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SECTION 5: CONCLUSION AND RECOMMENDATION

5.1 Conclusion

As per the analysis conducted in the above section, it has been mentioned that infrastructure gap of $93 billion exists in the SSA region which has to be fulfilled among which, one third is on the maintenance and repair of current infrastructure because it has been in bad shape as it was built years ago. The financing mechanisms have been discussed in detail critiquing the strengths and weaknesses of these frameworks and how each contributes to infrastructure gap in the SSA region. For this purpose, all of the models do not have a sustainable future development in SSA region. Therefore, the third objective of study which is to present an SSA financing mechanism that helps in fulfilling the infrastructure gap.

SSA PPP Infrastructure Financing Model for closing the funding gap

The model presented for closing the infrastructure gap of $93 billion in SSA region and to sustain it in the long term has been the public-private partnership (PPP) model which has been successful in SSA region. In this model, the government joins hand with a private entity in another country which helps in developing infrastructure for taking part of revenues in form of taxes from the government. This model has been deemed as the key to closing the infrastructure gap in SSA by different authors. According to Farlam (2005), it has been determined the public-private partnerships have not been on a great scale but the development in region is remarkable. The study conducted by Botlhale (2016), it has been determined that PPP in Botswana is vital for its development in infrastructure and would lead to further development within the country through PPP.

From the discussion carried out in the previous chapters, it was apparent from the tests and the previous theories that there had always been the infrastructure gap in different eras and sectors which are currently found to be valued at $93 billion in SSA region. However, it is necessary to fill and close the gap of 9.3 billion in the SSA region for both quantity and quality gaps so that the GDP of the countries can be enhanced. Previous studies have suggested that the government should work on closing the gaps in the electricity sector which eventually sets out the rest of the sectors. When analysing the infrastructure investments in the preceding chapter, it was observed that the countries spend less money in the allocation of the projects. However, it is subjected towards the reduction in the execution of the projects which highlighted inefficiencies in different sectors. Furthermore, the PPP in the SSA countries remained in a small market with few of the projects concentrated towards South Africa, Uganda, Kenya, and Nigeria. The impact of the PPP for the economic growth of the countries can be enhanced if the countries implement appropriate policies which make the public investment more effective.

Project Finance Financing Model in PPP

In this essence, for closing the infrastructure gap in SSA countries, the researcher has proposed that the government of the SSA countries should seek the help from the PPP in which the project finance should be adopted as the financial model. In this financial model, the lending arrangements are based on the cash flow generation of the projects which are invested in the SSA countries. These projects would assist in the socio-economic uplift by guaranteeing the returns in the projects which are invested in the SSA countries. For instance, if the government of SSA countries seek help from PPP, then the risk would also be shared in the project finance because the structures of the risk will be defined initially amongst the project partners that include the financiers, public sector, and managers. In addition, they will be allocated on the basis of the varying abilities for managing and controlling the risk. In the project financing model, there is a limited liability which is contributed to the equity capital and the lenders are often limited to the sponsors of the project.

In the SSA countries, the principal amongst the finance channels will be financed by the sub-sovereign issues and project bonds in the bond markets, direct lending, and loans in the non-public markets. The use of the PPP contracts is considered as the integral part and an adequate method for the project finances. It serves as the legal structure for defining the project financing model.

Following are the scenarios, in which the government can get benefitted by the project financing model in the PPP,

- After the implementation of the project finance, the first stage of the projects may have expected returns from the exerting high efforts which should not be dominated by the private benefits of the investors and financiers.

$$ph\ (R - Rb - Rg)\ I > pl\ (R - Rb - Rg)\ I + BI;$$

Equation 1: (IC govt-II) Stage I

This implies that the project invested in the SSA country should have cash flow upon the success which should be left as the residual claim for the private sector and have incentives for ensuring that the project operates at the high profitability for the success within the second period.

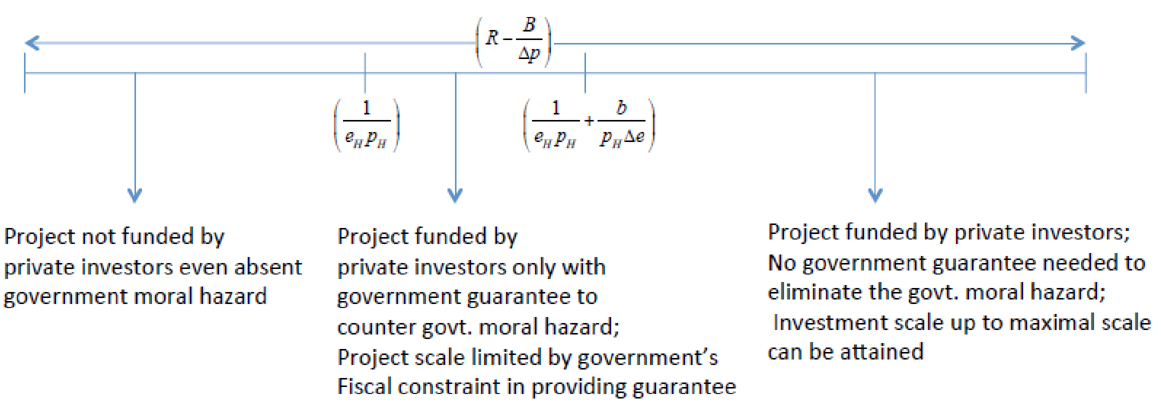
- The government incentive within the first stage of the project implies an expected return from exerting the high effort within the first stage which must not be dominated from the expected returns (inclusive of the net cost of providing guarantees to investors and other private benefits) and from exerting the low efforts.

$$ehphRgI + (1 \square eh)KgI \;\; elphRgI + (1 \square el)KgI + bI; \qquad (IC\text{-}govt)$$

Equation 2: (IC-GOVT) Stage II

Once the first stage of the infrastructure project is executed, the government input is crucial to ensure for the prospects of those projects in future. Moreover, the government should be committed at each stage of the project without any extortion. The government can play their role by imposing the restrictions on the price settings, which can have direct or indirect benefits for the government at the cost of cash flows which are left behind the private sector operator and investors. The viability of the projects can be explained from the figure presented below,

Figure 2: Project viability under Model I



Before this, the Chinese infrastructure is dominant in Sub Saharan Africa but that would damage the natural resources as Chinese are interested in extracting the resources and infrastructure is not efficiently developed because Chinese invest in areas which are useful to them. After implementing the PPP partnership, the investment would be diversified across regions and in different sectors that would help in developing important and vital infrastructure.

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