Public Private Partnerships – a new paradigm is needed

A plea for better co-operation

Going back 30 years the rage in the **project finance** industry was public private partnerships ("PPP's"). PPP's were generally credited for much of the infrastructure development in South-East Asia and was widely touted as the model that will also unlock the development of Africa. In South-Africa, the eminence of PPP's in the thinking at that time, is reflected in the direct mention of and provision for PPP's in various legislation such as the Municipal Finance Management Act of 2003 ("MFMA") as well as the establishment of the PPP unit at National Treasury. Sadly the deals have been lacking and apart from a small number of successful transactions the deal list is unimpressive. PPP's seem to have fallen into disfavour in both the public sector as well as the private sector. Yet, barely a day goes past that we do not hear a call from either government or the private sector towards joining in partnership to solve the development problems of our country and that of the continent. What went wrong, and more importantly how can PPP's be resurrected?

When looking at the environment in South Africa it is easy to quickly identify a number of issues that contributed to the downfall of PPP's. Two of these issues merit further discussion here. In the first instance, the concept of a PPP is read as being synonymous with privatisation. Given the strong resistance in the ranks of the ANC and its tri-partite alliance, against privatisation it is easy to see why the concept has been met with summarily rejection in some spheres of government. It is interesting to note that this perception even extends to the concept of private finance and for this reason my own rule is to rather use the term: commercial finance in discussions with government officials. Secondly, the concept of a PPP is read as being synonymous with project finance. This misconception has led to a legislative framework being established for PPP's instead of a more general framework that would enable and indeed facilitate project finance transactions – of which both PPP's and private concessions would form sub-sectors. The result of this is a legislative framework that is highly restrictive and nigh impossible to navigate if the aim is to simply access project finance. *Why was this negative for PPP's?* My view is that a better understanding of the fundamental principles of project finance and greater use of this financing mechanism by government would in due course contribute to a more positive perception of PPP's as well as more careful selection of the project opportunities to structure around PPP's.

The two issues discussed above have both had significant (negative) impact on the roll-out of PPP's in South Africa but the most important and fatal flaw is that the mechanism has rapidly degenerated into an alternative way for government to procure goods and services from the private sector. When the majority of PPP deals that have been concluded are analysed we find little different compared with transactions procured as classical turnkey or EPC contracts

– especially in cases where such EPC contracts included extended maintenance and/or operation periods. Against this background, government's drive for 'value for money' is directly opposed to the entrepreneur's drive for a return on investment commensurate with the risk taken. This places government and the entrepreneur in adversarial negotiation positions. Such adversarial positions are not necessarily bad and are (to a greater or lesser extent) always present in the procurement process. The problem arises when one suddenly wants to dress-up these two adversarial parties as partners – it simply does not fit the bill of a partnership! In that lies the fatal flaw of PPP's as practised and viewed in this country: the underlying basis of a partnership is simply not there or not clearly recognised by the two parties. A clear guideline of when a PPP should not be considered for a specific transaction is presented through the lemma:

> *A PPP is not the appropriate framework for a transaction if the essence of the transaction is government procuring goods and services from the private sector even if the specific combination of goods and services is relatively complex and the transaction stretches over a significant period of time.*

The obvious question is then: *when would a PPP be appropriate for a specific transaction*? To my mind, the answer to this question lies in the essence of a partnership. Some key requirements for a successful partnership in the development context would include:

1. Partners must be convinced that they can achieve more together than each on their own;
2. Partners must trust each other;
3. Each partner individually do not have to share all the goals and objectives of the other partner(s) as long as the goals and objectives of the other partner(s) are recognised and respected. In this regard it would be critical for government to recognise the profit motive of a private partner in such a joint venture even if that motive is not shared by government;
4. Partners must share in all the business risks to ensure that all the goals and objectives are achieved;
5. The partnership must strive to achieve all the goals and objectives of all partners – where some goals or objectives are deemed to be mutually exclusive, the partners must agree (upfront) on an equitable arrangement in this regard.

It is clear how easily a simple procurement process (of goods and services) as described in the discussion above can fall foul of all these requirements. When looking for opportunities for government and the private sector to collaborate on a more productive basis, the 1st requirement listed above seems to be key – why collaborate in the first place if you are not convinced of the enhanced benefits? There are many examples of development opportunities where government and the private sector can achieve substantially more than each on their own when they collaborate or partner on the basis as listed in the requirements above. Two factors that will typically contribute substantially to "achieving more" is the phenomenon of economies of scale and the enhanced social impact resulting from a broader development objective. Equally important but more subtle are the contributions from improved risk management and greater efficiency, both as a result of the close collaboration or partnering.

Industries which are particularly suited for this type of partnering would include the agricultural, mining and health care industries to name but three with significant development requirements in our country. Given the poor status of service delivery at municipal level and the poor condition of many provincial roads the provision of services through social infrastructure can also benefit significantly through proper partnerships. I am convinced that PPP's structured on the basis as discussed above can play a significant role in the development of not only South Africa but the continent of Africa as a whole – but then a new paradigm for PPP's is required. Such a "new paradigm" must be based on the four requirements for a successful partnership as discussed above.

Maybe such a new paradigm starts with a genuine desire to make things better?