

PPPs in Mozambique: Issues and Recommendations

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Introduction

A review of PPP policy in Mozambique:

- Basic principles for a good PPP program.
- Mozambique PPP cases and an evaluation
- Conclusions from the cases and recommendations.





What is a PPP?

- A large sunk investment in infrastructure.
- Financed, built, operated and maintained by private company.
- Eventually returns to government (which can do another PPP).
- **Not a free source of funds**, since private firms must (in expectation, adjusted for risk) make a non-negative return.
- Risk of expropriation (regulatory) is a serious problem.



Principles for a good PPP program

- A good system for project selection–design–contract.
 - Requires social project evaluation.
 - Incorporates service standards (and enforcement) in the contract
 - Incorporates elements of flexibility, without opportunism.
- Cost minimization: requires competition for the project (preferably minimum technical requirements (prequalification), then price competition).
- Rules of thumb to select projects for PPPs: ports, highways 
airports  railroads, jails, hospitals, etc.



Principles cont. . .

- Contract renegotiations should use principle of *No additional rent*.
- Transparency: contract and modifications available on web page of PWA.
- Use PVR because of its advantages, whenever possible.
- PPPs accounted as debt in fiscal accounts.
- Predefined mechanisms for conflict resolution.



Cases: ADM

- Formed in 1999 to manage and collect revenues in water distribution.
- Provides 80% of hh. connections in Maputo (20% of hh.).
- Water losses excessive at 50% in 2009.
- Investments depend on donor financing.
- Has had several changes in ownership and in policies in past 13 years.
- Private partners fled or were bought out, and then bought back.
- Nevertheless, in 2009, the WB assessment was positive. Not clear why.



TRAC N4

**N4 ROAD ON THE MAPUTO CORRIDOR
BEFORE CONCESSION**



**N4 ROAD ON THE MAPUTO CORRIDOR
AFTER CONCESSION**



TRAC N4

- A highway between NE South Africa and Maputo Port.
- Initiated, financed and legally located in SA.
- Large investment has been fairly successful.
- Mozambique has lagged in:
 - ① providing ancillary services,
 - ② raising tariffs appropriately (\Rightarrow congestion)
 - ③ insufficient heavy load supervision
 - ④ allowing invasion of land allotted for expansion.
- Despite these problems: traffic times are much lower than before, even with many times the traffic. Maintenance is good.



Sena and Machipanda railway

- A long railroad that links the Port of Beira to Zimbabwe and to coal mining regions in Mozambique.
- PPP awarded to Indian state-owned company.
- Did not fulfill upgrading and maintenance contract.
- Received a US\$ 105MM WB loan, but rail conditions worsened. After several years, the PPP was dissolved.
- In the port of Beira there are other problems: non-competitive award of PPP contract.
- State-owned CFM is both shareholder and regulator.
- Only after dredging in 2011, throughput improved by 50%.



Maputo Port

- Maputo Port Development Corporation has two private partners plus CFM with 49%.
- Several important contractual changes (changes in partners, in length of concession, etc).
- Nevertheless, system has improved substantially and potential for expansion is clear.
- In general, Maputo Port corridor, (includes TRAC and Ressano Garcia railroad), is working better than all other projects.



Conclusions from cases

- Failures due:
 - Bad choice of partner (Beira railroad).
 - Problems in relationship with private party (Nacala)
 - Changes in contractual/ownership conditions(ADM).
- Ports do fairly well (Maputo✓), difficulties in Beira and Nacala, mainly due to railroad.
- Role of CFM as both partner and regulator is problematic (as in ADM).



Additional Recommendations

- Quality standards based on easily identified and observable variables.
- Predefined conflict resolution mechanisms.
- PPP's in infrastructure should not be thought of as cash cows.
- Contingent obligations index or better, all PPPs are public debt.
- Division of roles: contract supervision vs promotion/owner.
- Reputation for contract compliance is valuable.

