Discussion of
‘Unlocking Private Finance for African Infrastructure’
By Paul Collier

Pedro C. Vicente
Universidade Nova de Lisboa

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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 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