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Attracted by prospects of overcoming public budget, human skills, technical and other constraints, Southern African countries are increasingly adopting public-private partnership (PPP) arrangements to deliver social and economic goods and services. However, most of these countries have yet to solidify the requisite legal, regulatory and institutional frameworks. This paper argues that PPPs have a potential to transform and improve the lives of the regions’ citizens if these basic frameworks are attended to forthwith.

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 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 lack of or dilapidated infrastructure (UNCTAD, 2011).

Public-private partnership (PPP) arrangements have rapidly become a preferred way to provide infrastructure in many countries and Southern African countries are catching on. Although private contracting in the public sphere has existed for centuries, PPPs have grown in popularity in the past decades on the basis of financial, political and philosophical considerations. 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, while the private sector is enticed by pecuniary incentives. In some cases, PPPs have been used by market-oriented governments as a way to enhance private sector involvement in parts of the public sector when outright privatisation is untenable.

Both developed and emerging countries alike have used PPPs, including Australia, Brazil, Canada, Ireland, the Netherlands, South Africa, the United Kingdom (UK) and the United States of America (US). In 2014, the total market value of all PPP projects in Europe

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1 The views expressed in the paper are those of the authors and should not be viewed as representing the UNECA or UNECA policy.
reaching financial close was €18.7 billion (European PPP Expertise Centre, 2015), while the World Bank said that in countries eligible for International Development Association borrowing, the private sector financed US$73 billion in infrastructure between 2009 and 2014 (World Bank, 2015).

While there is no single or standard definition of PPPs, the phrase describes a contract arrangement between a public and a private entity through which infrastructure or service delivery is provided by the private entity in exchange for remuneration. According to the United Nations (UN), PPPs ‘are voluntary and collaborative relationships between various parties, both public and non-public, in which all participants agree to work together to achieve a common purpose or undertake a specific task and, as mutually agreed, to share risks and responsibilities, resources and benefits’ (UN General Assembly, 2006, p. 3).

The types of PPPs vary greatly, from Build-Own-and-Operate arrangements, where the only role for the public sector is to authorise the contract and purchase the service for a fixed length of time, to Operation-Maintenance in which the government provides all financing, design and construction of the project and the private entity is responsible for only the operation and maintenance.

In the context of Southern Africa, this paper seeks to understand the policies and institutions that support PPPs and whether PPPs have contributed to the developmental objectives they purport to achieve in terms of broad-based citizen wellbeing and empowerment. Accordingly, section 2 explores the reasons for the rapid embrace of PPPs and examines the circumstances in which PPPs can thrive. Section 3 examines sectoral cases in which PPPs have flourished in Southern Africa. Section 4 looks at the progress on policy and institutional fronts to advance PPPs. Section 5 highlights some of the achievements and concerns arising from the embrace of PPPs in the region. The paper concludes with some recommendations in section 6.

2. Rationale and Requisites for Public-Private Partnerships

Both governments and private sector entities have provided a myriad of reasons for pursuing infrastructure projects as PPPs rather than as purely public or private investments. First, PPP arrangements allow governments to keep budgets and budget deficits down since the upfront capital investments are typically made by private sector partners. In addition, PPPs can reduce governments’ administrative costs since project implementation is managed by the private sector. Second, partnering with the private sector 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 minimised. Third, it is often argued that the quality and efficiency of infrastructure services can be enhanced through PPPs. By involving the private sector, governments gain access to skills that may not be available in
the public sector (de Bettignies and Ross, 2004). Finally, 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 mentioned by governments as justifications for implementing PPPs (Barrera-Osorio et al., 2011). In some Southern African countries, developmental considerations have been fully integrated into PPP policy frameworks. Namibia, for example, mentions PPPs as integral to the provision of healthcare services and the development of infrastructure (Republic of Namibia, 2012). In South Africa, one of the goals of PPPs is to drive Black Economic Empowerment (BEE) (National Treasury of South Africa, 2004).

A number of conditions are said to be critical in order for a PPP project to be successful. First, there should be a strong procurement system because a competent and strong private consortium is essential to ensure that the project achieves its goals. The second condition covers the project implementation which 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. The third condition consists of economic conditions deemed crucial to ensuring that the 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. The final factor is political will, which is an essential component of PPPs to ensure continued support throughout the project’s life-cycle.

For all of the above factors to function smoothly, the allocation of risks must be appropriate. 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. Governments should have clear reasons for seeking private financing of projects and must have the capacity to conduct independent feasibility studies, build financial models to assess the value for money of the proposals put forth by private investors, next to regulating and monitoring the quality of implementation (UNECE, 2012).

3. Trends in Public-Private Partnerships in Southern Africa

The prevalence of PPPs has increased in the Southern African sub-region. Among the 11 Southern African countries (Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Zambia and Zimbabwe) as defined by the UN, there have been 83 greenfield PPP projects since 1993 with total investment commitments of about US$42.7 billion according the World Bank’s PPI database (World Bank, 2015).

However, as indicated by Table 1, PPP investments have not been evenly spread. 78 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 and sewerage sectors, the predominant sector in the sub-region in terms of investment commitments has been telecoms, with US$27.3 billion
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 33 energy PPP projects since 2012 have been in South Africa. The vast majority have been investments in renewable energy sources, including 14 wind power projects and 13 solar energy projects (World Bank, 2015).

After South Africa, the countries in the sub-region with the 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, causing 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 (World Bank, 2015).

<table>
<thead>
<tr>
<th>Year</th>
<th>Angola</th>
<th>Botswana</th>
<th>Lesotho</th>
<th>Malawi</th>
<th>Mauritius</th>
<th>Mozambique</th>
<th>Namibia</th>
<th>South Africa</th>
<th>Swaziland</th>
<th>Zambia</th>
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<td>19</td>
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<td>198</td>
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<td>5</td>
<td>37</td>
<td>4</td>
<td>66</td>
<td>9</td>
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<td>4</td>
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<td>1,781</td>
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<td>0</td>
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<td>2012</td>
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</table>

Source: World Bank PPI Database, November 2015

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.
The level of PPP activity is closely related to how firmly established the legal and regulatory frameworks for these arrangements are in each context. For example, South Africa’s PPP framework has existed for nearly two decades, affording the country valuable experience for implementation capacity. Some countries with ample investment opportunities have not used PPP mechanisms extensively in the absence of formalised modalities of implementation.

4. Policy and Institutional Frameworks for Public-Private Partnerships in Southern Africa

At the sub-regional level, PPPs have been encouraged by the two regional economic communities (RECs), the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA). The SADC PPP Regional Framework provides guidelines that member states should follow to successfully gain from PPPs (SADC, 2015). COMESA has released Public Private Partnership Guidelines, which promote the establishment of an institutional framework that includes a PPP policy, a legal and regulatory framework and recommended responsibilities of various line ministries (COMESA, 2014). Many national level policies and frameworks predate both the SADC framework and COMESA guidelines, which has led countries to follow individualised approaches to PPPs.

PPP laws and institutions are becoming increasingly common in the sub-region, but their level of development varies greatly. Angola passed its Law on Public-Private Partnerships in 2011. 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. Aside from port and energy concessions, there have been no proper PPPs implemented in Angola as yet (KPMG, 2013a).

In Botswana, the cabinet approved the PPP Policy and Implementation Framework in 2009 and established a PPP Unit in the Ministry of Finance in 2012. Botswana however still has no PPP act or regulations creating some ambiguities as PPPs are not covered under the Public Procurement and Asset Disposal Act, which makes no reference to PPP project modalities (OECD, 2014).

In Lesotho, the PPP policy is still in draft form and there is no dedicated PPP unit with a nationwide mandate, although the Ministry of Finance has a team of officers who have helped develop the policy (KPMG, 2013b). At the municipal level, the Maseru City Council has established a PPP Management Unit (UNDP, 2010). The premature implementation of PPPs without the requisite laws and institutions in place has led to unintended consequences such as the costly Queen "Mamohato" Memorial Hospital in Maseru which was supposed to save the government money, but ended up being more expensive than those hospitals it was supposed to replace.

Malawi passed the Public-Private Partnership Act and Bill in 2011, which established the PPP Commission, institutional arrangements, procedures for PPPs,
divestitures and other types of privatisations (Government of Malawi, 2010). Mauritius enacted the Public-Private Partnership Act in 2004, amended in 2008 to include a PPP committee (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).

Mozambique’s PPP Law was enacted in July 2011 and it was followed by PPP regulations 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. Namibia has put in place a PPP Policy Framework and the institutional framework has been approved and funded. However, the positions of the PPP Directorate are still vacant and the legal framework must still be approved (New Era, 2015).

South Africa has had an established framework and a strategic plan for PPPs since 1999 and has become one of the leading countries in the world in terms of the level of development of its PPP legal, policy and institutional structures (Axis Consulting, 2014). A PPP unit was founded in the National Treasury in 2000 and subsequent legislation and a 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 BEE as a weighting factor in the evaluation of bids (National Treasury of South Africa, 2004).

Swaziland enacted its Public Private Partnership Policy in 2013. The policy’s purpose was to provide a framework for engaging in PPPs and developing governance structures to help achieve the objectives of PPPs. Zambia’s PPP Act was passed in August 2009. In late 2013, the cabinet approved measures to institutionalise the PPP unit into the Zambia Development Agency (Zambia Development Agency, 2014). There is no specific PPP legislation in Zimbabwe, but there are PPP guidelines and the Zimbabwe Agenda for Sustainable Socio-Economic Transformation acknowledges that PPPs should play a role in increasing investment in infrastructure as well as service delivery (Government of Zimbabwe, 2013).

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 not all have engaged with. Developing strong institutions that can manage PPPs is an iterative process, requiring revision to policies and practices as countries accumulate experience. In addition, policies should be tailored to national needs, both economic and social, as illustrated by the importance of integrating BEE in South African PPP policy. The participation of all key stakeholders in the policy development process is therefore crucial to secure the buy-in of all involved parties.
5. Evaluation of Public-Private Partnerships in Southern Africa and Emerging Issues

PPP arrangements are still in their infancy in Southern Africa, and as indicated in section 3, they have been confined to only a few sectors and only a few countries. In general, PPP projects seeking to deliver or improve economic infrastructure have had a better chance of success than those seeking to deliver social services. This section highlights the successes and failures of some of these projects.

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 governments and the private companies, cross-subsidisation 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 (Farlam, 2005).

The involvement of the private sector in providing water, sanitation, and electricity has proven controversial and less successful in reducing poverty and inequality. The need for cost-reflective tariffs makes these social infrastructure projects harder to implement since exclusion from these services has large health and livelihood implications. South Africa’s experiment with PPPs in social service delivery at the municipal level had flaws due to a lack of performance guarantees and an absence of a pro-poor approach (Farlam, 2005). Even in instances in which water was being provided where there was none before, the results have been mixed. Due to relatively high costs, poorer citizens were isolated and only 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.

Trade unions and other non-government organisations in South Africa and in other countries have been critical 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 justifications for embracing PPPs arguing that this ‘privatisation through the backdoor approach’ has not reduced risk for government and has in fact proved costly both to government and to the citizens. The controversial Gauteng Freeway Improvement Project (see text below) exemplifies a number of high profile PPP projects in terms of what should not be done, according to the critics. Incorporating the participation of all key stakeholders into the development of both PPP policy and its implementation would help remedy many of the shortcomings of the current approach.
Opposition to the e-tolling on South Africa’s Gauteng Freeway Upgrade

The tolls were designed to fund a R20 billion highway upgrade program on the Gauteng Freeway Development Project. Led by numerous non-government organisations 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 costs to citizens. The government has not considered other funding methods that would have been more efficient and less burdensome to the paying public. Second, Gauteng’s freeways are not new routes and their base structure capital costs have been paid for through taxation over time. Third, there was poor planning and incorrect information when deciding on e-toll. Fourth, as mentioned above, there are no viable alternative routes. Fifth, there is no effective and reliable public transport option. Sixth, the ‘User Pay Principle’ is flawed because the benefits that arise from Gauteng’s Freeways 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. Seventh, lack of consultation and transparency. South African National Road Agency Limited (SANRAL) did not consult the public adequately on the elaborate plan to toll the freeway upgrade. 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 licence fees, or a hybrid of these.


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, such as in Zambia’s copper mines. In a country with past racial discrimination, participation by blacks in the private consortium is a key requirement in South Africa. The figure below illustrates a typical BEE in a Special Purpose Vehicle (SPV). BEE PPP was formalised 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.
The figure indicates that once a PPP agreement has been signed with an institution, its *equity* should seek to achieve meaningful and beneficial direct ownership by the target group (namely, black people, black women and black enterprises). Second, *black management and control* targets seek to achieve effective participation in the management control of the private party and its subcontractors by black people in general and black women in particular. 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, youth and non-governmental organisations within a targeted area of the project’s operations. The BEE element of PPPs has been strictly adhered to and the *Code of Good Practice for BEE in PPPs* has helped ensure that the beneficiaries of the policies are who they purport to be through a thorough selection process.

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 region.
6. Concluding Remarks

This paper and the growing literature on public-private partnerships’ performance underscore the critical need to get the basics right if the aims of these partnerships are to be achieved. Southern African countries in particular should: 1) introduce and implement appropriate legal and regulatory frameworks; 2) strengthen institutional quality, including building the requisite human capital needed to negotiate and monitor the implementation of PPP contracts; 3) support inter-country sharing of experiences and learning to achieve an equal level of expertise and thereby ease the rollout of cross-border infrastructure and services that are critical to regional integration efforts; and 4) actively support meaningful participation of all key stakeholders in public and non-state sectors from the policymaking stage to the implementation of PPP contracts. The few case studies in this paper point to scant evidence that these fundamentals are being followed. However, much stands to be gained by countries that assiduously work on getting the foundations right because PPPs do indeed hold promise for social and economic transformation leading to improved living standards for the citizens of Southern Africa.

References


