eAfrica
The electronic journal of governance and innovation

Highlights:



# Making Partnerships Work for Africa

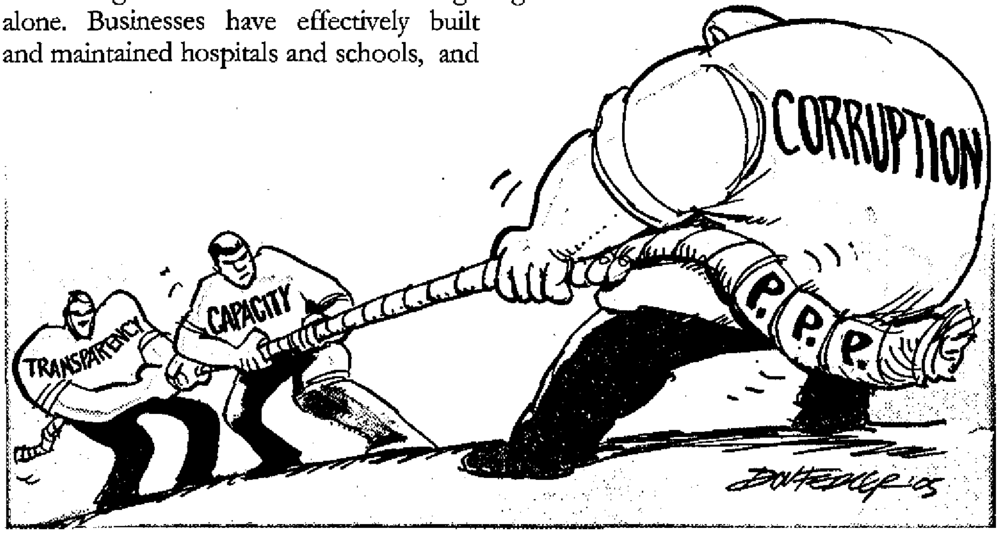
EXACTLY how should business relate to government? For much of the last half century the relationship has been rocky in Africa. Instead of pulling together to promote national champions, government and business often argue and accuse. Many governments see business as a cash cow or an exploiter to be restrained, regulated and forced to seek political approvals.

But there is another path – one Africa needs to follow. The idea of public-private partnerships (PPPs) grew from the contentious debates over privatisation, initially pushed by the IMF onto insolvent African states. Critics rightfully noted that privatisation forced from outside could be undemocratic, often enriching political cronies and causing layoffs. But PPPs offer the prospect of a third way that harnesses the technical, managerial and financial capacity of business into the performance of tasks government was doing poorly.

With well-structured deals, businesses and governments have collaborated to refurbish delinquent ports, roads and rails that governments could not manage alone. Businesses have effectively built and maintained hospitals and schools, and repaired roads. But PPPs are no panacea.

This issue of *eAfrica* looks at a recent study by the South African Institute of International Affairs, which examined successful and failed PPPs. It concluded that before Africa can unleash the potential of PPPs it must fundamentally change its relationship with business. If Africa cannot create and obey a transparent, effective system for keeping corruption out of the purchase of school books, it has little hope of keeping corruption out of PPPs. Where complex deals are awarded on the basis of who has the best plan and capacity, not merely the best price, there is greater room for politicians to determine who wins.

Using PPPs means building a corps of well-paid legal, engineering and tendering experts, injecting public scrutiny into every step of every public contract and seeking business opinion before casting PPP terms in stone. If the continent can get this difficult mix right, it can both dramatically improve its public services and infrastructure and boost its reputation as a good investment destination.



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To subscribe:
eafrica-subscribe@saiia.wits.ac.za
Send comments and suggestions to
editor@saiia.wits.ac.za
www.saiia.org.za

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# Verbatim

**"Death has robbed us of a noble son who refused to be enticed by the comforts of the West and came back to the continent of his birth to fight for peace and prosperity."** – Madibeng Kgwete, a South African, on the death of Sudan's first vice-president Dr John Garang, who studied overseas but came back to fight for liberation.

**"I don't care about the colour of the foot pressing on my neck – I just want to remove it."** – Wole Soyinka, Nigerian Nobel laureate, saying African leaders should be tougher with the regime of Zimbabwe's Robert Mugabe.

**"We have become a nation of beggars. The sovereignty of this country is being sold to the Chinese and South Africa."** – Job Sikhala, Zimbabwe's opposition Movement for Democratic Change MP on Zimbabwe seeking assistance from China and South Africa.

**"My goodness, let's be realistic, 25 years after independence is a long time to still make excuses of colonialism. It's all about failed leadership."** – Morgan Tsvangirai, Zimbabwe's opposition Movement for Democratic Change leader, soon after being acquitted on a treason charge.

**"People see me as a funny man, but there is no fun in my condition. I am a desperate man struggling to survive."** – Ayattu Nure, a 56-year-old Ethiopian who has 77 children and 11 wives, highlighting the pitfalls of polygamy and not using contraceptives.

**"There has been a bit of a political earthquake in Burundi that has changed the landscape, and it's really incredible to watch."** – Jason Stearns, an analyst, on the political changes in Burundi that will see a democratically-elected government taking over soon.

**"I am sorry to announce that we have been ordered by the Broadcasting Council to switch our radio off air because the authorities want so."** – Conrad Nkuta, managing director of Uganda's Kfm radio station, closed down after a talk show questioning the justification of a public holiday to mourn those who died with Sudan's John Garang was said to have compromised regional security.


**"Africans wonder, at what point do people out there declare 'enough'? Or is the magnitude of this African 'reality show' so overwhelming that the rest of the world simply tunes out?"** – Archbishop Desmond Tutu, writing in the Washington Post about Niger's starving children.

**"The war will end and everyone will be caught off guard because these children will still want to kill."** – Peter Olowo, a consultant with the Amnesty Commission, on Ugandan former child soldiers who got into war by being kidnapped by the Lord's Resistance Army.

**"As Catholics, we pray for national causes that will enhance the majority of people's interest instead of individual politicians… we have nothing against President Chiluba, but we feel that the due process of the law should take its course."** – Father Paul Samasumo, a Zambian Episcopal Conference spokesman, on former President Frederick Chiluba asking for Catholics to pray for his theft court case to close.

**"If you tell your wife she puts too much salt in the dinner, and every day, every day, every day there is too much salt, one day you will get emotional and hurt her. We men in Africa hate disrespect."** – Kenny Adebayo, a Nigerian, entrenching what has been proved about the epidemic of wife-beating in Africa.

**"It is a silly question asking why I sell khat. Can you just walk over to the opposite store and ask why he sells foodstuffs? What a laughing matter."** – Ali Omar, a Somaliland dealer who sells the drug wildly-used in the Horn of Africa country, where a campaign is underway to curb its use.

**"I wanted to see the condoms disappearing like hot cakes, but it's been in dribs and drabs."** – Boubacar Gassama, head doctor for the Senegalese Sugar Company, on problems faced by companies in getting a high response to their HIV/AIDS prevention strategies.

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# No Partnership Quick Fixes

PUBLIC-private partnerships have been hailed as a new way to conduct state business and harness the funding and expertise of the private sector. But a new study shows they fail unless government plans well and fixes its chronic problems of non-transparent politically-manipulated procurement.

African governments face a cash and capacity crunch. They need to dramatically improve public services but lack money and the technical and management capacity to deliver new roads, improved ports, efficient electricity plants, effective schools and desperately needed health services.

Nearly 600 million people in sub-Saharan Africa lack access to electricity; almost 300 million have no access to safe water and there are just over eight telephones (either mobile or fixed line) per 100 inhabitants. Unless something dramatic is done, the UN estimates it will take more than 150 years to cut African poverty in half.

Theoretically, business could offer both the money and know-how to solve such problems. But how do you turn the theoretical into practical success?

For more than a decade, African governments have been experimenting with so-called public-private partnerships (PPPs) to involve business more effectively in service delivery. Their experiments range from full privatisations to social-service delivery contracts, to complex management contracts of prisons, roads, ports and utilities.

A new study by the South African Institute of International Affairs suggests success is possible, but PPPs are far from an easy panacea.

### Something new, something old

Governments have always contracted with private business to build roads, make arms, deliver food and erect buildings. Governments simply define what they want to buy, request bids, pick a winner to carry out the task.

PPPs, although now a fashionable term for governments, are a more complex spin on that old system. What's new is governments moving beyond purchasing goods to purchasing increasingly complex services from business. For example, the US military, which once managed all its logistics with soldiers, now uses business to prepare, deliver and dish up food, fuel, ammunition and spare parts to troops in the field.

More commonly, governments retain ownership of infrastructure or government assets while contracting the private sector to perform a specific function such as building, maintaining and operating a road or port, or providing basic services like water and electricity. Both sides benefit – govern-ment earns revenue from the lease of assets or gets a better value-for-money service, while businesses make a profit from government or consumer revenues.

Simple as that sounds, Africa's PPP record in essential sectors such as power and water has been mixed. Efficiency gains have been accompanied by job losses, higher prices for consumers and, often, cancelled contracts. The private sector is not always more efficient and better service provision can be costly.

The eight case studies in a recent SAIIA report, *Working Together: Assessing Public-Private Partnerships in Africa*, show that those partnerships that have been most successful in Africa have been characterised by thorough planning, good communication, strong

## Case Study: SA-Moz Toll Road

THE governments of Mozambique and South Africa signed a R3 billion, 30-year concession in 1996 for a private consortium, Trans-African Concessions (TRAC), to build and operate the N4 toll road from Witbank, South Africa to Maputo, Mozambique. After the 30 year period, the road reverts to the governments.

The toll road was financed from 20% equity and 80% debt. The three construction companies who are the sponsors of the project contributed R331 million worth of equity with the rest of the capital provided by several investors. The debt investors include South Africa's four major banks and the Development Bank of Southern Africa. The governments of South Africa and Mozambique jointly guaranteed the debt of TRAC and, under certain conditions, the equity as well.

At the time it was the biggest project finance deal in Southern Africa. The N4 faced demand risk – would cars pay to use this road when less well-maintained but free alternative routes existed? Traffic volumes were dependent on increased regional trade and economic growth in Mozambique. There was considerable user payment risk in Mozambique as poor communities were unable and unwilling to pay high toll fees. TRAC subsidised the Mozambican portion of the road with higher revenues from the South African side and also provided substantial discounts to regular Mozambican users.

The N4 toll road has facilitated other infrastructure projects in the region such as the development of the Maputo Port (also a PPP) and the establishment of the Mozal aluminium smelter. The road has also helped to grow tourism in the region.

**Lessons:**

- The commercial risk was shared between a range of partners.
- Cross-subsidisation (from the more affluent South African users) and substantial discounts for regular Mozambican users helped to reduce the user payment risk.
- The road facilitated further private sector investment in Mozambique, which in turn raised traffic volumes.

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commitment from both parties and effective monitoring, regulation and enforcement by government. The issue of pricing is crucial both to avoid political fall-out and to ensure the viability of the contract for business.

Leaders need to talk openly with their citizens about their inability to continue to offer free, undervalued or heavily subsidised services. Everywhere in the world, the abrupt withdrawal of such services brings bitter protest, particularly in environments affected by accusations of corruption. Long before actually signing a contract, governments need to widely discuss in public their plans for holding the private sector accountable for providing these services.

PPPs – like full privatisation and other forms of government tendering – are vulnerable to graft and governments need to effectively tackle corruption before they can hope to get such partnerships right. Like any tender, a services PPP requires that contracts clearly specify what is to be done and what defines success and failure. Without such clarity, the more complex a PPP, the more room there is for abuse by unscrupulous individuals, firms or politicians. That points to a simple reality: As much as governments may need business investors to help sort out their massive infrastructure and services backlogs, those governments that cannot fairly and transparently manage basic tendering functions without political manipulation will never be able to write and properly manage a contract as complex as required in health, education or infrastructure maintenance.

Governments also need appropriate legal and regulatory frameworks, and to build capacity at various levels to plan, draft, implement and monitor successful contracts.

PPPs have generally been more successful in sectors such as ports, telecommunications, transport and eco-tourism than power and water. For example, the N4 toll road from South Africa's Gauteng province to the port of Maputo, Mozambique, is touted as a good example of a transport PPP (see box on page 3), while Tanzania's 1995 power purchasing agreement has been called 'public-private partnership at its worst'. This deal between the Tanzanian government and an independent power producer was beset from the start by allegations of graft, and was criticised for the high cost to the state, inappropriate technology and insufficient planning. (See box on page 5.)

For governments to realise the efficiency and effectiveness gains of PPPs, they need to fundamentally improve their systems for dealing with the private sector. Under the right conditions, and in the right sectors, PPPs can offer value for money to governments and good opportunities for investors. But governments need to undertake thorough feasibility studies, develop appropriate and rigorous regulatory frameworks, tackle corruption and demonstrate strong political commitment. However, when they are under pressure to deliver, experience shows, politicians are prone to grasp at poorly conceived quick fixes without doing their home-work.

### South Africa's experience

The South African government has led the way in implementing PPPs, with more than 50 programmes in development or implementation at national and provincial level, and 300 projects at municipal level. The government has learned from over a decade of PPPs and set up a PPP Unit at National Treasury in 2001 to regulate or oversee all such partnerships.

Sue Lund, senior transaction advisor at the unit, says that as a result of the lessons learned from negotiating deals with the private sector, the government subsequently adopted a step-by-step process to PPPs, rigorously regulated by the Treasury. This sets out the progression from inception (requiring the appointment of a full-time project officer and specialist transaction

## Case Study: Private Prisons

THE South African government signed two 25-year concessions for maximum security prisons in Bloemfontein and Louis Trichardt as part of its Department of Public Works' Asset Procurement and Operating Partnership Systems (APOPS) in 2000. The two winning consortia were responsible for designing, building, financing, operating and transferring the prisons. The facilities hold about 3,000 inmates each and were fully operational in 2002 at a cost of about $245 million (Bloemfontein) and $259 million (Louis Trichardt), respectively.

A government review found that the prisons provided significantly higher quality facilities and levels of service than the public prisons and that the operating costs per prisoner per day were comparable with those of the public sector prisons. But it also found that the design and operating specifications were too high and that proper feasibility studies were not conducted to establish the department's affordability limits prior to procurement. The specifications were based on ideal prisons in the UK.

The high interest rates at the time of the deals (for the private operator) and 'higher than normal return on equity, reflecting the perceived risk of early deals' also pushed up the long-term cost of the prisons to government. The two APOPS prisons alone will take up 5% of Correctional Services' entire budget for the next 25 years.

Sue Lund, Senior Transaction Advisor at the South African National Treasury's PPP Unit, said the South African government learned from the experience of the prisons contracts about how to improve its ability to leverage private finance for infrastructure projects.

**Lessons:**

- A thorough feasibility study would have clarified the affordability limits of the department at the start of the process.
- Experienced private sector operators can provide a better quality service than the public sector, but overly high specifications at the planning stage have cost implications.

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advisors), a feasibility study (which must obtain treasury approval), procurement (involving at least three treasury approvals), and contract management (which also entails treasury approvals if there are to be material amendments to the PPP agreement).

The feasibility study compares public sector provision with that of the private sector to ensure that government gets a cost effective service. Planners must involve the necessary stakeholders, consider a range of financing options, and identify the risks (the possibilities that things go wrong) in projects. The tests for the regulator at all phases are: affordability, value for money and appropriate risk transfer (to the private sector).

A lack of planning and effective regulation, as well as pervasive corruption, have often bedevilled African efforts to encourage greater privatisation. African governments have sought privatisation in order to sell off under-performing assets owned by government, to generate revenue, improve service delivery and reduce the managerial burden on the state. In some cases in Africa, the process has been so corrupt that promises remain unfulfilled and services have dramatically deteriorated after privatisation. Contracts have been badly written and economic assumptions poorly investigated, sparking both public and worker protest.

Public procurement processes – where government departments call for tenders – have generally lacked transparency and promoted cronyism and graft. Even with simple tenders, officials have found myriad ways to direct contracts to favoured bidders. Well-connected relatives and friends of politicians are routinely awarded lucrative supply contracts despite having inferior bids, high prices and inadequate expertise.

Since PPPs deal with far more complex services and the choice of company is not restricted to the single variable of price, they potentially provide greater scope for manipulations by businesses or government officials that are hard for the public and the anti-corruption systems to spot. South African Treasury officials argue that the involvement of independent transaction advisors should reduce the possibility for corruption but the system is not foolproof.

Clive Harris, a senior private sector development specialist in the Private Sector Advisory Services Department at the World Bank, writes that 'corruption possibilities in equipment supply and construction contracts are probably as large as those related to the award of concessions'. Other forms of corruption documented in public utilities include jobs based on political connections or payments and 'widespread graft by public employees who exact informal payments from customers in exchange for reduced utility bills or shorter waits for scarce connections'. But he also says that the private sector generally has more incentive to minimise costs and reduce leakages from corruption than the public sector.

### A means towards an end

PPPs do not provide a 'magic formula' for development and are just one means towards the goal of improved infrastructure and better service delivery. Governments need to be mindful of how PPPs impact on the lives of the poor. Such partnerships are not incompatible with the needs of poor people if government considers a range of delivery options, and regulates the contract effectively. For example, prices can be capped at reasonable levels or assisted with government subsidies to maintain consumer affordability. Contracts also can include incentives and penalties to force companies to roll out services in poor areas.

The complexity and cost of such contracts means that African governments should approach PPPs gradually, building up capacity through smaller projects before tackling more ambitious ones. As South Africa has found, it takes a while to develop the skill

## Case Study: Deal Tainted by Graft

IN 1995 the Tanzanian's state-owned electricity firm Tanesco signed a power purchasing agreement with Independent Power Tanzania Limited (IPTL), a joint venture between a Malaysian company and a local investor for the purchase of 100MW of power from diesel generators for 20 years. From the start the deal 'was hotly contested by donors and consultants on the grounds of cost, the choice of technology and the projected demand for power', says Brian Cooksey of Transparency International. The government agreed to pay for the capacity whether or not it was actually needed. In the project's first year, 2002, IPTL was paid $40 million in capacity payments alone, and has functioned at less than 10% of capacity since then. Evidence of alleged corrupt payments to government officials to initiate the deal led to a public outcry and fiery parliamentary debates.

The IPTL deal is considered a bad PPP not just because of the alleged corruption and the high cost of electricity, but also because it was approved without a proper feasibility study and without consulting necessary stakeholders. Tanesco was forced to pay too high a price for electricity that it didn't really need since its major problem was not insufficient generating capacity but rather a lack of gridlines. IPTL's electricity is said to cost 12 US cents per unit compared to the seven and nine US cents per unit supplied by Tanesco. This in addition to the $3 million a month in statutory costs that IPTL charges Tanesco.

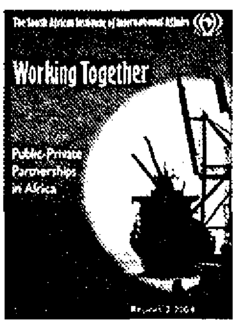
**Lessons:**

- A proper feasibility study would have queried the deal's cost, value for money and the demand for power.
- All the necessary stakeholders were not consulted and the necessary approvals not obtained.
- PPP deals are vulnerable to corruption, especially in the absence of a proper bidding process.
- The high cost of getting out of bad PPP deals can mean governments are forced to implement them.

and experience to generate successful deals. States should first start with small PPPs, such as building and maintaining government offices, as Botswana is doing, before tackling larger ones.

### Capacity building

Institutions such as the SADC Banking Association and the regional and national development finance institutions as well as the donor community and NGOs have a vital role to play in building government (and private sector) capacity. Governments can also share their expertise and experiences and so help to develop their planning and implementation capacity.




Nepad also has a role to play in identifying blockages in the regulatory and legal environments in African countries. The African Peer Review Mechanism can highlight, on a country-by-country basis, the government structures, laws and capacities that need to be changed, reformed and developed. By creating a better investment climate for local and foreign companies, governments will then be able to forge partnerships that combine the best of the private and public sectors.
**– Peter Farlam**

■ *The full report is available on SAIIA's website on the address www.saiia.org.za*

# Case Study: Accessing Water

IN SOUTH Africa's KwaZulu-Natal province, a 30-year water and sanitation concession signed in 1999 between a local municipality and Siza Water Company has been criticised but also has improved infrastructure and service delivery in the area. The Borough of Dolphin Coast municipality (now absorbed into the Ilembe District Municipality) chose the private sector partly as a result of projections in developmental growth and also because they lacked the money to upgrade the existing bulk water and sanitation infrastructure, which was in a poor state.

The municipality combined privatisation with a black economic empowerment deal, under which Siza is majority controlled by French multinational SAUR Services. Because of the way the deal was structured, Siza is not yet making a profit but SAUR made a 21% return on its investment from the first year of the concession. In 2001 Siza found itself unable to pay its concession fees, partly because of a 20% increase in the cost of water charged by the bulk supplier. This led to a substantial adjustment to the contract, including halving the annual concession fee to be paid to the municipality until 2006, reducing investment commitments and increasing prices for consumers.

The concession is regarded as a partial success in that water and sanitation targets in the wealthier areas have been achieved. However, targets in the poorer areas have not all been met.

**Lessons:**

- In the first year of the concession there were 140 cases of cholera in the area as a result of people drawing unhygienic water from streams rather than paying for treated water;
- The poor were not cushioned from the impact of tariff increases.
- Local municipal water and sanitation authorities need capacity building.
- Planners require more accurate feasibility studies.
- Government should clarify policy regarding free water and allocation of grants in concession areas, and contracts should specify what process should be followed in the event such terms change.
- Greater transparency on the part of the municipality and the private operator can lead to greater trust and acceptance from consumers.
- Small water concessions are less commercially viable than larger ones.

## Briefly

**Now what?** Sudan's first vice-president, John Garang, died in a helicopter crash hardly a month after taking office. The crash happened close to the Uganda-Sudan border, where a number of militias operate. Garang had vowed to come down hard on militias in his attempts to bring back stability to southern Sudan. Soon after the crash, riots, looting and armed clashes broke out in Sudan leading to the death of more than a 100 people. Garang's deputy in the Sudan People's Liberation Movement, Salva Kiir Mayardit, took over the leadership.

**Spurning:** Zimbabwe's President Robert Mugabe refused advice from South African President Thabo Mbeki to revive talks with the opposition, a pre-condition to securing a loan from South Africa. A state-owned newspaper quoted Mugabe as saying: 'They (MDC) are in parliament; they can debate in parliament in any way they like. But they have no right (to say) that they should be partners with us in government. No one shall dictate to us that we should accommodate the MDC.' Another condition is for Zimbabwe to change its economic policies.

**Stalemate:** Cote d'Ivoire's anticipated disarmament of the rebel New Forces and government militias suffered a setback as rebels refused to meet a deadline set in an agreement reached in Pretoria in June. They accused President Laurent Gbagbo of changing some of the text agreed to in the decrees he subsequently passed to facilitate disarmament and said his reforms failed to meet what was required. Now there are doubts about whether the October elections will take place.

**Out:** Mauritanian President Maaouiya Ould Sid Ahmed Taya was overthrown in a coup which saw the Military Council for Justice and Democracy claiming power. Taya took power in a bloodless coup in 1984. When the military council took over he was out of the country attending the funeral of Saudi Arabia's King Fahd. The president, who fell out of favour with Islamists in the Islamic Republic, was accused of using the US-led war on terror to crack down on Islamist rivals. The new regime, under Colonel Vall, has now elected a cabinet.

SPECIAL FEATURE: COMMENT

# An Industry View: Get Realistic On Tenders

PUBLIC-Private Partnerships have become a buzzword, but the current PPP model can never provide a rapid cure for Africa's development needs.

Assuming that South Africa's fairly-established model that requires all PPPs to be overseen by the Treasury is ideal, there are few African countries that are in a position to implement them effectively. Botswana, Egypt, Morocco and Tanzania are in this category.

Both Nepad and the Commission for Africa advocate PPPs as an answer to Africa's developmental needs. Those behind these initiatives want to get sustainable development off the ground. Much has been achieved but more needs to be done to speed delivery of improved infrastructure.

To do that in Africa we need to consider corruption, North-South exploitation, safe-haven bankers, coordination of aid money, transnational corporations and dubious contractors. Corruption is pervasive at all levels of government in nearly all of Africa. Traffic officers in some parts, for example, have to pay to be employed and secure a uniform, so that they can earn about $16 a month.

In an international environment in which leading multinationals such as Enron are guilty of corruption, where safe-haven banks receive and solicit 'hot money' even with global financial controls in place, and the North poaches Africa's best professionals, what hope is there for introducing better standards of governance through the African Peer Review Mechanism, let alone trying to introduce a complex and bureaucratic PPP model throughout the continent?

Mozal (the Mozambican aluminium smelter) is a PPP success story with many lessons for Africa. The deal created a world-class aluminium smelter using the region's low-cost electrical power. With its obvious commercial potential as a lure, the deal was able to simultaneously get the private sector to build and improve road, rail and port facilities and develop many local firms as suppliers to the larger venture. The project was well planned; it had firm political backing (South Africa's then minister of trade and industry, Alec Erwin, took 28 trips to Mozambique in one year to set the stage); the TNCs were committed; the bankers fought for a piece of the action; and the product (aluminium) was in demand worldwide.

### Follow the parameters

But Mozal illustrates a neglected secret in infrastructure development: If government attempts to set up a PPP to build and maintain a road alone, it has to monitor the deal very carefully and build in performance penalties. But if it can get companies to build the infrastructure as part of the price of exploiting a viable commercial opportunity, the private sector will have built-in incentives to keep costs down and ensure that contractors do quality work on time. Much of South Africa's infrastructure was developed this way.

There are similar commercial hot-spots throughout the continent that could be used to lure private capital into infrastructure improvement. Another example is the Chad-Cameroon Oil Pipeline. The World Bank committed to the project on condition that 85% of direct revenue is reserved for infrastructure development.

Many mines in Africa could be developed but lack roads or rail access. Instead of developing the roads first then seeking a miner, governments could grant mining firms a subsidy to build a major road to the nearest port and feeder roads to a number of community projects. Mining firms also need water, schools, food and healthcare for employees. They could also be given incentives to provide co-operative farms, schools, and hospitals that benefit both the commercial venture and surrounding communities. To secure inputs and build the local economy, they could be given incentives to set up an industrial estate to assist local firms in providing mining supplies, similar to what the International Finance Corporation did with Mozal.

Donor funding or concessional lending from the World Bank could make greater impact if it were concentrated on one key Spatial Development Initiative or corridor at a time. Instead of spreading funds out thinly across a whole country, donor aid should work in conjunction with anchor commercial projects to concentrate on developing a particular zone. This will be more effective than planning numerous stale-dated projects as PPPs, some of which have been on the drawing board for decades.

Governments must remember that time is money, and the private sector loses interest when it takes years for ideas to reach fruition. If processes are not managed fairly, transparently and quickly, companies simply cannot afford to invest the time, money and staff needed to prepare expensive bids.

An alternative to the costly PPP bid process would be for government to pre-select contractors before negotiating the project. Instead of a bid process there would be a defined profit percentage to eliminate the huge costs that a bidding process would incur on the other bidders. By contrast, in the PPP model governments want the private sector to carry out their duties but still want to retain the whip. – **Paul Rogers, export manager, SA Federation of Civil Engineering Contractors**

SPECIAL FEATURE

# Lessons from South Africa

**To better manage public-private partnerships, the South African government set up a dedicated unit to control major deals in the national Treasury. *eAfrica* spoke to its director of business development, Kogan Pillay.**

**Q: Is the idea of public private partnership just a fad, given that governments have procured products and services from businesses since the beginnings of government?**

**A:** We don't think so. We have started to follow an international trend for governments to augment its service delivery capacity and, given the backlogs South Africa had from the apartheid days, PPPs seem a reasonable approach to take. We looked at Brazil, Mexico, some of the southeast Asian countries, and there are about 500 PPPs in Britain. We hardly consider that to be a flavour of the month. What PPPs ultimately do is let government be assisted in delivering its core services. Government is not good at constructing buildings, for example. But business is.

**Q: What does utilising PPPs imply about changing the relationship between government and the private sector?**

**A:** It means the two parties have to understand what the other wants. The private sector wants long-term profitable contracts and government wants enhanced service delivery using some of the skills and financial resources of the private sector and most importantly risk transfer to the private sector. What it implies is neither of the partners enters deals out of an altruistic sense of the world. There must be a stable relationship and it must be profitable. You can't ask the private sector to lock itself into long-term service delivery relationships without profit. And government expects to get high levels of service delivery. It also implies a new way of private and public sector understanding each other. In the past there was a high level of distrust. But it is up to government when starting PPPs to reach out to the private sector to


say this is the model we are going to use and how we want to work. It takes a fair amount of openness from government.

**Q: How can developing countries hope to use PPPs, which are chosen on complex criteria other than simple price, if they don't first sort out effective, transparent practices for basic tendering?**

**A:** People have to realise that PPPs imply a completely different and more rigorous procurement process. In South Africa we have prescribed the process in detail in the regulations. We have technical teams – legal, financial, design – looking at different aspects of a PPP tender. They report to a higher level committee. We don't even allow members of one committee to know who is on the other committees. Because it is so rigorous, we think it highly unlikely for there to be corruption.

**Q: If the process is so rigorous, why are there problems with other government tenders?**

**A:** The gap is in governance of the procurement process, and government has spoken clearly about those problems. The view of the national treasury is we think our normal procurement systems could learn from how we govern PPPs. The independence of the teams and the scoring mechanisms make it much less likely for people to collude with each other to commit fraud.

**Q: What advice would you offer to other countries considering using more PPPs?**

**A:** Governments must start with leadership before writing legislation. If you have rules and no one follows them, it doesn't matter how rigorous a process you have on paper. It starts with the president working from the top-down setting standards for procurement and anti-corruption. And then, quite frankly, you have to publicly prosecute those people who commit transgressions. What that does is it makes senior government officials responsible for their actions, and that is the message I would like to send.

**Q: If you have to have specialised contract lawyers, engineers and sector specialists, doesn't getting into PPPs imply first building up a core of highly experienced specialists within government just to negotiate effective deals?**

**A:** Absolutely. We do that in two ways. We hire a set of transaction advisors to help government conduct a feasibility study before a deal is put to the market. And each of those advisors must have specific knowledge of the sector in question. We wouldn't use the same consultants on health as we would on a computer systems deal.

**Q: How important is transparency to preventing corruption and maintaining public trust?**

**A:** It is extremely important. In PPPs and tendering two things must go together: transparency and accountability. Under the South African procurement policy, any losing bidder for a tender has the right to open up the procurement documents and see why they did not win. In places where there is real transparency and accountability, it is much less likely that politicians won't make the best deal for the people of the country.