**REGIONAL CONFERENCE ON BUILDING DEMOCRATIC DEVELOPMENTAL STATES FOR ECONOMIC TRANSFORMATION IN SOUTHERN AFRICA**

**20 – 22 JULY 2015, PRETORIA, SOUTH AFRICA**

# PUBLIC-PRIVATE PARTNERSHIPS FOR SOCIAL AND ECONOMIC TRANSFORMATION IN SOUTHERN AFRICA: PROGRESS AND EMERGING ISSUES[1]

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## Abstract

Southern African countries are fast embracing public-private partnership arrangements (PPPs) as one way of delivering much needed economic and social goods and services. Attracted by prospects of overcoming public budget, human skills, technical and other constraints, these countries are slowly drafting the necessary legal and regulatory frameworks for PPPs. Here, progress has been slow and patchy. Still other countries have gone further by engaging the private sector prior to acquiring the vital skills necessary to extract the maximum benefits from PPPs. In the event, few successes can be independently proven and these have been confined largely to economic infrastructure; delivery on social goods and services has lagged far behind. Due primarily to weak legal frameworks and regulations, and the top-down approach that governments have adopted in crafting those frameworks, the associated institutions and projects have been fraught with controversies, raising questions about their sustainability in the long term. Moreover, trying to run before walking has undermined much of the vaunted benefits of PPPs, with governments footing huge bills and shouldering most of the risk.

This paper accepts that PPPs have a potential for social and economic transformation. To reach this potential, countries should first introduce the legal, political, institutional, governance and administrative conditions in which PPPs can flourish. Moreover, legal frameworks need to be created in a participatory process to ensure that the interests of different stakeholders are recognized and addressed. Even when these conditions are entrenched, governments should start small while building the public and private expertise to take on more ambitious projects.

**CONTENTS**

## ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| AfDB | African Development Bank |
| AU | African Union |
| BEE | Black Economic Empowerment |
| BLT | Build-Lease-and-Transfer |
| BOO | Build-Own-and-Operate |
| BOT | Build-Operate-and-Transfer |
| BT | Build-and-Transfer |
| BTO | Build-Transfer-and-Operate |
| CAO | Contract-Add-and-Operate |
| COMESA | Community of Eastern and Southern Africa |
| COSATU | Congress of South African Trade Unions |
| DOT | Develop-Operate-and-Transfer |
| EPEC | European PPP Expertise Centre |
| ICT | Information and Communication Technology |
| IMF | International Monetary Fund |
| IFC | International Finance Corporation |
| MDGs | Millennium Development Goals |
| NEPAD | New Partnerships for Africa’s Development |
| OECD | Organisation for Economic Cooperation and Development |
| PEEPA | (Botswana’s) Public Enterprises Evaluation and Privatization Agency |
| PFI | Private Finance Initiative |
| PPI | Private Participation in Infrastructure |
| PPP | public-private partnership |
| REC | Regional Economic Community |

| | |
|---|---|
| ROO | Rehabilitate-Own-and-Operate |
| ROT | Rehabilitate-Operate-and-Transfer |
| SADC | Southern African Development Community |
| SPV | Special Purpose Vehicle |
| UNCITRAL | United Nations Commission on International Trade Law |
| UNCTAD | United Nations Conference on Trade and Development |
| UNDP | United Nations Development Programme |
| UNECA | United Nations Economic Commission for Africa |
| UNECE | United Nations Economic Commission for Europe |
| UK | United Kingdom |
| USA | United States of America |

# CHAPTER 1: INTRODUCTION

Africa remains one of the regions in the world with a significant infrastructural deficit, both economic (e.g. transport, electricity, and communication networks) and social (e.g. schools, hospitals), due to a lack of resources to finance their construction. The United Nations Conference on Trade and Development (UNCTAD) estimates that the region loses 1 percent a year in per capita growth owing to dilapidated or lack of infrastructure (UNCTAD, 2011). Public-private partnership (PPP) arrangements have rapidly become the preferred way to provide infrastructure in many countries and Southern African countries are catching on. Several industrialized and emerging countries have used PPPs such as Australia, Canada, Ireland, United Kingdom (UK), United States of America (USA), and the Netherlands among the former, and Brazil and South Africa among the latter. In 2010, the total market value of all PPP projects in Europe reaching financial close was Euro 18.3 billion (EPEC, 2011), while the World Bank estimated that in developing countries, the private sector financed about 22 percent of infrastructure investment alone – amounting to over US$350 billion between 2000 and 2005 (World Bank, 2009). Governments sometimes appear to view PPP projects as a way of getting infrastructure costs off the public balance sheet, keeping investment levels up, cutting public spending and avoiding the constraints of public sector borrowing limits. The increasing use of PPP has led government to see it as a new approach to risk allocation in public infrastructure projects (Bing et al., 2005).

With the increasing currency of PPPs come the questions: Why are PPPs increasingly widespread? Why are some countries able to attract more investments in the form of PPPs than others? Why are certain types of PPPs found in some industries but not in others? What determines the extent of private sector participation in such ventures with the public sector? This paper will explore the extent to which legal and institutional frameworks have affected performance of PPPs in different countries in Southern Africa. In the context of Southern Africa, the assessment of progress and effectiveness of PPPs will be guided by the following considerations, among others: Are Southern Africa's PPPs supporting broad-based citizen empowerment in both economic and capacity terms? Do they create or shed (decent & sustainable) jobs? Do they lead to inclusive growth? Do they promote indigenous entrepreneurship? Are they cost-effective, enabling Governments to shift the saved resources to other priority areas? Are they promoting technological transfer and capacity building?

The remit of this paper is to provide tentative answers to these questions. Accordingly, this brief paper surveys some definitions and types of PPPs (chapter 2), explores the reasons for the rapid embrace of PPPs (chapter 3), and examines the circumstances in which PPPs can thrive (chapter 4). The paper highlights geographical and sectoral cases in which PPPs have been implemented (chapter 5) before doing the same for Southern Africa (chapter 6). Examining published reports, the paper highlights some of the achievements and concerns arising from the embrace PPPs in the region. The paper closes with some recommendations for improvements and further research.

## CHAPTER 2: DEFINITIONS AND TYPES OF PUBLIC-PRIVATE PARNERSHIPS

With the increasing popularity of PPPs worldwide, including in the Southern Africa region, it is essential that the concept and context of the phenomenon, as a form of vehicle or instrument for procuring and/or delivering public assets and/or services to fulfill development objectives, is clearly understood. This, however, has not been the case, as discussions and interpretations of PPPs continue to reveal significant misconceptions and misunderstanding of their definitions. Therefore, having a good idea and understanding of the definition(s) of PPPs, from the outset will, to a large extent, contribute to establishing the rationale, objectives, conditions, nature, scope, types among other aspects, of this rapidly growing concept, going forward (UNDP, 2013).

A literature review of the PPP approach in both developed and developing countries turns out an extensive range of various definitions of PPPs (see Annex). There is no single or standard definition. The definitions range from very broad to narrow, general and specific, comprehensive and limited, depending on the perspectives, objectives and expectations of the parties and/or institutions involved. The following three definitions are examples of very broad, specific, and comprehensive, respectively:

(i) "*A long-term contract between a private party and a government agency for providing a public asset or service, in which the private party bears significant risks and management responsibility*" (World Bank Institute, 2012).

(ii) "*A contract between a government institution and private party where: a) the private party performs an institutional function and/or uses state property in terms of output specifications; b) substantial project risk (financial, technical, operational) is transferred to the private party; and c) the private party benefits through unitary payments from government budgets and/or user fees*" (National Treasury of South Africa, 2007).

(iii) "*An agreement between the government and one or more private partners (which may include the operators and the financiers) according to which the private partners deliver the service in such a manner that the service delivery objectives of the government are aligned with the profit objectives of the private partners and where the effectiveness of the alignment depends on a sufficient transfer of risk to the private partners*" (OECD, 2008).

With the wide array of definitions in Annex 1, it would be prudent, therefore, to identify a working definition to guide parties involved in the negotiation and formulation of PPPs, especially in the Southern Africa sub-region. This will, however, necessitate brief discussions of the key elements, objectives, and types of PPPs in order to arrive at an acceptable framework of definition, which could be adapted or customized to suit the perspectives of the parties involved.

**Key Elements in PPPs Definitions**

There are a number of common elements that are present in almost all PPP definitions, irrespective of the agency or perspective. Some key elements contained in the definitions in Table 1 are as follows:

a. A contract or an arrangement between a government entity and a private entity – this is the primary feature of PPPs. In addition, the elements of government/public and private are important to understand, especially the latter, which refers to an entity that has a majority non-governmental ownership, i.e. 51 percent or more.

b. Provision of public infrastructure or public services through the private sector – refers to any public asset such as roads, bridges, which a government is traditionally expected to provide; and public services refers to basic services such as security, sanitation, electricity, which governments are obligated to provide to their citizens.

c. Substantial risk transfer to the private entity – is especially pertinent in procurement of huge capital assets/infrastructure, which as a result of inadequate capacity and expertise in government, bears high risks of poor quality and/or delayed delivery.

d. Remuneration to private sector – usually comprises of either a stream of payments from the government, user charges levied directly on the end users, or a combination of both.

e. Value for money – the difference in procurement cost of infrastructure between the traditional (public) procurement method and a PPP.

f. Outcome specification - the private partner's delivery of service and compliance with the contractually set quality and quantity specifications is linked to actual payment.

g. Medium- to long-term duration – can range from 5 to 30 years.

PPP Objectives

PPP objectives are more often than not, either not considered or glossed over, in favour of the rationale and justification. The objectives of PPPs constitute one of the most, if not the most significant consideration of PPP. Since PPPs are not ends by themselves, but means towards ends, it is therefore essential and critical to determine their objectives from the outset.

Identification of clear, specific and realistic PPP objectives will in addition to ensuring alignment and convergence of the objectives of all the parties, stakeholders and beneficiaries concerned, also significantly increase the prospects for success. Thus a good working or functional definition of a PPP should make reference or show some relationship to a set of objectives, usually categorized as technical, physical, environmental, social, economic, political and institutional.

Types of PPPs

The type or form of PPP is also another key aspect, which must be clearly understood and considered, especially when structuring a PPP initiative or project. This has implications in defining PPPs, as well as for developing the legal, regulatory, policy and institutional frameworks governing them. The literature review shows several types or forms of PPPs (Table 2).

The type of PPP relates further to the elements and objectives discussed earlier as well as management implications. An important point, however, is that the type of PPP is determined by the peculiarity of the sector, capacity of the parties involved, terms and conditions of remuneration and duration of the project. Table 3 shows types of PPP projects in 4 Southern African countries.

## CHAPTER 3: RATIONALE AND JUSTIFICATION FOR PUBLIC-PRIVATE PARTNERSHIPS

The use of PPPs as a beneficial contractual arrangement for the provision of economic and social infrastructure has grown sharply in recent decades. Both governments and private entities have provided a myriad of reasons for pursuing infrastructure projects as PPPs rather than as purely public or private investments. The rationales for PPPs fall broadly into the following categories: financial, risk transfer, efficiency, developmental, and ideological/political.

The purported financial benefits of PPPs can be broken down into budgetary and risk-related areas. PPP arrangements allow governments to keep budgets and budget deficits down since the upfront capital investments are typically made by private sector partners. This allows the government to keep debt off of its balance sheet and allows for scarce funds to be allocated elsewhere. In addition, PPPs can reduce governments’ administrative costs since project implementation is managed by private-sector partners. Depending on the contractual agreement, governments may have to pay shadow tolls or make other types of payments for the use of the provided infrastructure. Since these costs are spread out over the duration of the project, it avoids large budgetary outlays that can harm a government’s short-term fiscal position. While governments may have a lower average borrowing rate than the private sector, their marginal cost of borrowing can be higher if additional borrowing risks a deterioration of the government's credit rating (Bettignies and Ross, 2004).

Partnering with the private sector also allows governments to diversify financial and non-financial risks. Since the private sector may be responsible for the financing, construction, and operations of the project, the government's exposure to market and product risks is minimized. This does not imply that PPPs are a vehicle to transfer all risks from the public to the private domain. Instead, risks are borne by the party best able to manage them. For the private sector partners this may include financial, construction, and operational risks, whereas the public sector is typically better-positioned to manage political risks. It is the responsibility of all parties to assess the various risks prior to and during the contract negotiation phase to adequately allocate and manage them.

It is often argued that the quality and efficiency of infrastructure services can be enhanced through PPPs. Since each project ideally has multiple competing consortia at the bidding stage, competitive tendering should theoretically increase the efficiency of a project. Moreover, by involving the private sector, governments gain access to skills that may not be available in the public sector. Private providers of infrastructure may have more familiarity with innovative techniques and new approaches in their domain of expertise. Private companies are often better able to take advantage of economies of scale due to a higher volume of business than government agencies (Bettignies and Ross, *op. cit.*). Since the government can dictate output or other quality targets, this ensures that the quality of service remains high. If these targets are not achieved, governments can choose a new private sector partner. In the context of developing countries, both market and government failures may prevent both the private and public sectors from being able to implement infrastructure projects independently, thus necessitating cooperation (Ministry of Foreign Affairs of the Netherlands, 2013).

PPPs are sometimes justified on the grounds of promoting development. The achievement of the Millennium Development Goals (MDGs) or empowering disadvantaged segments of society have been provided by governments as justifications for implementing PPPs (Barrera-Osorio et al., 2011). In some Southern African countries, these considerations have been fully integrated into PPP policy frameworks. Namibia, for example, mentions PPPs as integral to the provision of healthcare services and development of infrastructure (Namibia's Fourth National Development Plan, 2014). In South Africa, one of the goals of PPPs is to drive black economic empowerment (National Treasury of South Africa, 2004).

In a review of project evaluation reports, the Dutch Ministry of Foreign Affairs found that in practice, most PPPs are motivated by the desire to access additional financial resources to allow for the implementation of large public programmes. Few evaluation reports described risk transfer or financial market failure as justifications for pursuing private sector engagement (Ministry of Foreign Affairs, the Netherlands, 2013).

Other observers see less benign motives for governments' embrace of the PPPs and are severe in their critique of PPPs. These relate to the perceived desire to reduce the size of government while avoiding outright privatization. These critics deny that PPPs save money, arguing that the cost for building schools or hospitals for example are ultimately paid for by government irrespective of PPP arrangements: "*the cost of construction and operation are still paid by the users in the same way under a PPP as under direct public provision*" (Hall, 2008).

On transferring risk, a key criticism is that such a transfer is not free and that in fact contracts that transfer risk can be more costly to governments. Depending on the expertise that governments possess in negotiating contracts, the IMF has warned that "*it is also possible that the government over-prices risk and over-compensates the private sector for taking it on, which would raise the cost of PPPs relative to direct public investment*" (IMF, 2004). Such a critique may be well-founded in developing countries.

Severe criticisms have been directed at the involvement of the private sector in providing basic services such as water, sanitation and electricity. For example, Peter Dwyer of the Alternative Information and Development Centre has said that such involvement is bound to "*put profits before people*" (quoted in Farlam, 2005). Research has shown that PPPs in the water sector have had mixed results in developing countries in general and in Africa in particular (Farlam, *op. cit.*).

PPPs are also attacked from their apparent ideological angle. Some argue that the ideological undertone of PPPs stems from the desire to reduce the size of government in the form of lower wages to the public sector workers. Cries of "*privatization through the backdoor*" have gained support in the instances where PPPs appear to be suffering from the same maladies that have plagues the privatization process: corruption, high cost of services to the citizens, loss of jobs, and even inefficiency.

While these are some of the criticisms, the counter-arguments point out that many of such criticisms do not reflect on PPPs per se but the choice of sector, the processes, lack of capacity, over or undervaluation of contract prices – in sum, the absence of the critical necessities to make PPPs successful.

## CHAPTER 4: REQUISITES FOR SUCCESSFUL PUBLIC-PRIVATE PARTNERSHIPS

While the list of potential benefits from PPP engagements is long, there are a number of conditions that must be met in order for a PPP project to be successful. The most common critical success factors mentioned in a review of the literature on PPP implementation across multiple national contexts were the competence of government, selection of an appropriate private sector partner, appropriate risk sharing, and a sound financial package (Kwak et al., 2009). More generally, critical success factors can be grouped under procurement, implementation, financial environment, economic conditions, political climate, and risk transfer.

In procurement, a competent and strong private consortium is essential to ensure that the project achieves its goals. A private consortium should have significant experience and technical capacity to achieve the intended objectives. While the onus is on the selected bidder to deliver on the promises of their tender, governments must have qualified staff to prepare projects and bid documents and supervise the bidding process. The selection process should be simple and supported by an independent financial model to evaluate bids (UNECE, 2012). Moreover, in addition to technical capability, for the partnership to work, there must be compatibility between parties and sufficient oversight capacity to ensure that all parties are complying with the agreement. This requires a common vision and a trustful relationship between all of the parties involved. Negotiations at the outset on the interests of all stakeholders are essential to ensure that the agreement is desirable to all participants.

Project implementation depends primarily on the private consortium’s ability to provide its contracted services in a timely and efficient manner while adhering to well-defined quality standards. Transparent requirements including goals, inputs, and expectations aid the process. Prerequisites for successful implementation include the determination of a project’s technical feasibility and the availability of financing to the private consortium.

Economic conditions are crucial to ensure that private partners can recoup their investments. Prior to any contractual agreement, a realistic cost/benefit analysis of the project should be undertaken by both the private sector and the government. This ensures that there is sufficient demand for the services that are to be provided. The government must recognize the private sector’s need to attain a profit and allow them to fill their entrepreneurial role.

Political will is an essential component of PPPs to ensure continued support throughout the project’s life-cycle. Since PPPs are typically long-term investments, changes in political leadership have the potential to reverse the support behind a project. Therefore, having the highest levels of government behind PPPs as well as gaining the support of the public is important to ensure the stability and commitment behind a project. The development of infrastructure projects should be a participatory process from project inception through completion. The needs of all stakeholders can only be met with the involvement of the public, especially when revenue streams are dependent on user fees. In addition, broad public support for PPPs helps bolster the continued interest of governments.

For all of the above factors to function smoothly, the allocation of risks must be appropriate. Allocating risks to the party best able to manage them through a reliable contractual arrangement is what gives PPPs an advantage over purely private and public sector approaches.

The appropriate allocation of risks depends heavily on the legal and regulatory frameworks set up by the government and the transparent negotiation of the contract.

The role of government is first and foremost to ensure that the legal and regulatory environment is well-defined for PPP investments to take place. A system that protects private investors from expropriation and provides legal recourse for commercial disputes is necessary to attract interest from the private sector. Governments should have clear reasons for seeking private financing of projects, and must have the capacity to conduct independent feasibility studies and build financial models to assess the value for money of the proposals put forth by private investors (UNECE, 2012).

## CHAPTER 5: PUBLIC-PRIVATE PARTNERSHIPS IN A GLOBAL CONTEXT

PPPs have grown massively in popularity as a means to finance, build, and operate new infrastructure in the last two decades. According to the World Bank's Private Participation in Infrastructure (PPI) Database, since 1990, there have been 3,676 greenfield PPP projects worldwide in low- and middle-income countries, amounting to US$1.28 trillion in total investment commitments (World Bank PPI Database, 2014). While there has been some volatility in the number of projects and investment commitments since the 2008-2009 financial crisis, interest in PPPs is at a much higher level than it was a decade ago.

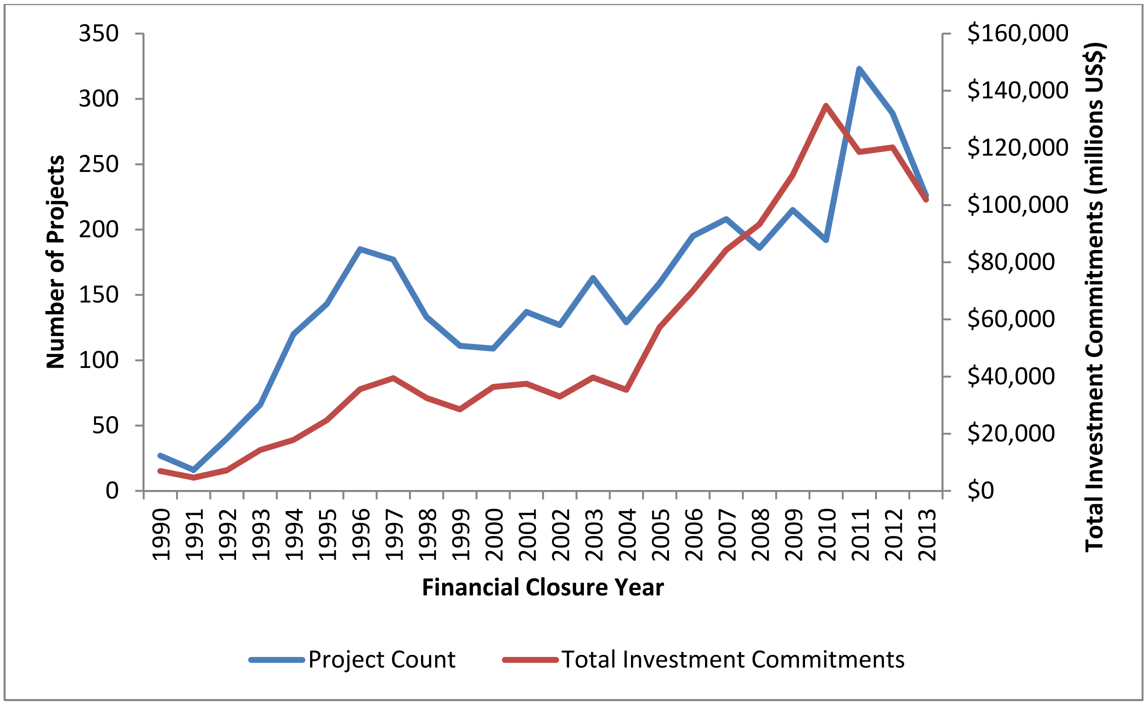



Chart 1. The number of projects and total investment commitments for greenfield PPP projects worldwide, 1990-2013.
Source: World Bank PPI Database

## Regional Differences

Not all regions have experienced the same degree of increase, however. Although South Asia had only 20 greenfield PPP projects between 1990 and 1994, private participation in infrastructure provision has increased rapidly in the region, with India accounting for 85 percent of investment in the region over the period. While there has been marked growth in the amount of total investment commitments for PPP projects in Sub-Saharan Africa, the region still lags behind all other regions with the exception of the Middle East and North Africa.

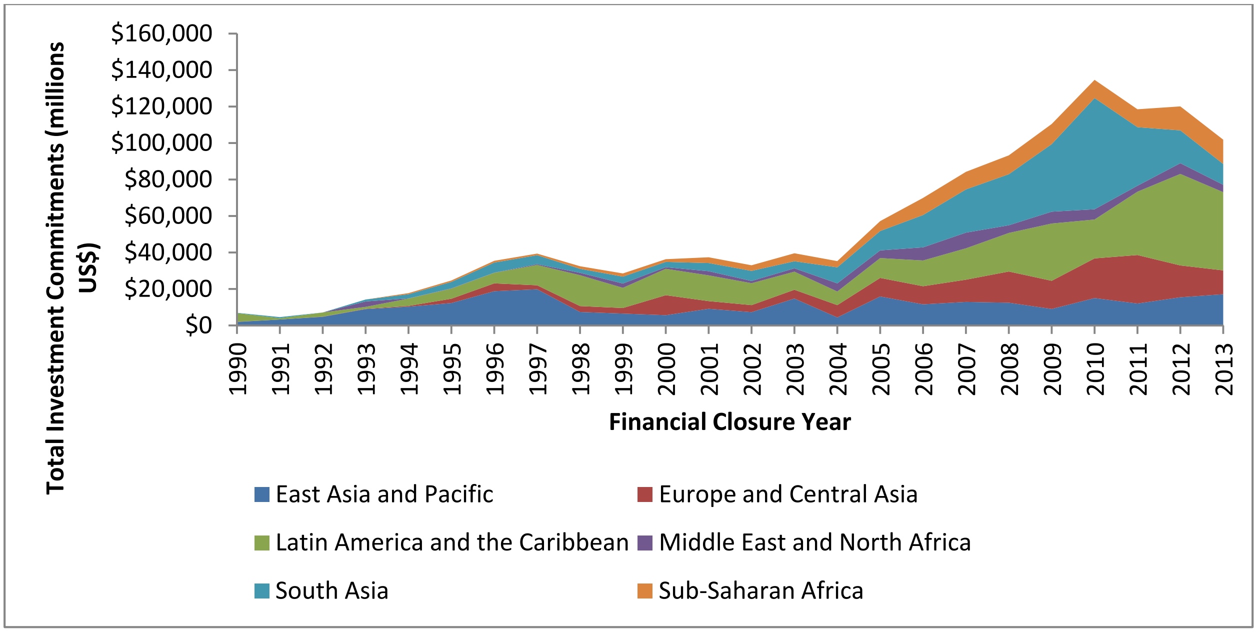



Chart 2. Total Investment Commitments for greenfield PPP projects by region, 1990-2013.
Source: World Bank PPI Database

In addition, total investment commitments per project between 1990 and 2013 were the second lowest after East Asia and the Pacific, indicating the smaller average size of projects in the region. Total investment commitment per project in Sub-Saharan Africa was US$363.06 million in comparison with US$679.38 million in the Middle East and North Africa and US$493.83 million in low- and middle-income European and Central Asian countries.

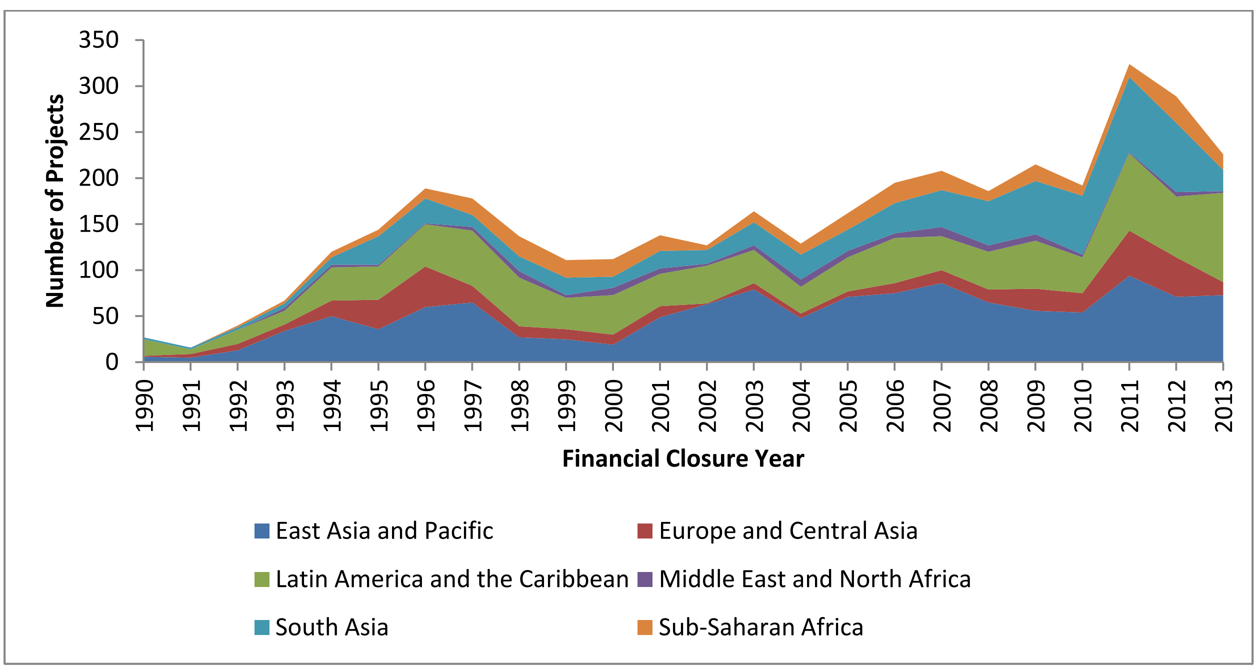


Chart 3.The number of greenfield PPP projects by region, 1990-2013.
Source: World Bank PPI Database

**Sectoral Differences**

Among the four sectors tracked by the PPI database, there are large differences in both the absolute levels of investment and their growth rates. The transport sector has the longest record of PPP projects, with most investment going towards roads. However, investment growth has been strongest in the energy sector. In particular, investment in PPPs in electricity provision has increased rapidly in the past decade, with an average annual growth rate of 15.2 percent since 2000.

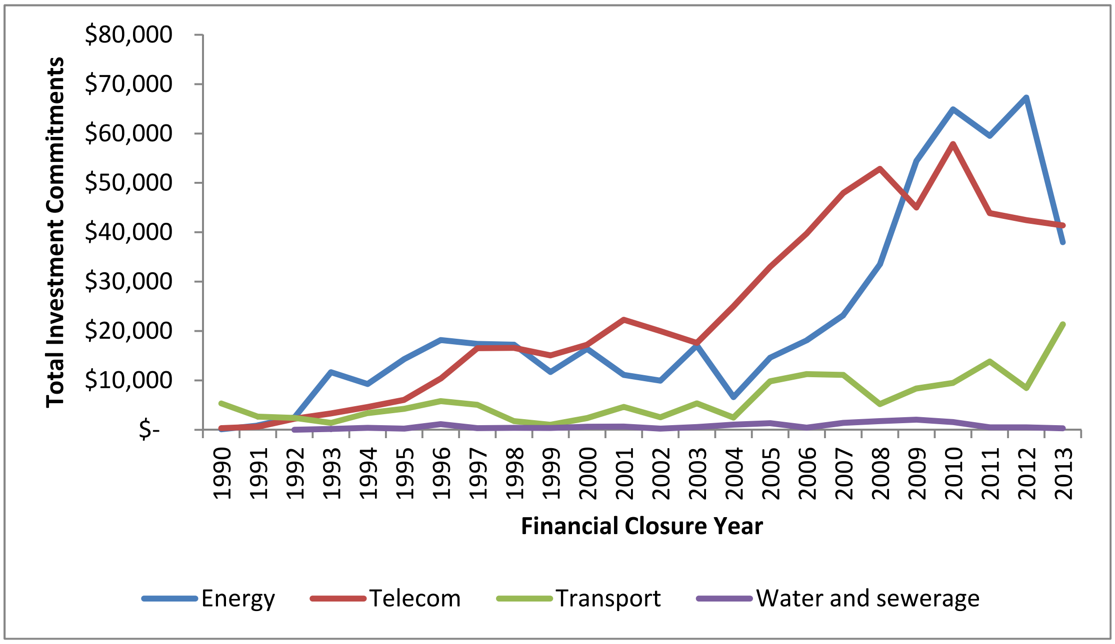



Chart 4. Total investment commitments by sector internationally.
Source: World Bank PPI Database

A number of PPP projects in the water and sewerage sector have been implemented over the past couple of decades, however, public opposition over user fees and operational difficulties have often plagued their implementation (Farlam, 2005). For that reason, many governments have opted to maintain full public control of these utilities.

As more and more countries engage with the private sector, governments have learned from their experiences to improve upon existing policy frameworks. Countries in the developed world such as the UK and Australia have accumulated a wealth of experience in implementing PPPs over the past couple of decades. In these countries, PPPs are a fully integrated part of their long-term infrastructure strategy (Kwak et al., 2009). After having dealt with some of the potential downsides of PPPs, the experience of these countries are helpful for understanding lessons learned for countries that are still in the process of developing their own policy frameworks.

The box below describes the specific case of the UK to illustrate challenges faced by governments and the policy changes that were implemented to deal with them.

Box 1: The Private Finance Initiative (PFI) was introduced in the UK in 1992 with the rationale of "harnessing the private sector's management skills and commercial expertise, to bring discipline to the delivery of public infrastructure" (UK HM Treasury, 2012). While many of the intended objectives of the initiatives have been achieved, such as risk transfer to the private sector and the on-time and within budget completion of infrastructure projects, certain projects had sub-optimal outcomes due to a number of factors. Some of the drawbacks that have been noticed in the implementation of PFIs in the past 20 years include expensive procurement processes, inflexible contracts, inadequate transparency of the future liabilities of projects, and the perception of exorbitant profits by equity investors.

To address these issues, the UK government launched a new approach under the moniker PF2 in 2012. The updated policy framework seeks to widen the sources of equity and debt financing instruments to improve PFI initiatives' value-for-money proposition, increase the transparency of the liabilities created by long-term projects, reducing the time and cost of procurement processes, and introduce greater flexibility into projects.

While the full extent of the impact of these changes has yet to be seen, this iterative approach to the policy framework is based on years of trial and error – a process that is inevitable given the unique aspects of each national context.

Source: UK HM Treasury, 2012

**PPPs in Africa**

In the African context, PPPs have been promoted by the African Union (AU), New Partnership for Africa's Development (NEPAD), and African Development Bank (AfDB). AfDB has helped deliver more than US$5.4 billion to Africa in infrastructure investments through PPP financing (The East African, 2013). The AU recognizes the potential for PPPs to help fill Africa's infrastructure financing gap and NEPAD sees PPPs as "*one of the most effective ways to undertake infrastructure development in Africa*" (NEPAD, 2014). NEPAD has emphasized the potential role for PPPs to play in policy initiatives such as the Kigali Protocol for an Information and Communications Technology (ICT) Broadband Infrastructure Network for Africa. Private financing is also expected to play an important role in the implementation of the Programme for Infrastructure Development in Africa, which is projected to cost US$360 billion between 2011 and 2040 (UNECA, 2012).

Despite regional interest and promotion of PPPs, many countries in Africa still lack the legal and regulatory frameworks to successfully implement projects. The majority of African nations lack a dedicated PPP unit to manage projects (Loxley, 2013). While many projects on the continent have encountered challenges due to corruption, unanticipated costs, poor service provision, and other factors, increasing evidence based on case studies show that certain actions on the part of governments can help ensure that PPP projects are implemented successfully. According to Farlam (2005), factors that contribute to the success of PPPs in Africa include conducting a needs analysis, feasibility study, and including projects in a multi-year budget framework to assess their affordability, prior to the negotiation of any contracts. Selection of a suitable consortium is essential and therefore, encouraging a competitive bidding process will help foster better terms and pricing. During the implementation stage, effective regulation as well as appropriate incentives and penalties for private sector partners help ensure a job well done. Finally, pre-empting potential public opposition to projects by involving local communities in the earliest possible stages of project development is necessary to achieve the buy-in of local communities.

## CHAPTER 6: STATE OF PUBLIC-PRIVATE PARTNERSHIPS IN SOUTHERN AFRICA

### Sub-Regional Trends

In line with global trends, the prevalence of PPPs has increased in the Southern African sub-region. Among the 11 countries covered by the United Nations Economic Commission for Africa’s Sub-Regional Office for Southern Africa, there have been 81greenfield PPP projects since 1993 with total investment commitments of about US$40.9 billion according the World Bank’s PPI database.

In Table 1 below, it is evident that the number of projects and total level of investment in the four sectors tracked by the World Bank has increased in the past five years after falling between 2007 and 2008.

**Table 1. The investments in greenfield PPP projects in Southern Africa, 1993-2013**

| Investment Year | Project Count | Payment Commitments To The Government (US$ millions) | Investment Commitments In Physical Assets (US$ millions) | Total Investment Commitments (US$ millions) |
|---|---|---|---|---|
| 1993 | 1 | 0 | 0 | 0 |
| 1994 | 2 | 0 | 560 | 560 |
| 1995 | 1 | 0 | 539 | 539 |
| 1996 | 1 | 0.1 | 458 | 458 |
| 1997 | 5 | 0 | 476 | 476 |
| 1998 | 9 | 1.1 | 1,089 | 1,090 |
| 1999 | 2 | 0.5 | 698 | 698 |
| 2000 | 0 | 0.5 | 597 | 598 |
| 2001 | 4 | 0.5 | 1,160 | 1,161 |
| 2002 | 1 | 467.6 | 686 | 1,154 |
| 2003 | 6 | 15 | 3,315 | 3,330 |
| 2004 | 2 | 0.7 | 1,211 | 1,211 |
| 2005 | 2 | 15 | 1,302 | 1,317 |
| 2006 | 4 | 0 | 5,404 | 5,404 |
| 2007 | 2 | 12.6 | 1,695 | 1,708 |
| 2008 | 1 | 0 | 1,939 | 1,939 |
| 2009 | 2 | 0 | 2,851 | 2,851 |
| 2010 | 2 | 29 | 2,156 | 2,185 |
| 2011 | 3 | 0 | 3,401 | 3,401 |
| 2012 | 19 | 0 | 6,207 | 6,207 |
| 2013 | 12 | 0 | 4,644 | 4,644 |
| **Total** | **81** | **542.6** | **40,388** | **40,931** |

Source: World Bank PPI Database

However, PPP investments have not been evenly spread. 77 percent of total PPP investment commitments in the sub-region have gone to South Africa, which has the longest history of engaging in PPPs. While there have been investments in energy, transport, and the water & sewerage sectors, the predominant sector in the sub-region in terms of investment commitments has been telecoms, with US$24.6 billion of investment spread out over 24 projects. In terms of the number of projects, the energy sector has led the way with 48 projects, 31 of which were in 2012 and 2013. Despite the massive recent growth in PPPs in the energy sector, 30 of the 31 energy PPP projects since 2012 were in South Africa.

After South Africa, the countries in the sub-region with the next highest levels of private investment in infrastructure are Mozambique and Angola, both with over US$2.2 billion in total investment commitments. The 2003 Mozambique-South Africa gas pipeline project garnered US$1.2 billion in investment commitments, leading energy to be the sector with the highest amount of private investment in the country. A number of smaller projects in the telecom sector account for the remainder of investment commitments. In Angola, investments in telecoms accounted for 92 percent of total investment commitments. Investments in the energy sector account for the remaining US$174 million in greenfield project private investment.

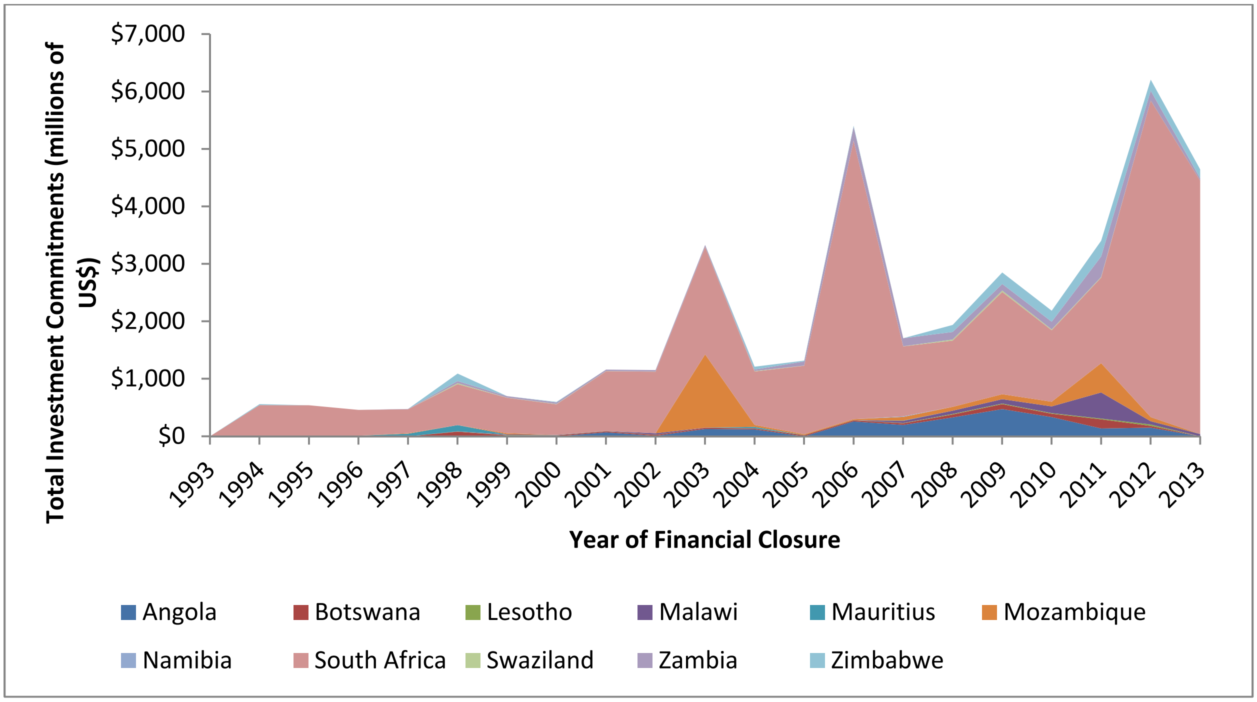



Chart 5. Total investment commitments by country in Southern Africa.
Source: World Bank PPI Database

Zambia and Zimbabwe have also received over US$1 billion in investment commitments from the private sector, mainly in the telecom sector. Other countries in the sub-region have not experienced the same levels of investment. Namibia has received only US$9 million in greenfield project investment from a mobile telecom access project in 2007. While Mauritius has implemented 10 PPP projects, second only to South Africa in the sub-region, investment levels have been relatively small, amounting to US$183 million in total investments. The 1998 Bell Vue Power Plant project accounts for over half of the total investment. Botswana, Lesotho, Malawi, and Swaziland have all experienced a steady flow of private investment into the telecom sector, but at lower aggregate amounts than other countries in the sub-region.

**Policy and Institutional Frameworks**

At the sub-regional level, PPPs have been encouraged by two of the regional economic communities (RECs), the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA). Following the SADC Regional PPP Forum in 2011, the SADC PPP Network was launched, whose mission is to "*strengthen the capacity of the public sector to engage in PPPs*" (SADC PPP Network, 2014). More recently, COMESA has called specifically for PPPs in agriculture to help enhance food production (Zambia Daily Mail, 2014). Although partnerships between the public and private sectors have been encouraged by the RECs of the sub-region, many countries still do not have well-established legal and regulatory frameworks for dealing with PPPs. Moreover, neither of these RECs have provided general guidelines for what features national rules and regulations should include.

PPP laws and institutions are becoming increasingly common in the sub-region, but in many cases are still underdeveloped. In the sub-region, only Botswana, Malawi, Mauritius, and South Africa have established PPP units although multiple countries have passed laws mandating their creation. International experiences show that central units that can provide guidance on projects and serve a coordinating role between various public agencies can be highly valuable (UNCITRAL, 2001).

South Africa has had an established framework for the longest, having developed a strategic plan for PPPs in 1999. A PPP unit was founded in the National Treasury in 2000 and subsequent legislation and PPP manual helped solidify the policy framework for PPPs in the country (Burger, 2006). A crucial aspect of PPPs in South Africa is the incorporation of Black Economic Empowerment as a weighting factor in the evaluation of bids (National Treasury of South Africa, 2004). Through 2013, South Africa implemented 42 greenfield projects – far more than any other Southern African nation.

During the presentation of the 2002/2003 budget, the Finance Minster of Mauritius announced that the government would establish a framework for PPPs. A PPP Unit was established in the Ministry of Finance in 2002 and Mauritius enacted the Public-Private Partnership Act in 2004 after it was approved unanimously by the Assembly (Mauritius Board of Investment, 2009). The Act describes the roles and responsibilities of the contracting authority, the PPP unit, the Central Procurement Board, and Transaction Advisors as well as details on the appropriate process for approving and implementing projects (Government of Mauritius, 2004).

In Botswana, the cabinet approved the PPP Policy & Implementation Framework in 2009 to be implemented by Public Enterprises Evaluation and Privatization Agency (PEEPA), but to date there have been few PPPs in the country (Mannathoko, 2012). In 2012, a PPP unit was formed in the Ministry of Finance and Development Planning, but its impact on the number of projects has yet to be seen.

Zambia's PPP Policy was passed in 2007 and the PPP Act was passed by the parliament in August 2009. However, as of early 2014, there was only one concession agreement under its provision and the contract is currently under renegotiation. While the PPP Act of 2009 called for the establishment of a dedicated PPP unit, the group has not been properly formed. However, cabinet approval in late 2013 to institutionalize the PPP unit into the Zambia Development Agency may kick start the formation of this group (Zambia Development Agency, 2014).

Malawi passed the Public-Private Partnership Bill in 2010, which established the PPP Commission, institutional arrangements, procedures for PPPs, divestitures, and other types of privatizations. The Bill also specifies financing arrangements and provisions against corruption (Government of Malawi, 2010). Malawi's PPP Commission consists of the Secretary of the Treasury, the Solicitor General and Secretary for Justice, the Secretary responsible for Economic and Development Planning, the Secretary responsible for Industry and Trade, and four other members appointed by the president. The Commission serves as the implementation agency for PPPs in Malawi and is also responsible for developing guidelines and best practices for other government agencies that are implementing PPPs. Despite the new guidelines, only one new investment has been recorded since the law's passage, and it is currently listed as distressed after questions of corruption arose (Nyasa Times, 2012).

Angola passed its *Lei Sobre as Parcerias Público Privadas*, or Law on Public-Private Partnerships, in 2011, establishing a legal framework for PPPs in the country. The law formed the Ministerial Committee for the Evaluation of Public-Private Partnerships, which is responsible for determining the operating procedure for the selection of partners, approve proposals with the prior opinion of the ministry responsible for the sector, guide the hiring process in consultation with the Court of Auditors, and consider the reports on project execution. The committee is composed of the Ministers of Economy, Finance, and Planning, and may also include the minister of the sector in which the PPP is taking place and the provincial governor of the region in which the project is to be implemented. It is the responsibility of the Committee to decide on whether to move forward with a given PPP and its conditions. After approval, it is the responsibility of the ministry of the sector to follow procedures for selection of a private partner and the negotiation of the terms of the partnership. While the law stipulates that a General Plan of Public-Private Partnerships be created and more specific regulations be established, these additional steps have not yet been taken. In an interview in 2013, the Minister of the Economy, Abrahão Gourgel, said that the country is "*going slow*" while the potential benefits of PPPs for Angola are assessed (Bloomberg, 2013).

Mozambique's PPP law was enacted in July 2011 and it was followed by PPP regulations, which were enacted a month later in August 2011. The law provides a general framework for PPPs while accompanying regulations established the procedural rules to be followed with respect to each of the steps of the PPP process. The law also established the institutional framework for PPPs and it stipulated that a PPP unit should be set up in the Ministry of Finance. To date, however, the PPP unit has not become operational. However, the City of Maputo has a stand-alone PPP unit for municipal projects. Despite the fact that the institutional environment for PPPs in Mozambique is incomplete, the country's experience in negotiating contracts for previous PPPs such as the N4 toll road between Maputo and Witbank, South Africa and the renovation of Maputo port has given it valuable experience.

Swaziland enacted its Public Private Partnership Policy in 2013 with the objective of engaging the private sector in infrastructure development and service delivery. The policy's purpose was to provide a framework for engaging in PPPs and developing governance structures to help achieve the objectives of PPPs. While the policy mandates the creation of a PPP unit within the Ministry of Finance, this unit has not yet been established. There has not been a high level of private sector investment in infrastructure in the country. According to the World Bank PPI database, there has only been one greenfield project, which was MTN Group's investment in the telecom sector.

Namibia has approved a draft PPP policy and the process to develop its legal framework has begun (AfDB, 2013). The country's industrial policy advocates PPPs as a potential financing solution for project implementation (Namibia Industrial Policy, 2013). In addition, the Ministry of Health & Social Services has a proposed framework in place to engage in PPPs based on the Draft PPP Policy (Namibia Ministry of Health & Social Services, 2014).

The other countries in the sub-region have yet to pass legislation on PPPs at the national level. While Lesotho has no PPP unit with a nationwide mandate, the Maseru City Council has established a PPP Management Unit (UNDP, 2010). Zimbabwe currently lacks a legal framework, unit, or investment code for PPPs (AfDB, 2013).

Box 2: The importance of an established PPP framework is illustrated by Lesotho's experience with its first PPP project – the Queen 'Mamohato Memorial Hospital in Maseru. After a decade of planning and construction, the hospital opened in late 2011 to much fanfare. The World Bank and others heralded the project as a model for integrated health services delivery that could be replicated across the continent (African Press Organization, 2007). However, in early 2014, Lesotho's Ministry of Health was spending 51 percent of its health budget on the hospital – far more than the cost of the old hospital that the new one was supposed to replace at the same cost. The factors contributing to higher than expected costs were cost escalation during the final stages of contract negotiations, inappropriately indexed annual fees, additional costs due to higher than expected numbers of patients, an increase in referrals to South Africa, unforeseen extra services at higher than anticipated costs, poor management and oversight of the PPP, and late payment and loan default interest charges (Oxfam, 2014).

Lesotho's lack of experience and expertise in hospital operations, financial oversight and analysis made it very difficult to properly negotiate and oversee the implementation of the project. Starting with smaller, less risky projects is often a good way to build capacity before engaging in PPPs with higher stakes.

Sources: Oxfam, 2014; African Press Organization, 2007

Based on the legal and institutional frameworks described above, it is evident that PPPs are an area that almost all governments in the sub-region have shown interest in, but have not all engaged with. The case study shows that in order for governments to benefit from partnering with the private sector, the right institutional structures and expertise must be in place to make the relationship mutually beneficial. These institutions and policies should be designed through a participatory process, and ensure that there is adequate risk sharing between parties and robust oversight of the entire PPP process.

## CHAPTER 7: EVALUATION OF PUBLIC-PRIVATE PARTNERSHIPS IN SOUTHERN AFRICA AND EMERGING ISSUES

PPP arrangements are still in their infancy in Southern Africa, and the limited record on the performance of PPPs shows mixed outcomes. As indicated in chapter 6, PPPs have been confined to only a few sectors and in only a few countries. Confirming an earlier observation, in general PPP projects seeking to deliver or improve economic infrastructure have a better chance of success than those seeking to deliver social services. Moreover, there is a lack of evidence to show that these projects provided value for money. This chapter highlights the successes and failures of some of these projects, and the underlying source of such outcomes.

Farlam (2005) records a series of studies about the performance of PPPs in a number of African countries from the mid-1990s. The National Treasury of South Africa's PPP Unit, the focal institution for PPPs in South Africa, also highlights some of the projects carried at that stage in South Africa (National Treasury of South Africa, 2007). Here, PPP arrangements have been wide-ranging, covering social and economic infrastructure (e.g. hospital, roads and government buildings), IT and distribution of state welfare grants.

In one reported case, the South Africa-Mozambique cooperation in the N4 Toll Road is deemed a success. The two countries signed a 30-year concession for a private consortium to build and operate the stretch of road from Witbank, South Africa to Maputo, Mozambique. Success stemmed from careful sharing of risk between the two government and the private companies, cross-subsidization from the relatively well-off partners to the relatively poor, the increase in private sector investment (for example in tourism, and natural gas), and trade-related traffic flows following the road infrastructure improvement. In addition, free alternative roads existed, which meant that citizens who were unable or unwilling to pay tolls on the N4 could still travel on a similar route.

A second case is that of the Government of Mozambique. Having gained some experience in PPPs, the government formed a joint venture with a private consortium to rehabilitate, operate and upgrade the Ports of Maputo and Matola. In the Maputo Port Development Company's aim "*to re-establish the ports…as key economic growth centres in Mozambique and as competitive transit ports for the vibrant import/export markets of South Africa, and the neighbouring countries of Swaziland, Zimbabwe, Botswana and Zambia*" (quoted in Farlam, 2005) there have been some successes. For example, the concession is said to have increased efficiency and handling volumes at the Maputo harbor from 4.3 million tonnes in 2002 to 5.54 million tonnes in 2004, and fresh fruit exports passing through the port increased 25 percent a year. Keys to success were clarity as to what investment obligations of the consortium were and knowledge of the requirements of project finance transactions that government officials had.

In the area of tourism, Farlam (*op. cit.*) describes the build-operate-transfer concession that South African National Parks (SANParks) signed a with private grouping to outsource management of restaurants, shops, and picnic sites in the Kruger National Park game reserve. The results were improved profits for SANParks, the upgrading of the facilities and improved quality of service for tourists. On the other hand, staff resistances grew as conditions of service got eroded in the changeover. Key issues included the lack of transaction skills on the part of the public sector negotiators as well as an experienced service provider. Also, the government failed to ensure that competition was introduced in certain areas after it withdrew, resulting in public monopoly morphing into private monopoly and subsequent sub-optimal service provision.

Among the less successful stories described by Farlam were South Africa's concessions to build and operate prisons. The facilities in Bloemfontein and Louis Trichardt were fully operational within two years, but the cost to government turned out to be more than had been planned for. While the facilities were reported to be providing high quality service and that the cost per prisoner was comparable with that of public prisons, the design and operating specifications were too high. Importantly, the government had failed to conduct a proper feasibility studies to establish affordability limits prior to procurement. In the event, the government was forced to open renegotiations to extract value for money.

As mentioned previously, the involvement of the private sector in providing water, sanitation, and electricity has proved controversial and less successful in reducing poverty and inequality. South Africa's experiment with PPPs in social services delivery at municipal level had flaws and pitfalls due to lack of performance guarantees and an absence of a pro-poor approach (Farlam, *op. cit.*). Even in instances in which water was being provided where there was none before, the results have been mixed. Due to relatively high cost, poorer citizens were isolated; only the relatively well off citizens could afford this basic service. In the event, government has had to intervene by providing free water and allocation of grants in concession areas.

Non-government organizations in South Africa and other countries have often taken a dim view of any takeover of public services by private sector. With respect to PPPs, the trade unions in particular have been scathing in their assessment of PPP performance, calling "*for a review of the current policy framework and public-private partnership unit within the Treasury*" (COSATU, 2012, p. 17). Broadly, the non-state critics have rejected the broad justifications for embracing PPPs arguing that this "privatization through the backdoor approach" has not reduced risk for government, and has in fact proved costly both to government and to the citizens (COSATU, *op. cit.*; September Commission, 1997). Furthermore, government has not consulted broadly in the framing of the legislation and regulations governing some important PPP projects. Even where there have been engagements, these appear to have been forums facilitated "*to make it easier for people to comply*"[2] offering no room for non-state parties to influence the shape or implementation of such frameworks. This appears to have been the case in many of South Africa's key PPP projects, including the controversial Gauteng Freeway Improvement Project (see box below).

[2] South Africa's Transport Minister Dipuo Peters quoted in IOL News, available from: http://www.iol.co.za/news/politics/cosatu-rejects-e-tolls-reprieve-1.1720877#.VD9uV_1xmUk

**Box 3. Opposition to the e-tolling on South Africa's Gauteng Freeway Upgrade**

According to the South African government, the tolls are designed to fund a R20 billion highway upgrade program on the Gauteng Freeway Development Project. Led by numerous non-government organizations such as Opposition to Urban Tolling Alliance (OUTA) and trade unions such as COSATU, the opposition to the e-tolling system has claimed the following issues as central to their opposition:

First, high cost to citizens: the government has not considered other funding methods that would have been more efficient and less burdensome to the paying public. Moreover, the elaborate toll gantries, electronic tags in every vehicles and the revenue collection system has meant that users will pay not only the expense of the road construction but for the toll collection system itself.

Second, Gauteng's freeways are not new routes, and their base structure capital costs have been paid for through taxation over time. "*To develop this economic zone over decades along these freeway routes and then introduce an additional tax for use thereof, is tantamount to extortion, especially in the absence of alternative public transport services and routes*." (OUTA, 2012)

Third, poor planning and incorrect information when deciding to e-toll: the South African National Roads Agency Limited (SANRAL) and the Department of Transport had initially estimated that the e-tolling revenue collection process was R395 million per annum, but the tender was awarded for R1.7 billion per annum (or R8.4billion for 5 years), some 330 percent higher.

Fourth, as mentioned above, there are no viable alternative routes. The peripheral roads alongside and close to the highways are already congested and rapidly deteriorating.

Fifth, there is no effective and reliable public transport option.

Sixth, the 'User Pay Principle' as argued by Government is flawed: In response to government's assertion that the rest of the country's road users pay (through the fuel levy or taxation) should not pay for Gauteng's roads, critics argue that the benefits that arise from Gauteng's Freeways (and its upgrades) flow through to the entire country and not just Gauteng residents, e.g. farmers get their produce to the markets and airports using Gauteng's Freeways. Moreover, road improvements in other parts of the country will help Gauteng. In the end, the critics argue, these are South Africa's roads, not just Gauteng's roads.

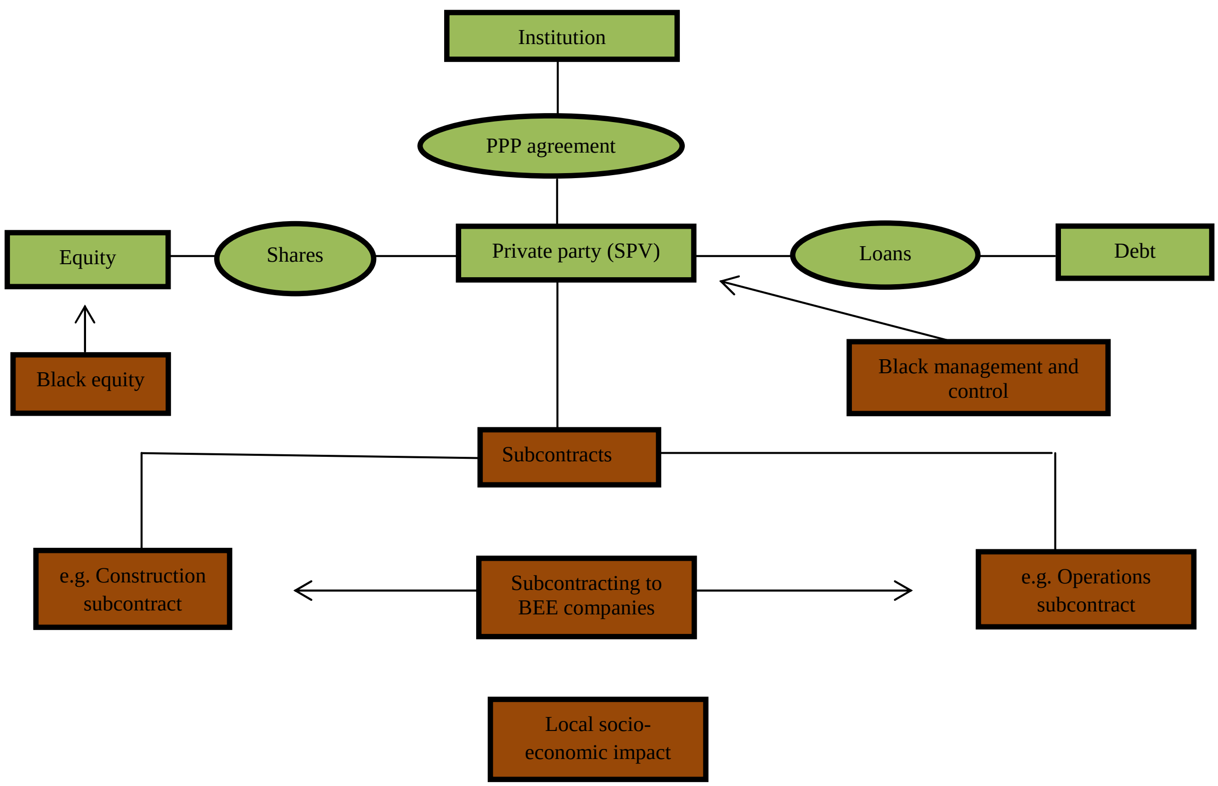
Seventh, lack of consultation and transparency: SANRAL did not consult the public adequately on the elaborate plan to toll the freeway upgrade. From one advert placed in six newspapers in October 2007 to over 3.5 million licensed vehicles / motorists in Gauteng, SANRAL received only 28 responses to their request for submissions. Despite this poor response, they were satisfied that sufficient engagement had taken place.

Finally, there are less expensive and far more efficient processes used for road funding, for example national treasury, fuel levy, long distance toll roads, vehicle license fees, or a hybrid of these.

**Source**: Automobile Association of South Africa, 2013; OUTA, 2012;

In their response to criticisms, the governments of South Africa and Mozambique have claimed that they have used PPPs to more than just deliver on public goods and services; they have used them as a way of empowering citizens economically and through skills. The local content that is part of most PPPs seeks to promote local entrepreneurship, and there is a requirement that citizens should be part of top management (e.g. in Zambia's copper mines). In a country with past racial discrimination, participation by blacks in the private consortium is a key requirement.

The figure below illustrates a typical Black Economic Empowerment (BEE) in a Special Purpose Vehicle (SPV). BEE PPP was formalized in the *Code of Good Practice for BEE in PPPs* in 2004. PPP BEE policy has been devised to achieve a broad-based and sustainable BEE outcome and is built into the bidding and evaluation processes for PPPs.




Source: South African National Treasury (2007)

The illustration indicates that once a PPP agreement has been signed with an institution, its *equity* should seek to achieve meaningful and beneficial direct ownership by target group (namely, black people, black women and black enterprises). Second, *black management and control* target seeks to achieve effective participation in the management control of the private party and its subcontractors by black people and black women. Third, *subcontracting* is also included in the BEE scorecard to ensure that the private party contracts a significant proportion of its subcontracting and procurement to the target group. Finally, the target for *local socio-economic impact* seeks to promote positive impact from the project to the benefit of small, medium, and micro-sized enterprises, the disabled, the youth and non-governmental organizations within a targeted area of the project's operations.

Admittedly, the above evaluation attempt is limited by the paucity of independently verifiable cases for the performance of PPPs in Southern Africa. Clearly more research work in this area is needed to conclusively position the role of PPPs in the development discourse of the sub-region.

Therefore the conclusion and recommendations in the next chapter can at this stage be preliminary.

## CHAPTER 8: CONCLUSION AND RECOMMENDATIONS

It is early yet to take a definitive stand for or against PPP arrangements in Southern Africa. There have been reports of successes in some areas while others have been plagued by controversies and questionable outcomes. This paper pointed out some critical issues to attend to if the full potential of PPPs is to be realized and assessed fairly. Various commentators have offered a myriad of recommendations to improve the PPPs' performance. Some such recommendations are captured in Farlam (2005). These range from ensuring good governance in PPPs including rooting out corruption, public participation to reduce political risk and ensuring sustainability, securing the capacity to conduct good feasibility studies, and inducing the kind of economic environment that attracts investments. This paper welcomes these recommendations.

This paper has noted that the most serious challenge in the emerging PPP arrangements in Southern Africa is the absence of appropriate legal and regulatory frameworks. Accordingly, countries need to put in place sound legal and regulatory frameworks that are pertinent to country circumstances and aims for PPP arrangements. These legal frameworks require meaningful public participation both in the formulation and implementation for them to be acceptable and sustainable.

Moreover, countries need to establish or improve their institutional quality, with special emphasis on developing appropriately skilled human capital needed for negotiating and monitoring the implementation of PPP contracts. The setting up of PPP units as stand-alone entity either separately or within a government ministry would help facilitate an enhanced capacity building on PPP related issues, including financial and human resources and a sharpened process approach to PPP that help develop human analytical skills to ensure that the right project is delivered at the right time and price to both government and citizens.

Finally, regional economic communities (RECs), regional think-tanks and development partners should help countries with learning forums to exchange ideas and experiences, and help conduct research for deeper understanding of PPPs and how these can be used as delivery modalities for the much needed public goods and services in the sub-region. Indeed, the UNECA and the RECs have pledged to facilitate forums for the sharing of ideas, learning from one another and bringing lessons from other regions to bear on Southern Africa's development thought processes. This is a welcome support, which member States should take advantage of.

**ANNEX**

Table 1. Various Definitions of PPPs

| Country / Organisation | Definition |
|---|---|
| **Republic of Korea** | Public-Private Partnership project is a project to build and operate infrastructure such as road, port, railway, school and environmental facilities – which have traditionally been constructed and run by government funding – with private capital, thus tapping the creativity and efficiency of private sector. |
| **South Africa** | Public-Private Partnership is a commercial transaction between a government institution and a private partner in which the private party either performs an institutional function on behalf of the institution for a specified or indefinite period, or acquires the use of state property for its own commercial purposes for a specified or indefinite period. The private party receives a benefit for performing the function or by utilizing state property, either by way of compensation from a revenue fund, charges or fees collected by the private party from users or customers of a service provided to them, or a combination of such compensation and such charges or fees. |
| **The United Kingdom** | Public-Private Partnership are "…arrangements typified by joint working between the public and private sectors. In their broadest sense they can cover all types of collaboration across the private-public sector interface involving collaborative working together and risk sharing to deliver policies, services and infrastructure." (HM Treasury, Infrastructure Procurement: Delivering Long-Term Value, March 2008). |
| **HM Treasury** | An arrangement between two or more entities that enables them to work cooperatively towards shared or compatible objectives and in which there is some degree of shared authority and responsibility, joint investment of resources, shared risk taking, and mutual benefit. |
| **United Nations** | Public Private Partnerships are voluntary and collaborative relationships among various actors in both public (State) and private (non-State) sectors, in which all participants agree to work together to achieve a common goal or undertake specific tasks. |
| **The World Bank** | The term "Public Private Partnerships" refers to the existence of a "partnership" that involves a sharing of risk, responsibility, and reward, undertaken in those circumstances when there is a value-for-money benefit to the taxpayers. |
| **European Commission** | Public Private Partnership is an arrangement between two or more parties who have agreed to work cooperatively toward shared and/or compatible objectives and in which there is shared authority and responsibility; joint investment of resources; shared liability or risk-taking; and ideally mutual benefits. |
| **Canadian Council for Public Private Partnerships** | PPP is a cooperative venture between the public and private sectors, built on the expertise of each partner that best meets clearly defined public needs through the appropriate allocation of resources, risks, and rewards. |

**Table 2: PPP Types**

| PPP Modality | Role of the Private Entity | Role of the Government | Notes/Remarks |
|---|---|---|---|
| Build-Operate-and Transfer (BOT) | Finances and constructs; operates and maintains facility for a fixed term; collects fees and charges to recover investments plus profit; transfers facility at the end of cooperation period (maximum of 50 years | Provides franchise (if required) and regulates activities of BOT contractor; acquires ownership of facilities at the end of cooperation period | Includes a supply-and-operate scheme, a contractual arrangement whereby the supplier of equipment and machinery for a given infrastructure facility, if the interest of the Government so requires, operates the facility |
| Build-and-Transfer (BT) | Finances and constructs; turns over ownership of the facility to government after project completion | Acquires ownership of facility after construction; compensates proponent at agreed amortization schedule | May be employed in any project, including critical facilities which, for security or strategic reasons, must be operated by the Government. |
| Build-Own-and-Operate (BOO) | Finances, constructs and owns facility; operates and maintains facility in perpetuity (facility operator may be assigned); collects fees and charges to recover investments and profits | Provides authorization and assistance in securing approval of BOO contract; possesses the option to buy the output/service provided by the BOO operator | All BOO projects upon recommendation shall be approved by the PPP unit. |
| Build-Lease-and Transfer (BLT) | Finances and constructs; turns over project after completion; transfers ownership of facility after cooperation/lease period | Compensates proponent by way of lease of facility at agreed term and schedule; owns facility after cooperation/lease period | Akin to Lease-to-Own |
| Build-Transfer-and Operate (BTO) | Finances and constructs on a turn-key basis; transfers title of facility after commissioning; operates the facility under an agreement | Owns facility after commissioning | Minimizes construction risk delays |
| Contract-Add and-Operate (CAO) | Adds to an existing facility; operates expanded project for an agreed franchise period | Collects rental payment under agreed terms and schedule; regains control at the end of lease term | There may or may not be a transfer arrangement with regard to the added facility provided by the Project Proponent. |
| Develop Operate-and Transfer (DOT) | Builds and operates a new infrastructure; transfers property/ facility at the end of the cooperation period | Regains possession of property turned over to investor after cooperation period | Project proponent enjoys some benefits the initial investment creates such as higher property or rent values; akin to BOT with the option to develop adjoining property |
| Rehabilitate-Operate and-Transfer (ROT) | Refurbishes, operates, and maintains facility; facility is turned over | Provides franchise to ROT company; regains legal title of property/ | Also used to describe the purchase of facility from abroad, importing, |

| | | | |
|---|---|---|---|
| | after the franchise period | facility after franchise period | refurbishing, erecting and consuming it within the host country. |
| Rehabilitate-Own and-Operate (ROO) | Refurbishes and owns facility; operates facility in perpetuity as long as there is no franchise violation | Turns over facility and provides franchise to operate; may opt to share in the income of ROO company | Period to operate is dependent on franchise agreement. |

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