



Perspectives on PPP Infrastructure Development in SADC Countries

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Executive summary

Implementing public-private partnerships (PPPs) can provide national governments with much more attractive conditions for private investment. In return, governments can gain many advantages from private investors, such as greater operational efficiency, management capacity, technology and innovation – ultimately leading to better quality public services. For the private sector, participating in a PPP brings in revenue from the public sector, which is then used to repay borrowing, cover costs and make profits. SADC has a clear focus on long-term infrastructure development. In recent years several countries have begun to develop legislation and dedicated PPP capacity, mirroring South African best practice as well as frameworks and toolkits developed by multilateral institutions such as the World Bank. This policy insights explores the various factors that contribute to the successful implementation of PPPs in the region, drawing lessons from a selection of successful PPP projects in the water and sanitation, energy and transport sectors in SADC

Introduction

Infrastructure development is essential for achieving sustainable socio-economic development in Africa. Building infrastructure and promoting sustainable industrialisation have long featured on the multilateral agenda, and Goal 9 of the Sustainable Development Goals recognises the importance of building infrastructure, promoting inclusive and sustainable industrialisation and fostering innovation. Sustainable infrastructure development can have a positive impact on reducing poverty and supporting inclusive economic growth by mitigating potential negative environmental and social externalities;¹ creating jobs, improving economic activities and connecting markets; and reducing production costs through improvements in transport and connectivity.² Addressing infrastructural backlogs and developing new public assets such as transportation, healthcare and electricity are essential for Africa's long-term development, especially in rural areas that often face high upfront costs in infrastructure development.³

PPPs grew out of a pressing need to fundamentally change the mode of public procurement amid concern about the level of public debt

- 1 IADB (Inter-American Development Bank), 'What is Sustainable Infrastructure? A Guide to Sustainability across the Project Cycle', IDB Technical Note ID-TN-1388, May 2018, <https://publications.iadb.org/en/what-sustainable-infrastructure-framework-guide-sustainability-across-project-cycle>, accessed 18 June 2019.
- 2 Saghir J, 'Sustainable Infrastructure Development in sub-Saharan Africa: A View from the Ground', Research to Practice Policy Brief, PB-2017-02. Montreal: Institute for the Study of Sustainable Development, 2017.
- 3 Wentworth L & C Makokera, 'Private sector participation in infrastructure for development', *South African Journal of International Affairs*, 22, 3, 2015.

PPPs grew out of a pressing need to fundamentally change the mode of public procurement amid concern about the level of public debt, which grew enormously during the macro-economic dislocation of the 1970s and 1980s. Various governments sought to encourage private investment in infrastructure, initially on the basis of accounting fallacies arising from the fact that public accounts did not distinguish between recurrent and capital expenditure. Another factor that sparked PPPs was the fact that, with limited budgets and debt crises, most governments could not provide basic amenities and effective public services to their citizens. So private investors were invited through a process to form an alliance with governments to provide, finance and maintain these public services. When capital projects were so enormous that the financial burden could not be borne solely by the available public funds, PPPs became particularly useful to supplement the funding deficit.⁴

According to the PPP Unit in South Africa, a PPP is defined as a contract between a public sector institution and a private party, where the private party performs a function that is usually provided by the public sector and/or uses state property in terms of the PPP agreement. Most of the project risks (technical, financial and operational) are transferred to the private party. The public sector pays for a full set of services, including new infrastructure, maintenance and facilities management, through monthly or annual payments.⁵

Worldwide, PPPs have slowly been incorporated in the procurement portfolios of most jurisdictions with both positive and negative results, producing some groundbreaking contracting practices and outsourcing arrangements.⁶ Early adopter countries are now seen as mature and having obtained 'executorial excellence' (eg, the UK and Australia) and are followed by transient countries that are still working on 'effective governance' (eg, Spain, South Korea and Japan).⁷ South Africa started implementing PPPs in 1998 in the road transport sector, so it could be regarded as a relatively long-time player in this space.⁸ Even larger economies such as China, Germany, Thailand, Brazil, India and the US are

latecomers still working on 'long-term commitment' to PPPs,⁹ although most have made tremendous strides to grow this sector in their respective economies.

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4 De Jong M et al., 'Introducing public-private partnerships for metropolitan subways in China: What is the evidence?', *Journal of Transport Geography*, 18, 2010.

5 Definition as per the South African National Treasury's PPP guidelines

6 Phang S-Y, 'Urban rail transit PPPs: Survey and risk assessment of recent strategies', *Transport Policy*, 14, 3, 2007.

7 Guo E, *Financing Urban Transportation and Public-Private Partnership in China*. Beijing: China Planning Network, 2007.

8 Brusewitz MR, 'Public-private partnerships in the United States', *Project Finance Legal Advisers Review 2004-2005*, 2005, pp. 70-71.

9 Guo E, *op. cit.*

Mature countries at this stage face issues relating to generating attractive and stable risk allocation mechanisms, and having in place transparent and robust tendering processes and effective regulatory frameworks. The middle group, on the other hand, is working on robust legal and regulatory frameworks, clear standards for PPP models, project selection and evaluation, and effective and capable government organisations.

Public–private partnerships in Africa

The uptake of PPPs as an alternative means of financing infrastructure development in Africa is growing: electricity, information and communications technology (ICT), and ports are the top three sectors for PPPs in sub-Saharan Africa.¹⁰ Infrastructure development and industrialisation is recognised and prioritised by the AU through its Agenda 2063 and the Programme for Infrastructure Development in Africa (PIDA). Unfortunately, African governments have struggled to source financing for their infrastructure projects. The World Bank estimates that poor infrastructure in sub-Saharan Africa reduces economic growth by 2% and business productivity by as much as 40%, while inadequate infrastructure services can cost twice as much in sub-Saharan Africa than in the rest of the world.¹¹

Domestic resource mobilisation is key to fiscal sustainability and African self-sufficiency because it facilitates governments' discretionary spending in pursuit of national development strategies.¹² However, domestic capital markets in Africa remain under-developed, and the African Development Bank's (AfDB) 2017 estimates suggest that financing the continent's infrastructure needs requires \$130–170 billion per year, with a financing gap of \$68–108 billion.¹³ This raises questions as to whether PPPs are able to adequately address Africa's infrastructure financing deficit while ensuring that sustainable infrastructure development reaches those communities most in need of improved access to basic public services and goods.

Given the existing fiscal constraints in developing countries, one of the biggest risk concerns for African countries is recording PPPs as 'off balance sheet' expenditure – ie, their costs are not formally recorded. This means that the cost of the project remains hidden. Current PPP accounting practices enable governments to keep project and contingent liabilities (ie, payments required from governments when the exchange rate or demand falls below specific levels) as part of these 'off balance sheet' expenditures, because the private sector is supposedly borrowing the financing for the project, and governments' future debts

10 World Bank, 'Private participation in infrastructure database', <http://ppi.worldbank.org/snapshots/region/sub-saharan-africa>, accessed 18 June 2019.

11 Saghir J, *op. cit.*

12 UNECA (UN Economic Commission for Africa), *Developing Financing in Africa*. UNECA: Addis Ababa, 2017.

13 AfDB (African Development Bank), 'Africa's Infrastructure: Great potential but little impact for inclusive growth', in African Economic Outlook 2018, https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/African_Economic_Outlook_2018_-_EN.pdf, accessed 18 June 2019.

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do not appear on their budget line once the project is completed.¹⁴ Bearing in mind the vulnerabilities of many African economies, such practices are extremely dangerous and can influence the private sector’s perception of risk in developing economies. They can also result in the private sector’s either refusing to accept certain risks or charging excessive risk premiums to take them on.¹⁵

African countries often face the additional complication of poor regulatory frameworks and inadequate legislation unable to comprehensively regulate PPPs. At the same time, perceptions of corruption and poor governance (on both sides) continue to make a working relationship between the parties difficult.¹⁶ This can result in the private sector’s investing in areas and sectors that are financially lucrative and beneficial to it, rather than targeting vulnerable areas, which would imply greater risks for it. This implies a selective bias in PPPs, known as ‘cream skimming’, which occurs in countries when investment is directed towards affluent urban areas.¹⁷ This raises questions as to whether PPPs are a suitable model for infrastructure development; especially in developing countries where there is a dire need to reach rural communities.

Unfortunately, even with blended financing, African countries have struggled to manage and implement PPPs. The World Bank lists only 16 African countries that have legislation dealing with PPPs, while there are even fewer specialised PPP units – only 10 in Africa.¹⁸ While PPPs can undoubtedly play a positive role in contributing to much-needed infrastructure development on the continent, it is equally important that the correct conditions are in place to avoid the negative financial, environment and social implications that the literature has highlighted thus far. The abovementioned benefits and challenges

14 Romero MJ, *What lies beneath? A Critical Assessment of PPPs and Their Impact on Sustainable Development*. Brussels: Eurodad, 2015.

15 Bovis CH, ‘Risk in public-private partnerships and critical infrastructure’, *European Journal of Risk Regulation*, 6, 2, 2015.

16 Wentworth L & C Makokera, *op. cit.* See also Maseko M, ‘Analysis of Critical Success Factors for Public-Private Partnerships in Infrastructure Development in South Africa’, Paper presented at the 6th International Platinum Conference, ‘Platinum-Metal for the Future’, Southern African Institute of Mining and Metallurgy, Johannesburg, 20 January 2014.

17 Jomo KS *et al.*, ‘Public-Private Partnerships and the 2030 Agenda for Sustainable Development: Fit for Purpose’, Working Paper, 148 ST/ESA/2016/DWP/148. New York: UNDESA (UN Department of Economic and Social Affairs), 2016.

18 Loxley J, ‘Are public-private partnerships (PPPs) the answer to Africa’s infrastructure needs?’, *Review of African Political Economy*, 40, 137, 2013.

for PPPs are a useful framework with which to examine the success of specific projects within the SADC region.

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A SADC committed to infrastructure development

At the SADC level, the region's Regional Indicative Strategic Development Plan (RISDP) 2015–2020 is the long-term, overarching implementation framework guiding regional integration and various programmes within SADC – including infrastructure. Supporting the RISDP is the 2012 Regional Infrastructure Development Master Plan (RIDMP), which calls for \$500 billion in capital requirements to finance regional projects. The RIDMP is aligned with PIDA and is implementable over three five-year intervals: short (2012–2017), medium (2017–2022) and long term (2022–2027). It also supports the SADC Vision 2027, a 15-year implementation horizon for forecasting infrastructure requirements in the region.¹⁹ The RIDMP's diagnostic report highlights the critical infrastructure deficit present in Southern Africa, including insufficient energy supply, expensive and unpredictable transport and logistics services; lack of accessible ICT; insufficient access to sanitation and clean water; and inadequate meteorological services for effective and efficient planning. The RIDMP is therefore a cross-border response to addressing these infrastructure deficits.²⁰

Despite its ambitious goals, progress has been much slower than expected. Like other parts of Africa, SADC suffers from a dearth of bankable projects, caused by a financing gap in early project development and project preparation stages. For example, in 2009 and 2010 a total of \$55 million was made available for projects within Southern Africa, but was not disbursed owing to inadequate project preparation and delivery.²¹ Of the 81 SADC PIDA infrastructure projects, only 11% are currently at the project structuring stage – emphasising that SADC's infrastructure bottleneck lies in the project preparation stage.²² SADC members are sorely in need of technical assistance and capacity building for project preparation.

19 See SADC, 'Infrastructure', <https://www.sadc.int/themes/infrastructure/>, accessed 2 November 2018.

20 SADC Secretariat, *Regional Infrastructure Development Master Plan: Executive Summary*. Gaborone: SADC Secretariat, 2012.

21 Markowitz C, Wentworth L & N Grobbelaar, 'Operationalising the SADC Regional Development Fund', Policy Briefing. Johannesburg: GEG (Global Economic Governance) Africa, July 2018.

22 *Ibid.*

The RIDMP's bottom-up approach is supposed to allow SADC members to identify projects linked to their national development plans and help lessen the risk of conflict between domestic and regional priorities.²³ However, research suggests that infrastructure development at both the national and regional level in Southern Africa remains a politicised process. This hinders project development and due diligence for infrastructure projects and leads to under-developed project ideas being put forward in the RIDMP.²⁴ Additional hurdles in the region include opaque infrastructure procurement and continued reliance on state-owned enterprises, which could deter both the entry and operations of private investors in utility markets.²⁵ The current lack of capacity has exacerbated challenges in cross-border SADC priority projects, especially as such projects have to account for different interests and national boundaries.²⁶ Diverging regulatory agencies and laws, poor policy frameworks and inadequate attempts at regional harmonisation have only heightened difficulties in launching regional infrastructure projects.²⁷

Many SADC countries' challenges lie in pre-project preparation issues such as project conceptualisation and the ability to apply for project preparation funding. The funding available for these issues is even more limited. In addition, the Project Preparation and Development Fund (PPDF) is fully funded by international partners which, when coupled with its location within the DBSA and regional biases associated with South Africa, has raised questions regarding the PPDF's ability to successfully serve regional interests.²⁸ The SADC region has therefore renewed the push for its own regional resource mobilisation

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23 Dube M, 'Analysing the Development Process for Infrastructure Projects in SADC', PERISA Case Study, 3 Infrastructure. Johannesburg/Maastricht: SAIIA (South African Institute of International Affairs) & ECDPM (European Centre for Development Policy Management), 2013.

24 Markowitz C, Wentworth L & N Grobbelaar, *op. cit.*

25 OECD (Organisation for Economic Co-operation and Development) & SADC, 'Addressing Development Challenges in Southern Africa', Policy Brief. Paris: OECD, 2015.

26 Markowitz C, Wentworth L & N Grobbelaar, *op. cit.*

27 Dube M, *op. cit.*

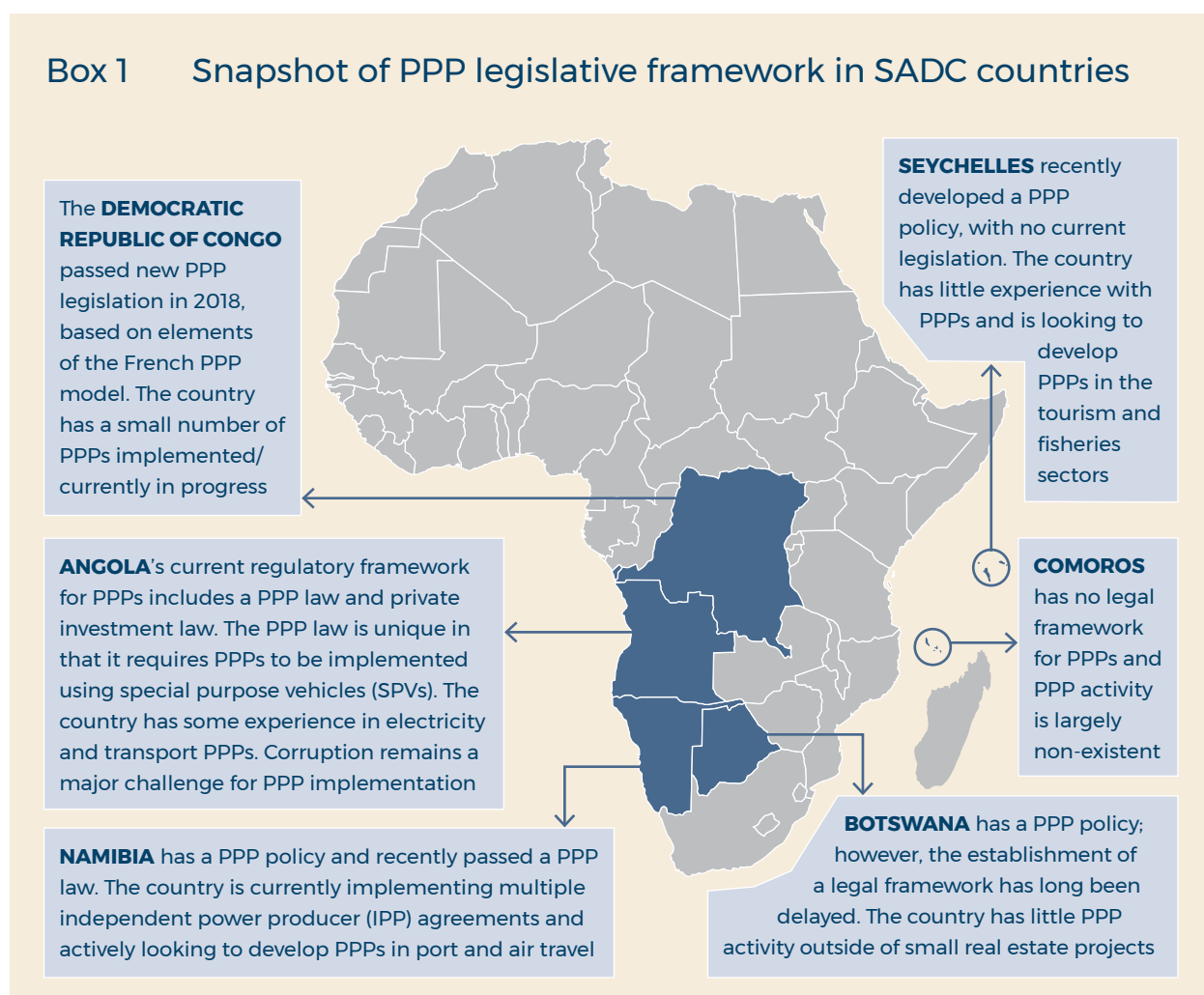
28 Markowitz C, Wentworth L & N Grobbelaar, *op. cit.*

The above challenges are relevant in the context of PPPs because private partners are unwilling to invest in regional or national projects that have not yet reached bankability. Consequently, the SADC region has seen only a small number of infrastructure PPPs come into operation over the last two decades. Despite this, PPPs have been proposed as a major solution in addressing the infrastructure financing gap. They have also been endorsed by governments and multilateral organisations – such as the AU, the UN Economic Commission for Africa and the AfDB – which has in turn prompted financial and technical support from the World Bank and International Monetary Fund.²⁹ In this context it is important to understand the utilisation of PPP projects in SADC on a country-by-country basis.

PPP legislative framework in SADC countries

In recent years several countries have begun to develop legislation and dedicated PPP capacity, mirroring South African best practice as well as frameworks and toolkits developed by multilateral institutions such as the World Bank. Box 1 provides an overview of the regulatory frameworks guiding PPP implementation in each SADC country.

Box 1 Snapshot of PPP legislative framework in SADC countries



29 Loxley J, *op. cit.*

Box 1 cont'd. Snapshot of PPP legislative framework in SADC countries

TANZANIA has invested significant effort in continually developing its PPP legislation, with a PPP law that has been amended twice (the second amendment is currently underway), as well as regulations, which have also been amended. The country has significant experience with the implementation of energy PPPs, which have faced corruption challenges. The government is currently prioritising transport PPPs

MADAGASCAR passed a PPP law in 2015, with two sets of comprehensive PPP regulations in 2017. The country has implemented PPPs primarily in electricity and transport

ZAMBIA has a PPP law that has recently been amended. It has implemented a significant number of PPPs in both energy and transport. However, the PPP Unit has faced challenges in its role as facilitator, evidenced by its location being moved three times

MALAWI has a PPP law, policy and manual/guidelines. The Public Private Partnership Commission is active in promoting projects for PPP development, although the enabling environment in Malawi is challenging. Small PPPs have been implemented in a range of sectors

MAURITIUS has an extensive legal framework for PPPs, with a PPP law, regulations and guidelines, and more recently a Build Operate Transfer (BOT) Act, regulations and guidelines. However, the number/value of PPP projects is still comparatively small. The BOT Act is meant to support the use of PPPs in urban development through the country's Smart Cities project

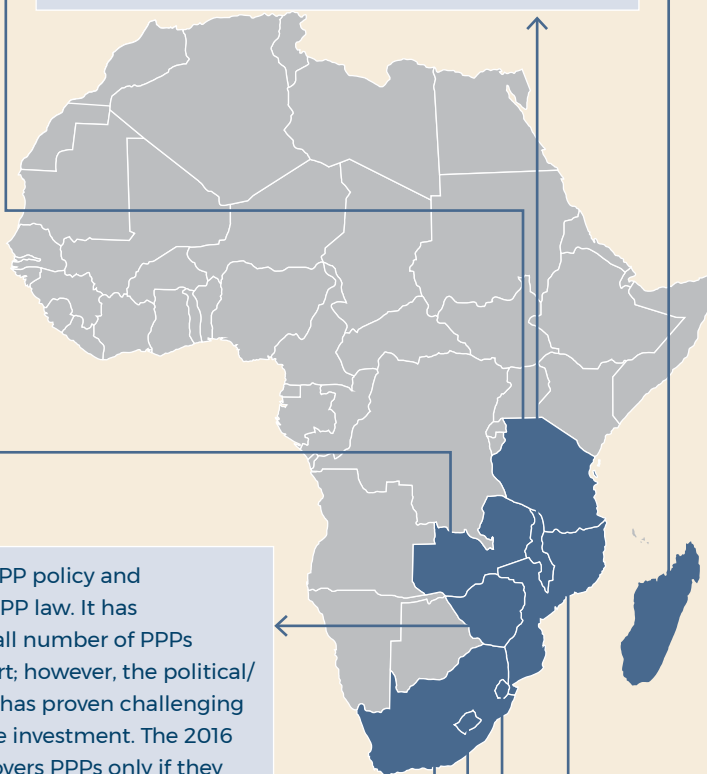
ZIMBABWE has a PPP policy and guidelines, but no PPP law. It has implemented a small number of PPPs primarily in transport; however, the political/economic situation has proven challenging for attracting private investment. The 2016 Joint Venture Act covers PPPs only if they are joint ventures

SOUTH AFRICA has the most developed PPP track record as well as regulatory framework, used as a template for many SADC countries. PPPs are regulated under the Public Financial Management Act, along with PPP regulations and nine PPP manual modules. PPPs have been implemented in transport, water, health, real estate and education, along with IPP agreements

MOZAMBIQUE has a long history of PPP implementation compared to most SADC countries, with the majority of PPPs in transport and electricity sectors. It has a PPP law, and regulations, but many PPPs were implemented before the passage of the law in 2011

LESOTHO passed a PPP policy in 2018, which states that amendments to the Public Financial Management and Accountability Act are underway that will regulate PPPs. The country is known for the large and costly Queen Mamohato Memorial Hospital PPP

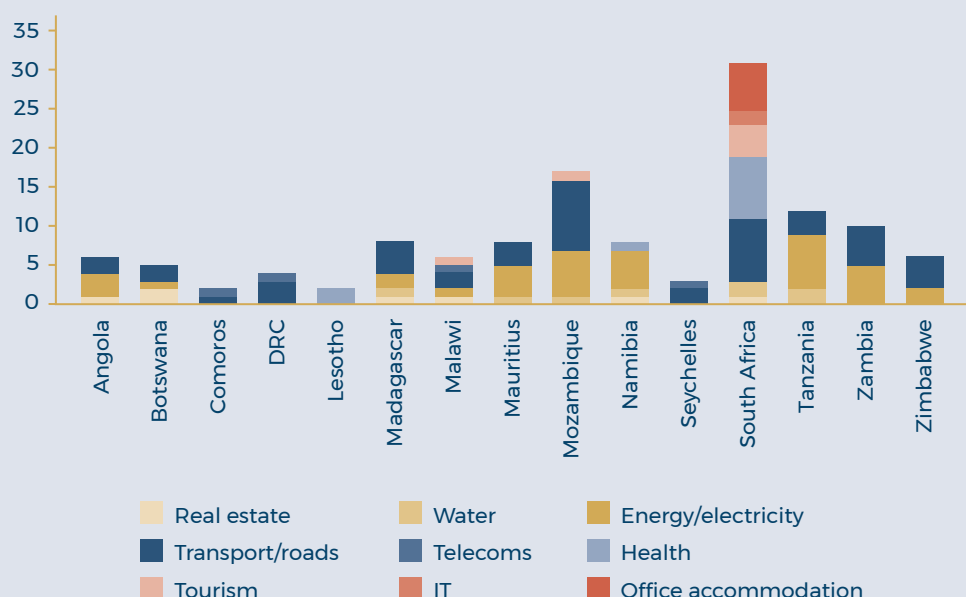
ESWATINI promulgated a PPP policy in 2008 but has no legal framework and has not implemented any PPP projects



Infrastructure development by PPPs in SADC

SADC is a mixed bag in terms of PPP preparedness and the necessary administrative maturity. South Africa is the obvious leader, while there are countries that still do not have a PPP unit. The SADC Development Finance Resources Centre has developed the SADC PPP Network to provide technical assistance and support to PPP frameworks and projects in the region. However, as with many policies, the challenge inevitably comes with implementation. Nonetheless, there are several best practices in PPP implementation in SADC in the renewable energy/electricity, transport and water infrastructure sectors that hold valuable lessons for PPP implementation in Africa. Figure 1 gives a sectoral overview of PPP project implementation in SADC countries.

Figure 1 Overview of PPPs in SADC, per sector/country



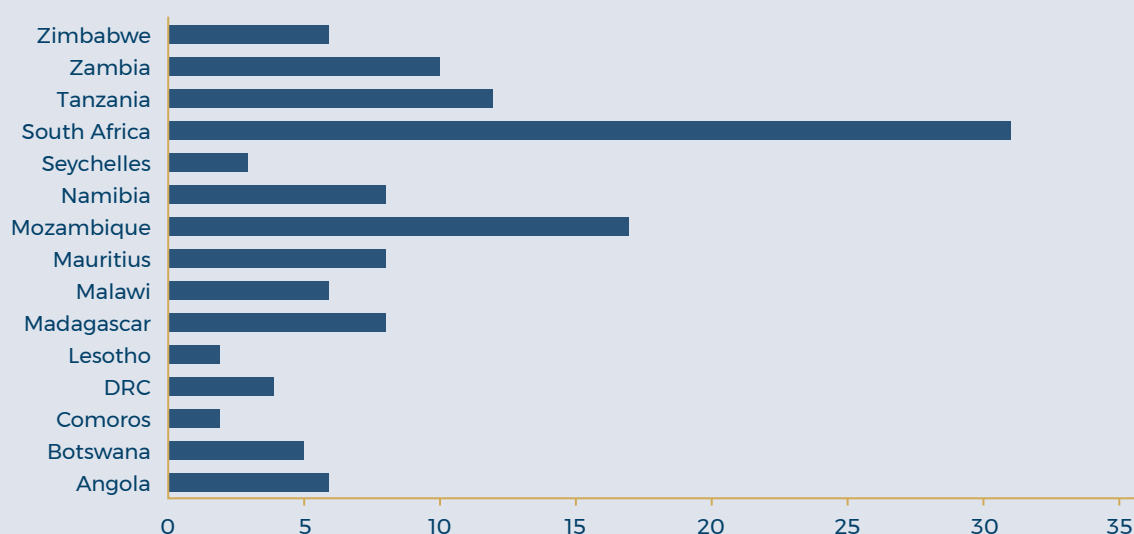
Note: South Africa's real estate refers to a correctional facility; other examples include hostel accommodation, universities and shopping centres (malls)

Data was compiled from a variety of sources. The figure is based on the researchers' findings and interpretation of available data.

Source: Authors, June 2019

Figure 2 shows the total number of projects that have taken place in each SADC country. South Africa is leading with over 30 PPPs undertaken since 1998, followed by Mozambique with over 15 PPPs.

Figure 2 Total number of PPPs per country



Data was compiled from a variety of sources. The figure is based on the researchers' findings and interpretation of available data.

Source: Authors' calculations, June 2019

SADC member states have successfully implemented PPP projects mostly in the transport sector, followed by the renewable energy/electricity sector and the water and sanitation sector. A brief synopsis of some of the projects shows why they are considered a success.

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Water and sanitation

Namibia's **Goreangab Water Treatment Plant** has achieved the high water quality standards set out in the project design. Given that it is the only direct potable recycling plant in the world, it is a model for other countries, and receives many international visits. It also reflects a deep understanding among Namibian stakeholders involved in the project of the concept of recycling wastewater for consumption, which could face significant public pushback. To ensure public support for the project a great deal of attention has focused

on raising awareness of the extensive quality control processes at the plant. Hence, the Goreangab plant has also instituted an ongoing public education/awareness programme, which includes environmental education classes and school tours.

The **Dolphin Coast Water and Sanitation Concession** in South Africa got political buy-in at the highest level (presidency) and intergovernmental cooperation to avoid delays in project implementation. The Borough of Dolphin Coast (BoDC) was the first in South Africa to go the PPP route after the 1994 general elections. The Municipal Infrastructure Investment Unit was created to coordinate municipal investment projects involving the private sector and provided the BoDC with additional financial and technical assistance during the negotiations. The successful implementation of this project enabled the BoDC to finance new water and sanitation services for communities in an efficient manner, implement a water loss management system and install a bulk supply system to cope with future demand.

South Africa's **Durban Water Recycling Project** is hailed as an all-round success: reducing sea outfall pollution and reducing Durban's water consumption by 7% (environmental factors); successfully implementing the country's first 20-year concession with strong reliance on the relative expertise of partners; reducing the city's operational costs; and presenting an attractive investment opportunity to investors. Overall it is a sustainable long-term project.

The **Mbombela Water and Sanitation Concession** in South Africa is a long-term concession. Several critical factors have enabled it to continue its operations 10 years after its implementation: it is managed by a stable operator with good operational capacity; has increased access to water with effluent quality in the concession area; and has seen continuous investment in extending and upgrading existing infrastructure. In addition, the concessionaire has a strong maintenance programme; efficient and knowledgeable technocrats are employed at the plant; and the water and sanitation tariffs are similar to or lower than those in comparable municipalities.

Energy

Operational since 2018, Namibia's **Mariental Solar Power Plant** contributes to the country's energy deficit and should supply 8.5% of its national electricity production, thereby bringing about a significant reduction in electricity imports (68% in 2016) while making power supply in the country more reliable. The savings in energy imports could be directed to the development of new infrastructure in a quest to improve Namibia's energy security and independence. In addition, this project should reduce annual CO₂ emissions by 9 400 tonnes (235 000 tonnes of CO₂ over the 25-year project). It has created or maintained 1 260 indirect, induced or secondary jobs during the life of the project.

Zambia's **Kafue Gorge Lower (KGL) hydropower project** was plagued by a delayed start of 14 years, insufficient financing and withdrawal of the private sector and multilateral partners. Despite these hurdles, construction of the KGL hydropower plant is finally underway, an important and positive sign for Zambia's future electricity generation capacity. The country currently has an installed capacity of 1 948MW, although it has the potential to produce approximately 6 000MW of hydropower.³⁰ The hydropower plant has the capacity to generate 750kW of power, 7km downstream from the existing 900MW Kafue Gorge Upper hydroelectric power station, and seeks to address Zambia's existing electricity deficiencies. The KGL plant will be the third-largest hydropower station in the country upon completion³¹ and was expected to be completed by 2019. It also offers an opportunity for positive spill-over effects through the completion of infrastructure (such as roads) to facilitate the transportation of equipment to the site. The road between Chikankata and Chirindu has already been completed. The hydropower plant also creates an opportunity for Zambia to consider exporting electricity via the Southern African Power Pool to countries such as Namibia, Malawi, Zimbabwe and South Africa where there is greater demand.³²

Mozambique's **Central Termica de Ressano (CTRG)** is both a successful PPP and a collaboration between the South African and Mozambican governments. Operational since 2015, the CTRG is regarded as a successful PPP owing to good risk allocation, project financing and timely processes. It has helped to meet 23% of Mozambique's demand for energy, and the various gas PPPs between South African businesses (predominantly Sasol) and Mozambican companies have also resulted in gas royalties' growing by 33%. Sasol's provision of bridge financing helped ensure that the project's construction could commence on an expedited basis. The CTRG is one of the first investments by development finance institutions in Mozambique that is solely reliant on revenues generated by a domestic purchaser.

Transport

The **Dar es Salaam Port container terminal project** in Tanzania overcame mistrust between public and private sector partnerships, addressed existing bottlenecks and improved the efficiency of the container terminal. However, there is still room for improvement: political interest should be removed from concession agreements and delays in port operations should be addressed.

The **Bus Rapid Transport (BRT) system** in Tanzania is a time-saving, cost-effective public transport system. Tanzania was the first African country to win the Sustainable Transport Award, in 2018. This is not to say that the BRT is not without its challenges. For example,

30 Power Technology, 'Kafue Gorge Lower (KGL) power station', <https://www.power-technology.com/projects/kafue-gorge-lower-kgl-power-station/>, accessed 10 December 2018.

31 *Ibid.*

32 See Hydropower Africa, 'Feasibility Study of the Kafue Gorge Lower Hydroelectric Project', Presentation at the Hydropower Africa Conference, Johannesburg, 18 August 2010, https://www.esi-africa.com/wp-content/uploads/Janus_Basson.pdf, accessed on 20 June 2019.

delays in implementing the Resettlement Action Plan, flooding along the trunk line, inadequate engineering designs (such as unmapped ground utilities) and inexperienced supervision engineers, coupled with infrastructure cost overruns, presented various challenges. The important takeaway, however, is that the BRT consortium managed to address these. A number of solutions were implemented, such as providing additional technical assistance, restructuring the project to create a steering committee, engineering redesign to minimise land take, and splitting the work packages.

The **Gautrain transport system** in South Africa (although not without controversy) is the first high-speed train to be built in South Africa and has made a significant contribution to increased employment, construction-related job creation, and government revenue. Total government revenue increased by an estimated ZAR³³ 5 billion over a six-year period owing to the construction of the Gautrain.

Challenges for PPP implementation specific to the African context

Given the fiscal constraints developing countries face, one of the biggest risk concerns for African countries is recording PPPs as ‘off balance sheet’ expenditure, which means that the cost of the project remains hidden. As stated previously, current PPP accounting

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practices enable governments to list project and contingent liabilities as part of these ‘off balance sheet’ expenditures, and governments’ future debts do not appear on their budget line once the project is completed.³⁴ Bearing in mind the vulnerabilities of many African economies, such practices are extremely dangerous. They can influence the private sector’s perception of risk in developing economies, and can result in the private sector’s either refusing to accept certain risks or charging excessive risk premiums.³⁵

³³ Currency code for the South African rand.

³⁴ Romero MJ, *op. cit.*

³⁵ Bovis CH, *op. cit.*

There is also an ethical debate around the private provision of essential public goods, given that the poor are often unable to afford private services and the primary goal of private companies is making a profit.³⁶ The UN Conference on Trade and Development suggested caution when using PPP financing, as it could be more expensive than direct borrowing by governments – project finance requires higher leverage, with debt contributing 70–90% of financing requirements, while equity can contribute 10–20%. PPPs that take the form of SPVs may also prove to be costly to monitor and can comprise up to 40 individual contracts, which can account for 3–5% of project costs for typical projects and 10–12% for new, untested projects.³⁷ In certain circumstances international financing results in foreign currency exposure for both debt repayments and dividends. Where returns are in local currency, exchange rate shocks can affect governments' ability to repay and projects' profitability.³⁸

While assessing PPPs in SADC, some overarching challenges were identified with regard to implementation in each country.

- Strong political will, an absence of corruption, and political stability are essential for ensuring that PPP developments are successful and that the private sector remains invested. In Angola, for example, public corruption has been a major challenge in PPP port developments (Port de Caio and Port of Namibe). In Madagascar, political uncertainty negatively impacted PPP development. The 2009/10 coup d'état was a major reason for private sector withdrawal from the Lokoho Hydro for Rural Development project, resulting in its non-completion.
- Botswana established its PPP Unit in 2016 to oversee coordination, technical assistance and capacity-building activities for entities engaging in PPPs. However, as is often the case in other parts of the continent, policy implementation is a challenge. Despite various regulations, legislation and policy frameworks, the PPP Unit is not staffed, and government has moved hesitantly in pushing ahead with PPPs in practice, although there has been keen interest and pressure from the local private sector. Botswana also has a limited investible project pipeline, and the lack of coordination between the public and private sector to develop such a pipeline exacerbates these challenges.
- Similarly, the Comoros has faced resistance from government to undertake PPPs, while Eswatini has no PPPs. Zimbabwe and the DRC have predominantly PIDA-managed projects. While the Seychelles does not have a specific PPP legislative framework, the island state has focused on PPPs in the context of transportation and port infrastructure.
- In Lesotho PPPs have not been particularly successful. The Queen Mamohato Memorial Hospital, undertaken in collaboration with a South African private healthcare provider, is well known for its controversial outcome: the hospital costs \$67 million per year to

36 Markowitz C, *Tanzania's Transport Hub: What Prospects for Regional Trade and Local Economic Development?* Occasional Paper, 262. Johannesburg: SAIIA, 2017.

37 Trebilcock M & M Rosenstock, 'Infrastructure public-private partnerships in the developing world: Lessons from recent experience', *The Journal of Development Studies*, 51, 4, 2015.

38 UNCTAD, *Economic Development in Africa Report 2016: Debt Dynamics and Development Finance in Africa*. Geneva: UNCTAD, 2016.

run – at least three times what the old public hospital would have cost – and consumed more than half of the total government health budget.

- Malawi's institutional and legislative framework for PPPs is comparatively robust for the SADC region. It is one of the few countries with an adequately staffed PPP Unit, which facilitates and implements projects for PPP development. It is also one of the few countries to release detailed guidelines on PPPs accompanying the legislation.
- Mauritius has an extensive and well-developed PPP legal framework. Currently its PPP focus is the Smart Cities Project, which consists of mixed-use, development spaces (commercial, leisure, education, medical, tourism, etc.) and technology and innovation clusters. Thirteen initial projects have been identified, valued at \$660 million.
- Mozambique's PPP law covers PPPs, large-scale projects and business concessions. The South African private sector has played a major role in driving Mozambican PPPs (energy and transport). For example, the N4 toll road between South Africa and Mozambique is recognised as a pioneering transport PPP in the SADC region, involving a partnership agreement between the South African and Mozambican governments and a private consortium, the Trans African Consortium.
- South Africa is generally regarded as a country with relatively successful PPPs, and comprehensive PPP frameworks and legislation. These have served as important lesson learning and best practices for the implementation of PPPs in the rest of the region. South Africa has also begun to undertake cross-border infrastructure PPPs, which, if successfully implemented, could also offer useful lessons for developing and implementing regional infrastructure projects. A total of 31 PPPs valued at ZAR 65.3 billion (\$ 49 283 01886.79)³⁹ have been undertaken in the country since the introduction of this type of partnership in 1998.
- Tanzania also has a thorough PPP framework and a PPP technical committee. The 2018 amendments to the PPP Act have worked towards removing existing bottlenecks in procurement and coordination processes. Tanzania's PPPs mostly focus on transport and energy infrastructure.
- In Zambia PPPs are predominantly focused on electricity and transport infrastructure. Unfortunately, despite an extensive PPP legislative framework and a comprehensive PPP Act the PPP Unit has been moved at least three times, demonstrating both the capacity challenges that it has faced and lack of adherence to the PPP legislative framework.

39 Calculated at a 2018 rate of ZAR 13.25 to \$1.

Important considerations when implementing PPPs in SADC

Equity in PPPs

The shift towards 'smaller government' has tended to give a greater share of economic activity to the private sector. A typical way of reducing costs has been to outsource activities once carried out by government, particularly in relation to infrastructure. This often has the characteristics of a natural monopoly.⁴⁰ Many of these ventures involve private equity capital. Even with the need for infrastructure investment and abundant funding, emerging markets by and large still face challenges owing to the discrepancies between investor needs and PPP frameworks. Investors have requirements, and these could be why there is a problem with equity in some SADC countries.

Government guarantees

It is well known that energy and other projects in Africa are often hard to finance and that to reassure potential lenders, their legal structure will require more security instruments than in developed countries. To address this requirement, IPPs for instance will commonly seek the issuance of a sovereign guarantee by the host government. Some countries are reluctant to issue these because of the aversion to contingent liabilities.

Insurance

There is a significant foreign ownership of insurers in SADC, although it varies greatly across the region. A total of 19% of insurers in South Africa are majority foreign owned, 20% in Mauritius and Zimbabwe, 73% in Mozambique and Tanzania, and 100% in Swaziland. The impact of foreign ownership is even greater when considering premium volumes. In six SADC countries more than 20% of foreign-owned insurers are majority owned by entities in other SADC countries, and in three countries this rises to more than 50%. Cross-border ownership within SADC is therefore a significant factor. This means that anyone who wants to venture into the SADC market is likely to use South African insurance resources, potentially in partnership with international players.

PPPs and the debt trap

One of the challenges of rising debt in Africa is that if a country is heavily indebted it might divert the resources that could be used to drive developmental programmes to service that debt. Yet even if a country has debts some programmes are still critical. This is where PPPs come in.⁴¹ The cost to a government of using PPPs to invest is usually higher than if it had

40 Davis K, 'PPPs and infrastructure investment', *The Australian Economic Review*, 38, 2005, pp. 439–444.

41 Were A, 'Private partnerships will lead to reduced public debt', *Business Daily Africa*, 9 April 2017, <https://www.businessdailyafrica.com/analysis/Private-partnerships-lead-reduced-public-debt/539548-3883458-119y2df/index.html>, accessed 12 May 2019.

simply borrowed the money itself. Research commissioned by the European Parliament in 2014 suggests that PPPs are the most expensive way for governments to invest in infrastructure, ultimately costing more than double than financing through bank loans or bond issuance.⁴²

Concluding remarks and recommendations

PPPs enable governments to team up with the private sector to finance, manage and operate public service projects. However, countries must be careful about how they approach PPPs because these have their critics as well. The cost to a government of using PPPs to invest is usually higher than if it had simply borrowed the money itself. This is because private sector borrowing costs more, private contractors demand a significant profit, and negotiations are normally weighted in the private sector's favour, particularly when a government's familiarity with and capacity to develop favourable PPP contracts are inadequate, as is often the case in developing countries. This requires a careful assessment of the implications of PPPs for the fiscus.

Nonetheless, the ambitious infrastructure goals of SADC governments and the potential of PPPs to realise these goals underscore the value of PPPs for the region. In addition

The ambitious infrastructure goals of SADC governments and the potential of PPPs to realise these goals underscore the value of PPPs for the region

to financing considerations, the following key issues need to be assessed properly and integrated into planning:

- All SADC governments should be encouraged to have functioning and politically independent PPP units to deliver transparent procurement processes that will attract foreign players.
- Understanding the political climate in the region is important, as it appears as though in most countries projects must also deliver on skills transfer, job creation and the inclusion of local businesses. It is prudent to encourage openness, transparency and frankness regarding the expectations of the host government very early in negotiations.

⁴² Ibid.

Finally, sustainable projects in the energy, transport and water sectors are critical to the social development goals of developing countries. At the same time, if structured properly, they could also yield lucrative opportunities to all parties (government and the private sector).

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Cover image

A Dart (Dar Rapid Transit) Bus driving in Dar es Salaam (Said Khalfan/AFP/Getty Images)

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