

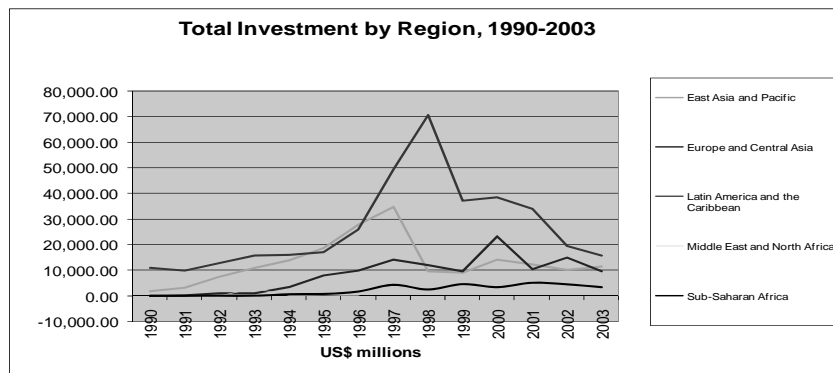
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## *Avoiding the 'London Heathrow Airport Syndrome' in PPP Initiatives Within the SADC – Challenge to the intelligentsia*

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## *Infrastructure Investment in Africa South of Sahara (ASS) compared to other regions*



Source: PPI Database, World Bank

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## *Corridors Driving Infrastructure Development*

- The focal point for regional development initiatives, initially based on transport routes, the corridors are critical to the achievement of SADC's economic & political objectives

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## *Corridors Driving Infrastructure Development*

- Beira and Zambezi Development Corridors (Malawi +Mozambique +Zambia)
- Limpopo Development Corridor (Moz +RSA +Zim +Bots +Zam)
- Lubombo Spatial Development Initiative (Swaz +RSA +Moz)
- Mtwara Development Corridor (Malawi +Tanzania)
- Maputo Development Corridor (South Africa + Mozambique)
- Walvis Bay Corridor (Bots + Namib +RSA +Zamb +Zim + DRC)
- Tazara Development Corridor (Tanz +Zamb + Malawi + Moza)
- Swaziland/South Africa Tourism & Biodiversity Corridor (STBC)
- Okavango Upper Zambezi International Tourism (Angola + Botswana + Namibia + Zimbabwe)
- Lobito Development Corridor (Angola + DRC + Zambia)
- North-South Corridor (RSA + connection to 8 countries)

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### *Corridors Driving Infrastructure Development*

- Almost 50% of SADC member states are landlocked (7 countries) & require efficient regional transport links for access to the sea.
- In Malawi for example transport insurance payments as a percentage of the value of exports are pegged at 55% (UNCTAD 2007)
- 10% drop in transport costs could spur a 25% increase in total SADC trade (SADC 2007)
- **Unless SADC leaders decide in favour of investing in transport infrastructure, the chance of SADC rediscovering the winning formula & claiming a high-ceilinged place in the global market are likely to evaporate**

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### *Corridors Driving Infrastructure Development (learning from the coal face)*

- There is enough evidence to suggest that public sector has no need to own and maintain transport infrastructure, hospitals, schools and prisons.
- Traditional methods of procurement & funding of public sector projects within SADC have resulted in projects being delivered late and over budget, with little regard for long-term costs or value for money (- e.g., a considerable percentage of paved roads is characterized by gaping crater-sized potholes!!!)
- Projects could only proceed within the region when central funding is available

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## ***Corridors Driving Infrastructure Development (learning from the coal face – Solution?)***

- PPPs are now one of the 3 preferred procurement strategies for public sector projects (Rwelamila 2008, Cartlidge 2006)
- Other two being Prime Contracting & Design & Construct (Cartlidge 2006)
- At the same time there is enough evidence to suggest that value for money is not lowest price; instead, it is to be found in the optimum combination of whole life costs & quality to meet users' requirements
- Appropriate PPPs provides SADC an appropriate soln.

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## ***PPPs as Solution for SADC Infrastructure Development but not a panacea***

- Partnership is the keyword in PPPs
- The essential elements of a partnership are:
  - all individuals share risk & rewards of the business
  - each partner is entitled to share the net profit of the business
  - partners are jointly & severally responsible for all debts & obligations of the business without limits, including loss & damages arising from wrongful acts or omissions
  - partners have equal rights to make decisions which affect business or business assets
  - all individuals share the ownership of the assets of the business, although they may have agreed that the firm will use an asset which is bought by one of the partners

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### *PPPs as Solution for SADC Infrastructure Development but not a panacea*

- PPPs cannot then be said to be partnership in the generally accepted definition of the term
- A PPP is:

" ...a risk sharing relationship based on an agreed aspiration between the public and private sectors to bring about a public policy outcome."

IPPR (2001)

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### *PPPs & Syndrome Debates (1)*

- the death of the public sector ethos with the introduction of private sector contractors
- PPP is driven by political motive to control public spending rather than to deliver better public services
- PPP schemes actually cost more than conventionally procured assets due to a range of factors including higher finance costs and high fees for professional advisors, etc.

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## *PPPs & Syndrome Debates (2)*

- PPP consortia profit from employing their workforce on inferior terms and conditions to those in the public sector and in some cases this has resulted in a two-tier work force within the same organization;
- there is no evidence to support the claim that the private sector can deliver public service outcomes more effectively than the public sector and in fact many privately operated projects are underperforming;

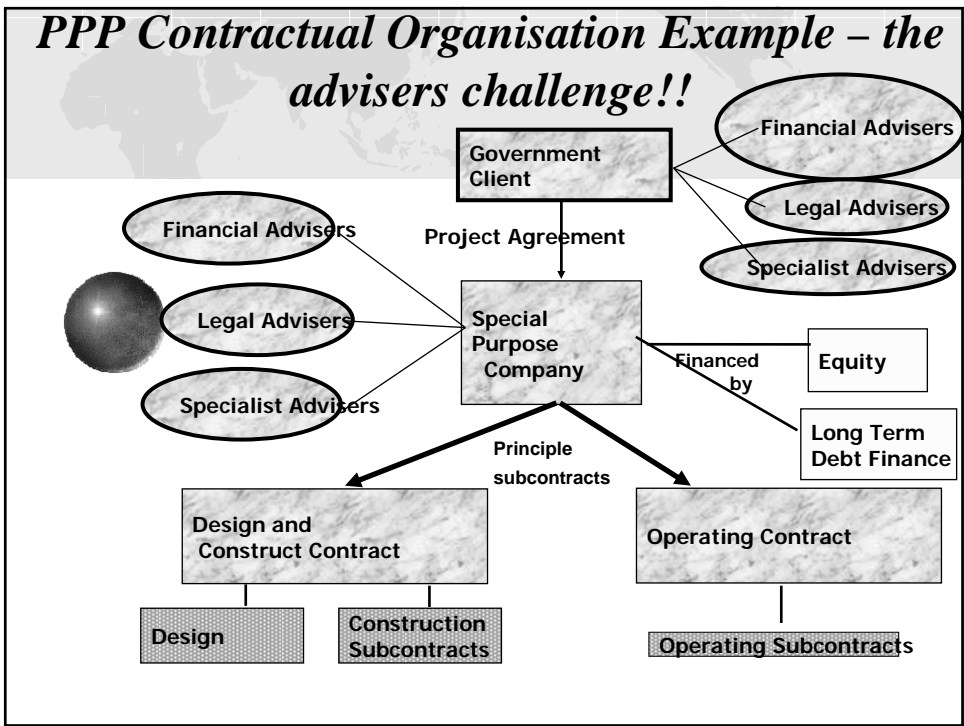
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## *PPPs & Syndrome Debates (3)*

- the added value brought about through risks being transferred from the public to the private sector is nothing more than 'pseudo-scientific mumbo jumbo where financial modeling takes over thinking';
- private sector companies make unacceptably high profits from PPPs and in particular the practice of refinancing PPP deals at an early stage in the project's life has been heavily criticized; and
- many PPPs reduce the traditional accountability of public sector projects under the cloak of commercial sensitivity.

A rather confused understanding of the PPP concept  
 PPP as an umbrella notion covering a wide range of economic and contractual agreements

	Form of the contractual agreement	Tariff collection	Assets ownership	Risk assessment
Specific services	Management & service contracts (2 to 5 years)	Public	Public	Public (Sovereign and Sub sovereign risk)
	Design-Build-Operate (DBO)	Public	Public	Public (Sovereign and Sub sovereign risk)
New assets	Build-Operate-Transfer (BOT) (10 to 30 years)	Public	Until transfer : private After transfer : public	Private
Management and new assets	Lease contract (7 to 15 years)	Private	Public	Public (Sub sovereign risk)
	Concession contract (15 to 50 years)	Private	Private	Private
	Asset sales (perpetuity)	Private	Private	Private



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## *Addressing the Syndrome Debates (SADC Built Environment intelligentsia responsibility) 1*

1. **Weak public sector sponsors / government (Rwelamila & Phungula 2008 & DBSA 2008)**
  - **SADC Governments generally lack the skills required to drive PPPs .**
  - **Limited PPP experience creates an element of risk and fear of unknown**
  - **There is a tendency for greater PPP vision by parastatal and government utility agents than directly from national governments.**

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## *Addressing the Syndrome Debates (SADC Built Environment intelligentsia responsibility) 2*

2. **Affordability of beneficiaries**
  - **Affordability of recipient countries for infrastructure is low.**
  - **Affordability of end users is low. Tariffs are likely to increase where PPPs are implemented and such projects will inevitably require government or donor financial support in the early years. Unlike PPPs in developed countries which often focus on operational improvements, PPPs require substantial capital investment, as well as operational improvements**

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## *Addressing the Syndrome Debates*

### *(SADC Built Environment intelligentsia responsibility) 3*

#### **3. Low institutional, managerial capacity and skills levels**

- **Institutional Capacity shortages in respect of (Rwelamila & Phungula 2008 & DBSA 2008) :**
  - Project initiation,
  - Policy support for active PPP development in each sector,
  - Regulatory and enforcement framework,
  - Weak or ineffective regulatory powers over natural monopolies,
  - Lack of a private sector and customer focus
- **Low management capacity and skills result in:**
  - Additional project risk

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## *Addressing the Syndrome Debates*

### *(SADC Built Environment intelligentsia responsibility) 4*

#### **4. Legal systems**

- Legal and regulatory systems to support complex PPP ventures are weak and where they may exist are not effectively enforced.

#### **5. Government / Political Interference**

- Interference particularly in respect of tariffs and the autonomy of PPPs at operational level reduces potential financial success.
- Fluctuating budgetary allocations or non-availability of government funds for PPPs which have been initiated, but require government support, can undermine success and increase project risk.

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## *Conclusion*

1. The SADC Built Environment intelligentsia need to address the above challenges through research & training (Procurement or Supply Chain research units at Universities?)
2. Initiatives to address PPP challenges should avoid 'the syndrome' approach (cut & paste!) – Innovation as the running thread

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*Thank you*

*for*

*Listening*