



POLICY BRIEF  
**POLICY RECOMMENDATIONS:  
ADAPTATIONS FOR PRIVATE  
SECTOR-LED  
INFRASTRUCTURE  
DEVELOPMENT IN AFRICA**



Task Force 3

**INFRASTRUCTURE INVESTMENT AND FINANCING**

Authors

**ROB FLOYD, ABLA ABDEL-LATIF, SAN BILAL, KARIM EL AYNAOUI**

# موجز السياسة توصيات السياسة: التكيّفات لتطوير البنية التحتية بقيادة القطاع الخاص في إفريقيا

فريق العمل الثالث  
الاستثمار في البنية الأساسية وتمويلها



المؤلفون  
روب فلويد، عبلة عبد اللطيف، سان بلال، كريم العيناوي



## ABSTRACT

While Africa faces a huge infrastructure gap, there are measures that Group of 20 (G20) countries and its institutions can take to ensure greater and faster infrastructure investments. G20 institutions, particularly development finance institutions (DFIs), should undertake enhanced local approaches to blended finance. Likewise, G20 governments and associated institutions should rapidly address options for reducing project cycle timelines and complexity. They should also intensify efforts to mitigate fiscal risks in public-private partnerships to make projects more bankable, and address off-budget or opaque contingent liabilities. These actions will lead to more productive infrastructure investment, thereby leading to improvements in connectivity and quality of life for communities across Africa.

بينما تعاني إفريقيا من فجوة هائلة في البنية التحتية، توجد تدابير يمكن لدول مجموعة العشرين ومؤسساتها اتخاذها لضمان تحقيق استثمارات أكبر وأسرع في البنية التحتية. ويجب على مؤسسات دول مجموعة العشرين، خاصةً مؤسسات التمويل الإنمائي، اتباع نهج محلية متطورة للتمويل المختلط. وبالمثل، يجب على حكومات دول مجموعة العشرين والمؤسسات ذات الصلة تناول الخيارات سريعًا لتقليص الجداول الزمنية لدورة المشروع وتعقيدها. كما يجب عليها تكثيف الجهود للحد من المخاطر المالية في الشراكات بين القطاعين العام والخاص بحيث تكون المشروعات مقبولة لدى البنوك بدرجة أكبر وتلبي الالتزامات العرضية الخارجة عن الميزانية أو غير الشفافة. وهذه الإجراءات ستفضي إلى استثمارات أكثر إنتاجية في البنية التحتية، ما يؤدي إلى تحسينات في الاتصال ونوعية الحياة للمجتمعات على مستوى إفريقيا.



## CHALLENGE

The infrastructure gap facing Africa is large and growing. It can only be addressed with innovative approaches to attract and leverage private sector investment, while improving the business environment, accelerating build-out processes, and mitigating risks. These measures may, for example, include mitigating risks in public-private partnerships, increasing the volume of blended finance, or improving infrastructure investment cycles. Today, private sector investment faces many challenges. These include insufficient and overly risk-averse blended finance, low capacity for countries to market and develop projects, low global thresholds for “bankability,” and long time-lags when international and multilateral financing and guarantees are sought.

Even though infrastructure financing in Africa has reached record highs, the infrastructure gap is growing. According to the Infrastructure Consortium for Africa (ICA), financing for infrastructure reached \$100.8 billion in 2018, significantly higher than in previous years (ICA 2018). This is due in part to African governments beginning to allocate domestic resources to infrastructure, and in part to large increases in investment from China. In fact, in 2018, African governments’ commitments were 33% higher than the 2015–2017 three-year average, and commitments by China increased by 65% over the previous three-year average. There have also been continued increases in financing from Arab countries, India, and other non-traditional donors/investors. While the increased financing is welcomed, the ICA estimates for Africa’s financing requirements range from \$130 billion to \$170 billion annually. Even with significant increases there is a wide financing gap and hence, there is a significant role to be played by G20 countries.



# PROPOSAL

## Background

### Ongoing global efforts

Although numerous regional and global efforts address Africa's infrastructure gap, including those from G20 countries, more is needed to address sustainable, decarbonized/carbon neutral inflow of private capital to finance an investment push. For example, the Programme for Infrastructure Development in Africa (PIDA) is a strategic continental initiative which has the buy-in of all African countries to mobilize resources and transform Africa through modern infrastructure. Its 51 cross-border infrastructure projects comprise more than 400 sub-projects in energy, transport, transboundary water, and Information and Communication Technology (ICT). Likewise, the Africa Investment Forum (AIF) which is organized by the African Development Bank (AfDB), has secured investor interest worth \$40.1 billion and \$37.1 billion in 2020 and 2019, respectively. The Africa-Europe Alliance for Sustainable Investment and Jobs was established to create up to ten million jobs in Africa in the next five years. It is part of the European Union's (EU) External Investment Plan (EIP), which provides €4.1 billion in grants and blended financing, resulting in expected investments exceeding €40 billion for the EIP ending in 2020.

At the same time, some national governments are also prioritizing investment in Africa. The German Marshall Plan for Africa includes a €1 billion investment fund to support projects from German and African companies. The German development ministry has agreed to reform partnerships with Ghana, Tunisia, Cote d'Ivoire, Ethiopia, Senegal, and Morocco, with up to \$100 million for each country in collaboration with the World Bank and other development partners. On a larger scale, China's president, Xi Jinping, unveiled the Belt and Road Initiative (BRI) in 2013. From 2007 to 2019, China's outward Foreign Direct Investment (FDI) flows have increased from \$27 billion to \$125 billion, ranking fourth in the world, following the United States (US), the EU, and Japan (UNCTAD 2018). The implications of the BRI are potentially enormous. It includes important infrastructure investments in the African continent, such as the Mombasa Nairobi Standard Gauge Railway, the Doraleh Multi-Purpose Port in Djibouti, and the Karuma Hydropower Project in Uganda. Baltensperger and Dadush (2019) note that infrastructure investments under the BRI could reduce global trade costs by 1.1%–2.2% (de Soyres 2018). This figure excludes efforts to improve customs operations and reduce other barriers to trade.

Similar to these initiatives, the G20 Compact with Africa (CwA) is an effort by G20 countries to promote private investment in Africa, including in infrastructure. The CwA's primary objective is to make private investment more attractive through substantial

improvements to macroeconomic frameworks, business environments, and financial regulations. It brings together reform-minded African countries, international organizations, and bilateral partners from the G20 and beyond. The CwA coordinates country-specific reform agendas, supports respective policy measures, and advertises investment opportunities to private investors. The initiative is demand-driven and open to all African countries. Since its launch in 2017, twelve African countries have joined the initiative: Benin, Burkina Faso, Côte d'Ivoire, Egypt, Ethiopia, Ghana, Guinea, Morocco, Rwanda, Senegal, Togo, and Tunisia.

Naturally, it is incumbent upon African governments to ensure hospitable business and investment environments for investors of all sizes. Under the CwA initiative, the G20 is supporting this effort. According to the May 2020 Compact Monitoring Report, Compact countries demonstrated their multi-year commitment and continued to improve their business environments. For example, Côte d'Ivoire established policy and regulatory frameworks to introduce environmentally sustainable standards in cocoa and renewable energy and promote expansion of the renewable energy sector. It also launched reforms of commercial courts, e-procurement, contract enforcement, tax payment, property rights, and e-single window. Ghana also made significant progress in undertaking reforms to improve the energy sector's performance and strengthen government capacity. It enacted a new Companies Act (Act 992), streamlined business registration procedures, and established the Autonomous Office of the Registrar to support business entry and operation.

Between Doing Business (DB) 2019 and DB 2020, the ease of doing business (EODB) scores improved in all 12 CwA countries. Both Morocco (73.38 in 2020) and Rwanda (76.48 in 2020) moved into the top quartile of the EODB table. They were within reach of both the Organization for Economic Co-operation and Development (OECD) average (78.35 in 2020) and Mauritius (81.47 in 2020), the highest ranked African country.

The World Bank's DB data suggest that CwA countries—with support from the G20—had better average distance-to-frontier (DTF) scores for doing business, while also demonstrating faster improvement. In DB 2019, the 12 CwA countries reported 47 reforms for EODB, an average of nearly four per country compared to a global average of 1.7 reforms per country. Three CwA countries—Côte d'Ivoire, Rwanda, and Togo—were among the top ten DB reformers for the year. Further analysis shows that compared to the rest of the continent, CwA countries have enacted more reforms to create a more liberal and improved environment for FDI.

CwA countries' average DTF score was 50.3 in DB2010 and 58.6 in DB2019 (ranging from 77.8 for Rwanda to 49.6 for Ethiopia). Whereas, non-CwA countries' average DTF score was 46.1 in DB2010 and increased to 50.7 in DB2019 (Mauritius had the highest DTF at 79.5 while Somalia had the lowest at 20.0). The growth rate in DTF scores for CwA countries was 16.5%, double of that for non-CwA countries. This suggests that CwA countries may have been more effectively implementing reforms and improving their business environments.

Since the launch of the Compact in 2017, a total of 148 reform commitments have been identified, and all 12 countries have improved their EODB scores. G20 countries and international organizations can support EODB by working with and providing support to local institutions such as the financial market, regulating agencies, investment promotion agencies, and confederations of industry. Rwanda, which ranked 56th in 2017, now ranks 29th in the world, ahead of countries such as France, Poland, and Belgium. Côte d'Ivoire has improved its ranking by 20 places, Togo has moved up 17 places, and Guinea has moved up 11 places.

Among the CwA countries, the countries moving the furthest toward the frontier during this period were Rwanda (+7.53), Togo (+6.96), Côte d'Ivoire (+6.95), and Senegal (+4.11). This reflects a substantial, comprehensive, and continuous commitment to a reform agenda aimed at improving the overall enabling environment for investment.

It is difficult to show direct causality between programs that support investment and actual investments, but there are some promising trends. Despite strong headwinds such as subdued global growth prospects, increased risk sentiment, and declining trade flows following the global escalation of trade tensions, Africa continues to attract investments (IFC 2019). The continent recorded nearly 11% growth in FDI in 2018, reaching nearly \$46 billion. Even after the end of the latest commodities super cycle, which had previously helped fuel FDI inflows to Africa, CwA countries—with the support of the G20—have been strongly resilient in attracting investments. For example, FDI volumes to Compact countries have remained stable over the past three years. In 2018, FDI to CwA countries reached \$21 billion or around 46% of total FDI in the continent. Total FDI stock to CwA countries reached \$295 billion in 2018, a 34% increase since 2014, compared to a 21% increase for the rest of Africa. Compact countries had higher FDI accumulation rates over the past five-year period. The energy sector remains a key investment target; construction and manufacturing were also top sectors in announced investments, illustrating a structural shift in many CwA countries. In addition, chemicals and hotels/tourism attracted a significant share of investments, reflecting strong long-term commitments and a focus on infrastructure upgrades



and further industrialization of the region. G20 countries continue to dominate as the main source of FDI to CwA countries. They have accounted for an average annual inflow of \$11.3 billion or around 61% of the region's total FDI over the past five years.

### The importance of multi-country regional infrastructure projects to buttress integration

As Africa slowly progresses toward an economic union, it will be increasingly important to ensure that infrastructure needs are assessed from the continental and multi-country perspectives. To date, the majority of projects are country-specific and fail to take advantage of opportunities to link markets or pool resources. Some examples are: (i) The 14 megawatt (MW) run-of-the-river hydro electricity generating station at Kikagati on the Kagera River on the border between Uganda and Tanzania and (ii) the Moyale Highway A2 Corridor funded in part by the AfDB to support regional integration and enhance intra-African trade. Other promising cross-border infrastructure projects include: (i) The Ruzizi III Hydropower Dam on the Ruzizi River along the borders of the Democratic Republic of Congo, Burundi, and Rwanda and (ii) the Nigeria-Algeria Gas Pipeline Project (Trans-Sahara Gas Pipeline). In each case, crowd-in finance, particularly from DFIs, quick and robust project implementation, and risk management will be critical.

### Adaptations for private sector-led infrastructure development in Africa

This brief argues that more needs to be done—particularly by G20 countries—to spur private sector-led infrastructure in Africa. Interventions such as those above are positively impacting the overall investment on the continent. However, for greater impact, institutions and investors will need to adapt current norms and approaches.

The time is right for innovations and adaptations that have been informed by recent analytical work and private sector consultations. This brief outlines three policy actions whereby G20 countries (as well as African governments and other stakeholders) can directly help address Africa's infrastructure gap. G20 institutions, particularly DFIs, should explicitly undertake enhanced local approaches to blended finance. Simultaneously, G20 governments and associated institutions should rapidly address options for reducing project cycle timelines; particularly, faster approvals for financing as well as minimizing environmental, social, and governance (ESG) hurdles. Finally, G20 governments and associated institutions can intensify efforts to mitigate fiscal risks in public-private partnerships.

This brief draws upon recent analysis and research that incorporate inputs from nu-



merous stakeholders, including the private sector, civil society, the G20, and African governments. Likewise, it benefits from collaboration among Think 20 (T20) partners and African and global think tanks. It is relevant to the G20 because addressing the infrastructure gap in Africa is central to ensuring the continent's continued growth and transformation. Furthermore, this is linked to development of global value chains, intra-regional trade, overall stability, and achieving the Sustainable Development Goals (SDGs). One initiative outlined above, the CwA, is a high-profile legacy initiative championed by the German, Argentinian, and Japanese Presidencies of the G20. While most G20 initiatives launched by individual G20 presidencies do not survive into the next presidency, the CwA has thrived as a flagship initiative through four G20 presidencies. This reflects the buy-in and support of African governments, international and regional organizations, DFIs, and the private sector. It has a formalized governance structure (G20 Africa Advisory Group 2018, 2019, 2020), a network of support institutions, and robust T20 advocacy.

#### Proposal 1: Increase blended finance for infrastructure in Africa by anchoring investment in local contexts

In the development finance community, blended finance has emerged as a tool to more effectively mobilize commercial capital towards achieving the SDGs. It can stimulate impactful investment, quality job creation, and inclusive economic growth. To promote better practices, the OECD's Development Assistance Committee (DAC) has endorsed blended finance principles to unlock commercial finance for the SDGs (OECD 2018). One of the five OECD/DAC Principles for Blended Finance relates to the need to anchor blended finance for development in local contexts. This principle indicates that development finance should be deployed to ensure blended finance supports local development needs, priorities, and capacities. It should support local development priorities and ensure that blended finance is consistent with the aim of local financial market development. Moreover, blended finance should accompany efforts to promote a sound enabling environment. If these principles are used to guide DFI engagement in client countries, there is greater likelihood of significant additionality and development impact.

In 2019, the African Center for Economic Transformation (ACET), the OECD, Indiana University, and the European Center for Development Policy and Management (EC-DPM) analyzed how development finance organizations adapt to local country conditions. Many blended finance projects have strong local ownership, respond directly to local demands, result from broad consultations, and entail explicit positive local spill-overs. However, the analysis also shows that investment decisions may at times

derive from the priorities of external institutions or follow a standardized approach, without sufficient consideration of the local context and dynamics. Although they may be client driven, they involve little consultation with local stakeholders. The analysis included assessments of the Agence Française de Développement (AFD) and its subsidiary dedicated to private sector Proparco; KfW Development Bank (KfW); European Investment Bank (EIB); African Development Bank (AfDB); European Bank for Reconstruction and Development (EBRD); European Investment Bank (EIB); Islamic Corporation for the Development of the Private Sector (ICD); International Finance Corporation (IFC); CDC Group (CDC); Overseas Private Investment Corporation (OPIC); European Union (EU); and the External Investment Plan (EIP).

The research produced a series of recommendations that were validated at a peer-to-peer learning event in September 2019 in Abidjan, Cote d'Ivoire. Ten African countries (all members of the CwA), DFIs, G20 representatives, and international and regional development organizations participated. The findings do not apply uniformly to all DFIs or all country conditions, but are areas for improvement in ensuring that blended finance is adequately accounting for the local context. These include, for example:

#### Organizational insights

1. DFIs should ensure their investment policies explicitly consider the local context, following good global practice.
2. If not already the norm, DFIs should develop country or sub-regional strategies that are aligned with national development strategies and avoid ad-hoc investment choices.
3. DFIs should ensure systematic consultations with local actors such as civil society, beneficiaries, local commercial investors, and the domestic private sector. This follows for both sovereign and private clients.

#### Partnering with local actors

1. DFIs should strengthen partnering arrangements with local DFIs, national development banks, Sovereign Investment Funds (SIFs), and local pension funds to better scale-up activities and tailor them to the local context. Additional country specific research is needed to the extent that local investors, institutional investors, and financial institutions are attracted to blended finance operations.
2. Where local DFIs or development banks do not exist, DFIs should explore options for providing technical know-how and financial support to create new local institutions.
3. Where appropriate, DFIs should provide support to and work with sub-sovereign entities such as local DFIs. They are under-resourced and, in many cases, have the potential to provide a more robust local solution to development challenges.

#### Local currency and local finance

1. There is a clear need to increase the gross and proportional amount of finance in local currency. Efforts to increase the capacity of issuing local currency securities have shown results, yet the demand for cost-effective foreign exchange (FX) solutions to mitigate foreign currency risk for international investors far exceeds the supply. More research is needed on the instruments best suited to local approaches or instruments that are most effective at attracting capital in local currency. This includes research on the role of institutional investors and private lenders with expertise in managing financial tools/instruments for specific projects.
2. More needs to be done to increase the proportion of local finance in blended finance. There is engagement with local investors such as banks, investment funds, pension funds, and individual investors, but there is very limited crowding-in of local finance, especially in low income countries (LICs).
3. DFIs must do more to extend greater blended finance to LICs. They may be required to accept more risk and align with development priorities in the poorest countries and in fragile states.

#### Proposal 2: Improving infrastructure investment project cycles

Africa needs faster progress in implementing infrastructure development. The United Nations (UN) projects the continent's population to double from 1.2 billion in 2015 to 2.5 billion in 2050. This will significantly stress the existing infrastructure and reinforce the need for additional infrastructure. The African Continental Free Trade Area (AfCFTA) has now been ratified and provides increased opportunities for scaling up the provision of quality infrastructure, both sub-regionally and across the continent. Africa has the potential to become a global growth pole as its emerging middle class and its rising share of world population transform national economies. To do so, it must rapidly accelerate infrastructure investment. This requires significantly shorter project cycles, particularly for projects sponsored or financed by OECD countries, their associated institutions, and multilateral development agencies.

At the 18th OECD International Economic Forum on Africa, President Akufo-Addo of Ghana challenged OECD nations to focus their support on growth-enhancing interventions, particularly infrastructure. He noted the large infrastructure financing gap and indicated that OECD country processes for infrastructure projects have become ever more cumbersome. These have forced rapidly transforming African countries to resort to less traditional sources of investment. In response, the OECD Development Center and the African Center for Economic Transformation are working with other African and global institutions. They are identifying ways to speed up project cycles while ensuring quality infrastructure and alignment with national procurement rules. They are establishing an Africa-OECD Technical Platform on Accelerating and Scaling Up Quality Infrastructure Investment in Africa to identify good practices for improving project cycles. This feeds into the renewal process for PIDA, whose priority Action Plan for the next decade is to be launched in January 2021.

The G20 has made infrastructure one of its priorities since the Seoul Development Agenda in 2010. Ensuring quality elements of infrastructure development, such as stronger planning capacity, value-for-money analyses, feasibility studies, and permits, can contribute to achieving sustainable, resilient, and inclusive growth. It can enhance regional connectivity in developing and emerging economies. The G20 Principles for Quality Infrastructure Investment were agreed upon in Osaka in June 2019 (G20 2019). These are a set of voluntary, non-binding principles that reflect the G20's common strategic direction and aspiration for quality infrastructure investment. They include maximizing the positive impact of infrastructure to achieve sustainable growth and development, raising economic efficiency in light of life-cycle cost, integrating environmental considerations in infrastructure investments, building resilience against

natural disasters, integrating social considerations in infrastructure investment, and strengthening infrastructure governance.

The proposal focuses on policy actions the G20 and its associated institutions can undertake to balance the demand for speedy project completion and quality infrastructure. These may include, for example:

1. Better planning and coordination among all stakeholders, particularly between Ministries, between municipal and federal governments, and between the private sector and other financiers and guarantors, such as multilateral organizations.
2. Improved analysis underpinning project selection to help ensure project cost-benefit is justified, projects are sized and costed to meet actual needs, and appropriate cost models are used. According to the Public-Private Partnership (PPP) Knowledge Lab, a study of 258 transport projects found that actual costs were on average 28% higher than planned costs. Furthermore, they were 65% higher on average for projects outside Europe and North America (PPP Knowledge Lab 2019a).
3. Improve public investment efficiency by helping countries compare the value of public capital (input) and measures of infrastructure coverage and quality (output). Analysis shows that average inefficiencies in public investment processes are approximately 30% (IMF 2015). The economic dividends from closing this efficiency gap are substantial. The International Monetary Fund (IMF) estimates that the most efficient public investors get twice the growth “bang” for their public investment “buck” than the least efficient.
4. Invest more in project preparation facilities and advisory support to ensure that African governments can negotiate on an “equal footing” with large investors, banks, construction companies, and their legal and financial teams.

### Proposal 3: Mitigating fiscal risks in PPPs

PPPs are financing instruments with the potential to generate both public benefit and private return, but many also carry fiscal risks that are not fully understood or fully transparent. This brief proposes that G20 governments and associated institutions fully address fiscal risks in African infrastructure projects to improve the overall investment climate for infrastructure. As an innovative financing instrument, PPPs are a necessary component of the funding mix, and can provide room for emphasizing

distributional impacts that can directly lift living standards. PPPs augment government budgets and are thus an opportunity to mobilize resources and engage with financing partners, including the private sector. They are an alternative to full privatization or full public funding and can help solve the need for public services and goods if properly structured and managed.

That said, governments are often required to provide additional support to PPPs, which economically impacts central budgets. For example, governments are often required to provide currency convertibility/hard currency support. Concession or offtake arrangements often have “economic stabilization” provisions that shield the PPP from changes in regulatory frameworks or tax rates. The largest impact of PPPs on the government balance sheet comes from these support mechanisms and government guarantees of government/parastatal performance. The African Center for Economic Transformation and the United Nations Economic Commission for Africa (UNECA) are undertaking a research project (UNECA 2020 forthcoming) to further inform good practices to avoid PPP fiscal risks. This work will serve as knowledge input to future peer-to-peer learning events for CwA members and other stakeholders.

The multiple sources of fiscal risk include but are not restricted to the following:

1. Risks that are the government’s direct responsibility, such as policy instability, changes in relevant laws and regulations, future spending commitments, and financing risks.
2. Project risks allocated to the government, such as government intervention and default, extended government approval, project bidding, feasibility demonstration, residual asset value, renegotiation, and force majeure.
3. Government guarantee risks, including credit guarantees, material supply and price guarantees, minimum income guarantees, and exchange rate, interest rate, and inflation guarantees.
4. Contingent liabilities risk, such as environmental or private sector bankruptcy risks.

For example, in many countries, investment projects have been procured as PPPs

via special purpose vehicles (SPVs) to circumvent budget constraints and postpone recording the fiscal costs of providing infrastructure services (IMF 2006). The risk to governments is that the SPV will be used to shift debt off the government balance sheet, but may still result in contingent liabilities for the government. Naturally, contingent liabilities require expenditure only if an unlikely future event occurs, such as a default. Furthermore, PPPs create contingent liabilities; these create management challenges for Ministries of Finance when balance sheets are hidden or not properly captured. As contingent liabilities often materialize in times of economic distress, they may exacerbate or even trigger fiscal crises. These crises have been shown to disproportionately affect the poorest segments of society.

Alternatively, PPPs sometimes require governments to assume contingent liabilities related to, for example, early contract termination or revenue guarantees. These guarantees and contingent liabilities, which are widely used to shield the private sector from risk and are a common feature of PPPs (IMF 2006). They present challenges to the government planners and Finance Ministries that must track these obligations in accordance with national legal and financial practices.

The G20 has an important role to play in helping African countries to mitigate fiscal risks in PPPs. For example, G20 countries and associated institutions can support African governments and other stakeholders (Irwin and Mokdad 2010) to:

1. Improve the cost-benefit analyses used to select projects and improve value-for-money analyses to choose between PPPs and public finance.
2. Require, whenever appropriate, that PPPs be approved by the Cabinet as they have implications for sectoral Ministries, the Ministry of Finance, and often other Ministries, such as trade or tourism. Such approvals will also help ensure transparency if PPP contracts are published, along with other information on the costs and risks of the financial obligations they impose on the government.
3. Support, where appropriate, modern accrual-accounting standards for financial reporting to avoid using PPPs to disguise fiscal obligations.
4. Support managing and controlling liabilities in all phases of PPP project



development processes by embedding appropriate control processes within National PPP policies and PPP Guidelines.

If these proposals are effectively implemented, accepting PPP fiscal risks would be consistent with good risk allocation (PPP Knowledge Lab 2019b). These will nevertheless create contingent liabilities for governments, the cost of which can be harder to assess than the direct liabilities and initial capital costs created by a traditional government investment project. Likewise, these proposals will help countries avoid taking on significantly more fiscal risk under PPP projects than they had expected or than would be consistent with prudent fiscal management.

These proposals do not directly address the influence of optimism bias on project decision-making. For example, a government may agree to provide a demand guarantee for a project, as optimistic forecasts may suggest that it has lower costs than it does in reality. Contracting authorities may also have incentives to overestimate demand to hide the need for subsidies and push through projects that are not viable. These actions can also create substantial fiscal risk.

**Disclaimer**

This policy brief was developed and written by the authors and has undergone a peer review process. The views and opinions expressed in this policy brief are those of the authors and do not necessarily reflect the official policy or position of the authors' organizations or the T20 Secretariat.



## REFERENCES

Africa Investment Forum. 2019. Accessed August 6, 2020. <https://africainvestmentforum.com>.

Baltensperger, Michael, and Uri Dadush. 2019. "The Belt and Road Turns Five." *Russian Journal of Economics*, 5: 136. <https://www.bruegel.org/2019/01/the-belt-and-road-turns-five>.

Belt and Road Initiative. 2019. Accessed August 6, 2020. <http://english.www.gov.cn/beltAndRoad>.

de Soyres, François. 2018. "The Growth and Welfare Effects of the Belt and Road Initiative on East Asia Pacific Countries." World Bank Group 4. Accessed August 6, 2020. <http://documents.worldbank.org/curated/en/896581540306960489/pdf/131211-Bri-MTI-Practice-Note-4.pdf>.

Group of Twenty (G20) / Japanese Ministry of Finance. 2019. Principles for Quality Infrastructure Investment. Accessed August 6, 2020. [https://www.mof.go.jp/english/international\\_policy/convention/g20/annex6\\_1.pdf#:~:text=G20%20PRINCIPLES%20FOR%20QUALITY%20INFRASTRUCTURE%20INVESTMENT%20Preamble%20Infrastructure,promoting%20gl%20obal%2C%20national%20and%20local%20development%20priorities](https://www.mof.go.jp/english/international_policy/convention/g20/annex6_1.pdf#:~:text=G20%20PRINCIPLES%20FOR%20QUALITY%20INFRASTRUCTURE%20INVESTMENT%20Preamble%20Infrastructure,promoting%20gl%20obal%2C%20national%20and%20local%20development%20priorities).

G20 Africa Advisory Group. 2018. Accessed August 6, 2020. <https://www.compactwithafrica.org/content/dam/Compact%20with%20Africa/reports/monitoring%20report.pdf>

G20 Africa Advisory Group. 2019. Accessed August 6, 2020. <https://www.compactwithafrica.org/content/dam/Compact%20with%20Africa/reports/G20-CWA-%20Final%20April%202019%20Report.pdf>

G20 Africa Advisory Group. 2020. Accessed August 6, 2020. <https://www.compactwithafrica.org/content/dam/Compact%20with%20Africa/reports/CWA%20Monitoring%20Report%20Final%20May%2025%202020.pdf>

ICA. 2018. Infrastructure Financing Trends in Africa—2018. Accessed August 6, 2020. <https://www.icafrica.org/en>.

## REFERENCES

IFC. 2019. Trends in FDI and Cross-Border Investments in Compact with Africa Countries Briefing Note - 2019 Annual Meetings. Accessed August 6, 2020. <https://www.compactwithafrica.org/content/dam/Compact%20with%20Africa/events/CwA-Recent%20Trends%20in%20FDI%20and%20Announced%20CBI.pdf>.

IMF. 2006. PPP Fiscal Risk Assessment Model (PFRAM). Accessed August 6, 2020. <https://www.imf.org/external/np/fad/publicinvestment/pdf/PFRAM.pdf#:~:text=PPP%20FISCAL%20RISK%20ASSESSMENT%20MODEL%20PFRAM%201%20The,been%20procured%20as%20Public%20Private%20Partnerships%20%28PPPs%29%20not>

IMF. 2015. Making Public Investment More Efficient.

Irwin, Timothy, and Tanya Mokdad. 2010. "Managing Contingent Liabilities in Public-Private Partnerships - Practice in Australia, Chile, and South Africa, World Bank and Public-Private Infrastructure Advisory Facility." World Bank. Accessed August 6, 2020. <https://ppp.worldbank.org/public-private-partnership/library/managing-contingent-liabilities-public-private-partnerships-practice-australia-chile-and-sou>.

OECD. 2018 "Blended Finance Principles." Accessed August 6, 2020. <http://www.oecd.org/dac/financing-sustainable-development/blended-finance-principles>.

PIDA. 2019. "Programme for Infrastructure Development in Africa." Accessed August 6, 2020.

<https://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/programme-for-infrastructure-development-in-africa-pida>.

PPP Knowledge Lab. 2019a. "Infrastructure Challenges and How PPPs Can Help." Accessed August 6, 2020.

<https://pppknowledgelab.org/guide/sections/9-infrastructure-challenges-and-how-ppps-can-help>

PPP Knowledge Lab. 2019b. "Poor Planning and Project Selection." Accessed August 6, 2020.

## REFERENCES

<https://pppknowledgelab.org/guide/sections/11-poor-planning-and-project-selection>.

UNECA. 2020. "Fiscal Risks in PPPs: A Benchmark Study on Africa." Forthcoming.

UNCTAD. 2018. "World Investment Report." Accessed August 6, 2020.

[https://unctad.org/en/PublicationsLibrary/wir2018\\_en.pdf](https://unctad.org/en/PublicationsLibrary/wir2018_en.pdf).



## **AUTHORS**

**Rob Floyd**

African Center for Economic Transformation (ACET)

**Abla Abdel-Latif**

Egyptian Center for Economic Studies (ECES)

**San Bilal**

European Center for Development Policy and Management (ECDPM)

**Karim El Aynaoui**

Policy Center for the New South

