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Public Private Partnerships (Ppps) and Sub Saharan Economic Transformation: A Cross Country Case Studies Approach.

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ABSTRACT

This paper examines the role of public private partnerships (PPPs), a new development paradigm used by some Sub Saharan African countries as agents of their economic transformation. Some PPP contracts in East African countries namely Tanzania, Uganda and Kenya were studied. Also PPPs in Lesotho in South African region and Nigeria in West African region were analysed. The objective of the study is to assess how PPP arrangements in some sub-Saharan African countries can facilitate economic transformation of those economies. The research utilized mainly secondary data sources and adopted content analysis of various library materials and internet sources. The research found that while Da es Salaam water distribution PPP project failed, Lesotho National Referral Hospital project succeeded. Kenya-Uganda railways project took off but was plagued with problems arising from contract breaches by parties. MMA2 Airport project in Nigeria and Lekki Tool Road concession project in Lagos were successfully executed though not free of execution problems. The paper concludes that PPP projects if properly executed can facilitate economic transformation of sub Saharan African economies. The paper recommends to SSA economies to adopt international best practices in PPP contract executions to ensure success.

KEYWORDS Public Private Partnerships (PPPs), economic transformation.

1. Introduction

Public Private Partnerships (PPPs), a new development paradigm, used by some Sub Saharan African countries as agents of their economic transformation was the focus of study. Some specific issues, challenges and successes of PPPs in some Sub Saharan African countries including Tanzania, Kenya, Uganda, Lesotho and Nigeria are treated in the paper. Public Private Partnerships have been defined as a collaboration in which the public and private parties concerned realize with combined forces a project in order to realize for both a surplus value (Braekelear and Sprundel, 2002).

Public Private Partnerships redefine the role of the state in infrastructure provision to transform its status from provider to enabler that fit into the neo-liberal ideology of market economy (Iloh and Muktar, 2013: 107). Oyesiku (2009) argues that PPP initiative is the alternative source of infrastructure financing available for developing economies as a coping strategy on the effects of global recession, while Moszoro and Gosionowski (2008) maintain that PPP is a revolutionary and rewarding approach to development. Sub Saharan Africa is in dire need for development. The World Economic Forum (WEF) Report of 203 – 2014 clearly states that "Sub Saharan Africa as a whole trials the rest of the world in competitiveness, requiring efforts across many areas to place the region on a firmly sustainable growth and development path, going forward the region continues to register a profound infrastructure deficit (www.weforum.org/docs/GCR Country Highlight 2013 - 2014.pdf).

It is the consciousness of the underperforming of sub-Saharan African countries in virtually all economic and social indices that has provided the impetus for some Sub-Saharan African governments to embark on PPPs as a shift from direct government provision of services to increasing involvement .of private sector using PPPs arrangement as a transformation agent. Transformation is a unidirectional and irreversible change in dominant human economic activity (economic sector). Such change is driven by slower or faster continuous improvement in sector productivity growth rate. Individual sector transformations are the outcomes of human socio-economic evolution (http://en.wikipedia.org/wiki/transformation_in_economics).

Njidda (2009) cited in Nzewi, Nkamnebe and Nzewi (2011:25) identifies some models of PPP to include

(i) Design and Build (D&B) – in which the private sector designs and builds often at a fixed price.
(ii) Operate and maintain (O&M) – in which the private operator under contract operates public owned assets for a specific time.
(iii) Build, operate and transfer (BOT) – here private sector builds and operates a public facility and transfers ownership to the public sector after some years of operation under agreed terms of contract.
(iv) Build, own, operate and transfer (BOOT) – in which a private entity receives franchise to finance, design, build, and operate and charge user fees for a specified period of time after which the ownership is transferred back to the public sector.

Other models include joint venture operation and concessioning. The concessioning arrangement PPP contract is currently in operation in Nigeria seaports and some Nigeria airports.

2. Conceptual and Theoretical Review

PPP is said to have originated from the United Kingdom with development of mines in an arrangement known as the public finance initiative (PFI) between the government and a merchant bank several centuries ago. However, it is only in the late sixties that major capital projects in the developed world were executed almost exclusively through PPP arrangements. This trend has continued expanding the scope of projects far beyond major infrastructure such as high ways; railways, and power plants into more sophisticated and cross boarder projects and transactions (Alitheia Capital, 2010) cited in Ikon

(2013:111-118).

The entire concept of PPP being a collaboration between the public and private parties for service delivery with the private party providing the services at agreed terms and duration is contrary to the postulations of classical economists such as Adam & Smith in the 16th century. Adam Smith was naturally opposed to any government intervention in industry and commerce. He was a staunch free trader and advocated the policy of laissez-faire in economic affairs (Jhingan, 2006:66). The realities of later centuries particularly from the 19th century have shown that government finances alone can no more effectively tackle infrastructure deficits especially in less developed economies including Sub Saharan Africa. This awareness creates the paradigm shift in the way of government provision of services including physical infrastructures and other social services.

This new approach of government depicts the reforms introduced by various governments to enhance more efficiency and accountability in public service deliveries. The PPP concept fits in here as it provides a trend towards reducing government functions through privatization and other forms of market testing and contracting (Gemandze, 2007:84).

3. Theoretical Review

The literature on public-private partnership is both multi-disciplinary and disparate. Within the standard neoclassical economic literature, PPPs are subject of traditional welfare analysis typically evaluated according to the efficiency of their social welfare input given scarce resource for development (Spelman and Grebmer, 2004). Neo-liberal scholars contend that private sector offers prospects to developing economies for rapid economic growth in a competitive market conditions (Moran, 1986). In Obasanjo's Administration economic reforms strategy tagged "NEEDS" – National Economic Empowerment and Development Strategy (2003-2007), the private sector of the Nigerian economy was identified as the engine of growth to drive the economy. The NEEDS policy document on the role of the private sector states "The private sector will be expected to take advantage of opportunities for rapid and sustainable growth of our diversified economy with a modern agricultural sector, an export-led industrial sector, and an efficient and competitive service sector in line with Nigeria's comparative advantages" (National Planning Commission, 2004:58). The current PPP arrangement in Nigeria is a fall out of the Obasanjo's Administration economic reforms, and as it will be illustrated later, some appreciable successes can be seen despite the challenges of execution of PPPs in Nigeria.

The theoretical frame work of this paper is anchored on the Tie-Level Theory of Kilduff and Tsai (2003). Kilduff and Tsai explain in their theory the links between networks and their implications. According to the theory, people are connected to each other through organizations, while organizations are connected to each other through people. This kind of network has influence on the success or failures of project. PPP can be characterized as a networking collaboration between at least two actors (Public and private institutions), and each actor is subject to constraints and opportunities which will depend on their positions and roles in the network, and changes to same overtime (Kilduff and Tsai, 2003). This paper will assess the collaboration networks between public actors and private institutions under a PPP arrangement in some sub Sahara African countries to determine if the networks could facilitate economic transformation of the countries studied.

4. Statement of the Problem

Recent World Economic Forum Report WEF (2013-2014) clearly highlights the underperforming status of all sub Sahara African countries in terms of global competitiveness, and huge infrastructure deficits. The report recommends to sub Saharan African countries to make special efforts across many growth areas to place the region on a sustainable growth and development path. This paper is of the view that Sub-Saharan African Countries are aware of their macroeconomic indices and some of the efforts or opportunities these countries are exploiting involve the PPP initiatives. How the PPP initiatives in some sub-Saharan African Countries could facilitate the transformation of those economies is the major focus of this paper.

5. Objective of Study

The general objective of this study is to asses how PPP arrangement in some sub-Saharan African Countries can facilitate economic transformation of those economies. The sub objectives include:

- To identify the subsisting PPP facilities in the countries of study namely Tanzania, Kenya, Uganda, Lesotho and Nigeria.
- To assess the success of the PPP in terms of services delivery and target performances.
- To identify the challenges of executing PPPs in the countries of study and proffer possible solutions.

6. Methodology: This research utilized mainly secondary data sources. The paper adopted the content analysis of various library materials, government publications, internet materials and other documented researches pertaining to the subject investigated.

7. CROSS COUNTRY CASE STUDIES Tanzania

The Republic of Tanzania was involved in a lease contract type of PPP for a 10 years duration. The project involved the leasing of Da es Salaam's Water and Sewerage Authority's (DAWASA's) infrastructure for water distribution to a private consortium for operation. The private company was responsible for billing, collecting revenues from customers, making new connections and performing routine maintenance. Ownership of the infrastructure was still in the hands of DAWASA.

Alongside the lease contract, there were contracts to install or refurbish pumps at treatment plants, repair transmission mains, supply customers meters and manage delegated capital works.

PPP Company: The private consortium was led by Bi water, a UK based Water Company with 26% share, Tanzania local company-Super Doll Trailer Manufacturer Company (SDT) had 49% share and H.P. Gauff Ingenieure GmbH Co, a German company with 26th% share. Tanzanian Government was the contracting entity represented by DAWASA.

Contact Award: The contract was awarded for a period of 10 years commencing 1st August, 2003.

Project Outcome: The contract was cancelled after 2 years due to serious operational problems. The cancellation of the contract was greeted by complex arbitrations between the government of Tanzania and City Water under the lease contract, and between the government of Tanzania and Biwater Guaff (Tanzania) under international law. The lease contract arbitration was awarded in favour of government of Tanzania, and Biwater claims for damages under the UK-Tanzania Bilateral Investment Treaty were dismissed (http://ppptoolkit.icrc.gov. ng/ppp -project-casestudies). This is a clear case of a failed PPP contract in Tanzania, this paper will further highlight the issue when treating findings of the research.

6.2 Lesotho

The government of Lesotho entered into a concession/BOT PPP contract in 2008 with Tsepang (Pty) Limited Consortium after an international bidding process. The project which was a health sector project involved the construction and replacement of Lesotho's main hospital, Queen Elizabeth II, an ageing facility, with modern infrastructure. The private company was responsible for designing, building, partially financing, fully maintaining and operating the new 390-bed public hospital. The project also featured the refurbishment, upgrading, and operation of three urban filter clinics.

PPP Company: Netcare, a leading private health care provider with operations in South Africa and UK led the consortium with 40% investment. Excel Health – an investment company for Lesotho-based specialized and general practitioners (20%), Afri' nnai (20%), DIO Investments (10%) and WIC (10%) – a Basotho women's investment company all formed the consortium.

The project cost was US$ 100M. 80% of the capital cost was to be provided by the government and 20% from private sector. The capital structure (excluding the government grant portion) has a debt – to – equity ratio of 85:15. All the debt was provided by the Development Bank of Southern Africa (DBSA) (http://ppptoolkit.icrc. gov. ng/ppp- project-casestudies/).

Project Outcome: The project is adjudged a pioneering social sector PPP in Africa which could be replicated in other African countries. The project was successful.

6.3 Kenya and Uganda

These two East African countries jointly embarked on a concession type of PPP contract for their railways with project name of Kenya-Uganda Railways in 2006. The objective of the project was to improve the overall performance and efficiency of the railways in both countries. The concessionaire was responsible for the rehabilitation, operation and maintenance of railway systems in both countries, which were previously run by the government (The Kenya Railways Corporation and Uganda Railways Corporation). The concessionaire was to provide freight services in both countries and passenger services in Kenya for at least 5 years.

PPP Company: Rift Valley Railways (RVR) consortium was awarded the concession after an international competitive bidding process. The tendering process was undertaken jointly by the two governments as the contracts were fundamentally identical. The project was expected to cost US$ 404m of which US $ 4m was made in payments to the governments and the remaining balance for investment commitments in physical assets. The concession was granted for 25 years and the concessionaires took over in December 2006.

Project Outcome: The Kenya – Uganda railway concession was a flagship transport sector PPP in East Africa and won Euro money's project finance "Africa Transport Deal of the year" award in 2006 (http://ppptoolkit.icrc,gov.ng/ppp-project-casestudies/). This project successfully took off but there were some observed breaches by the parties that threatened the overall successful execution of the project.

6.4 Nigeria

The Federal Government of Nigeria represented by some agencies of government has entered into various concession/ BOT PPP contracts with various private sector organizations from 2003. Prominent among these are the concessioning of Lagos Ports Complex in which four terminal operators or concessionaires took over the port operations from 2007 after wining an international competitive bidding. These operators are:

S/N	TERMINAL OPERATORS	PORT BERTH NOS	STARTING DATE
1	ABTL (Apapa Bulk Terminal Limited)	1 – 5	05/2007
2	ENL Consortium	6 – 14	04/2007
3	Messrs APMT	15 – 18	04/2007
4	GDNL (Green View Development Nig. Ltd)	19 – 20	05/2007

Source: Nigeria Ports Authority (NPA), Lagos Complex Annual Report, 2007.

These operators concessions range between 10 to 25 years while the Federal Government retains the ownership of the ports. There are noticeable improvements in ports operations from 2007 involving deceased turn around time for ships, higher berth occupancy and increasing revenues to NPA because of the leasing arrangements with operators.

Another success story of Nigeria's concession/BOT PPP contract is the Murtala Muhammed Airport Domestic Terminal, Lagos (MMA2). Following the destruction of the domestic terminal by fire in 2002, the project involved the design, construction and operation of a new domestic terminal and ancillary facilities at Murtala Muhammed Airport in Lagos. The new terminal, Murtala Muhammed Airport Two (MMA2) has a land area of 20,000m^2 and comprises a terminal building, a multi-storey car park and an apron.

The estimated cost of the project was US$ 200m for investments in physical assets. The project was part financed with a loan of US$ 150m from a consortium of six banks – Oceanic Bank International Plc, Zenith Bank Plc, GT Bank Plc, First Bank Plc, First City Monument Bank Plc and Access Bank Plc (http://ppptoolkit.icrc.gov.ng/ppp-project -case-studies/).

PPP Company: The concession was initially awarded to Royal Sanderton Ventures Ltd., but after 6 months of nonperformance after signing contract, government revoked the contract. The contract was re-awarded to Bi-Courtney Ltd which also took part in the international competitive bidding. The contract was awarded for a period of 12 years and subsequently extended to 36 years. The Federal Government in the contract was represented by Minister of Aviation, and the Federal Airports Authority of Nigeria (FAAN). Bi-Courtney Limited is a Nigerian firm and the parent company of Bi-Courtney Aviation Services Ltd.

Project Outcome: MMA2 is the first major BOT infrastructure project to be completed by a Nigerian Company. The completed MMA2 had been in operation since 2007. Eventhough there were some breaches of contractual terms especially by FAAN by operating the old domestic terminal, this project was successful.

Other PPP projects in Nigeria include the Lekki Toll Road concession project, Lagos Area. This project was successfully executed by Lekki Concession Company Ltd (LCC). The project was funded using a mix of debt and equity with some support from Lagos State Government and the Federal Government of Nigeria. The greatest problem the concessionaire is facing is the stoppage of tolling along the Lekki – Epe corridor due to communities' protests against tolls.

8. Discussion of Findings

This paper examined some PPP contracts in some selected countries of East Africa – Tanzania, Uganda and Kenya, South African region – Lesotho, and the West African region – Nigeria.

While the Da es Salaam Water Project in Tanzania failed due to nonperformance by the concessionaire as per terms of the contract, the Lesotho National Referral Hospital PPP concession/BOT recorded a success. The lessons to be learnt here is that considerable expertise and capability must be identified as key determinants to successful drafting and execution of PPP contracts in Sub Saharan African countries.

The Kenya – Uganda railways project jointly undertaken by 2 sister African countries/neighbours is a classic case of inter African co-operation which should be encouraged among Sub Saharan African countries.

In all the cases examined, there were observed breaches of terms of PPP contracts by parties. In the case of Da es Salaam Water Distribution Project, a clear case of incompetence and lack of experience was established against the concessionaire which resulted in underperformance which led to contract termination after 2 years for a 10 years contract term. The government of Tanzania also did not have competent monitors to check on the concessionaire. In the Kenya – Uganda Railways Project, the consortium did not undertake any significant investment in structures or rolling stock and as a result targets set in the contract could not be met. This act affected the overall success of the project.

The Nigerian case is not different as Bi-Courtney Limited is still battling with FAAN on breaches of terms of the PPP contract. The contract provided that all domestic flights arrivals and departures should use MMA2, but FAAN continues to operate the old domestic terminal for domestic flights arrivals and departures from Lagos.

9. Conclusion

This paper is of the view that if PPP contracts could succeed in other climes, there is a likelihood that if international best practices can be adopted by Sub Saharan Africa countries, PPP can also succeed in Sub Saharan Africa. The problems observed in the execution of some of the PPP contracts examined arise mainly from incompetence of some of the concessionaires and governments not keeping to the terms of the contracts. PPP contracts if properly executed could help accelerate economic transformation of Sub Saharan Africa.

10. Policy Recommendations

Sub Saharan African governments are advised to keep to international best practices in all areas affecting PPP contracts both in conception and execution.

Sub Saharan governments need to build strong institutions where justice and rights of companies and citizens could be enhanced and enforced.

This paper finally recommends that Sub Saharan Africa should purposefully pursue PPP contracts in key sectors of the economy such as transportation, energy, health, education and agriculture with a view to transforming these sectors for sustainable growth and development of Sub Saharan economies.

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