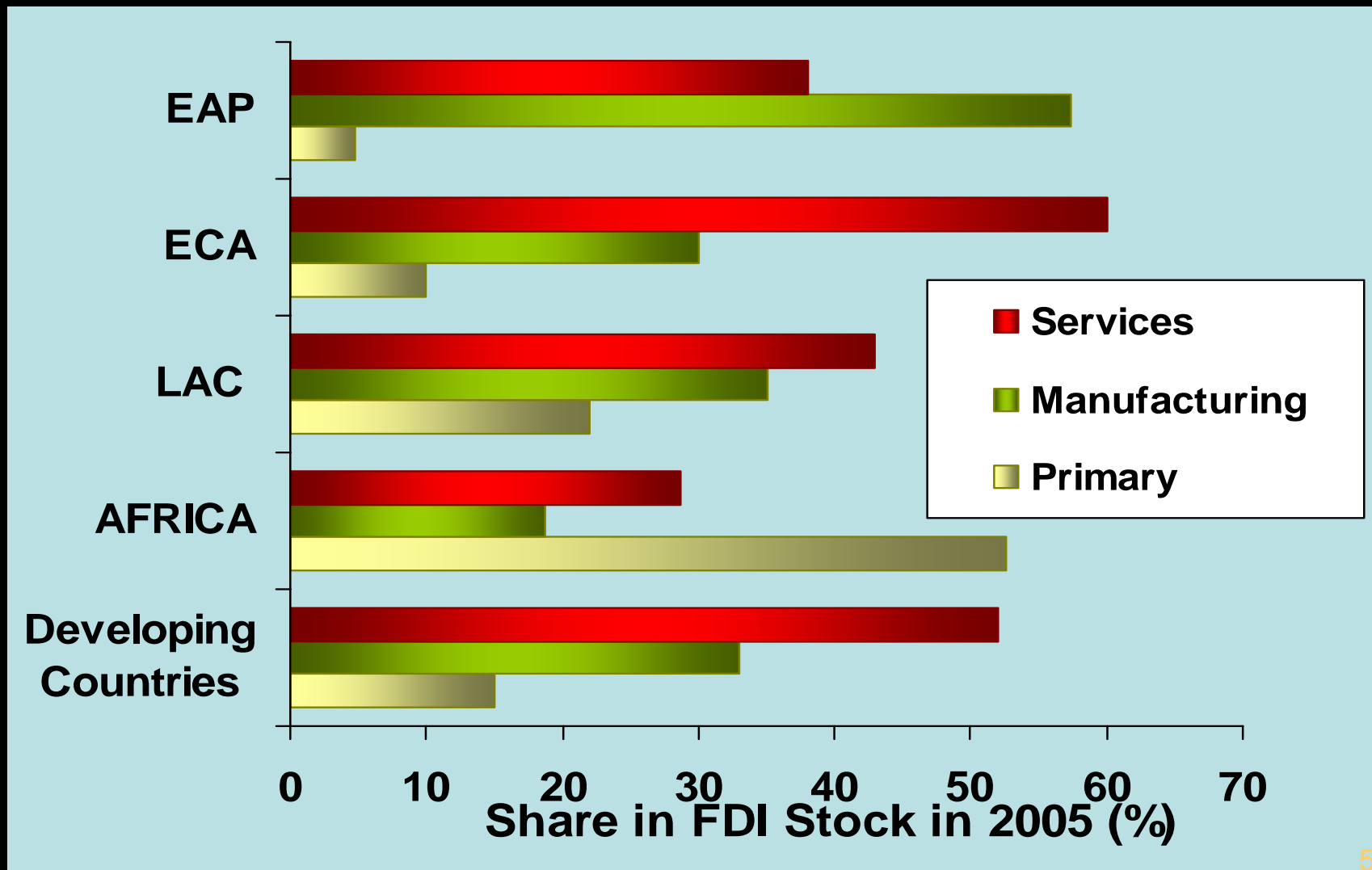
Low income countries attract very limited private capital flows



Source: World Bank (Dailami)

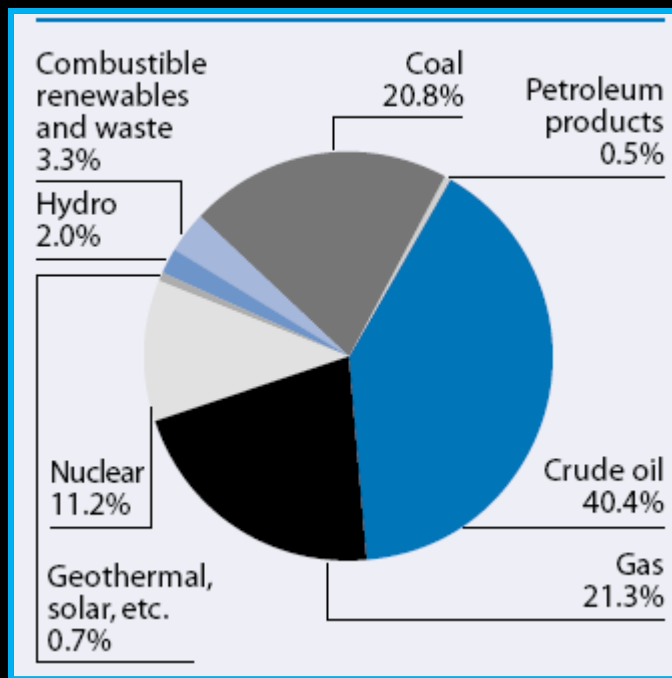
FDI in services compared to primary and manufacturing

Almost all services sector FDI is in infrastructure and financial sectors

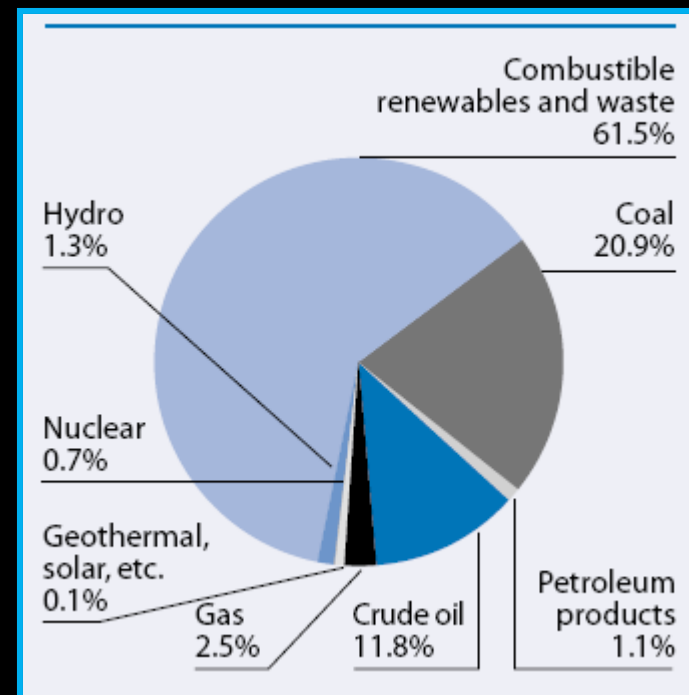


Source: World Bank (Dailami)

Primary Energy Use by Energy Source



OECD shares of 5.33 Gtoe



Sub-Saharan Africa shares of 0.4 Gtoe

Use by Energy Source

- **SSA: combustible renewables and waste (more than 60%);**
- **Many countries above 80%**
- **For OECD about 3% comb renewables and waste.**
- **Per capita primary energy use in North America - 280 Gigajoules in 2000,**
- **In SSA the use was 25 Gigajoules (*includes commercial and non-commercial*).**

RATIONALE FOR PPI

Augment Public Finance

- Transfer finance to private sector

Improve Project Development

- Better Identification
- Better Skills/experience
- More Commercial focus
- Less Vested Interests

Improve Infrastructure Management

- Project execution
- Operation and Maintenance

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State

System expansion
Increased access
Quality
Affordability

Private Investor

Return on investment
Minimum uncertainty

Invite private sector
Offer incentives
Issue permits
Regulate

Project

Finance
Construct
Operate
Maintain

PRIVATE SECTOR CONCERNS

Project Viability

Government Commitment

Bidding Process

Construction

Regulatory Framework

Project Viability

Commercial demand

Is the Price right?

Willingness to pay

Currency stability

Government Commitment

Is there clear opposition to project?

Credit enhancement – guarantees?

Subsidies

Institutional framework

Permits

Land

Environment

Other project approvals

Bidding Process

Transparent –
procedures, criteria,
decision rules

Sample Contracts –
obligations and rights
of private partners

Incentive Package –
Credit enhancement,
Project subsidies, etc

Regulatory Framework

Acceptable Rate of Return
(Political risk?)

Currency Stability
(what currency in
contracts?)

Revenue guarantee–
(Demand risk)

**Repatriation of
dividends**

PROJECT STAGES

Bidding Process

- Competition
- Procedures
- Transparency

Project Execution

- Approvals and Permits
- Political uncertainty
- Cost escalation

Operation and maintenance

- Political uncertainty
- Regulatory environment
- Demand and Price

Summary and key Issues

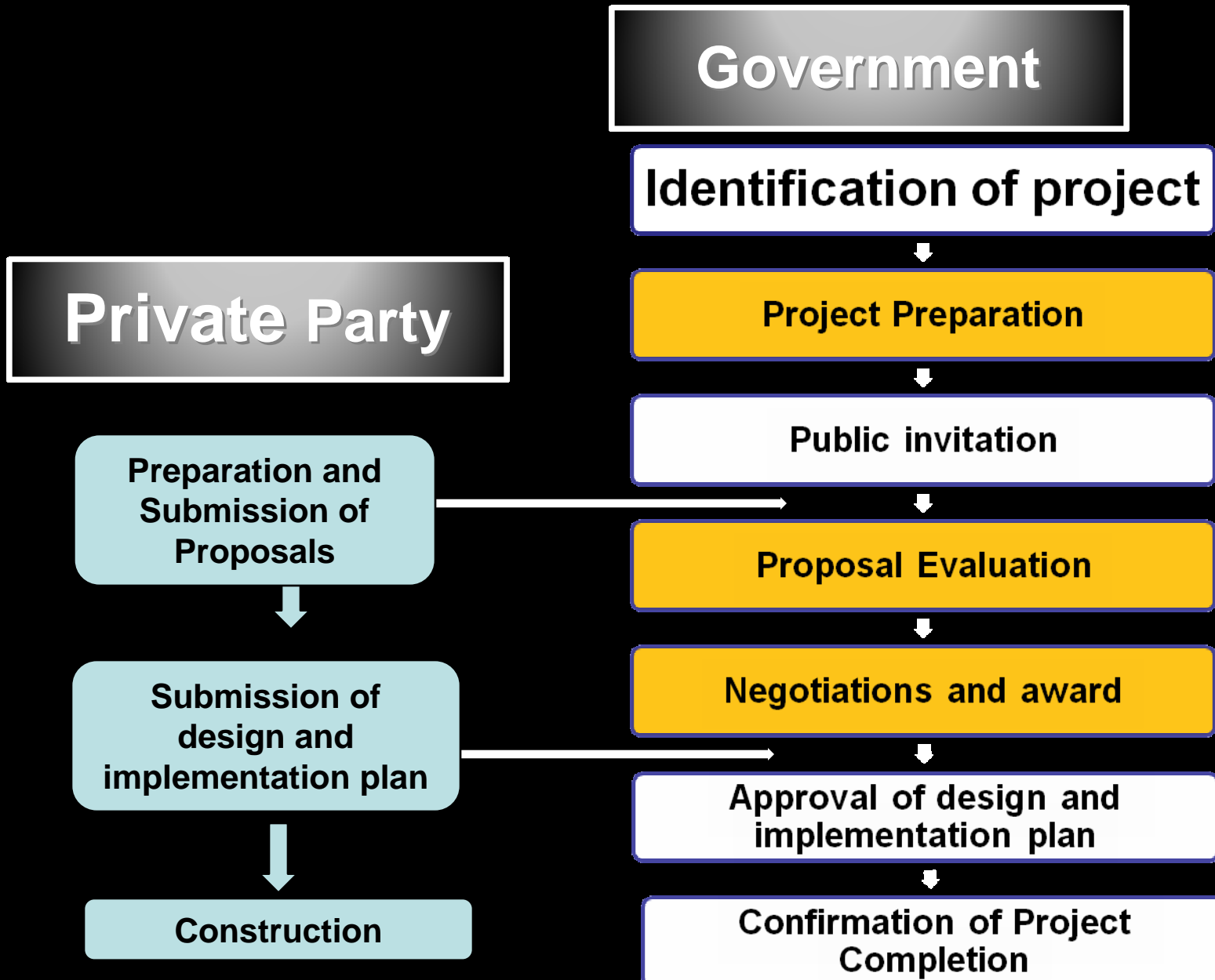
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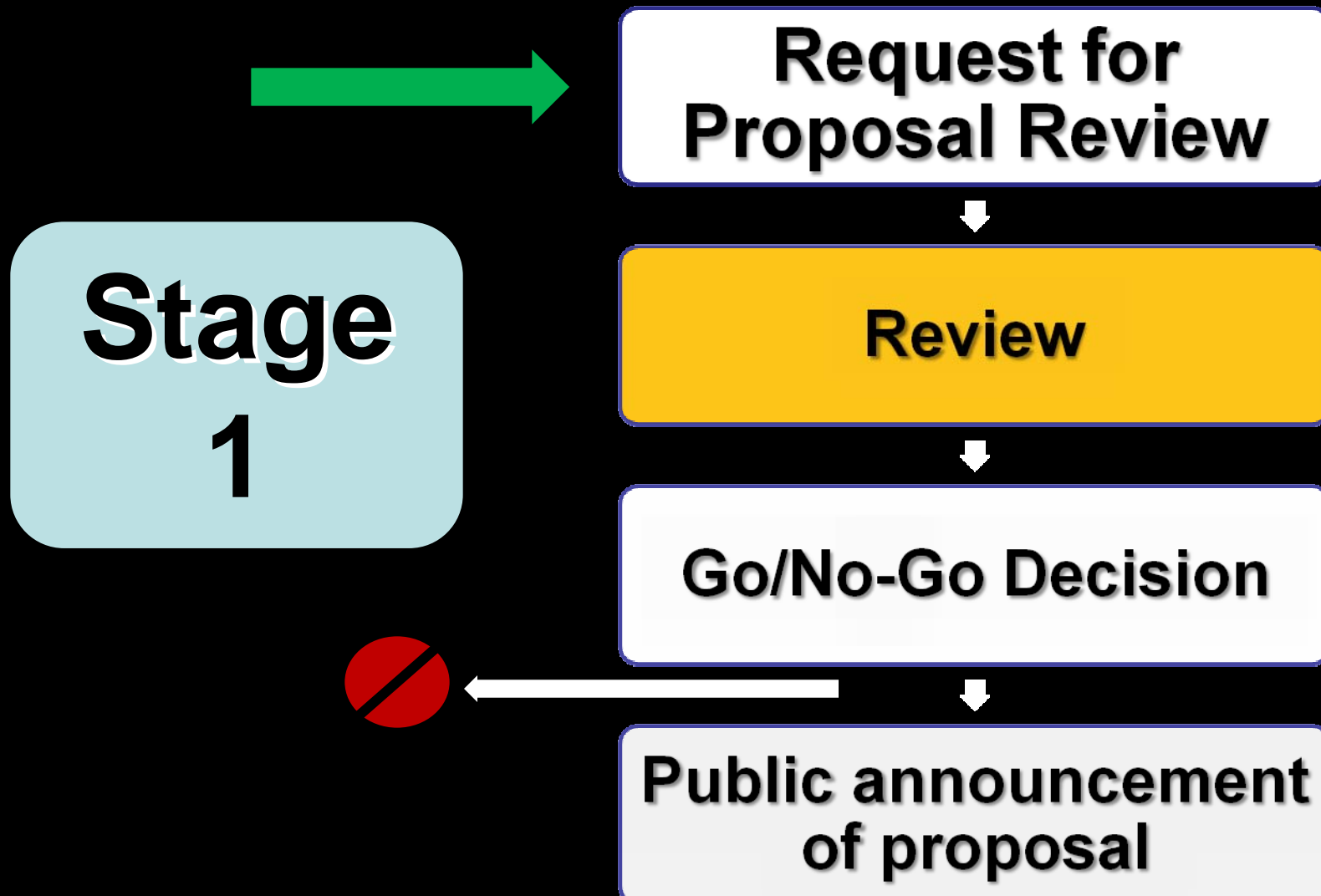
The bidding process should be fair and transparent

A balance should be struck between regulatory discretion and service contracts

Solicited Bid Process



Unsolicited Bids (if permitted)



Unsolicited Bids (if permitted)

Stage 2

**With Third Party
Proposal**



**Evaluation of Third
Party Proposal(s)**



**Negotiations with
winning bidder**



Award of Contract

**Without Third Party
Proposal**



**Negotiations with
initial proposer**



Award of Contract

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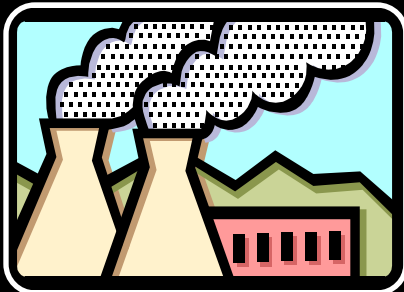
Reducing Regulatory Uncertainty

GENERATION

Purchase
Agreements:
'take or pay?'

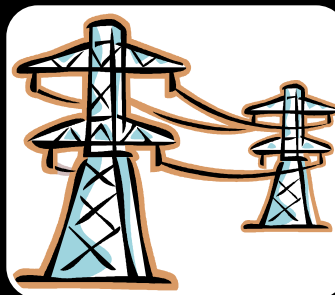
Financial/fiscal
Incentives:

Implementation
Agreement



TRANSMISSION

Transmission
Pricing



DISTRIBUTION AND SUPPLY

Concession
Contracts

Multi-year
pricing

Service
Extension



Gains from Reduced Discretion

provides greater certainty and predictability

Is more consistent and fair;

reduces arbitrariness and bias;

Puts constraints on political influence

Helps inexperienced authority or one with low competence (especially, but not only, if new)

saves time and cost when each specific case is considered

Downside of Reduced Discretion

Precise rules may hinder flexibility in a changing environment e.g. long-term contracts

If the decision maker is competent and unbiased, principles will result in better decisions

The initial set-up cost of a system of sharp rules is high; (developing detailed rules or templates)

Using principles and discretion can allow the regulator to stay one step ahead of the company – forestall ‘gaming’

Precision in rules can lead to complexity and ambiguity – back to arbitrariness

CONCLUSION

Unlike other kinds of investments, infrastructure projects need government approval

Bidding Processes important but part of a wider investment framework

Best to establish a PPI law and a PPI Unit

Balance detail and explicitness against discretion considering:

- Possible change in environment
- Maturity of reg. authority
- Perceptions of private sector

Some countries are succeeding: Some lessons may be transferable

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END