Discussion of
‘Unlocking Private Finance for African Infrastructure’

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Diagnosis

- **Africa needs far more infrastructure than its governments can afford to finance through tax or aid**
  - Combination of private and public initiatives
- **Foreign aid**
  - Fearful of corruption
- **Private sector in OECD countries disengaged, due to:**
  - Legendary political risk in a context of incomplete contracts
  - Cannot take advantage of externalities
  - Africa too small for investment in specific knowledge
  - Standardization is a problem that only large players can help solving
  - Home country regulation problems

Possible solutions

- **Specialist teams including technical knowledge and political entrepreneurship**
  - To overcome veto points
  - Unlikely in conventional private venture capital
- **Standardization**
  - Markets are bad at self-generating standardization (AfDB is a good possibility since it is African-based and a provider of infrastructure finance)
- **Decrease risk by**
  - Increasing insurance for political and currency risks (e.g., MIGA – Multilateral Investment Guarantee Agency should be scaled up)
  - Bundling: split projects in phases, and bundle with other projects from different countries

- **Commitment technologies**
  - Significant opportunities for hold-up, more than in mining
  - Through (purely private) dispute resolution boards (agreed between African governments and the private contractors)
  - Through multilaterals (WB) and large bilaterals (US, UK)
- **OECD utility operators**
  - They have the specialist teams and organizational structures needed for good performance, and a reputation
- **Financial regulation**
  - Pension funds tend to equate safety with liquidity
  - Rule by rating agencies that an African project cannot be rated more highly than the sovereign debt of the country
    - Rule not applicable to OECD
    - Different structure of risk (infrastructure vs. sovereign debt)

- **Sound regulation needed**
  - Infrastructure is typically local or national monopoly, meaning it is subject to regulation
  - Regulation sets obligations to supply disadvantaged and remote customers, while observing quality of service standards
  - One approach is is to draw on the experience of OECD regulators (advising, overseeing, and undertaking regulation of infrastructure projects in Africa)
- **Infrastructure projects as part of development strategy**
  - Development agencies can help
- **Interdependence of solutions**
  - With the danger that donors come up with uncoordinated initiatives

Some additional thoughts

- **The Chinese model**
  - Seems like international development agencies have come the Chinese way; it is not the ‘menace’ it was some years ago (distorting conditionality and incentives for good governance)
  - But still, the Chinese model is not perfect:
    - Does not involve local human resources, which can be of great value for learning-by-doing improvements in human capital
  - Is there space for competition conducive to development improvements?

- **The emphasis on development agencies**
  - We understand the need for specialist knowledge, international coordination, and political pressure
  - Still, development agencies nowadays give the impression of significant rigidity
    - Too afraid of corruption? E.g., recent procurement process for an impact evaluation project in schools of a Portuguese-speaking African country
    - Can they really compete with the Chinese?

- **(Related) Can we really have private sector-based specialist teams with political power to overcome veto points?**
  - Experiences with DfID-sponsored organizations (PIDG – Private Infrastructure Development Group) are still incipient
  - Probably only effective for some countries, where DfID has real influence
    - What about countries with natural resources?
      - We see more and more southern-origin investments (Brazil, China) in Angola and Mozambique for instance
      - Is OECD losing the boat?

- **Unclear whether we can really trust governments in the average fragile state**
  - Or that conditionality is that strong an instrument
    - Particularly with countries endowed with significant natural resources
  - Hence, investment is still conditional on broader development strategies
    - Including the institutional and political development
    - And the employment of natural resources for development
      - Investing on investment
    - To a certain extent that is an implicit message in Paul's thoughts