



Public Private Partnerships in Infrastructure

**A brief overview of DFID
Programmes of Support**

The Issue

Investment by the private sector

Investing in a country's physical infrastructure can contribute to economic growth, improve human welfare and has considerable potential for directly reducing poverty. Yet current investment in the poorer developing countries, whether internally or externally sourced, is insufficient to fund infrastructure needs, leaving hundreds of millions without access to decent basic services.

Although the public sector will remain the major provider of infrastructure services in most developing countries for the foreseeable future, an increasing number of those countries are now considering ways of attracting increased private sector investment. Nervousness about the implications of such a change is, however, inhibiting the development of the concept and, even where such private investment is forthcoming, it tends to be biased towards the better-off countries. Nevertheless, if the Millennium Development Goals are to be achieved, the attraction of increased private sector investment in infrastructure service provision in the poorer developing countries will be essential

See DFID paper "Making Connections"
www.dfid.gov.uk/pubs/files/makingconnections.pdf).

Discussions with potential private investors and operators in the infrastructure of the poorer developing countries suggests that major constraints to investment include:

- an inappropriate enabling environment
- the high up-front cost of project development
- a shortage of long-term debt, both in hard and local currencies
- high and uninsurable country risks
- the need for subsidies if many projects targeted on the poor are to be financially viable at the outset.
- the need to strengthen public capacity to negotiate and implement private infrastructure projects

DFID, in partnership with other like-minded donors, has taken a lead in trying to tackle these issues and this paper sets out the main international programmes of support in which we are involved. More detailed information on these can be obtained from the web-site addresses or e-mail contacts given at the end of each section.

The Programmes

Public Private Infrastructure Advisory Facility (PPIAF)

PPIAF is a multi-donor facility that works with developing country governments at central and municipal levels to improve the enabling environment for private sector involvement in infrastructure services. PPIAF currently has 14 contributing donors and undertakes a broad range of activities, including the development of legislation and regulatory systems, sector reform strategies, the training of regulators and assistance with facilitating transactions. DFID has committed £15.3m to PPIAF for 2003 to 2006.

See <http://www.ppiaf.org/>

Public-Private Partnership for the Urban Environment (PPPUE)

The Public-Private Partnership for the Urban Environment was initiated in 1994 by the United Nations Development Programme (UNDP). The facility provides technical assistance and advisory support for the establishment of partnerships between government, business and civil society organisations at the municipal level for the delivery of basic infrastructure services to the urban poor. DFID has committed £3.15m to this facility.

See <http://www.undp.org/pppue>

Global Partnership of Output Based Aid (GPOBA)

If the poor are to receive infrastructure services, and service providers are to receive economic rates for the service provided, it will often be appropriate for services to be subsidised, at least in the early years. Such subsidies should be open and accountable. There are many advantages in providing such subsidies at the point of delivery, rather than as a subsidy at the supply end. To address these issues the World Bank, with DFID support, is implementing a programme to develop, demonstrate and disseminate output-based approaches to supporting the sustainable delivery of basic infrastructure services. In order to facilitate the scaling-up of the approaches developed, the GPOBA has recently been expanded to include a "Challenge Fund" which is open for applications, on a competitive basis, for the funding of specific subsidy programmes to enable the provision, by private sector suppliers, of infrastructure services to the poor.

See www.gpoba.org

Community-Led Infrastructure Financing Facility (CLIFF)

Launched in 2000, CLIFF is a facility providing loans, guarantees, bridge finance and technical assistance to encourage and support private sector investment in community-led urban regeneration projects. CLIFF is being implemented under the programme of the Cities Alliance, by Homeless International, initially as a development and demonstration pilot project in India. (www.citiesalliance.org) DFID has contributed £6.8 million for the pilot programme. SIDA has provided in-country support, and USAID has made available their International Guarantees Programme.

See www.theinclusivecity.org

Slum Upgrading Facility (SUF)

Urban poverty in developing countries is increasing at an alarming rate. Municipalities, particularly in small and medium towns, are ill equipped to meet growing infrastructure service and housing needs and badly need both private sector and donor grant support for this. The SUF, which is managed by UN-Habitat (<http://un-habitat.org>) is conceived as a facility to help municipalities put together financiable infrastructure service and housing projects and then access support for these from both the public and private sectors. DFID and SIDA have jointly agreed to partner UN-Habitat in developing the facility by providing US\$0.9m each for the design phase and both have agreed in principle to provide US\$10m each, through the Cities Alliance, towards developing and piloting the approach, with a view to the establishment of a more substantial longer-term facility.

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Private Infrastructure Development Group (PIDG)

DFID, SECO (Switzerland), SIDA (Sweden) and DGIS (The Netherlands) have collaborated in establishing the Private Infrastructure Development Group (PIDG). The aim of the group is to facilitate and support the mobilisation of private sector investment and engagement in the provision of infrastructure and basic services that support growth and the elimination of poverty. The first project funded through the PIDG Trust, Emerging Africa Infrastructure Fund (EAIF) was launched in January 2002. GuarantCo, DevCo, InfraCo and TAF (see below) have since been launched. Other facilities including AsPIFF, MIAP and a Local Currency Hedging facility are currently under consideration. DFID has committed £0.388m towards the operation of the PIDG for 2003 to 2006, in addition to support committed to individual programmes funded through the PIDG.

See www.pidg.org

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PIDG Initiatives

Emerging Africa Infrastructure Fund (EAIF)

The US\$305m EAIF was launched as the first PIDG initiative in 2002. EAIF provides long-term debt to pro-poor private sector funded infrastructure service projects in sub-Saharan Africa in the energy, telecommunications, transportation and water sectors. DFID, SIDA, DGIS and SECO have jointly committed US\$100m, through the PIDG Trust, to the Fund as equity. The balance of the Fund's capital comprises US\$85m of subordinated debt from development finance institutions (FMO of the Netherlands, Development Bank of Southern Africa and DEG of Germany) and USD 120m of senior debt from commercial banks (Barclays Bank plc and the Standard Bank Group).

See <http://www.emergingafricafund.com/>

Project Development Facility (DevCo)

High up-front transaction costs, risk and poor information, are important factors in deterring the private sector from investing in working up prospective infrastructure projects in developing countries in the manner undertaken by commercial companies in OECD countries. As a result, there is a paucity of infrastructure projects structured in a way attractive to private sector involvement. To address this, in 2003 the PIDG augmented an existing project development facility operated by the IFC to give greater emphasis to the development of projects for private sector investment in the poorer developing countries. The resulting facility has been given the name of DevCo. DFID committed £6.8 million over four years to launch the facility, the IFC are providing a contribution of US\$0.25 million per year, and DGIS have recently allocated US\$1.0 million for 2004/05 and a similar allocation is anticipated for 2005/06.

See <http://www.ifc.org/>
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Infrastructure Development Company (InfraCo)

Although DevCo (see above) can help governments structure infrastructure services to be more conducive to private sector investment and assist in attracting investors, it cannot replace the private sector developer, who takes on the entrepreneurial risk of developing a project and then selling this on the market to an implementation company. Such private sector developers have, however, all but disappeared from developing country markets in recent years. In order to give a lead to reintroducing this entrepreneurial approach to encouraging increased investment in infrastructure, in late 2004 the PIDG launched a new Infrastructure Development Company with a mandate to initially pilot project development in two countries in Africa and two countries in Asia. In order to help establish this company, DFID has allocated US\$10 m through PIDG as an equity contribution.

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GuarantCo Local Currency Guarantee Facility

Lack of long-term debt finance is a major constraint to infrastructure development. The EAIF addresses this need for large, primarily hard currency funded, infrastructure projects. However, many infrastructure projects, particularly at the sub-sovereign level, derive most of their revenues in local currency, making hard currency debt funding inappropriate. In 2004 the PIDG launched GuarantCo, which is designed to mitigate risks for local currency financing of infrastructure. DFID has committed US\$ 25 million to help launch GuarantCo and other PIDG members are in the process of finalising their support in order to provide an overall equity base of around US\$ 80 million. In addition, GuarantCo have opened discussions with a number of Development Finance Institutions, who are also exploring the provision of local currency guarantees, with a view to coordinating and possibly merging approaches.

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Local Capacity Technical Assistance Facility (TAF)

In 2003 the PIDG, with funding support from the World Bank, established the TAF to assist in the building of local capacity and capability associated with private sector investment in infrastructure. Technical assistance is provided to both the public and private sectors in support of the planning and implementation of projects and programmes of any of the facilities or funds undertaken under the PIDG umbrella on a "challenge fund" basis.

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Asia Private Infrastructure Financing Facility (AsPIFF)

Although many of the middle-income countries in Asia have had significant successes in attracting private investment in infrastructure, the poorer countries have been much less successful. In 2004, the PIDG, in partnership with the Asian Development Bank, embarked on a detailed examination on how it might help alleviate constraints to private sector development in these poorer Asian countries by establishing a facility which both brings together other existing PIDG facilities under an Asian focus and builds upon these as necessary to meet other identified constraints. The feasibility and, if this is positive, the design work will be conducted during 2004 - 2006.

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Local Currency Hedging

Infrastructure projects are subject to a range of risks which impact on their attractiveness to private operators and financiers. These include a number of generally uninsurable country risks such as expropriation, currency devaluation and the risk that governments will change the regulatory framework. The PIDG is undertaking an initial study into the need and scope for donor support to help mitigate currently uninsurable currency devaluation risks in developing countries through the establishment of a local currency hedging facility.

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Mini-Infrastructure Apex Programme (MIAP)

Infrastructure services for the poorer sectors of the community are frequently provided by small-scale operators (e.g. water vendors, community level electricity providers, etc.). These small-scale providers often experience problems in accessing financial services to enable them to launch and/or expand their activities. In order to examine whether there is a role for the PIDG in helping to address the problem, PPIAF is funding a Pre-feasibility Study to look in more detail at the financing needs of small-scale providers and the current gaps in meeting these. The study is expected to be completed in 2005.

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