AFRICA
ECONOMIC
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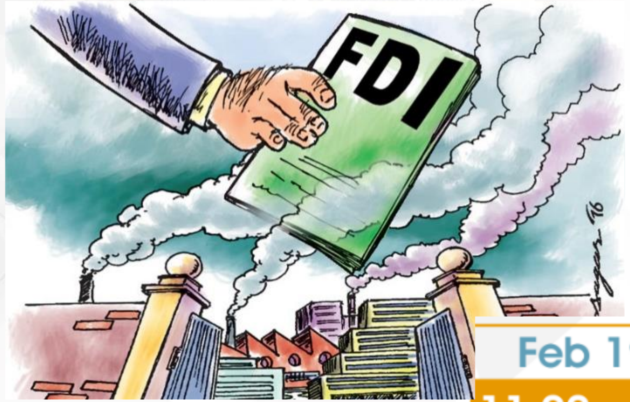
ORGANIZATION

AFRICA ECONOMIC ZONES ORGANIZATION

AFRICA ECONOMIC ZONES ORGANIZATION WEBINAR

“ROLE OF INFRASTRUCTURE IN ATTRACTING FDI WITHIN ECONOMIC ZONES”



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INFRASTRUCTURE | PPP | GOVERNANCE | PUBLIC POLICY | SUSTAINABLE DEVELOPMENT

Feb 19th, 2020

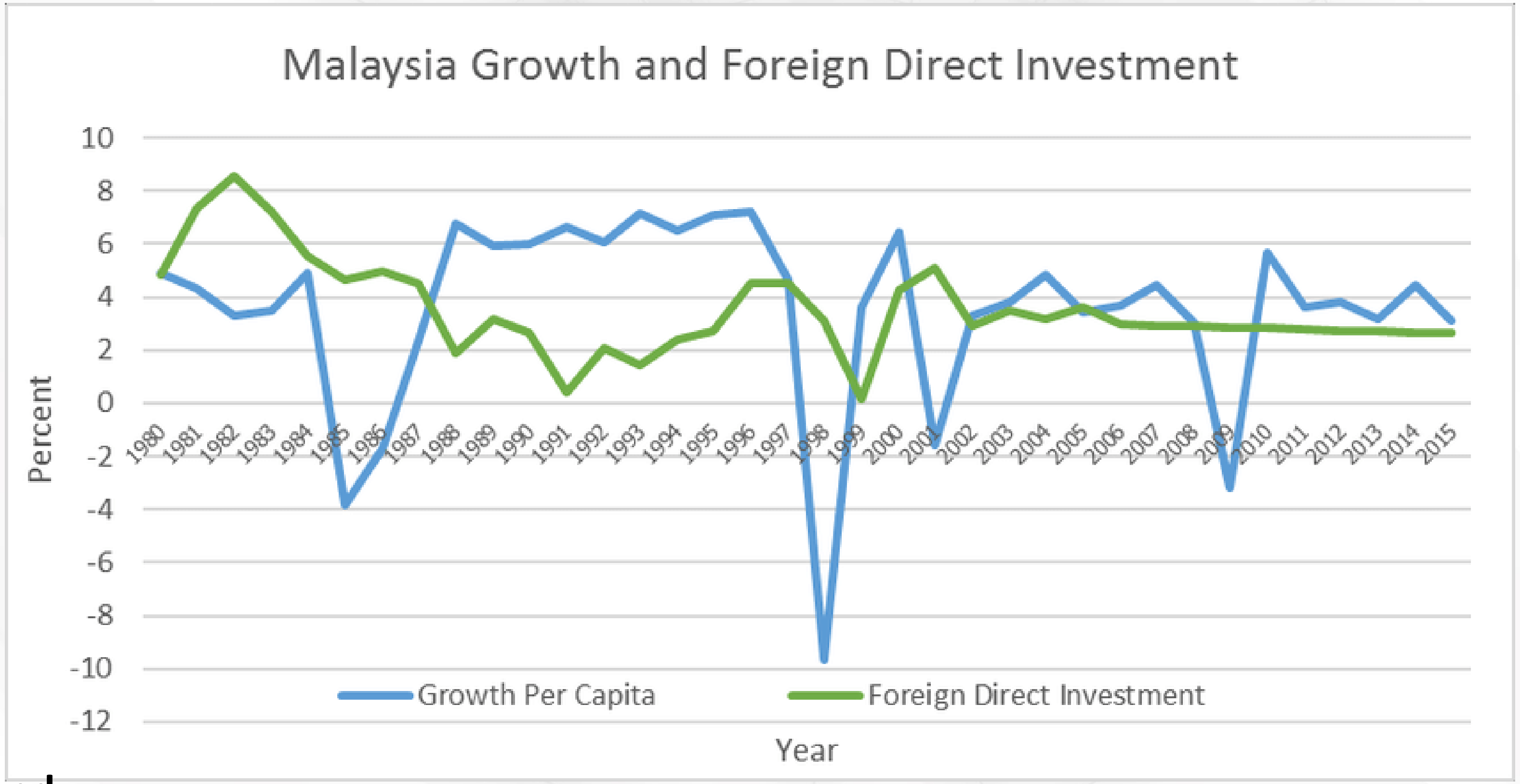
11:00 a.m. (GMT+1)

- **Foreign direct investment (FDI)** includes mergers and acquisitions; **building new facilities;** reinvesting profits earned from overseas operations; and intra company loans

- **In a narrow sense, FDI refers just to building new facilities, and a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor**
- **DBFO; JVs**

- **Long term risk capital**
- **Transfer of technology**

- Intense competition for foreign capital
- Capital moves relatively freely to the most attractive/highest return opportunities
- Although increasingly regional trading blocks & technological blocks
- BRI



- **FDI not a magic wand**

FDI versus FII

Foreign Direct Investment

Pros

- Diversifies investors portfolios
- Promotes stable long term lending
- Provides financing to developing countries
- Provides technology to developing countries

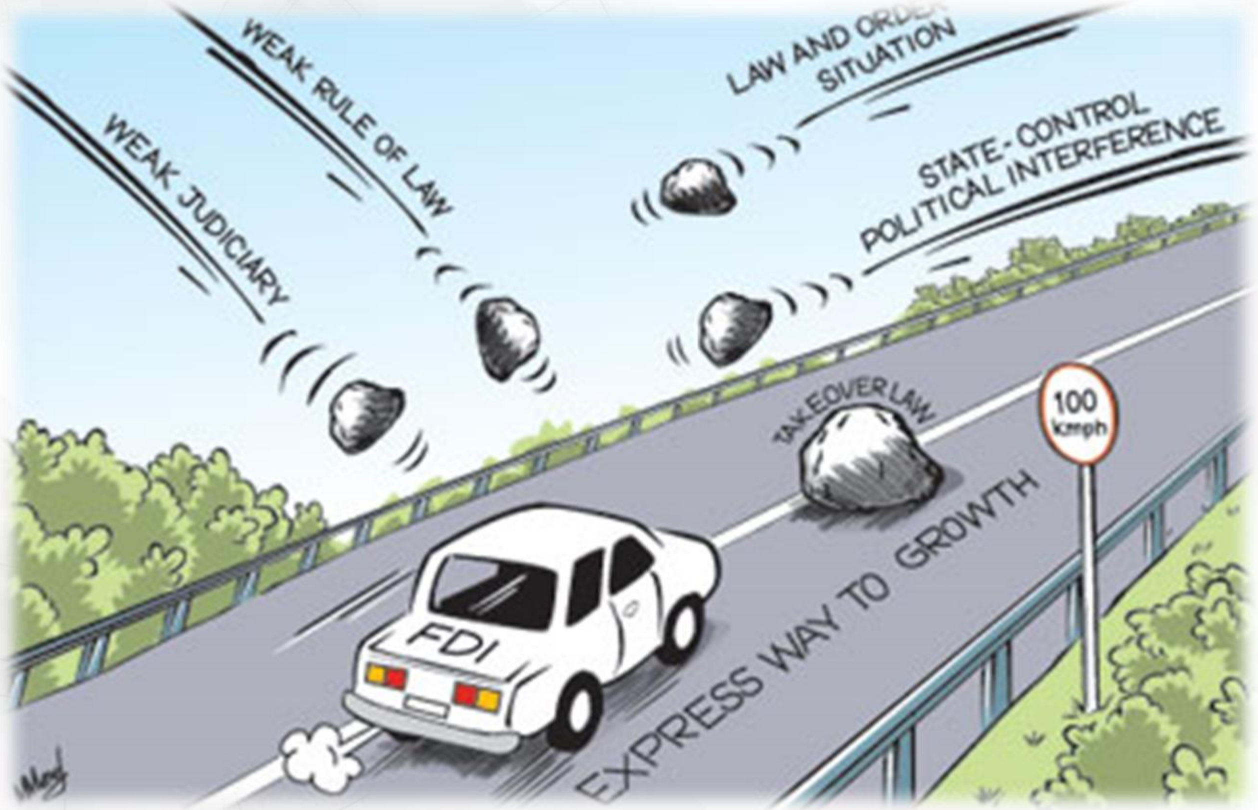
Cons

- Not suitable for strategically important industries
- Investors may have less moral attachment
- Unethical access to local markets

the balance

- If I’m going to invest in spite of these risks, I need a return that is commensurate to the risk I’m taking

- FDI looks for high returns; IRR; hurdle rate;



Infrastructure Facilities for FDI

- Broadband: increasingly important
- Energy and water
- Climate change: reputational risk
- Economic zones
- Legal and regulatory framework

ACCESS TO ROADS
RAIL
PORTS
AIRPORTS
BROADBAND

ENERGY
CLIMATE CHANGE
ECONOMIC ZONES
LEGAL AND REGULATORY FRAMEWORK

- **Doing Business**, a WBG flagship publication that I contributed to launch
- ***DB*** presents quantitative indicators on business regulations and the protection of property rights that can be compared across 190 economies—from Afghanistan to Zimbabwe—and over time.

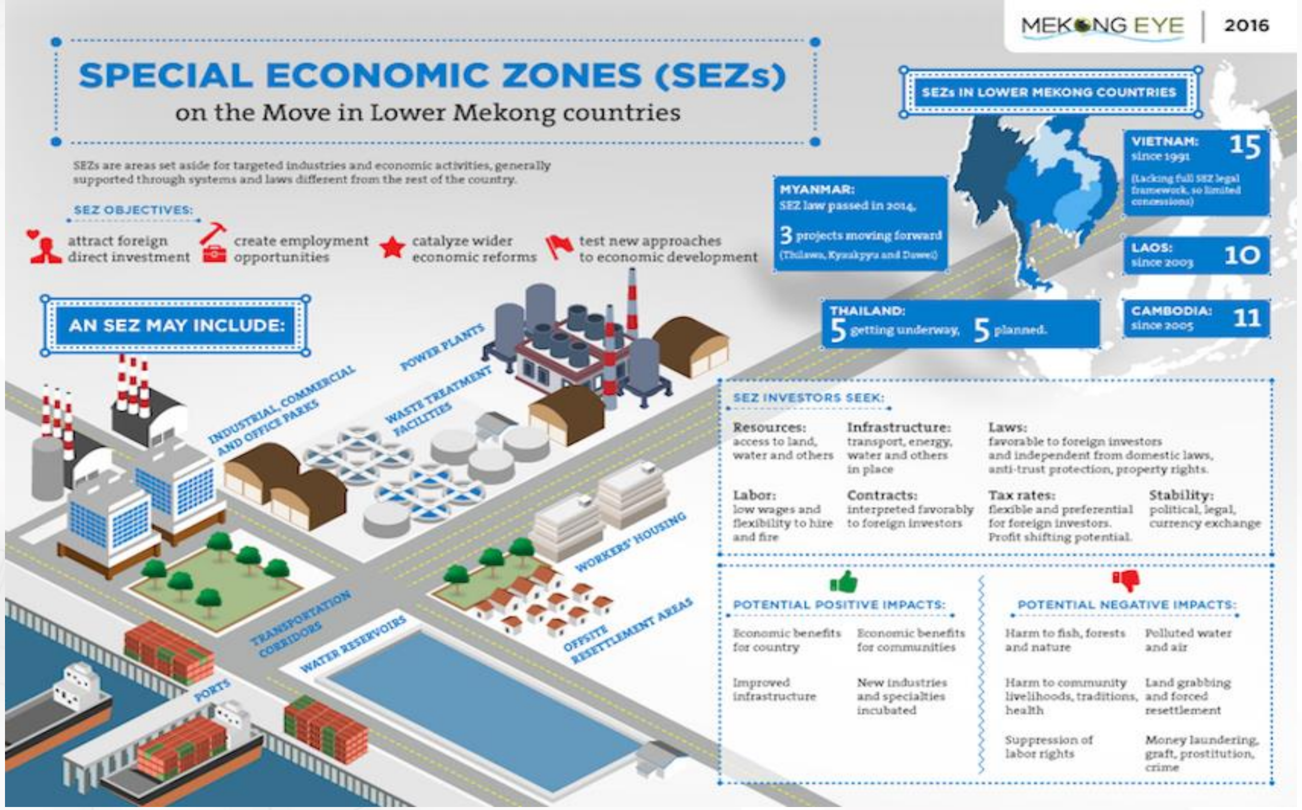
- Governments and FDI investors pay attention to countries ranking

- Covers **12 areas of business regulation**.
- Ten of these areas—**starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency**—are included in the ease of doing business score and ease of doing business ranking.
- Also **measures regulation on employing workers and contracting with the government**, which are not included in the ease of doing business score and ranking

One Stop Shop

- Reduces the cost of doing business
- Ensure FDI and investor tracking
- Simplified procedural steps
- Shortens service delivery time (business registration and establishment)
- One of the difficulties regularly cited by foreign companies in setting up operations abroad is the length of time and the number of agencies that they have to deal with to obtain the necessary business permits/licenses,
- One stop shop can facilitate investment

Special Economic Zones



- SEZs offer advantages to investors in terms of **infrastructure, special customs regimes such as duty-free import and export, special regulatory regimes, and a range of fiscal incentives**.
- Export-processing zones (EPZs), free-trade zones (FTZ), and free ports are all different forms of SEZs

- SEZs have been remarkably successful in East Asia in promoting structural transformation
- African countries have sought to replicate this success

- Despite decades of international experience, there is still no blueprint for successful SEZ policies

- The majority of SEZs in Africa fall below expectations
- This is largely due to flaws in the political economy of SEZ schemes
- Inadequate knowledge
- Distorted incentives

SEZ infrastructure
-
Procurement alternatives

- How can government finance transport and economic infrastructure and maximize efficiency of service delivery?
- PIM, + concessional financing through IFIs
- Affermage/Leases/DBOs contracts are public-private sector arrangements under which the private operator is responsible for operating and maintaining the utility but not for financing the investment; main model for water
- JV: 50% - 50%; very much used in the oil industry; making a come back; sharing risk, costs and profits
- PPPs: DBFOs
- In a broad sense, JVs and PPPs are FDI

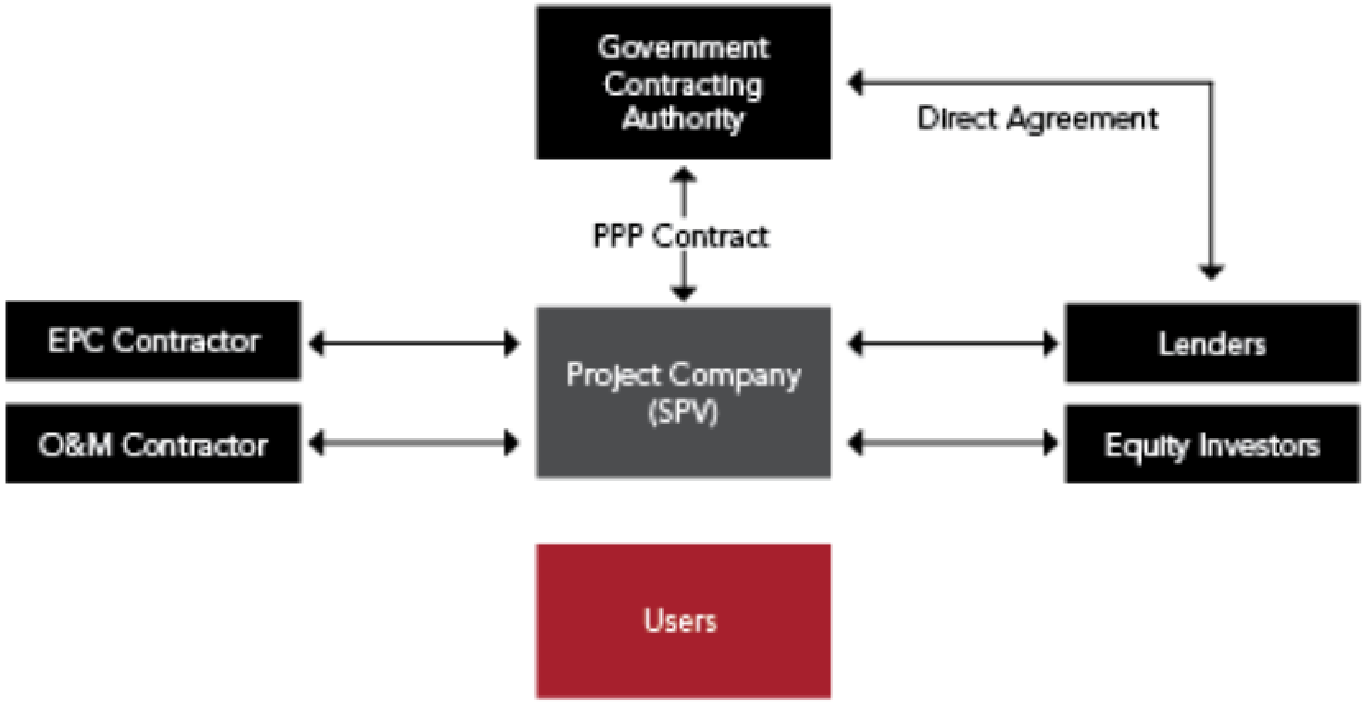
PIM

Affermage/lease

JV

PPP

- User-payer
- Availability payment
- Institutional PPP


Government Contracting Authority
Direct Agreement
PPP Contract
EPC Contractor
O&M Contractor
Project Company (SPV)
Lenders
Equity Investors
Users

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Land Value capture – Joint development

- **Land value capture adds value to land and real estate**

- **LVC creates value through enhanced accessibility to efficient transport systems**
- The surplus captured can then be **used to repay part of the cost of the transport infrastructure**

- **Joint development** is **a type of public-private partnership** in which a public entity collaborates with private developers on infrastructure projects, such as real estate properties, with <u>both entities sharing risk, costs and profits</u>.

- The Hong Kong metro network was developed through a **joint development**

- While most metro systems worldwide depend heavily on **public financial support**, **MTRC in Hong Kong operates without government subsidy and is highly profitable** thanks to the profits generated from the **real estate business**

- Revenues are derived from **profit sharing with private developers** mostly for residential projects in real estate sale, and from **renting and managing MTRC-owned properties for commercial and office operations**

World polarization

- The US appears to abandon its leadership on issues from climate change to trade liberalization
- Mr. Xi has positioned China as a stable alternative to the US
- China is willing to take on the obligations of global leadership
- Prepared to **invest $ up to 6 trln** in big infra projects across Asia, Europe, and Africa. This is **the BRI**
- Much as the US did after WWII but on a much bigger scale

- China has become an indispensable part of global business.
- It's grown into the world's factory,
- churning out products such as the iPhone and driving demand for commodities like oil and copper
- The country also boasts hundreds of millions of wealthy consumers
- Today, China's economy makes up 16% of global output, from 4% of world GDP in 2003
- In the 2020s the world will discover just **how far the decoupling will go between the United States and China,**
- **Between liberal democracies and China**
- How will Africa position itself?

Debt-Trap Diplomacy

- **Debt-trap diplomacy** is a term **used as criticism of foreign policy of the Chinese gv't**

- It describes a situation whereby China intentionally extends excessive credit to targeted debtor countries with the alleged intention of extracting economic or political concessions from those countries when they becomes unable to honor their debt obligations
- The conditions of the loans are often not made public and the borrowed money is typically used to pay contractors from the creditor country.

- **In the worst-case scenario**, the country may be **forced to cede control of strategic national assets** to Chinese creditors.
- In 2019 The Center for Global Development listed 8 countries that face high risk of "debt distress" from Belt Road Initiative projects that they can't afford.
- **Sri Lanka** had to hand over a strategic port to China.
- Kenya, Ethiopia, the Maldives, Djibouti in this situation?
- **Ethiopia** tapped Chinese debt to finance and construct a new rail line to the port of Djibouti and saw its ratio of public debt soar from 50 percent of GDP to 85 percent of GDP.
- How to prevent this state of affairs: **hire independent advisors**

Additional slides to feed the Q&As

Institutional and regulatory framework

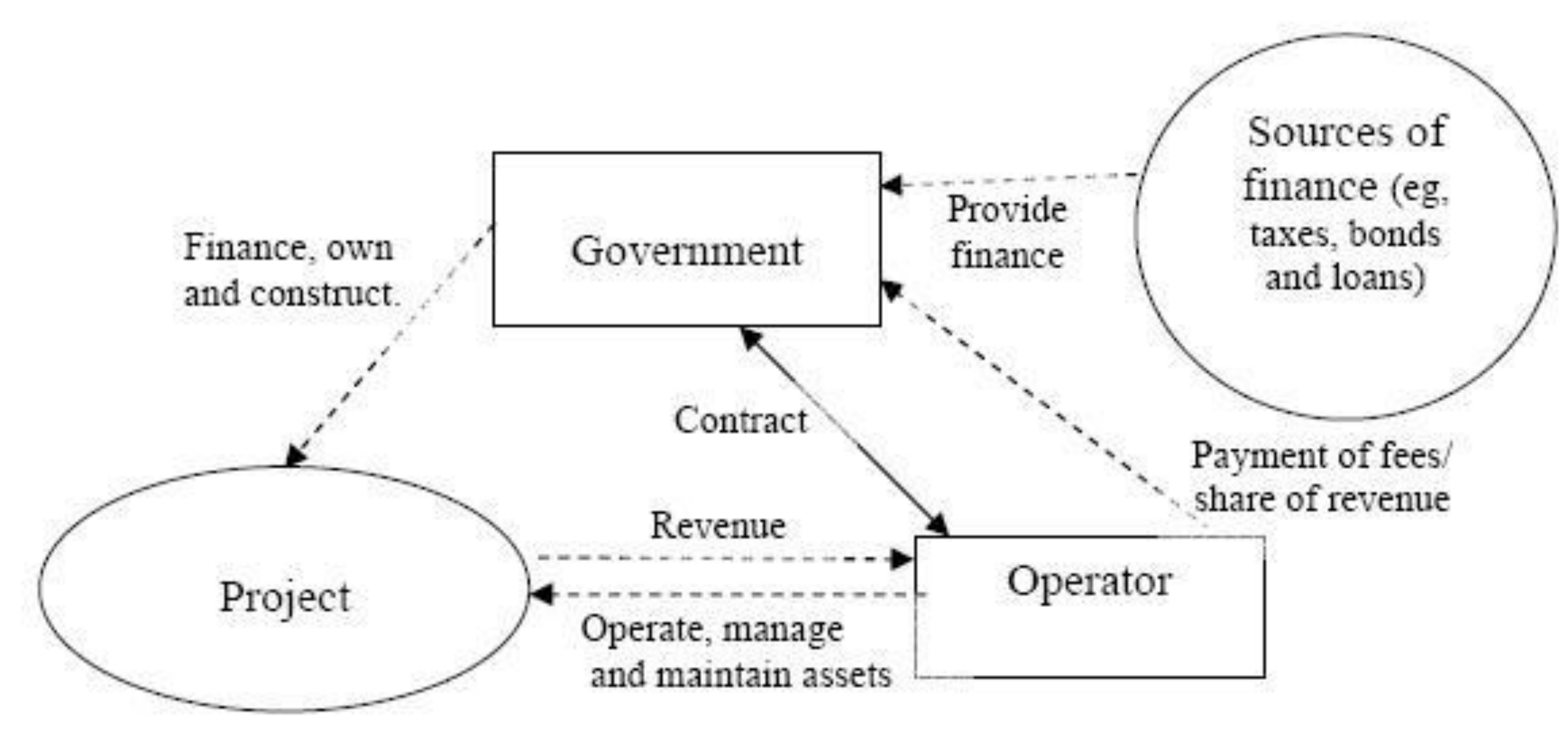
- Specific law for PPPs in Roman law countries
- **In common law countries transparency/accountability** through **freedom of information act**

- **Importance of the MoF:** In charge of **fiscal management – Budget** implications; **MTEF**
- Beware if Finance/Budget is separate from the Ministry of the Economy

- **Fiscal risk management: Specific cell** to analyze fiscal risk of PPPs; capping PPPs; high uncertainty b/c of climate change
- Specific **PPP unit, concentrate expertise**
- Sectoral ministries want to develop projects off balance sheet

- **Constitutional framework in the French legal tradition: Parliament** passes statutes, **monitors the action of the Government**, and **assesses public policies,** with the support of the supreme audit institution (**Cours des comptes)**
- Much **commitment, cooperation and coordination** needed
- What happens if these things are not addressed properly?

Affermages/lease



- Leases and affermage contracts are generally public-private sector arrangements under which the private operator is responsible for operating and maintaining the utility but not for financing the investment.

- **When to choose Leases / Affermage Contracts:** (1) when private equity and commercial debt are not available for water supply and sanitation; (2) the awarding authority wants to combine public financing with attracting private efficiency; (3) greater commercial risk is to be passed to the private operator than with a management contract, with incentives to perform.

- **Leases and Affermages differ from management contracts principally in that** the operator does not receive a fixed fee for his services from the awarding authority but charges an operator fee to consumers, with in the case of a ***lease*** a portion of the receipts going to the awarding authority as owner of the assets as a lease fee and the remainder being retained by the operator; OR in the case of an ***affermage***, the operator retaining the operator fee out of the receipts (*prix du fermier*) and paying an additional surcharge that is charged to customers to the awarding authority to go towards investments that the awarding authority makes/ has made in the infrastructure; the operator tends to bear greater operating risk; the operator tends to employ the staff directly.

- In the case of a ***lease*** the rental payment to the authority tends to be fixed irrespective of the level of tariff collection that is achieved and so the operator takes a risk on bill collection and on receipts covering its operating costs. In the case of ***affermage*** the operator is assured of its fee (assuming that the receipts are sufficient to cover it) and it is the authority that takes the risk on the rest of the receipts collected from customers covering its investment commitments.

- The awarding authority in each case remains responsible for financing and managing investment in the assets–which is supposed to come, at least in part, from the rental payment/ surcharge. Some affermage arrangements the operator designs and manages the investment program.

- In France and some other civil law countries the key provisions establishing the affermage are set out in the law and so a typical French affermage contract will be relatively short in comparison to an equivalent document in a common law jurisdiction.

- **Key Features of Leases and Affermage Contracts**
- Medium length - typically between 8 and 15 years;
- Collection risk passed to operator in lease; Lease operator will require assurances as to tariff levels and increases over term of lease, and compensation/ review mechanism if tariff levels do not meet projections;
- Cost of maintenance and some replacement passed to operator (operator takes some degree of asset risk in terms of the performance of the assets);
- Operator may be put in charge of overseeing capital investment program/ specific capital works;
- Employer is paid a fixed lease fee (***lease***)/ receives net receipts from customers (less affermage fee) (***affermage***);
- Review process every 4 or 5 years to review performance, costs, tariff levels, etc.;
- Employees seconded or transferred to the operator;
- Operator to maintain asset register and operation and maintenance manuals/ records, etc.;
- Typical to include minimum maintenance or replacement provisions towards the end of the contract, so that facilities are handed back in an operational state.

Network industries in the age of the 4th industrial revolution

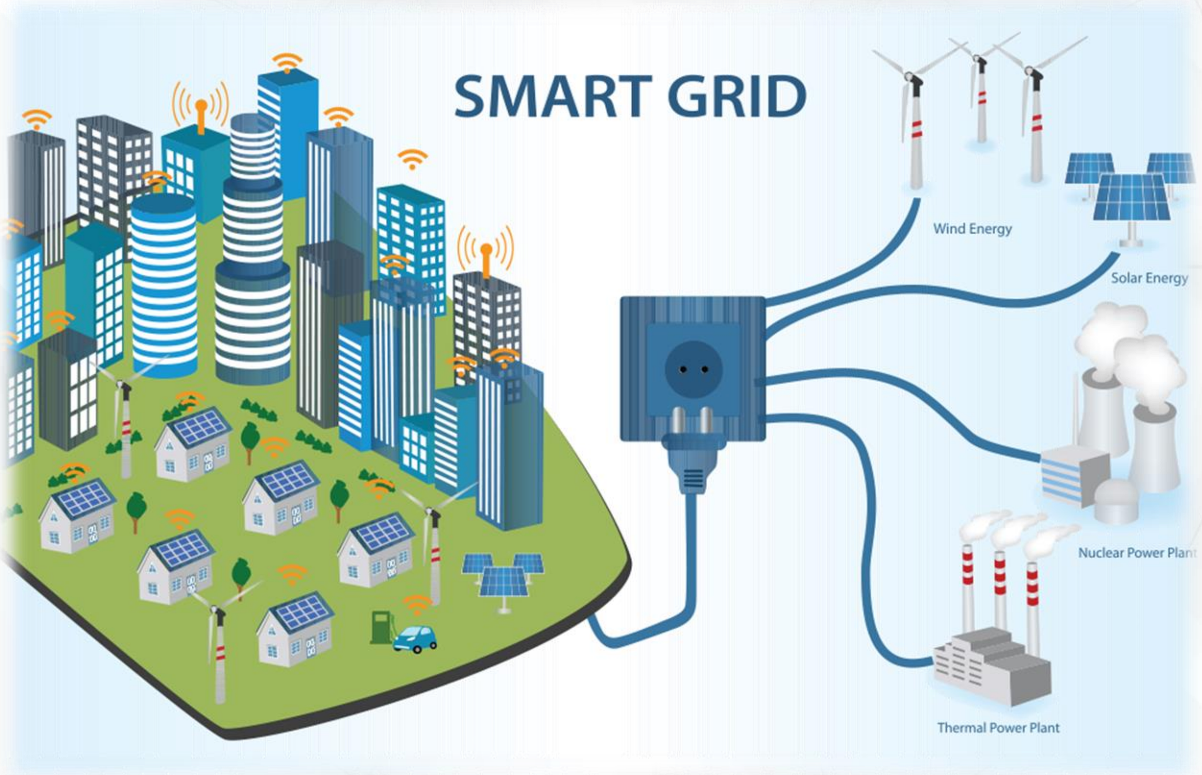
- Network industries: in **telecommunication, transportation and financial** sectors
- Historically, network industries, in particular telecommunications and computers have been the **engines of fast growth of the world economy**
- **Telecommunication:** the provision of **voice and data services**, **Big Data**
- Access to the Internet & the World Wide Web : the conduit
- Another important network industry is **computer software and hardware**

- Cloud computing means cyber physical systems

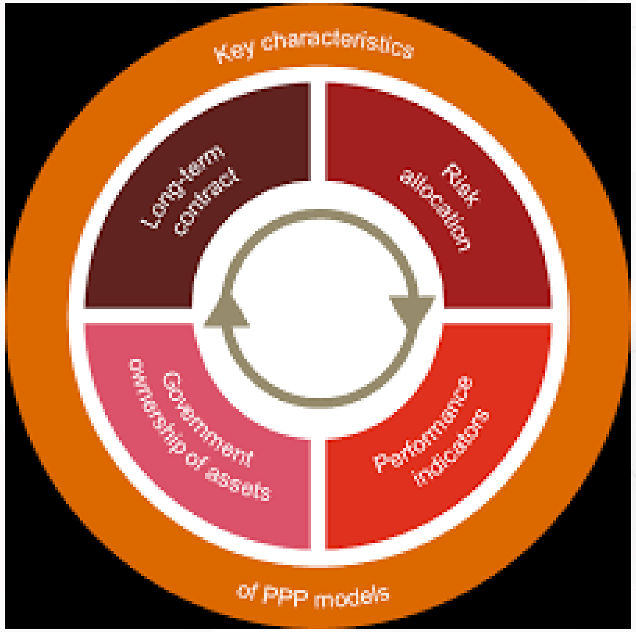
- In the **news and entertainment sector**, network industries include **broadcasting and cable television**

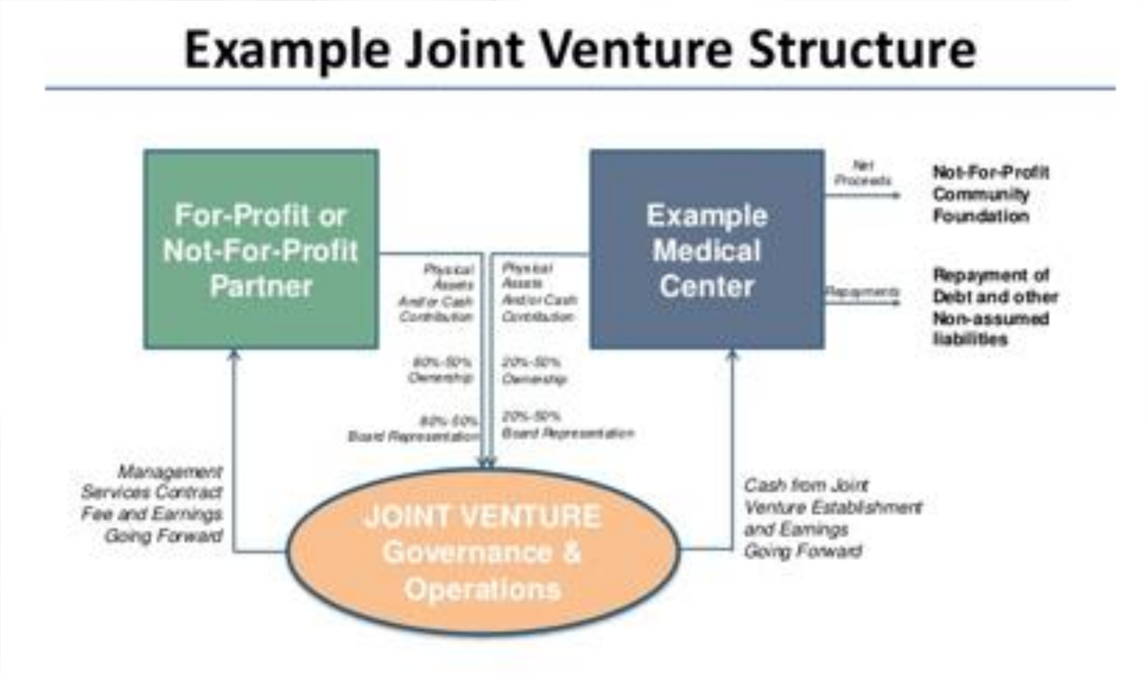
- In **transportation: airlines, railroads, in particular high speed rail, roads, and shipping**
- And the **delivery services that 'live' on these**, such as the postal service and its competitors DHL, etc…

- In the **financial sector**, networks include traditional financial **exchanges** for bonds, equities, and derivatives, **clearing houses**, **B2B and B2C exchanges**, **credit and debit card networks**, as well as **automated transactions banking networks**, such as **ATM networks**
- The “fourth industrial revolution” is a **combination of new technologies.**
- **These technologies include: artificial intelligence (AI); machine learning; natural language coding; robotics; drones; sensors; cloud computing; nano-technology; 3D printing; and the internet of things.**


SMART GRID
Wind Energy
Solar Energy
Nuclear Power Plant
Thermal Power Plant

Institutional PPPs





- New forms of PPPs: institutional PPPs with a public-private JV element
- institutional PPPs: formal legal entities run by well articulated corporate-governance mechanisms, and jointly owned by public and private parties for the provision of public-health goods.
- Appropriate arrangements for public-health services provisions.

- Four governance and managerial issues are critical in determining the positive performance of institutional PPPs: (i) a strategic market orientation to a specialized service area with sufficient potential demand, (ii) the allocation of public assets and the consistent financial involvement of the private partner, (iii) the adoption of private administrative procedures in a regulated setting, while guaranteeing the respect of public administration principles, and (iv) clear regulation of the workforce to align the contracts with the organizational culture.

- Findings suggests that institutional PPPs enable national health services to reap great benefits when introduced as a complement to the traditional public-service provisions for a defined set of services and goals.

- In Italy, the so-called Joint-Provision-Form Experiments *(Sperimentazioni Gestionali,-JPFE*).
- JPFE can assume different legal configurations, including **joint stock companies, limited companies, foundations, and associations.**
- **Public and private constituents are involved in the production of a complex public good, health care service,**for example **acute or rehabilitative hospital services**, **outpatient care**, **laboratory services**.
- In this way, JPFEs differ from the other types of public-private partnerships where either the service is contracted-out to the private sector, or the involvement of the private sector is limited to the construction of the facilities and the management of ancillary services (e.g. private finance initiative).
- Public parties must retain majority shareholding (51%), and specific mechanisms should be introduced to limit the transfer of private shares to a third party. JPFEs are originally set up for a defined 3 (+3)-year period, at the end of which an external evaluation committee deliberates on either the liquidation or the confirmation of the settlement.

Leapfrog manufacturing?

The biggest untapped resource in the world is the intellect of the poor

Digital jobs for the poor

- A child of Indian immigrants, **Leila Janah** (who died at the age of 37of cancer in Jan 2020) created digital jobs that pay a living wage to thousands in Africa and India,
- She believed that **the intellect of the poor was "the biggest untapped resource" in the world**
- She employed thousands of desperately poor people in Africa and India in the fervent belief that jobs, not handouts, offered the best escape from poverty,

- She went on to start Samasource in Nairobi, Kenya, in 2008 — "sama" means "equal" in Sanskrit — with the aim of employing poor people, for a living wage, in digital jobs like photo tagging and image annotation at what she called delivery centers in Kenya, Uganda and India.
- The workers generate data that is used for projects **as diverse as self-driving cars, video game technology and software that helps park rangers in sub-Saharan Africa prevent elephant poaching**

Case study: Digital Jobs in Pakistan

Khyber Pakhtunkhwa is a conflict-affected province in Pakistan; Youth (under 30) make up 68% of population (16 million youth) and unemployment is 10.5%
Rapid expansion of technology enables anyone with a computer and an internet connection to access legitimate work online: either as an online freelancer or providing outsourcing services (BPO worker); barrier to entry are low, and work pool is global
Since 2014, Government has invested in opportunities

- Training programs for youth in digital skills to access online work in the global digital economy
- Awareness raising among youth of these global opportunities, as well as how to access them
- Infrastructure (wifi, e-work centers, networks of co-working spaces, etc.)

Aim is to bring 75,000 digital jobs to Khyber Pakhtunkhwa over the next three years.

Essential services for Foreign Direct Investors

- **Compare essential services with survival services**: services, the interruption of which would **endanger the life, health or personal safety of the whole or part of the population** (ILO definition)
- The following **may be considered to be essential services**:
  - **hospital sector**
  - electricity services
  - **water supply services:** . In 2010, the **UN General Assembly** recognized **access to water as a human right which is "essential to the realization of all human rights"**
  - telephone services
  - police and the armed forces
  - firefighting services
  - public or private prison services
  - air traffic control

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