

PPIAF Supports Fragile States to Deliver Infrastructure Services

Around 1.5 billion people live in countries affected by fragility and/or conflict, with poverty rates average 54% compared with 22% for low-income countries as a whole. These countries, characterized by weak institutions, high risks of conflict, and in some cases the aftermath of warfare, pose the most difficult development challenges. Aside from the lives hurt or lost due to war, conflict also destroys institutions and physical assets such as buildings, roads, and other basic infrastructure, and the annual global cost of conflict is estimated to be around \$100 billion. These countries need to rebuild and re-establish access to basic infrastructure services quickly, but they lack adequate public revenues, government capacity, and investor interest. Unfortunately, recovering and rebuilding takes years and such efforts do not always succeed—40% of post-conflict countries relapse into conflict within 10 years. Furthermore, governments emerging from war and civil conflict in particular face the paradox of having the greatest need for service provision at the very time that investor confidence is at its lowest. Fragile states thus lag far behind other developing countries, because not only do they need general assistance developing, but also rebuilding what was destroyed. Achieving the Millennium Development Goals in fragile states thus remains a difficult challenge, but one PPIAF hopes to address by bringing its own proven approaches to complement those of other international development organizations.

Fragile states differ tremendously in terms of their basic problems and their willingness and ability to address those problems. PPIAF relies on its flexibility and quick response time to tailor its interventions to address each fragile situation's specific characteristics and seeks to segment and sequence its grants, with successive grants contingent on successful implementation of previous efforts. In general, however, **PPIAF support to fragile states generally follows either of two tracks (or both tracks in the same country), depending on the circumstances.**



Track One: Enabling Environment Reforms

PPIAF specializes in creating enabling environments for public-private partnerships (PPPs) in basic infrastructure sectors, as well as early stage project conceptualization and pre-feasibility project development. This expertise allows PPIAF to work effectively in fragile states willing to tackle the challenges associated with increasing institutional capacity and sector reforms needed eventually to attract private sector participation. PPIAF can help these governments address these challenges by supporting:

- Policy formulation, as public authorities decide between public and private provision of infrastructure services
- The selection of the best mode of delivery of infrastructure services and the risk allocation between the public and the private sectors
- Building capacity in public authorities to design PPP projects, manage the award process and the service delivery, and partner with private investors
- Adequate consultation with beneficiaries to share project objectives
- Legislation and institutional reforms to ensure the sustainability of the investments and the protection of property and contractual rights
- Support for the negotiations of contracts to ensure adequate risk allocation between public and private parties



PPIAF assistance can help re-establish or deepen short-term finance, banking, insurance, and other capital markets. Since telecommunications operators (especially mobile telephony) tend to be the first to arrive in post-conflict settings, it is important that government reforms and regulatory approaches facilitate these investments and thus begin to change country risk ratings and investor perceptions. Beyond telecommunications, the attractiveness of private participation in infrastructure in post-conflict countries drops precipitously. Power projects remain somewhat attractive particularly for generation or, at least, when electricity supply and distribution are bundled. Within transport, seaports received the majority of private sector participation. Water and sanitation receives the least investment in dollar terms and is the last of the sectors to receive outside investment funds, although it may be the sector with the greatest needs. All of the investment, collection, tariff, and regulatory risks found in the other sectors are exacerbated by the uncertainties of local political, administrative, and contractual arrangements. **But in cases where governments of fragile states are willing and able to play some role in service provision, and look forward to attracting private investment in these sectors, PPIAF can assist with enabling environment reforms.**

In 2007 PPIAF provided support to the government of Guinea-Bissau to develop an institutional and legal framework for the development of PPPs in infrastructure, as part of a larger infrastructure rehabilitation and development program supported by the World Bank and European Union. PPIAF funding contributed to the drafting of PPP legislation and amendments to the Code of Public Contracts. As a result, the new PPP law was approved by the Council of Ministers on April 5, 2009.

Track Two: Facilitating Small-Scale Service Provision

In fragile states where the government is less willing or able to take an active role in service provision, PPIAF can also help by facilitating small-scale service provision. In such states, users typically access basic services from small-scale providers, including small, medium, and micro enterprises and non-governmental organizations, which are often able to offer innovative products such as water kiosks and independent networks targeted at under-served populations. In some countries, these providers account for up to 70% of urban service delivery. In particular, community-based approaches have been very successful, particularly in the water sector. An independent study commissioned by the OECD notes that “community-based approaches show great potential and may be the only feasible, attainable option” in many fragile states.



But small-scale service providers are effective only if their work is not unreasonably constrained (or outlawed) by regulations or anti-competition provisions protecting state-sanctioned water providers. If governments in fragile states choose to regulate service pricing and/or quality, they must do so in ways that optimize the productive and innovative role of small-scale service providers particularly in situations where government service delivery is limited. Small-scale service providers also tend to benefit substantially from assistance designed to strengthen their technical and business skills, and to help them access financing. **PPIAF can help governments and small-scale service providers address these challenges** by supporting:

- Financial and technical support to micro-finance and small banking institutions with outreach for private and community infrastructure provision
- Assistance in the development of basic licenses and other contractual arrangements that legitimize these businesses
- Support for the design and implementation of community-based users' groups to provide a minimal level of regulation

PPIAF's work with small-scale community water providers in peri-urban areas in Kenya and the Philippines has helped develop an approach to technical assistance that can be used in fragile states where community-based organizations and small, medium, and micro enterprises provide the only services in such areas.

Experience

Since 2000 PPIAF has supported fragile states, providing assistance to countries—such as Afghanistan, Angola, Bosnia-Herzegovina, Cambodia, Kosovo, Mozambique, and Rwanda—so that they can attract private operators and investors under arrangements offering long-term solutions for service provision. PPIAF has funded over 69 activities in such states, worth over \$16 million. PPIAF emphasizes the importance of an appropriate investment environment and sustainable infrastructure services in post-conflict countries to sustain growth, stability, and poverty alleviation.

| Box 1: Examples of PPIAF activities supporting fragile states to structure PPPs |
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| Enabling environment reforms |
| Angola: Country Framework Report: Private Solutions for Infrastructure in Angola, 2003 |
| Liberia: Draft Telecommunications (Licensing and Authorization) Regulations, LTA-REG-001, 2008 |
| Afghanistan: review of legal/regulatory framework for facilitating PPP in solid waste management, market assessment, and advice on design of PPP arrangements in Kabul, 2007 |
| Guinea: Assessment of PPP options for the development of power and water infrastructures in the Boke region, 2006 |
| São Tomé and Príncipe: review of the legal and regulatory framework for the telecommunications sector including draft legislation, 2002 |
| Project cycle-related assistance |
| Afghanistan: build-operate-transfer sanitary contract and service contract for secondary solid waste collection in Kabul, 2008 |
| Democratic Republic of Congo: bidding documents for the award to a private sector operator of a management contract for REGIDESO, including an information memorandum and update of water management contract and financial model, 2008 |
| Liberia: Standardization of licenses for mobile telecom operators, 2007 |
| Yemen: Models to Develop the Gas-to-Power Market Options Report, 2009 |
| Dissemination and capacity building |
| Afghanistan: Workshop on Urban Water Supply and Sanitation Sector Strategy and Action Plan, 2004 |
| Yemen: workshop on private sector participation and communication strategy in the urban water sector, 2005 |
| Sudan: telecommunications training for staff of the government of South Sudan at the African Advanced Level Telecommunications Institute in Kenya, 2008 |
| Guinea: capacity building training seminar for the Guinean telecommunications regulatory agency, 2009 |
| West Bank and Gaza: workshop on the new legal framework and capacity building on key regulatory issues, 2005 |

Principal Project Partners

The World Bank Group has a renewed focus on fragile states. In particular the International Development Association (IDA)'s latest replenishments include provisions to respond to the needs of fragile states, which have also benefitted from IDA's policies on debt relief. IDA has also enhanced its institutional capacity to provide assistance to fragile states, including increasing staff presence in those affected countries.

In addition, the International Finance Corporation is encouraging PPIAF to target IDA-eligible fragile states and in particular focus on Sub-Saharan Africa. The IFC and PPIAF are working closely together to screen activities and select to fund those that have the greatest potential for success in the long term.