

## Post-Conflict Countries Series: Risk Issues

*This note is the third in a series of notes assessing the role of public-private partnerships and private sector participation in post-conflict reconstruction and infrastructure development. This series is extracted from a PPIAF-funded review of policy and institutional capacity to facilitate private participation in infrastructure for Sudan, which was prepared by Castalia Limited in November 2006. The full report is available from the [PPIAF website](#).*

Table 1 below lists a number of important risks to private investors that generally exist in post-conflict countries and recommends specific actions that governments can take to deal with these factors. This provides a comprehensive list of specific recommendations and suggestions for post-conflict countries to reduce risks for investors in general, and infrastructure investors in particular, outside of the risk management mechanisms.

**Table 1 General post-conflict country risk factors<sup>1</sup>**

Description of Standardized Types of Risk	Risk Abatement Measures Specific to Post-Conflict Countries
<b>Political</b>	
Government may not be perceived as stable	Prompt implementation of the peace agreement and interim constitution (if applicable). Government should (re)join international organizations and agreements.
Government may not be democratic and/or is not perceived to be accountable to constitutional mechanisms	Prompt implementation of the peace agreement, particularly aspects relating to elections. Ensure development of parliamentary processes to establish government accountability. Establish effective and independent auditor general and ombudsman offices supported by legislation and an independent judiciary.
War or civil strife may disrupt business and/or destroy assets	Prompt implementation of the peace agreement and interim constitution (if applicable). Promote bilateral and multilateral risk insurance, for example from MIGA and WB.
<b>Regulatory</b>	
Regulation is not well specified, and regulators are not independent and are subject to political authority	Ensure regulatory bodies are removed from direct control of Ministers, and the laws establishing the regulatory roles and frameworks are clear for the regulators and the regulated
Governments may use PPPs for the wrong reasons, resulting in misaligned private and public interests	Create PPP units to develop and manage government risk management policy and to monitor contractual obligations
There are many layers of supervision and it is unclear which body has final authority on regulatory matters	Create simple legislation governing each sector. Draw clear lines of responsibility and reduce layers of supervision/regulators involved in each sector
Regulations are complex and their meanings are unclear	Reduce regulation to the absolute minimum necessary to protect genuine public interest (e.g., public safety, environmental protection, monopoly control). Regulatory rules and processes should be clear and certain to promote investment in industries where networks are

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	minimal or nonexistent. Simplify regulations generally and focus on mandating performance using contracts.
Regulation may be unformulated and institutions may not currently exist, creating the possibility of major changes in the regulatory environment in the future	Avoid creating regulatory bodies for every sector in a country. Mandate performance through contracts and keep additional legislation to a minimum. Use PPP units to monitor contract performance.
<b>Commercial</b>	
Customers have limited ability to pay tariffs at full cost-recovery rates	Provide explicit subsidies if tariffs are to be regulated at below full cost-recovery levels. Determine subsidy levels as part of transaction processes involving PPPs.
Central government and/or quasi-government agencies may become delinquent customers	Guarantee payments for quasi-government agencies and consider legislation placing all government payments to infrastructure companies on the same level of importance as other debts, which are paid before recurrent expenditure in the event of a cash crisis
Collection may be difficult particularly if customers are armed	Governments should not require service to areas where private operators cannot collect revenues with reasonable effort. If service is a priority, the government should pay for the service directly through an explicit subsidy.
<b>Economic/Policy Environment</b>	
Local currency may be unstable and inflation may be high	Governments should pursue sound fiscal policy and make monetary policy independent of central government control
Tax rates may be variable or uncertain	Policymakers should avoid setting "special" or retroactive taxes, which may be perceived as having an element of property seizure. Taxes that are simple and certain rather than uncertain, arbitrary, and high, will attract investment.
Foreign companies may have difficulty repatriating profits and dividends	The ability to repatriate profits and dividends should be clearly allowed in contracts and where possible other legislation should indicate that this activity is not restrained
Land rights may not be established or have a clear framework for settlement	Governments should allow long term leases where ownership is not possible. Legislation should be considered which allows for ownership in most areas and creates enabling institutions to issue and track documentation to that effect