PPPs or iPPPPs:

Which Model Provides Greater Infrastructural Social Impact in Sub-Saharan Africa?

BACKGROUND

Sub-Saharan Africa (SSA) is made up of West, East, Central and Southern Africa and comprises approximately 48 independent countries. The region contributed just 2.35 per cent to the global GDP in 2020 but accounted for over 14 per cent of the global population during the same period (World Bank, 2021). Data indicates that the global population will increase by 2 billion within the next three decades, half of which will be from the SSA (United Nations, 2019). Unfortunately, SSA economies are classified as fragile, making them vulnerable to economic shocks or health disruptions like pandemics (OECD, 2018). To prevent financial collapse, SSA countries require efficient financial structures that will ensure resilience in crisis whilst achieving sustainable growth.

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The Addis Ababa Action Agenda documented by the United Nations Capital Development Fund (UNCDF) and Organisation for Economic Co-operation and Development (OECD) in 2020 outlines a funding framework for the region, focusing on building and improving infrastructure through the effective collaboration between Public-Private Partnerships (PPPs) and domestic and foreign sources of funding (OECD/UNCDF, 2020). PPPs were the most popular funding mechanism for infrastructural social impact projects in the SSA, based on the success and establishment of PPP units in almost all countries internationally (OECD/UNCDF, 2020). However, a brief analysis suggests that this may not be the most suitable structure for the SSA. Rather, Islamic Public-Private Philanthropy Partnerships (iPPPPs) might be more effective. This article briefly examines the two options and suggests the more appropriate structure for SSA in building financial resilience and achieving the United Nations Sustainable Development Goals (SDGs).

PUBLIC-PRIVATE PARTNERSHIPS

PPPs provide a collaborative financing solution that intends to reduce the burden on public expenditure in funding, especially infrastructure projects, by combining public funds with private capital and expertise. The private sector is considered more efficient in risk management as its primary goal is profit, unlike governments that prioritise social impact and public benefit (Akintoye & Beck, 2009). As collaborative ventures, PPPs rely on independence, specific strengths and risk sharing between parties when undertaking public infrastructure projects. Typical solutions include the Build-Operate-Transfer (BOT) or Rehabilitate-Operate-Transfer (ROT) models that require the private sector to fund the construction or renovation of projects, and operate the completed infrastructure for profits over an agreed period before handing it over to the government. This provides assurance that projects deliver the intended benefit for the private partner and transferring a working model that may be limited to maintenance and administration once in the hands of the government. This means that PPPs should have minimal to no impact on country debt if applied effectively.

Documented challenges to the success of PPPs include difficulties in long-term forecasting, adequate regulation, and the risk that one partner company will have to cover other partners (Cruz & Marques, 2013). However, do these challenges adequately explain PPP practices in SSA?

PUBLIC-PRIVATE PARTNERSHIPS IN SUB-SAHARAN AFRICA

IMF (2021) data indicates that the SSA region has substantially increased its debt to GDP ratios between 2014 and 2019 (from 35.1 to 55.4 per cent). A closer look reveals that the Southern African region, for example, increased from 43.9 to 71.2 per cent in the same period. As the debt burden for fragile economies in the SSA increases, the urgency for funding solutions that lessen the impact on public debt also increases.

Unfortunately, PPP funding in the region may not be effective in reducing this debt burden. Since government guarantees are recorded as contingent liabilities for PPPs, this increases public debt effects for already burdened countries (Sfakianakis, 2013). Also, research indicates that high levels of corruption and political interference in some SSA countries have not had the desired PPP effects. Nigeria, for example, records the Rivers State Monorail Project in Nigeria as an instance of a failed PPP.

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The state government had initially contributed 20 per cent to a transport infrastructure project valued at US$318 million in 2010, with the remainder to be funded by a private company. Apparently, the state had finally paid 100 per cent of the project value with the project being abandoned due to insufficient funds, lack of political will and the withdrawal of the private company (Ndukwe, 2018).

This scenario is not limited to Nigeria and has its own colloquialism in South Africa, known as 'tenderpreneurship', where individuals profit illegitimately through corrupt tender processes (often PPPs) driven by political affiliations and nepotism (Piper & Charman, 2018). Similar practices of PPP abuses have been documented by Irazábal (2016) in South America, where developing countries lose public funds to private actors and government officials, pressuring public funds and negatively impacting vulnerable groups that are excluded from profitable ventures.

It seems that PPPs are more successful in developed rather than developing countries (Yang, Hou & Wang, 2013). Shaoul (2011) and Osei-Kyei and Chan (2015) suggest that this is due to shallow financial markets, economic status and inadequate technical expertise. Perhaps multi-sectoral partnerships and blended financing may offer a better alternative to PPPs for the SSA?

PUBLIC-PRIVATE PHILANTHROPY PARTNERSHIPS

Public-Private Philanthropy Partnerships (PPPPs) offer an alternative model for enhancing social impact and potentially higher levels of governance for developing countries when compared to PPPs. PPPPs, also known as 'multi-sectoral partnerships', introduce the social sector to funding infrastructure but are reliant on motive. For example, Irazábal (2016) suggests that successful PPPPs depend on a motive of mutual benefit from each of the parties and not self-interest, and introducing the people-centric stakeholder (potentially the fourth 'P', referring to the 'philanthropist') assists in achieving this.

For Islamic finance, hybrid financing that integrates social stakeholders (i.e., iPPPP) is becoming more popular. Examples include the sukuk-waqf model that provides investors with stable returns whilst protecting invested capital and maximizing social impact. Sukuk and waqf have both individually created impact, and integrating these two instruments may in fact multiply their individual effects. The stringent criteria of performance, tradability and principal guarantee of sukuk, coupled with perpetually protected waqf assets endowed for assisting only assigned, qualifying beneficiaries contribute to the private and philanthropic components of a PPPP, with government intervention to ensure a large scale social impact.

Rumah Sakit Mata Achmad Wardi BWI-DD

Eye Health Services that is Islamic nuanced, professional and supportive towards the poor.

Mission

- To provide Islamic nuanced clinical services, prioritising quality and patient safety.
- To develop a superior work ethics
- To improve human resources quality and professionalism
- To develop partnerships and public awareness locally and abroad on providing health aid for the poor

Figure 1: Achmad Wardi Eye Hospital Mission Statement

Source: https://rsmataachmadwardi.com/about-us/

A recent example is the Achmad Wardi Eye Hospital in Serang, Banten, Indonesia (Figure 1), which applies cash waqf-linked sukuk for the construction of a retina and glaucoma centre. The Indonesian Waqf Board (BWI) and Dompet Dhuafa (DD) were responsible for arranging the cash waqf targeting both private and corporate investors. Bank Indonesia (BI) was appointed as custodian, enhancing investor confidence, two Islamic banks and the productive waqf *nazir* as the waqf trustees, further supported by a sovereign guarantee.

CONCLUSION

It seems that the PPP is a popular funding model that maximises its impact when applied in emerging or developed countries. Lower-income and developing countries in the SSA have also applied PPPs with less effect due to weak regulation, unfettered corruption and political interference.

Multi-sectoral partnerships or iPPPPs that integrate social institutions/philanthropy with high governance requirements and strict regulator oversight may be more effective for the SSA. Islamic social funding solutions like waqf provide an additional level of governance and religious obligation that may further enhance the social impact of the funded projects.

Sukuk-waqf or waqf-linked sukuk should be introduced into the SSA infrastructure financing mix based on the cultural context of the SSA, as these models seem better suited to achieving the needs of the people in the region.

Successes in other countries that share similar economics provide adequate impetus to effect change and improve the lives of the increasing SSA population.

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