



PPPs IN AFRICA

When the Partnership Doesn't Share the Risk

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A Promise and Its Distortions

The Public-Private Partnership is, in its original conception, a simple and appealing idea: the state brings the public-service mandate, the regulatory framework and, where relevant, a sovereign guarantee; the private partner brings capital, technical expertise and — the fundamental point — its capacity to carry and manage execution risk. In exchange for taking that risk, the private partner is remunerated over time, through the revenues generated by the service rendered. That is the PPP's implicit contract: value created, risk shared, a service delivered.

In Africa, this model has largely proven itself on paper. Since the 1990s, hundreds of infrastructure projects — roads, ports, power plants, water networks — have been structured as PPPs, carried by the enthusiasm of multilateral donors, the pressure of international financial markets, and the sincere conviction of many African decision-makers that the private sector would bring what states, alone, could not finance.

The reality, two decades on, is more nuanced. A significant number of these PPPs did not deliver the risk sharing they promised. They delivered concrete — and left the risk with the state.

The thread of this note is simple, and worth stating upfront: **in a contract, any risk that is not explicitly allocated does not disappear. It falls, by default, on the party least able to negotiate it — and most often that is neither the state, nor even its administration, but the citizen, the taxpayer, or the local business that pays the price, years later, without ever having been party to the contract.**

Selling Concrete, Not a Service

The distinction is fundamental and too rarely stated: **a PPP worthy of the name does not sell infrastructure. It sells a service.**

The difference is not semantic. It is economic and contractual.

When a private player commits to building and operating a power plant, a bridge or a port terminal within a genuine PPP, it commits to an outcome: megawatt-hours delivered, trucks passing, containers transiting. Its remuneration is indexed to that outcome. If there is no traffic, no consumers, no demand, it bears the financial consequences — because it was precisely remunerated for having assessed and priced that risk before committing.

This model has a cardinal virtue: it forces the private partner to do its analytical homework upfront. Before signing, it must verify that the demand exists, that the complementary infrastructure is in place, that the value chain holds. It must, in short, understand the service it commits to delivering — not merely the structure it commits to building.

Yet an alternative model has progressively taken hold in many African PPPs, particularly in the energy sector: the **guaranteed capacity** model. In this scheme, the state, or the public entity designated as offtaker, commits to paying the private partner for installed capacity — regardless of the quantity of energy actually consumed or distributed. Demand risk, distribution risk, collection risk: all of it is transferred to the public buyer. The private partner, for its part, collects its remuneration as soon as its plant is technically operational — whether it serves anyone or not.

That is selling concrete. Not a service. And it is the first illustration of our thread: the downstream-chain risk did not disappear because it was not priced by the party best placed to assess it. It merely changed carrier — without that transfer ever being named as such.

The State as Insurer of Last Resort — Without Earning the Premium

This drift has a direct consequence for African public finances that deserves to be named clearly: **the state ends up assuming the role of insurer of last resort of an investment for which it never received the risk premium.**

In a classic financial structure, whoever carries the risk is remunerated accordingly. An insurer collects a premium. A venture investor demands a high return. A lender accepting a fragile counterparty applies a higher interest rate. That is the very logic of financial markets: risk has a price.

In the guaranteed-capacity PPPs that have multiplied across Africa, the state carries the risk — that demand proves insufficient, that the distributor cannot pay, that the complementary infrastructure fails to materialize — but does not receive the corresponding remuneration. Worse: it contracts this exposure without always measuring its true magnitude, often under pressure from donors pushing toward financial close and an infrastructure urgency that encourages signing before the downstream questions are fully resolved.

The mechanism is particularly visible in power generation. An independent producer signs a Power Purchase Agreement (PPA) with the national distribution company. That PPA provides for a capacity payment — whether or not the energy is actually delivered to customers. If the distribution network is failing, if the industrials are not connected, if households cannot pay their bills: the national distributor must still honor the PPA. And when the national distributor defaults, it is the state that is called upon — as ever, in last resort — to cover the debt.

The mechanism can be illustrated by a case several African countries have lived through, or are still living through, in various forms: a major generation facility is commissioned — technically flawless, financed by an international consortium, hailed at its inauguration as a symbol of the continent's energy dynamism. But the transmission lines that were to evacuate the energy toward consumption centers are not ready. The industrials who were to form the customer base have not been connected. The national distributor, unable to sell the energy it is contractually obliged to pay for, accumulates arrears. And the state, sovereign guarantor of the PPA, faces financial obligations it never budgeted — for a service its citizens are not receiving.

The private partner, for its part, has delivered its plant. Its concrete is there. It is within its contractual rights.

At this point, the unallocated risk has found its first default carrier: the state — and with it, the taxpayer. But that is not the last link in the chain.

The Local Private Sector: Second Victim of the Same Mechanism

The shifting of risk onto the state does not stop at public finances. Through a second cascade effect, it propagates to a stakeholder that was never at the negotiating table: the local private sector.

Pick up the thread again. The project was designed on the assumption that industrial demand would exist and would be connected. That assumption — which should have been verified, secured and brought within the project's contractual perimeter — did not materialize. The corresponding risk was absorbed by the state in the form of capacity payments uncovered by distribution revenues. But upstream of that budgetary chain stand very real companies, which were waiting for that connection to cut their energy costs and gain competitiveness.

Those companies keep running on generators. They keep paying an energy cost two to three times higher than the one the project was supposed to offer them. Their competitiveness — on the domestic market and in exports — remains

penalized, even as an investment of several hundred million dollars, presented as the solution to their problem, has been financed, built and inaugurated.

The local private sector is thus, structurally, **the second victim of the same unallocated risk** — that of the distribution chain. And yet, in almost every case, it had no voice in the project's structuring. Employers' organizations, industrial associations and chambers of commerce are generally not involved in the structuring phases of major energy PPPs — even though they are the very embodiment of the demand assumption on which the project rests.

There is an inconsistency here worth naming: the local private sector is treated, in the project's financial modeling, as a data point — a demand projection, a line in an Excel sheet — when it should be treated as a stakeholder whose economic reality conditions the very viability of the structure. Giving the local private sector a voice in the structuring of energy PPPs is therefore not a matter of representativeness or procedural fairness: it is a matter of model robustness. A demand assumption validated by those who constitute it is more reliable than a demand assumption projected by those with an interest in seeing it confirmed.

Why This Model Thrives

It would be too easy to attribute this drift to the bad faith of private players alone. The reality is more systemic — and understanding that system is the condition for correcting it.

On the side of private partners and their financiers, the pressure toward financial close is strong. Major infrastructure projects in Africa mobilize teams for years, generate considerable development costs, and are judged — internally and by the markets — on their ability to reach completion. In that context, the temptation is great to concentrate risk analysis on what one controls — construction, technology, financing — and to leave to the state the management of what one controls less: demand, distribution, collection. A guaranteed-capacity PPA is easier to finance, presents a more legible risk profile for development banks and bond markets, and closes faster.

On the side of African states, weak contract-negotiation capacity is a well-documented aggravating factor. Facing the experienced legal and financial teams deployed by international private consortia, African administrations often negotiate with thinner teams, under time constraints and strong political pressure to deliver visible projects. The subtleties of a tariff-indexation clause, the implications of a twenty-five-year capacity guarantee, the step-in-rights mechanisms in case of offtaker default: these elements, decisive for the contract's real balance, are sometimes poorly understood or insufficiently negotiated.

On the side of multilateral donors, the imperative to deploy financing within timelines set by their own budget cycles can, at times, lead to favoring projects that close quickly over projects that are better structured. This is not a criticism of principle — donors play an indispensable role — but a systemic reality that African states would do well to factor into their negotiating posture.

In all three cases, the finding is the same: no one explicitly decided to transfer the downstream-chain risk onto the state and then onto the local private sector. It is the result of an accumulation of individually rational incentives that collectively produce a sub-optimal outcome. It is not a matter of will — it is a matter of structuring.

Technology Transfer: Another Risk Poorly Allocated

The same reading grid applies to a third dimension, which plays out not at the scale of one project, but at the scale of a generation of projects: **the transfer of skills and technology**.

Most major African energy PPPs are structured with international technical partners — engineering, construction, operations, maintenance. That is understandable: these partners have the experience and know-how that few local players yet possess at the required scale. But this reality, repeated project after project without a corrective mechanism, produces a predictable result: two or three decades of energy PPPs can succeed one another on a territory without an ecosystem of local companies emerging that is capable, in its turn, of carrying the development of such projects.

The observation is easy to make in most African countries: which local players are today in a position to bid as developers on a tender for a plant of several hundred megawatts, or for a high-voltage transmission line project? The answer, most often, is that they are very few.

Why is this outcome the object of no contract? For the same reason as demand and distribution risks: because no one explicitly allocated it. Skills transfer is not a risk in the financial sense of the term — it triggers no immediate payment if it fails to happen. But it is a risk in the strategic sense: the risk, for a country, of remaining structurally dependent on outside partners to develop its own infrastructure, project after project, decade after decade. That risk appears on no balance sheet. It has no line in the financial model. And that is precisely why it is never carried by anyone — and therefore never corrected.

This is not fate; it is a matter of contractual structuring — in exactly the same way as the financial risk sharing analyzed above. African states negotiating PPPs with international technical partners have the ability to write concrete requirements into those contracts: participation of local companies in engineering and construction phases through joint ventures or qualifying subcontracting, training programs with measurable targets, clauses for the progressive localization of certain activities over the life of the contract. These requirements are neither exotic nor out of reach: they are commonly used in other sectors and other regions, under various names — local content, local content requirements — and their absence from many African energy PPPs owes more to a failure of upstream structuring than to any impossibility of principle.

The stakes go beyond the individual project, and they close this note's loop: an ecosystem of local companies capable of carrying, even partially, the development of future PPPs is a condition for the *next* PPPs to be better structured from the start — that is, for demand, distribution and technological-dependence risks to be, this time, explicitly named and allocated before signature, rather than discovered after.

What a Responsible PPP Should Be

A PPP that works for Africa — and not only for its financiers — must rest on a few non-negotiable principles, which follow directly from the preceding diagnosis: every risk must have an explicit carrier, chosen because it is best placed to manage it.

Risk must go where it is best managed

This is the PPP's founding principle. The private partner is better placed than the state to manage construction, technical-performance and operational-efficiency risks. It must carry them. The state is better placed to manage

regulatory and political risks. It can carry part of them. But demand risk, downstream-chain risk, distribution risk: in a sector like energy, these are risks the private partner must analyze, price and integrate into its model — not systematically externalize toward the sovereign guarantee.

The service must be defined before the structure

Before structuring the financing of a plant, a simple question must be answered: who will consume this energy, how will it reach them, and who will pay? If these questions have no documented, verified and contracted answer — including with the local economic players who constitute the bulk of that demand — the project is not ready, whatever its state of progress in civil engineering. A well-structured PPP brings the complete value chain within its risk-analysis perimeter. The necessary complementary infrastructure — transmission lines, substations, distribution capacity — must either be included within the project's perimeter, or be covered by firm, verifiable commitments with a clear timetable. A vague promise from the state is not sufficient security.

The contract must reflect the real balance of risks

Including those with no immediate price. A PPA that guarantees the producer a capacity-based remuneration regardless of actual distribution must, in return, offer the state proportional protection mechanisms: caps on exposure, revision mechanisms in case of downstream-chain failure, efficiency gain-sharing over time. In the same way, long-term technological-dependence risk must be treated as a risk in its own right, with its own contractual mechanisms — local content, skills transfer, targets for the ramp-up of local players.

The state's negotiating capacity must be strengthened

And structured upstream — not improvised mid-process. A state that negotiates its PPPs well protects its public finances, secures its citizens, and — paradoxically — creates a more attractive environment for serious investors, who prefer solid counterparties to partners weakened by commitments they cannot honor.

That capacity cannot be improvised at the moment the private consortium arrives with its finalized offer and its seasoned negotiating teams. It is built upstream, through independent structuring work that allows the state to come to the negotiating table with its own understanding of the project — not only the one the private partner chooses to share. That is precisely the role of specialists in energy project structuring: modeling the complete value chain before signature, identifying where demand and distribution risks really sit, quantifying the exposure a capacity guarantee would represent, integrating the needs of the local private sector into the very definition of the expected service, and equipping state teams with terms of reference and non-negotiable negotiating points — including on local-content and skills-transfer clauses. This preparatory work, when done seriously, fundamentally changes the balance of power — not by pitting the state against the private partner, but by ensuring that both parties negotiate on the basis of the same understanding of the real risk, in all its dimensions.

The PPP as a Tool, Not an End

The PPP is not bad in itself. Some of the continent's most successful infrastructure projects were structured this way. Private operators have brought efficiency, technology and capital where the state alone could not have intervened. The model has value — provided it is used for what it is: a risk-sharing tool in the service of a public-service objective, and not a mechanism for transferring risk onto the African taxpayer, the local business and tomorrow's industrial ecosystem, dressed up in partnership language.

The question to ask systematically, before any financial close, is not "is this project financed?" but "who carries each of this project's risks — including those that do not appear in the financial model — and is that the right party to carry them?" If the honest answer, for demand and distribution risk, is "the state," and for technological-dependence risk, "no one," then the project is not a PPP in the full sense of the term. It is public borrowing with a private mise-en-scène — and a missed opportunity to build a local ecosystem.

Conclusion: Taking Back Control of Structuring

Africa needs PPPs. It needs private capital to finance its infrastructure, private expertise to operate it, and contractual models that mobilize those resources without compromising the public finances of future generations.

But it needs good PPPs — those that deliver a service, not merely a structure; those that share the risk, not merely the profits; those that bring the local private sector into the discussion, because it is the one that will pay the price of a service not delivered; and those that, project after project, build a local ecosystem able progressively to take over the development of the continent's infrastructure.

Taking back control of the structuring of these contracts is one of the most concrete and most immediately accessible acts of economic sovereignty that African countries can perform. It does not require waiting for a reform of the international financial system. It requires competence, rigor, and the capacity to model real risk — in all its dimensions, including those that do not spontaneously appear in a financial table — before signing.

It is possible. And it is urgent.

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