

Public-Private Partnerships: Critical Review and Lessons for Zimbabwe

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Abstract

PPPs are increasingly seen as a mechanism to develop infrastructure on a cost effective and sustainable basis. If properly managed, PPPs have a potential to unlock the much needed financial resources to fund projects on electricity, telecommunications, transport, water, education and the health sectors. This article examines the current debate about PPPs and global experiences. Zimbabwe's experience with the PPPs was also discussed. The study used documentary search for data gathering. The major finding is that there is low uptake of PPPs in Zimbabwe. There are no legal and clearly defined institutional frameworks. The literature reviewed has thrown some lessons for Zimbabwe.

Keywords: Public-Private Partnerships, Zimbabwe, infrastructure

1.0 Introduction

Zimbabwe has been characterised by a continuous deterioration in existing public infrastructure due to the more than decade-long economic downturn (Dube and Chigumira 2011). The Government of Zimbabwe, parastatals and local authorities tasked with provision of utility services and critical public infrastructure lack capacity to sustain the facilities in sound state and cope with the growing demand for efficient service delivery. The fundamental challenge for Zimbabwe is to urgently restore its infrastructural base. The government is saddled with a bankrupt national airline, a struggling power utility, an inefficient railway company, a poor performing coal mine, an idle steel plant, underutilised dams in the country among others.

The Government of Zimbabwe has taken a policy position to adopt public-private partnerships (PPPs) under which the private sector would partner Government to deliver infrastructure. In planning the execution of PPP projects there are a number of issues that need to be addressed. These include international best practices, legal and institutional policy in place.

There are many questions that arise from the introduction of PPPs. Some of the key questions include why PPPs occurred and what value they bring with them (Broadbent et al. 2003). Why establish PPPs seems to be an important question because the contracting phenomenon was already there, so why invent something new or similar? The paper seeks to critically review the PPPs discourse and discuss the efforts that have been made by Zimbabwe to date. The article is organised as follows. The first section defines PPPs. The second section evaluates the empirical findings on PPPs. The third section describes the Zimbabwean scenario.

2.0 Conceptual Framework

PPPs are "cooperation of some sort of durability between public and private actors in which they jointly develop products and services or products and share risk, cost and resources which are connected with these products" (Van Ham and Koppenjan 2001:598). This definition provides important salient features:

- Cooperation. The relationship is not one that is formed around competition as was traditional contracting. Cooperation is based on trust-based relationship between organisations, a more visible risk sharing and a focus on mutual innovation between the public and the private sector.
- Durability. PPP contracts are expected to last for a "longer period of time." Theoretically, there is no fixed period that could define a PPP (Greve 2008:102). Empirically, PPP contracts can run from 15 to 20 years up to 50 to 60 years (ibid.). Long duration is needed because private capital becomes available for building public projects and in writing off debts paying an interest rates, there has to be a sufficient time period in which to do that.
- Joint production and/or development. There are debates 'synergy effects' and 'innovation' in the literature on PPPs. Public sectors partners want to find out if the privates have any ideas on how to make improvements and they want to incorporate those improvements into the contracts.
- Sharing costs and resources. In PPPs, the government requires private finance to build a new piece of infrastructure e.g a hospital. The private sector provides the capital, builds the infrastructure and afterwards, and the role of the government is more of an 'arranger' of services and as a dialogue partner. The private sector delivers financial resources, but the money has to be paid over the 30-year period or so.

- Risk sharing is one of the key characteristics associated with PPPs. Risks may be financial risks, construction risks, governance risks. With PPPs, identifying and managing risks have become a key part of the partnering process (Greve 2008:103). Who should bear the risks associated with a large PPP project of designing, financing, building and operating a new hospital?
- Gain sharing or blame-sharing. Both parties should assume responsibility.

Table 1: Contracting Out and PPPs

	Contracting Out	PPP
Theme	Completion	Cooperation
Roles of Public and Private Actors	Purchasers and Providers	Partners
Main Driver	Cost reductions, ideology, innovation	Cost reductions, innovation
Contract Duration	Short-term contracts	Long-term contracts
Service delivery	Full responsibility of the provider once contract is signed	Mutual responsibility for joint service production
Resources	Allocation of resources from public purchaser to private provider	Use of private finance in order to establish service or infrastructure
Risk	If risk is acknowledged, it is transferred to provider	Sharing of risk, allocation of particular forms of risk to the most adequate partner
Results	Key innovations in the hands of the provider unless otherwise stated in contract	Key innovations shared according to agreement in partnership contract

Source: Klijn and Teisman (2002) cited in Greve 2008:104

2.1 Forms of PPPs

There are two major categories of partnerships: economic partnerships and social partnership (Hodge and Greve 2005). These forms include Design, build, operate (DBO); Design, finance, build, operate (DFBO); build, own, operate, transfer (BOOT); operate, maintenance (OM); Lease, build, operate (LBO); and Buy, build, operate (BBO) (Savas 2000:246).

2.2 PPPs and Contract Management Model

PPPs began to appear in the policy in the late 1990s (Osborne 2000). They are now a part of a global spread of PPPs (Ghabedian et al. 2004, Hodge and Greve 2005). The policy was built on the previous contracting out policy. Contracting and privatisation are exhausted concepts. The partnership idea began to create excitement in policy making circles in governments around the world, in consulting firms and with purchasers and providers (Greve 2008:108). PPPs therefore are describing modern contracting practices.

PPPs are a new set of policies emphasising the involvement of private finance in public infrastructure projects in a more systematic way. The policy of partnership has a long pedigree in public policy in other countries. Organisational arrangements in the US have often been referred to as PPPs. Kettl (1993) referred to PPPs in characterising the public policy initiatives in the US after the Second World War. When the PFI debate exploded in the early part of the 2000, the PPP issue appears on every government's public policy agenda. International organisations began to pick up interest too. The World Bank (2004) has discusses PPPs in transport sector. The European Commission (2004) issued a Green Paper on PPPs. The EC (2004:3) described the PPP phenomenon in the following way: "the term PPP is not defined at community level. In general, the term refers to forms of cooperation between public authorities and the world of business which aim to ensure the funding, construct, renovation, management or maintenance with an infrastructure or the provision of a service".

The EC adds that the most common elements related to PPPs are the long duration of the contract, the method of funding, the important role of the economic operator and risk management (European Commission 2004:3).

3.0 Global Experiences

Countries where PPP policy is most developed include UK, Canada, the Netherlands and Australia. All these countries have special entities dedicated to promote the PPP policy. Kenniscentrum in the Netherlands, Partnership UK in Britain and the Department of Treasury and Finance in Victoria. Canada has the Canadian Council for PPP.

The government of Victoria wants to see the following criteria met in PPPs:

- Outputs clearly specified, including measurable performance standards;
- The government making payments only upon delivery of the specified services to the required standards,
- A relatively long-term commitment, with the term depending on the nature of the project;

- One or more private parties being fully accountable to government for delivery of specified services;
- Risk allocation between the parties being clear and enforceable, with consequential financial outcomes;
- Clear articulation of the government's responsibilities with respect to the monitoring of outcomes; and
- Inclusion of mechanisms for delivering on-going value for money throughout the life of the project (Department of Treasury and Finance, Victoria, Australia 2000:5).

3.1 Institutional context

UK has the most developed PPP legislative framework (Greve 2008:112). The Blair government committed itself to the PPP policy and established institutional framework (Broadbent et al. 2003). Institutionally, the policy was run by an organisational entity in the form of Treasury. A government entity was set up as a knowledge centre on PPPs. This entity was called Partnership UK. The purpose of Partnership UK is "to support and accelerate the delivery of infrastructure renewal, high quality public services and the efficient use of public assets through better and stronger partnerships between the public sector and the private sector." By December 2004, there were 670 PFI contracts with an estimated value of 141 billion GBP over 26 years (Pollitt 2005:207). The regulatory framework in the UK system is in the hands of the National Audit Office which is responsible for auditing in connection with PPPs (Corner 2005).

Australia is another country with a highly developed PPP framework. Australia's institutional framework was developed in the "Partnership Victoria" policy. The Victorian government has also empowered the auditor-general to review PPP policy as part of the institutional set-up. The Department of Finance (2000:9) in the State Victoria, Australia identifies the following types of risks associated with PPP:

- Design and construct risk-to cost, quality and time
- Commission and operation risk'
- Service under performance risk
- Industrial relations risk
- Maintenance risk
- Technology obsolescence risk
- Regulation and legal change risk
- Planning risk
- Price risk
- Taxation risk
- Residual value risk and
- Demand (or use/volume) risk.

The EU issued a Green Paper on PPPs in 2002, but there is still some clarification to be made. The EU calls for PPPs rules to be aligned with their focus on effective competition and legal clarity. This has not happened yet in Europe. The OECD suggests policy guidelines advocate some caution towards PPPs.

3.2 UK Experiences

Pollitt (2005) has analysed cases in the United Kingdom (UK) and he argues that Private Finance Initiative (PFI) projects are more cost-efficient, are delivered on time and make room for innovations. Pollitt (2005:226) writes about the lessons from the UK PFI experience that:

"it seems difficult to avoid a positive overall assessment. The UK PFI seems to have been generally successfully relative to what might have happened under conventional procurement. Projects are delivered on time and to budget a significantly higher percentage of time. Construction risks are generally transferred successfully and there is considerable design innovation."

However, others argue that PPPs are "public funding of private profit (Shaoul 2005), that the economic forecasts and calculations are murky and hard to judge for outsiders and that there are huge democratic accountability problems with handing over responsibility to private contractors. Pollitt (2005) reports that 43 billion GBP worth of capital was raised from the private sector.

The OECD has not fully endorsed the PPP framework as a general recommendation for public sectors in all its member countries. A PPP is considered to be one out of several elements in the use of market-type mechanisms. The following mixed conclusions on PPPs are from the OECD:

The unique efficiency gains associated with PPPs derive from the interaction of the design-build-maintain phases. The greater the maintenance and operation components, the greater the potential for efficiency gains. The appropriate allocation of risks between the government and the private partner is fundamental to the success of PPPs. A more common problem is the tendency for governments to retain the majority of the risks with PPPs. That undermines the PPP concept and may reveal that it is only being used as a vehicle to move the transaction off budget.

4.0 Why PPPs?

Linder (1999) used a deconstructive strategy to explore six different meanings to the term PPPs which he found in the literature and in governmental practices;

- PPP as management reform (innovative use of market forces)
- PPP as problem conversion (a universal fix for remedy of public governance problems)
- PPP as moral regeneration (as a middle ground between public and private)
- PPP as risk-shifting (response to financial pressure of the state)
- PPP as restructuring public service (move from public to private workforce)
- PPP as power-sharing (sharing control and responsibility).

Some researchers see PPPs as a rhetorical stunt designed by governments and private-for-profit firms to sweeten the already existing ideas and policies of contracting out and privatisation (Linder 1999). Privatisation advocate Savas (2000) conceded that PPPs sounded better than contracting out and that the PPP concept should be used on these grounds alone. The box below summaries Savas's arguments.

The North American researcher E.S. Savas has played a prominent role in the development of the practice and research literature on contracting out. Savas was employed in New York in the late 1960s when a snowstorm hit New York. Savas was astounded at the public organisations' performance and he set about finding out if private contractors could do a better job. New York City thus became one of the first to adopt a systematic contracting out policy. Savas moved into academia. He wrote on alternative service delivery mechanisms, which sounded more neutral than the term privatisation that is often used for contracting out in the United States. In 1987 he published the *Privatisation: The Key to Better Government* (New Jersey: Chatham House) which contained theories of contracting out and a wealth of evidence of contracting practices. He consulted widely with governments around the world, especially after the collapse of communism in Eastern Europe. Savas has never hidden his pro-privatisation policy views, which has sometimes caused him to be regarded with some scepticism by the rest of academia. He does not always seem to give credit to research that empirically demonstrates the downsides of contracting out. In 2000, he revised his book on privatisation/contracting out and included a chapter on the newly emerging public-private partnerships. The book was then called *Privatisation and Public-Private Partnerships* (New Jersey: Chatham House, 2000). Savas continues his lifelong, if sometimes controversial, interest in contracting out and privatisation more generally. His most recent book is about contracting out experiences in American cities.

Zimbabwean Scenario

Since the late 1990s, there was limited replacement and new investment in Zimbabwe. The government's capacity is very limited due to tight fiscal pressures. The magnitude of funding requirements for infrastructure refurbishment and development make the case for PPPs a key imperative for Zimbabwe in the following areas:

- Poor road maintenance network with some roads virtually impassable;
- The rail track has deteriorated significantly;
- Water supplies in urban areas is erratic and of questionable quality largely due to the unavailability of spare parts for pumps, electricity, water purification chemicals and leakages through dilapidated water supply network Harare City Council records indicate that the council loses about 40% of treated water through leakages. The sewerage reticulation system can hardly copy and is collapsing. Zambezi water Project and Kunzvi Dam have been on the cards for over a decade.
- The electricity supply utility company, ZESA Holdings is failing to meet energy requirements despite the fact that industrial capacity utilisation is estimated to be around 30%. Estimates show that ZESA requires US\$3.6 billion to invest in electricity generation projects, an amount that exceeds the 2009 National Budget by almost three times, clearly demonstrating the significance of the need for the involvement of private investors (ZNCC 2009:9).

The idea of PPPs was first mooted in 1998. In 2004, the Ministry of Finance attempted to come up with the PPP framework investment. This was outlined in the *Public Private Partnership in Zimbabwe Policy and Guidelines of 2004*. The guidelines tried to provide the parameters for the development of an appropriate legal and regulatory framework to protect investors and consumers (Dube and Chigumira 2011). However, the guidelines did not take off notably. There were three projects involving PPP, namely Beitbridge Bulawayo Railway (BBR), the New Limpopo Bridge (NLB) and the Newlands By-Pass (NBP) (ZNCC 2009).

The New lands Bypass was completed in 2007 and was done on a BT basis with the constructor handing over to the government upon completion.

The NLB involved the financing and building of a toll bridge over the Limpopo River and was awarded to a

private player in 1993 by the Government of Zimbabwe and South Africa on a BOT basis. The project was the first BOT in the African continent. The bridge was completed in thirteen months (Dube and Chigumira 2011). The New Limpopo Bridge (Pvt) Ltd, a private company is still operating the bridge and has managed to computerise its systems to ease procedures for crossing the border and aid the promotion of trade and development (http://en.wikipedia.org/wiki/New_Limpopo_Bridge_Ltd).

The BBR is a project also implemented in Zimbabwe on a BOT basis by Beitbridge Bulawayo Railway (Pvt) limited, a subsidiary of NLPI Ltd of South Africa, established to implement the project. One motivating factor behind the BBR was the transportation of fuel into the southern parts of Zimbabwe from South Africa.

Despite these successful cases in Zimbabwe, the uptake of PPPs has been depressingly low. The reasons cited include uncertain political environment and the absence of legal framework to guide implementation of PPP projects (Dube and Chigumira 2011, ZNCC 2009). This paper observed that PPPs have failed to take off in Zimbabwe because: investor perceptions of high political risk, lack of political commitment, lack of clear legal and policy frameworks, lack of financial resources with the government, currency risks, lack of expertise and capacity within the government and lack of policy consistency.

During the Government of National Unity in Zimbabwe, under the Short Term Emergency Recovery Programme document (STERP), PPP were provided for under private sector invitation in areas such as air and rail services, power generation, dam construction and national highways. This was also reconfirmed under the Three Year Macroeconomic Policy and budget Framework (STERP II) which envisaged the use of PPP in the upgrading of road capacity, new construction works and maintenance (Ministry of Finance 2009).

In terms of implementation, there has been noticeable progress toward the operationalisation of PPPs. Between 2009 and 2010, a series of workshops on PPP were undertaken in Zimbabwe focussing on the issues to be addressed for successful PPP, drawing from expertise and best practices gained during the workshops from international experts. One critical recommendation from the workshops was the need to speed up the setting of the policy and institutional framework for PPP, to allay fears from the private sector as well as introducing transparency into the process.

Following the workshops, the Government of Zimbabwe, through the office of the Deputy Prime Minister (Author Mutambara) has made significant strides in laying the groundwork for the take off of PPP. Critical documents that have been already been prepared, about PPPs include the Public-Private Partnership Policy 2010; Public-Private Partnership Guidelines 2010; Public-Private Partnerships: Legislative Review for Zimbabwe 2010 and the Institutional Framework: Public-Private Partnerships 2010. These documents form the basis upon which PPPs would be structured though they are not yet adopted.

The Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZIM ASSET), a five year economic blue print(2013-2018), identifies Public-Private Partnerships as one of the financing mechanisms of the this plan. Furthermore, one of the ZIM ASSET clusters is the Infrastructure and Utilities Cluster. This cluster should be funded through PPPs (ZIM ASSET 2013:52). Implied here is that PPPs should be used in the transports sector, road infrastructure or upgrading road capacity, power sector, education sector, water reticulation, health, dam construction and many others.

It is instructive to note that at the time of writing this paper Zimbabwe has unclear legislative and regulative framework for PPPs. The PPP Bill is still under Parliamentary scrutiny. The process should be fast-tracked considering much ground was covered during the Government of National Unity (2009-2013).

5.0 Lessons for Zimbabwe

The case studies evidence demonstrated that legal, regulatory and institutional frameworks are needed for PPPs to be successful in Zimbabwe. Zimbabwe should move with haste to finalise the PPP policy development. There should be a standalone PPP Unit like in Australia, United Kingdom, South Africa and most European countries. Zimbabwe should simplify rules, regulations and procedures to remove bottle-necks for smooth functionality of the government. This is only achievable through policy consistency and predictability to boost confidence in investors.

Private investors will not join PPP arrangements unless the perception about the investment climate is positives. According to the recent African Competitiveness report 2014, Zimbabwe ranks 112th out of 118 countries included in the survey. What should the government of Zimbabwe do? It should speed the formulation and implementation of consistent and predictable policies that ringfence property rights. Policies such as

Indigenisation and Economic empowerment that became effective on March 2010 is a case in point. The policy causes apprehension. Strict adherence to bilateral Investment Promotion and Protection Agreements (BIPPA) is critical to demonstrate commitment to international law, rule of law and property rights.

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