



# ESTABLISHING PUBLIC PRIVATE PARTNERSHIPS

Lessons Learned from the Global South



This report captures key points and recommendations from a seminar that brought together countries from the Global South to share knowledge and experience on why, when and how to establish Public-Private Partnerships in a development setting. The report's target audience is PPP practitioners and policymakers in developing countries with an interest in gaining an overview of key lessons learned from countries that have advanced the use of PPPs to different levels, in different contexts and from different starting points.

This publication is drafted by analyst Kristoffer Nilaus Tarp at the Danish Institute of International Studies (krnt@diis.dk), policy analyst at UNDP Tanzania, Søren Vester Haldrup, and analyst Malene Alber Lassen at PRAXIS Advisors. In addition, the seminar's expert speakers, as well as senior Public-Private Partnerships specialist at the World Bank, Jeffrey Delmon, have helped review the report and provided invaluable comments.

DIIS • Danish Institute for International Studies  
Østbanegade 117, DK-2100 Copenhagen, Denmark  
Tel: +45 32 69 87 87  
E-mail: [diis@diis.dk](mailto:diis@diis.dk)  
[www.diis.dk](http://www.diis.dk)

Cover photo: Computerwhiz417, Flickr



## Contents

<b>BACKGROUND</b>	<b>4</b>
<b>WHY ENGAGE IN PPPS IN THE FIRST PLACE?</b>	<b>5</b>
<b>THE BUILDING BLOCKS OF SUCCESSFUL PPP</b>	<b>5</b>
The role of political support and buy-in	5
Institutional and legal frameworks for PPPs	6
The role of the private sector	6
Preparing and planning PPPs	6
Public sector capacity and commitment	7
Financing PPP processes	7
Managing risk	8
Ensuring a positive local impact	8
Citizen engagement	9
<b>THE POTENTIAL FOR SOUTH-SOUTH COOPERATION ON PPPS</b>	<b>9</b>
<b>CONCLUSION</b>	<b>10</b>
Annex: about the seminar	10

## BACKGROUND

To support South-South knowledge exchanges in the area of Public-Private Partnerships (PPP), the Revolutionary Government of Zanzibar (RGoZ) and the World Bank, in collaboration with the Danish Institute for International Studies (DIIS), organised a seminar designed to connect and establish a network among African and Asian countries working with PPPs. To span countries at different stages of their 'PPP evolution' the seminar brought together representatives from India, Kenya, South Africa, Tanzania and Zanzibar. The seminar focused on sharing lessons learned from positive and negative PPP experiences alike, and on identifying good practices. The seminar took place on the 25th of May 2015 and hosted around 40 participants from countries and institutions working with PPPs. Participants included PPP practitioners from the participating countries as well as academics, development partners (World Bank, UN agencies and bilateral donors) and the private sector. A series of more informal, 'bilateral', exchanges between government officials and the invited experts followed the seminar.

A Public-Private Partnership (PPP) is a contractual agreement whereby the private sector is given the right and agrees to provide a public service or public infrastructure traditionally provided by the public sector on behalf of the government. The private sector provides the service in exchange for specific economic benefits over a specified period of time. Governments in developing countries increasingly look to such PPPs as a means to expand coverage, improve quality and ensure efficient delivery of a range of services. Furthermore, PPPs are a way to transfer some risks to the private sector and to finance, develop and implement a range of projects spanning from smaller social services-oriented projects to large-scale physical infrastructure projects. With decreasing funding from traditional donors, developing countries see PPPs as a new tool for mobilising resources to bridge the infrastructure gap and achieve broader development goals.

Despite these promising merits, PPPs are complex constructs that require detailed analysis and planning as well as high levels of technical expertise in areas such as financial and economic analysis, commercial contractual law, procurement, budgeting, engineering and construction, investment due diligence and project management. For this reason, developed and developing countries alike grapple with how and when

to engage in PPPs. A lack of experience and significant capacity constraints often prevent PPPs from delivering the expected results.

PPP regimes are being developed and PPP projects implemented across the Global South. Each of the countries exploring PPPs is at a particular stage in the development of their approach, procedures and capacity, and each country has been faced with a specific set of challenges and opportunities. At the same time, many of the considerations, lessons learned and decisions made when establishing a PPP regime are fairly similar in nature. Everyone has to face the questions of: what areas are suitable for PPPs? What should the sequencing of steps in the PPP process look like? What are the necessary preconditions? And what capacity is needed to manage PPPs?

Countries like South Africa and India have well-developed PPP regimes while Kenya is rapidly expanding the use of PPPs. India has implemented more than 600 PPPs while South Africa's PPP Unit has helped complete 24 PPPs and has more than 50 in the pipeline. Mainland Tanzania and Zanzibar have only recently embarked on establishing a PPP regime and Zanzibar has yet to launch its first PPP project. Given this span in PPP experience across the Global South, developing and managing PPPs constitutes an area with significant potential for South-South peer-to-peer exchanges and learning.

## WHY ENGAGE IN PPPS IN THE FIRST PLACE?

India, Kenya and South Africa represent different contexts in which PPPs have evolved. However, in all these countries PPPs are seen as a supplementary source of private financing for creating public assets to achieve broader development goals. India, Kenya and South Africa have all concluded that government resources are inadequate to meet demands for investments. The PPP practitioners from these countries stressed the importance of remembering that PPPs create public assets with private money. It is thus not a question of privatisation (when governments transfer public assets to private actors). The starting point should therefore always be the priority needs of the country. Once these needs have been determined, PPPs can be identified as a financing source for those projects with commercial potential. Beside the value proposition and the affordability of a PPP, the potential PPP project should also demonstrate an appropriate risk transfer to the private sector partner as captured in figure 1.



Figure 1. When to do PPPs?

While financing is one reason for PPPs, better management and efficiency gains were highlighted as an equally important reason. It is key that the requesting entity dedicates time and resources to setting service delivery standards (uptime, availability, coverage etc.)

In all three countries PPP is a voluntary financing modality, which the requesting entity may or may not decide to pursue. In South Africa, PPP started at the municipal level and was only later picked up by the national government. In India, PPP was introduced through a few simple projects, which later grew (rapidly) in number, scale and complexity.

## THE BUILDING BLOCKS OF SUCCESSFUL PPP

This chapter describes the most critical building blocks of a successful PPP project as they emerged from the seminar. In essence, a successful PPP depends on a capable private sector, a capable and engaged public sector, an enabling legal framework for PPP and a judicial system capable of redressing grievances, as visualised in figure 2. This chapter takes a slightly 'deeper dive' into some of these aspects.

### The role of political support and buy-in

India, Kenya and South Africa each highlighted the importance of preparing diligently for a PPP project at many different levels. It was emphasised that a political vision for and understanding of PPP must be in place at the decision-making level. PPP should be seen both as one of the sources of financing available to fund the construction of public assets and as a way in which public infrastructure can be operated and maintained in a more efficient manner. India, Kenya and South Africa underscored that PPPs thus expand the options available to decision makers and allow governments at local and national levels to establish more ambitious development objectives – beyond those which can realistically be achieved within the constraints of public financing. In India and Kenya PPP is seen as a tool with which the government can ensure rural development and the delivery of services to a population with increasingly challenging demands.

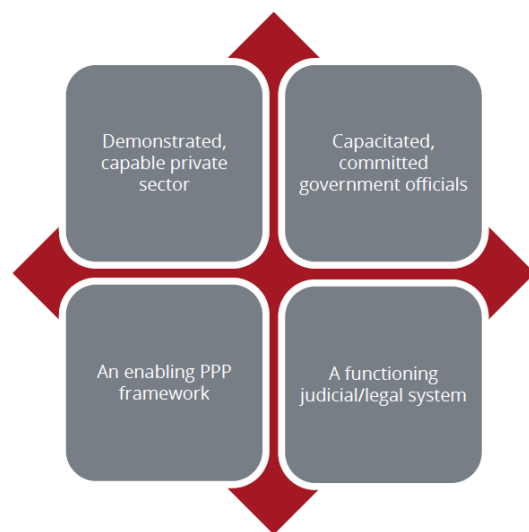


Figure 2. What is needed to ensure successful PPPs

### Institutional and legal frameworks for PPPs

Experiences from India, Kenya and South Africa all demonstrate that a solid PPP framework is an essential precondition for successful PPPs. A PPP framework includes clear identification and procurement processes, a public finance management act with solid regulations for PPPs and a reliable and transparent judiciary to handle potential complaints. In South Africa, the PPP Unit is a part of the Government Technical Advisory Centre under the National Treasury (Ministry of Finance) and offers advice to municipal and national actors considering or implementing PPP projects.

### The role of the private sector

On the side of the private sector, there must be commercial potential in the project – i.e. demand for the service associated with the investment object and an ability on behalf of users to pay for this service. The private sector must also see an advantage in engaging in long-term investment opportunities. In India, an analysis conducted by the government has shown that one of the main reasons why PPPs there got off to a slow start was the lack of long-term private sector financing sources (banks and private equity). The same analysis showed that initially there were not enough 'easily bankable' projects – i.e. projects that the private sector could easily turn a profit on. To ensure that PPP projects had enough qualified bidders, provisional competitive dialogues were, in India, organised with all prospective bidders in the same room. In these sessions the private sector actors can provide inputs (for example on omissions and inaccuracies in the project document), which are used to improve the bidding documents.

### Preparing and planning PPPs

India, Kenya and South Africa all stressed the critical importance of conducting thorough and comprehensive feasibility studies for any potential PPP project. While each country has its own standards and processes they all include common elements such as a needs analysis, an option analysis, a legal due diligence exercise and a comparison with a public sector model.

While everyone agreed that comprehensive feasibility studies are expensive and take up significant amounts of time – often 6 to 18 months – all participants emphasised that bypassing feasibility studies can lead to expensive mistakes and delays further down the line. Preparation of one Kenyan PPP had, for

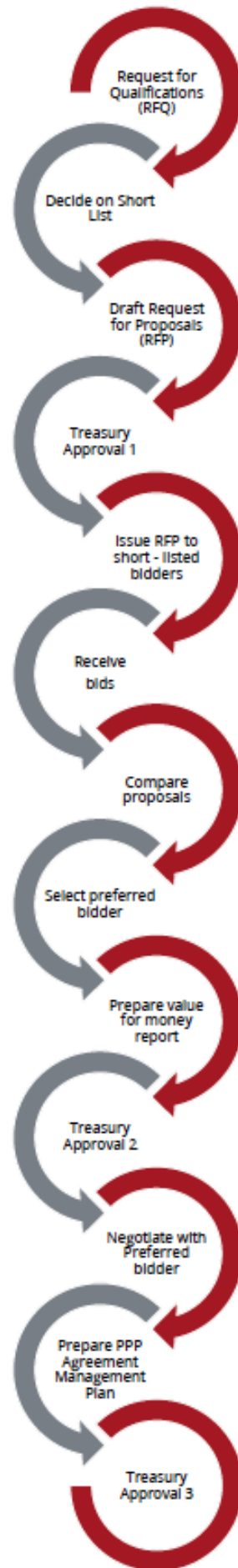


Figure 3

instance, ended up taking five years due to the lack of a proper initial feasibility study. The PPP practitioners from India, South Africa and Kenya highlighted that PPP projects without a solid feasibility study also make it much harder for the government to manage the project properly and to assess whether it has generated value for money. Many aspects of feasibility studies such as life-cycle costing and calculating the net present value for concession contracts require advanced technical capacities. For this reason it is common practice to hire technical advisers to undertake feasibility studies.

A transparent and thought-through procurement process must also be in place. Figure 3 outlines the process that South Africa has put in place for national-level PPPs. As evident in the figure, there are several checks and balances built into the process to ensure the quality of the PPP arrangement. It was also highlighted as important that a process is put in place to deal with unsolicited proposals i.e. when a private sector actor submits a proposal to construct or operate a piece of public infrastructure on its own initiative. The South African process essentially involves the same steps as for normal PPP processes, beginning with the issuing of a Request for Qualification (if the proposed PPP makes sense). The main difference is that if other private sector actors end up submitting proposals and another bidder is selected than the actor originally submitting the unsolicited proposal, then compensation is paid to the private sector actor that submitted the original proposal in a manner reflecting the time and resources spent developing the idea and initial proposal.

### **Public sector capacity and commitment**

The skills required to identify, assess, procure and implement PPP projects are advanced and in high demand in government and, especially, in the private sector. Developing and retaining these skills within government institutions can be expensive and difficult. The private sector, with more generous salaries, will often be a much more attractive employer for many people with PPP-relevant skills and expertise. Countries wanting to implement PPPs therefore often face considerable challenges when it comes to developing the capacity needed to realise PPPs.

In the seminar the PPP practitioners from the Global South stressed the importance of developing and retaining capacitated and committed government

officials working with PPPs. India, Kenya and South Africa had all rolled out ambitious capacity development programmes to accompany the increasing use of PPPs. In India, a large-scale training of trainers programme has had a cascading effect, with thousands of civil servants trained at all levels of government including permanent secretaries at the national and local levels, financial controllers and public engineers. In South Africa, the PPP Unit offered a free quarterly training on PPP to civil servants as well as private sector actors, which has helped mitigate the PPP brain drain resulting from high staff turnover. In Kenya there are now PPP advisors in ten different sectors to help requesting entities throughout the PPP cycle.

In India, Kenya and South Africa, the PPP units do not manage the PPP processes themselves, but support the requesting entities in a 'midwife' function where the units help deliver projects as well as evaluate the PPP processes. This means that the requesting units must also be capacitated. In India, this is often handled through the appointment or recruitment of a senior PPP project officer from within or outside the requesting institution. In addition India, Kenya and South Africa all operate with a model through which expert technical, financial and legal oversight is 'outsourced' to technical and transaction advisors with deep knowledge of the technical and legal aspects of PPPs. It was also highlighted that while preparations and enabling frameworks are needed, capacity for managing PPPs is developed most effectively through actually implementing projects.

### **Financing PPP processes**

It is costly and time-consuming to manage PPP processes. Despite problems and challenges with PPPs in India, Kenya and South Africa, the representatives from these countries all argued that these transaction costs are outweighed by efficiency gains, lower prices and the ability to develop public assets with less public financing. Costs relate to the need to develop the PPP capacity of requesting entities and the government more broadly, but also to managing specific PPP processes. As an example of the former, the Indian government currently pays for PPP advisors in 18 state governments.

In India, there is a project development fund from which the government can pay for costs associated with specific PPP processes. The fund covers 75% of expenses for project preparation as a loan and the

successful bidder pays back this amount to the fund plus a certain percentage extra. If the project does not materialise, the loan becomes a grant. As the payback rate for successful projects is slightly higher than the actual costs, the surplus can help pay for the costs associated with projects that end up not materialising. A similar construct is planned for the PPP regime in Zanzibar.

Most PPPs in Kenya were initially financed by overseas investments. However, as the PPP regime and financial markets in Kenya have matured, domestic investors have slowly begun to show an interest in investing in PPPs. Kenya stressed the importance of building a solid track record and establishing credibility around its PPP process in order to attract foreign as well as local investors. PPPs are long-term partnerships, so trust is key in establishing a good PPP relationship between the government and the private sector. As transaction advisors are very expensive (costs can reach 2.5 million USD per PPP), the World Bank has, in Kenya, provided 40 million USD for transaction advisors in parallel with the Project Facilitation Fund. The same fund helps pay for capacity building. It can be daunting for a country to start implementing PPPs, so gaining momentum in the initial phases is crucial. Constructs such as these can help minimise delays caused by lack of funding or capacity during these important first steps.

In South Africa most PPP funding comes from within South Africa and from institutional investors (banks, pension funds etc.) If foreign money is involved, a hedge is generally used to protect the investors against currency fluctuations.

### **Managing risk**

Like any project, PPP initiatives involve risks. One of the features that sets PPPs apart from traditional government projects is that some risks are transferred to the private sector. Risk identification and allocation of risks to the parties best suited to manage them is therefore a crucial element of the feasibility assessment and project design.

It was highlighted during the seminar that any PPP should be based on an “appropriate” risk transfer. Design, procurement and construction risks, for instance, are often best managed by private sector actors, while legal and regulatory risks should stay with the public sector. In India, for example, the private sector actor is requested to take on the currency

exchange risk (for both equity and debt) if the funding comes from abroad. However, legal and regulatory risks are borne by the public sector, as was the case in one example from India where an influential local political party resisted tolling on a road leading through their area. This weakened the private operator’s ability to get a return on their investment, and the responsible public sector institution consequently had to compensate the operator. To manage such cases arbitration mechanisms must be agreed upon as part of the contract.

### **Managing profitability and dividends**

All PPP practitioners at the seminar highlighted the issue of profitability as critical. As previously mentioned, PPPs only work in areas where a profit can be generated. While the profit belongs to the private operator, there are ways in which the size of the profit can be managed and adjusted. In India, for example, a likely scenario is calculated (for example 5–7% growth in traffic on a road) within which all profits belong to the company. If there is a significant spike in profits because of unexpected developments – so-called ‘rainfall profits’ – the concession period is reduced. The same happens with unexpected (externally driven) reductions in profit, in which case the concession period may be extended. Hence, there is a need for calculating a robust revenue model, which can include a range of profits from fees, tariffs, tolls, rents, advertisements, government payments etc. In cases where the profitability is inadequate to ensure an acceptable business case for private operators, the government or requesting entity can offer to top up the revenue with a government grant, so-called ‘gap financing’. In India, this model has been applied in such a way that the private bidder requesting the lowest top-up wins the PPP project. Drawing on lessons learned from such other contexts, the Zanzibar PPP policy allows for gap financing to make priority, but non-commercially viable, projects attractive to the private sector.

### **Ensuring a positive local impact**

Also discussed at the seminar was how PPPs are designed to ensure a positive impact locally in terms of local economic growth and employment. From the side of civil society it was highlighted that PPPs can be designed to contractually ensure that a project is delivered using, for example, local materials and labour. Local companies, if technically qualified, have the added advantage of local knowledge and they can often draw on cheaper labour. However, some



projects may need the experience and technical expertise that international companies can bring. There might therefore often be a trade-off between favouring the local private sector on the one hand, and getting a PPP arrangement that delivers the best service and the lowest price, on the other.

### **Citizen engagement**

In India, Kenya and South Africa lessons learned from PPP projects have shown that involvement of citizens throughout the preparation and implementation of PPP projects is important to ensure public acceptance of a project. Lack of citizen consultation and awareness can easily backfire and compromise a project.

During the seminar, examples from India were cited where public resistance over PPPs grew to an extent where projects had to be shelved. Laws were therefore put into place designed to address these problems. One legal requirement, for instance, specified that 80% of the affected population under a PPP must agree to a certain project when it involves land acquisition. In tribal areas it is now a requirement that tribal leaders also agree to the concession. There are always trade-offs and associated policies. Citizen engagement and consent vs. efficiency and speed; the rights of individuals vs. the common good. Similarly, risks such as citizen protest, delays and rent seeking need to be managed. Each PPP regime needs to find the right balance between multiple and sometimes conflicting priorities. Though efforts such as these can be made to ensure citizens accept a project, the difficulty of predicting how citizens will act over 20-30 year periods was also stressed during the seminar. Circumstances and preferences may change over time. In India this issue had been addressed through clauses specifying that if conditions change significantly the private sector actor in a PPP can be released from the contract and compensated by the government.

Similarly, in South Africa some PPP projects such as the construction of the Gautrain (a high-speed commuter train connecting key cities and locations in South Africa's Gauteng Province) have created much controversy in communities affected by the construction of the railways. To address such issues South Africa has therefore ensured that consultations will take place at the municipal level to guarantee that the public voice is reflected in the implementation process of PPPs. All projects also include an environmental impact assessment, and when big national

PPPs are in the loop, tripartite meetings between the public, business partners and unions are facilitated. South Africa also seeks to support local companies by adding requirements in PPP contracts for local procurement and recruitment. Promoting local procurement and recruitment can help facilitate citizens' acceptance of, or support for, PPP projects. However, as was also mentioned in the seminar, there is a fine line to be drawn between ensuring local economic growth and making particular local business people wealthy. This line can be blurry when it comes to deciding whether to favour local companies in the procurement phase of a PPP.

In Kenya, involvement of stakeholders such as unions and local politicians has also been a part of the process when negotiating on PPPs, in order to better ensure citizen engagement and support. Furthermore, the media has been involved to overcome misperceptions and to disseminate information about the project to citizens. Involving trusted leaders in the PPP process and ensuring their public support for the project has also been a way to ensure citizen engagement and support for PPPs.

All participating countries emphasised the importance of citizen engagement when implementing PPPs. The Network of Southern Think Thanks (NeST), also present at the seminar, added to this by emphasising the need to remember always that PPPs are for the people and that they must therefore also involve them. Dialogue with various actors and stakeholders, ranging from tribal leaders to the private sector, is essential if PPPs are to be successful.

### **THE POTENTIAL FOR SOUTH-SOUTH COOPERATION ON PPPS**

The Kenyan government has drawn heavily on the experiences of India and South Africa in developing their own PPP regimes. This has included copying and adapting guidance, process documentation and other resources, thus avoiding 'reinventing the wheel' while at the same time ending up with guidance tailored to the Kenyan context. Study visits to India arranged by the World Bank were also used as a venue for sharing lessons learned with Kenya. In South Africa the PPP regime has been developed with much inspiration from the British context.

From the seminar discussion on South-South learning it is clear that developing countries, as indeed any country aspiring to establish PPPs, face a dilemma

between learning and adopting systems from others on the one hand, and developing 'home-grown' procedures and tools that fit the national context, on the other. Though these two 'alternatives' might not be mutually exclusive, striking a balance between them can be tricky. An example of home-grown learning was provided by the PPP practitioner from India: after little initial success with PPPs the Government of India conducted a mapping exercise of the main reasons why successful PPPs were not materialising. The 'causes' and solutions identified by this exercise were indigenous to the context in India and could not have been adopted from a similar list from another country.

Zanzibar and Mainland Tanzania now face the same challenges as their more developed PPP neighbours in the Global South. They must build on the knowledge and lessons learned from other countries while at the same time making sure that their PPP regimes fit the country contexts. South-South cooperation is a valuable tool in this connection, not just because Zanzibar and Mainland Tanzania can learn from the similar procedures for developing and implementing PPPs, but also because the two 'newcomers' can learn how their southern neighbours strike their own balance between learning from the outside and developing home-grown solutions. Needless to say, each country will face different opportunities and challenges when establishing PPPs. A small country like Zanzibar will, for instance, face many problems if it constructs toll roads. Yet, despite differences, the principles behind PPPs remain the same. In recognition of this, India, Kenya and South Africa all agreed to share templates, documents and other resources with Zanzibar. Similarly, Kenya offered to share their template for ToRs for transaction advisors.

## **CONCLUSION**

As traditional Official Development Assistance diminishes, PPPs offer an interesting model for mobilising private sector financing for developing countries facing greater demands for capital investments than can be mobilised domestically. Middle-income countries and emerging economies use PPPs as a way of marshalling financial resources for investments. Many of the good practices, required capacities and potential pitfalls of PPPs remain the same across countries at various stages of PPP regime development. Therefore PPP represents an excellent area for South-South cooperation. The sharing of knowledge, good practices and tangible

resources can help ensure that countries with emerging PPP regimes avoid making the same mistakes that others have already suffered under. This will be of benefit to governments, private sector partners and, more importantly, the citizens who are supposed to benefit from the PPPs. The seminar in Zanzibar and this report offer a range of lessons learned and observations from three countries at different stages of PPP development. These lessons evidently only represent the tip of the iceberg when it comes to the aggregated experiences of PPP among countries in the Global South. PPPs thus represent an obvious area for increased South-South cooperation on a more sustained, frequent and direct basis including, for example, ongoing advice and exchange between countries on specific issues as new PPP projects are identified, formulated, tendered and implemented in developing countries.

## **Annex: about the seminar**

This seminar was designed to facilitate South-South learning on PPPs between countries in the Global South. Zanzibar and Mainland Tanzania have recently embarked on the journey of establishing PPP regimes and implementing PPP projects. To help these countries in their new endeavours, India, South Africa and Kenya were invited to share their experiences with PPPs. The underlying assumption was that developing countries will be better able to learn from countries that have recently gone through similar experiences, as opposed to interaction with advanced Western economies with a very different development experience. India, South Africa and Kenya all have PPP experience but their regimes are at different stages of sophistication and maturity. While India and South Africa have been implementing PPPs for decades, Kenya is still a relative newcomer. The seminar aimed to provide a nuanced and varied palette of PPP experiences from the Global South by inviting these three different countries.

PPP is a complicated topic and it requires a way of thinking that is often quite different from how governments normally think. This makes initial learning on PPPs difficult, as PPP practitioners can easily end up speaking a language that newcomers will not understand. To ensure a more approachable, practical and palpable discussion around PPPs, the seminar was divided into five sessions designed around a number of tangible topics relevant for PPP newcomers: "Why PPP?"; "Project identification and Preparation"; "Consensus Building and Participation"; "Procure-

ment"; and "Capacity Building". In these sessions the PPP practitioners from India, Kenya and South Africa communicated their experiences, lessons learned, challenges and offered warnings. Following short presentations each session was subsequently opened up for discussion amongst participants and to questions from the floor. This interactive and 'thematic case study' oriented approach allowed for a more dynamic discussion around concrete topics than is normally possible at this type of event. This format was applauded by several participants a superior way of communicating and discussing the complicated topic.

The seminar was attended by representatives from across the Revolutionary Government of Zanzibar, the mainland Tanzania Government, media, private sector and civil society and it provided a good introduction to the merits, strengths, weaknesses and potential pitfalls of PPPs. The event sparked interest in, and an intuitive understanding of PPPs, but also provoked a plethora of questions that senior government stakeholders might not always be comfortable with expressing in a large forum. To address this issue, the following day was structured as a number of informal meetings where key Government stakeholders from the director general, principal secretary and ministerial levels met with the PPP practitioners from India, Kenya and South Africa for a more relaxed, informal and honest talk about PPPs. Government officials new to the idea of PPPs had, in these talks, an opportunity to ask the questions provoked by the seminar that they were not comfortable asking in the larger forum. These small informal fora thus proved a valuable addition to the large official seminar as they helped officials reach a deeper and more nuanced understanding of the topic.