Performance of South African private-public partnerships

Abstract

Huge monetary investments are made towards private-public partnerships (PPPs) in an effort to develop South Africa. These PPPs are based on emulations from international benchmarks. Many developed countries benefit from skillful use of PPPs. The paper is based on concerns that, in South Africa, many PPP projects do not reach finalization. Others only reach finalization from additional funding after exhausting initial invested funds. Some causes of barriers of success of these PPPs are reported. Respondents are 39 past PPP participants. A self-administered unstructured questionnaire was used to collect qualitative data. Thematic content analysis was used to analyze the data. The results show negligence and wrong deployment as main causes of the failures in which the government side is a grave wrongdoer. Recommendations found to be necessary for improving PPP performance are suggested.

Keywords: benchmarks, corruption, failure, private sectors, public sectors.

JEL Classification: D6, D7, D8, E2, H1, H5.

Introduction

Globalization is pressurizing nations to fast-track change and development. However, it is difficult for most governments to deliver progress on their own. Developed nations have used options of partnering for common interests to find a common approach and appreciation in programs of development. One method that governments have used was to cooperate and even partner with the private sectors in using available resources for community service (Bach, 2000). As a result, the private and public sectors embrace working relationships and partnerships in order to enhance synergies in their operations, and to also expedite development. Private-public partnerships (PPPs) idea is viewed as an improvement on the essentials laid by privatization to enable people to participate with the private sector and the public sector in development projects for public and personal benefit (Algarni, Arndt & Polat, 2007). According to the United Nations Secretariat (1997), developed countries depended on PPPs to leverage on synergies from private and public sector groups. In the UK, for example, Anirudhan (2002) explains PPP concessions that were successful in civil constructions. The PPPs have succeeded, for centuries, in Europe and the US, but have become more prominent recently (Bing, Akintoye, Edwards & Hardcastle, 2005).

Successful PPPs empower people and develop nations. The PPPs exploit the economics of the private sector efficiently and effectively to improve the services and develop the necessary infrastructure (Hammami, Ruhashyanikko & Yehoue, 2010). If used well, such collaborations enhance effectiveness and efficiencies by offsetting weaknesses of one party using the strengths of another party, while the parties’ respective strengths add up to create synergies.

Specific policies oversee PPP relationships in many governments. HM Treasury (2000) explains that PPPs acquire both public and private sectors in relationships for mutual benefit. A PPP may be seen as a contractual agreement between a public agency and a private sector entity (Quiggin, 2005). This agreement enables these sectors to share the skills and assets to deliver a service or facility of value to the general public. Also, the parties share the risks and resultant rewards. Hence, a PPP that does not enhance some development should be discontinued. A PPP is a formal cooperative venture between public and private sectors built on the expertise of each partner that would best provide public needs through appropriate allocation of resources, risks and rewards (CCPPP, 2003). Hence, PPPs should strictly be formed for economic development. Developed economies benefitted from PPPs to advance (Ferguson, 2004). Some developing countries have also benefitted from PPPs. South Africa has also included PPPs to develop her people and the economy.

PPPs entail huge investments of money and assets. Any wasteful result is a drawback for development. In the South African case, many PPP projects fail. Those believed to have succeeded are rare. The extent to which PPP success rate is achieved has not been formally established in a systematic form. Similarly, the failure rate of these projects is virtually unknown, but is believed to be high. Hence, there is no general understanding of PPP performance in South Africa. It is, thus, difficult to decide on the actions suitable for South Africa’s PPPs.

This paper shows that PPPs’ slack conditions and evident immaturity allow PPP deployed persons to leave a PPP project in the middle to the detriment of the project. Also, deploying unqualified resources has shown to be a government weakness, which is viewed as a political influence.
1. International PPP manifestation

PPPs have not been straightforwardly successful in their activities and countries had to learn to apply PPPs to fruition (O’Connor, 2005). Undertaking practices that match policies is always a challenge, especially in developing countries. In South Africa, there have been notable failures in the activities of the PPPs. Projects of importance have, in some cases, not reached their desired completion. Examples in South Africa, where PPPs were involved, include building houses for the low and no income classes of people, incomplete roads and lack of maintenance of damaged roads, embezzlement and misappropriation of funds, and other drawbacks confronting PPPs, among others (Mende, 2000). At the international level, some countries depended on PPPs to develop their localities and regions (Plummer, 2002). PPP projects should be successful for the development of nations. Hence, it is crucial to gauge PPP performance, and also understand reasons for their failure if they do not succeed.

The US has used the PPP approach to accelerate its development with a history spanning from the 1950s (Greenstein & Shapiro, 2003). Generally, government was finding it difficult to be involved in some large projects and the PPP route is a viable alternative (Leiringer, 2006). Many large projects were completed and, as a result, the US economy has advanced. In the history of the UK development, association with the USA was a norm (Horrell, 2000). Hence, the development of the USA and the UK was, in many cases, on the same level (Lobban, 2004).

Canada also used PPPs to benefit its economy. According to Thomas (2005), the Canadian Council for Public-Private Partnerships (CCPPP) is an organization founded to help government to meet its current and future infrastructure, as well as service obligations through PPPs. Ryan (2007) points at several PPP successes in Canada, which were visible in all the entire Canadian PPP scope.

PPPs have also featured in developing countries. According to the Planning Commission (2008), the Indian government could not deliver some expensive plans alone. Thus, in order to meet the government demands, various PPPs were formed to implement some infrastructure projects. Emerging deficits were overcome by ensuring private capital investment (Ghosh, 2005). The private sector, then, committed to the PPP projects. Expert guidance was essential to enable efficiency through subsequent cost reduction. Promoting PPPs was necessary to empower communities while ensuring the best services. Despite its benefits, the Ministry of Finance (2009) reported constraints such as insufficiency of needed instruments, and inability to undertake long-term equity. Most sectors face barriers in enabling a regulatory framework, private sector inability to fit into the risk of investing in diversified projects also needs to be overcome, inability of public institutions to manage the PPP process, lack of credibility of bankable infrastructure projects, and inadequacy of support to enable PPP participation, among others. The Ministry informs that the Government of India took several initiatives to enhance the PPPs. The initiatives led to PPPs higher rate of success.

Nigeria is a large developing country in Africa with many provinces and many people (Makinwa-Adebusoye, Singh & Audam, 1997). The Foundation for PPPs in Nigeria (FPPPN) was created in 2009 (FPPPN, 2009a) as a forum for ideas and innovations (FPPPN, 2009b). Olokesusi (2005) emphasizes the need for PPPs in Nigeria, mainly for disaster reduction in which cooperation of various parties can create synergies to enhance poverty alleviation and general development. In Nigeria, sustainable access to health and other socio-economic services and products was accomplished through PPPs (PPP, 2010).

Sustainable PPPs establish relations with civil society, government, business and the media, share information on development alternatives, provide forums for informed debate on related issues, and seek a common understanding with all stakeholders (Vob & Kemp, 2005). They use conceptual frameworks to understand such relationships, bridge the information gap between the public and private sector organizations, analyze their capacities and opportunities, and suggest mechanisms to improve relations between the government and society (Lee, 2002).

Further, on developing countries, Sindane (2000) explains that South Africa’s indigenous population groups were using cooperatives, because the entire setting was public. The private sector did not exist in the current forms, where rivalry is common among members of society. Communities of the past were functioning to support one another (Bethlehem, 2001). The Western civilization split the neighborhoods and encouraged competition instead of mutual growth (Harris, 2003). Cooperatives became extinct as a result of their failure to reach the intended outcomes. The democratic government of 1994 attempted to revive cooperatives in the new forms, such as the parastatal companies, and the private sector partnering with community organizations, among others (Andrew, Fabricius & Timmermans, 2000). It encourages private and public groups to partner in various projects to uplift poor communities.
One notable South African PPP was the Reconstruction and Development Program (RDP) in the presidential office. The RDP was not successful and, as a result, was discontinued in 2002. Then, the Presidential Growth and Development Summit took place in July 2003 hosted by the Department of Trade and Industry (Phillip, 2003) and endorsed special measures to support cooperatives for job creation in the South African economy. South Africa has many PPPs, which are still abused, in some cases. The PPP operations are still restricted to suit the private sector who has more money (Medalye, 2006). Further, there is a lack of transparency and widespread secrecy of contracts which occurs in many PPPs (Budds & McGranaha, 2003).

Signs are clear that PPPs are important for national development (Adlung & Carzaniga, 2001). The contracts leading to PPPs are essential to establish the required PPPs. In general, each PPP decides its exclusive requirements. Societal needs and knowledge of the influences upon contractual relationships, as well as environmental factors, are essential to guide a PPP system.

In South Africa, rural/urban lodging concerns are, primarily, essential in PPP decisions (Palmer & Mills, 2005). Urban-based PPPs tend to differ from rural-based ones. This is because PPPs are used for many assistance purposes. Also, every country uses PPPs in ways that apply to them. Thus, PPPs exist in different forms to suit the context. Also, PPPs can be essential in every country. Developed countries used PPPs to improve. Thus, shrewd countries use PPPs for sustainability. Ahn, Herman and Damonti (2000) explain that PPPs can hasten progress to develop countries. Campaigns and awareness of HIV/AIDS have benefited some communities of Africa.

PPPs need capital and skills for public projects, which the private sector can supply in return for a profit opportunity. They need private sector solutions to optimize capital overheads. PPPs often use new technologies and reduce operating costs (Medalye, 2006). Introducing the private sector into public projects can lead to market efficiency.

Noteworthy, operational, financial, and environmental risks exist when public systems are managed efficiently (Gleick et al., 2002). Usually, if a party has an equity interest in a capital facility, there is an inherent incentive to manage that facility effectively and optimally. In public-owned systems, the personnel who operate it would have no equity interest. Medalye (2006) stated that the proponents of PPPs assert that private firms with an equity interest in system facilities would have the incentive to operate facilities more effectively than public-sector employees. In addition, in PPPs, liability risks are spread among the partners. Thus, liability risks are reduced under PPP arrangements.

PPP environmental stewardship has improved in many developed countries as facilities meet or exceed regulatory standards (Gleick, 2001). These PPPs maintain a good reputation through clean water and compliance with regulatory standards, obtaining new contracts and maintain long-term growth. They improve work environments, increase opportunities for employees, improve safety, and increase service provision (Budds & McGranaha, 2003). They increase relations with consumers, particularly, the poor ones.

South African cases show that either the benchmarks were not used in planning the local PPPs, or the PPPs were used incorrectly. The lessons in countries that are in the forefront of PPP participation for their development are not evident in the experiences of the respondents in this study. The literature, therefore, is augmented in the illustration that the slack approach in PPPs might lead to conclusions, compromising the rules might lead to project disasters, employing unskilled people reduces value of work, and, in addition to poor work, unskilled people can also misappropriate funds. The lesson includes that PPPs should be grounded on honest negotiation, and decision and task to be undertaken jointly.

2. Method
The study used a thematic content analysis (TCA) research method to solicit responses from people with previous experiences and involvement in South African PPPs and their operations. TCA is a research technique for making replicable and valid inferences from data to their contexts (Krippendorff, 2004). According to Babbie (2005), TCA suits various data sources, such as books, speeches, letters, e-mail and so forth, as well as any collections or components thereof. Data are coded and classified in terms of a conceptual framework. This approach suits this study because of its ability to constantly make and determine PPP actuality from respondents who have experiences with the PPPs (Babbie, 2005). It also indicates in-depth investigations of essential structures of authenticity. The researcher identified PPP participants in seven high profile PPPs in South Africa that were involved in construction projects prior to the Fifa Soccer World Cup that was held in South Africa in 2010. Six senior personnel from each PPP were asked to participate in the study. Responses were solicited by e-mail during August to November 2015. The study described the situations in which they participated, sent them the research questionnaire to complete, analyzed their responses and presented the findings.
3. Results

3.1. Distribution of respondents. From the 42 respondents that were expected, 39 responses were secured for a 92.9% response rate. The reason for this was that the three missing respondents could not be traced as they had moved to other jobs and/or companies. Thirty-three (84.6%) were males and only six (15.5%) were females, 31 (79.5%) represented government/public, while 8 (20.5%) were from the private sector. All of them had been in PPPs for over five years, but none of them had been in a PPP project from its beginning to its end. Some had started with the project and left before the PPPs or their projects ended. Others had joined PPP projects along the way. These include some who were in PPPs that were disbanded because of depleted funds. Moreover, all were involved at project management level, 37 (94.9%) had never experienced PPP operations and only two (5.1%) had participated minimally at operational or implementation level of the PPPs.

3.2. Occurrences. PPP private parties did not insist on securing the project management roles. They allowed members from government to take that role. They committed funds, and also prepared to transfer skills to counterpart members from government. Unfortunately, in 34 (87.2%) of the PPPs, the public side did not provide the members who were to benefit from skills transfer. In the five that had selected people for skills transfer, these members were not given out for all the parts of the projects. Hence, the private parties were not willing to be blamed for the transfer of skills failure due to discontinuities of availability. Hence, skills were not transferred as initially agreed. However, private sectors’ contributions were demonstrable in notable improvement of services to communities in better quality and larger quantities. The respondents also gave the impression that there could have been much more improvement.

3.3. PPPs hurdles. All the respondents stated that political interference was the main barrier to PPP project success. Other barriers were that there was, generally, poor planning and communication; and that some partners resisted change in adopting new approaches. Positive aspects of PPPs stated were financial boost, human resource improvement, efficiency and expertise of the private sector, environment stewardship, gaining desired markets and full-cost pricing, increased service delivery to communities and reduced liability risk. These were still restricted though, since the public sector members, in some cases, insisted on other tactics of limited effectiveness.

The respondents stated that political interference was overwhelming and caused some negative results on PPPs. Private sector’s power was reduced to a bare minimum in time. This opened gaps leading to PPP weaknesses. There was also no balance of power as corporate players did not last in PPPs. There were labor concerns that included hiring inadequate and unskilled personnel, discrimination and access inequality, unprotected environment, and increased public risk. All these poor results were attributed to public sectors’ faulty conduct.

Public members invested little in PPP projects, but had more power. Risk transfer was also highlighted in which financial risk was transferred from the public to the private partners. In all the PPP projects, before entering in the agreement, value for money was also considered. Also, the private parties in all PPPs pledged large financial, technical and operational risk in the design, financing, building and operation of the projects. There were claims that financial recompenses were given to the public partners even though their performance did not justify rewards.

Only four (10.3%) respondents had seen PPP projects reaching their end. The completed ones were of substandard qualities. The other 89.7% never saw a PPP project completion. The latter claimed that too much power was given to the public party members who compromised agreements and even the PPP rules set. These wrongs were apparently endorsed by their employers from government. These also led to employing and deploying unskilled relatives. Funds were also said to be misappropriated.

Striking features for dexterous PPP performance were acknowledged as negotiation, joint responsibility, accountability, balanced risk sharing, value for money and performance measures. PPP members operated on negotiated terms. Each one should be accountable and fully responsible. Monitoring and control measures of success are essential throughout the PPP processes.

PPP poor performance and failure occurred due to poor planning, inadequate systems, corruption, lack of proper skills and corrupt political involvement. Corruption was both dishonesty and theft, among others. Political commitment incapacitated the projects and undermined some members.

Only five (12.8%) respondents indicated that their PPPs followed benchmarks that were sourced from other countries. However, there were doubts as to whether benchmarking was correctly done. Some were clearly not following any benchmarks. Also, some PPP project activities were not completed.

3.4. PPP success level. Only four (10.3%) respondents stated that South African PPPs were successful. However, none of them could cite an example of a successful PPP they knew. The other 89.7% had
various claims signaling lack of PPP success. These include uncompleted bridges, roads and structures with funds depleted; additional funding after fund depletion; government having to payout private companies for their members’ negligence; and PPPs disbanded due to loss of focus, among others. Only after additional funding, some PPPs managed to complete their projects. The PPPs did not lead to subcontractors from entrepreneurship that are usually beneficial to local communities. Most PPPs were project managed by inexperienced members from government side. Many of these project managers did not understand what was expected of them. They violated agreements, did not attend scheduled meetings, inclined to demonstrate corrupt tendencies, and, instead of managing, they cited their employer’s cravings on the projects.

4. Discussion

Female involvement at high ranks in South African PPP seemed too low compared to male involvement. This constituted gender imbalance. Also, private sector seemed to be participating less than public sector. This is not desired, given the proposition that skills come from private side and corruption comes from government side.

The PPP projects failed to achieve synergistic relationships. They all started well, with value for money being estimated from anticipated returns on investment. The contractual pledges were done well at inception stage. These required appropriate management skills and financial strength of the private sector. The PPPs did not lead to entrepreneurship.

Risk transfer occurred from private to government parties. The private parties also came with skill and capital, and were also committed to skills transfer to parties from the side of government. However, some were not given suitable training, and others were not given training in an acceptable fashion.

The private parties convinced that they had expertise, demonstrable from performance on the PPP project. The projects suffered from deficiencies of project managers who were from the public side. The private parties had invested some funds. They were hoping that the final financial rewards from the projects were stipulated in the contract of delivering a service. Rewards were to be released only if the members had played their profitable roles and financial gains were demonstrated. Despite the service levels failing to justify the payments, public members still took some rewards. The private parties’ notion of this approach was that it constitutes corruption.

Repeated funding occurred for some PPP projects that had exhausted their initial funding. These occurred on projects that did not perform as required. They were financial losses to funders. These careless approaches were neither investigated nor punished by officials of government who presided over the PPPs. Some private PPP companies, then, decided to withdraw and exercise their right to demand funds that were clearly lost due to public partners’ negligence.

There were mixed impressions about the level of performance of South African PPP projects. Claims of successful projects included those that received additional funding after initial incompletion. There were others that were of long-term duration. Few of them were still on track, but others were unconvincing. It is imprudent, though, to consider projects that became successful after being funded further when the failed ones that were not funded again are considered as having failed. They were not given equal treatment. This is a catch-22 situation. The ones that succeeded after additional funding are not classified as having failed. The failed ones that were not funded again are unsuccessful, and cannot be said to be successful on the basis of not receiving additional funding. The measure of performance based on the success judged on initial funding is the best approach. In this sense, the performance level is low.

South African PPPs were established using international benchmarking, since they were based on examples of international ones. However, immediately after launching, many took a different route from benchmarks. It seems that the below par performance in South African PPPs was due to ignoring international benchmarks. Even their performance was below the benchmark levels.

While accepting that irrational mistakes were made, the PPP concept is at infancy in South Africa. Elsewhere in developed countries (e.g., Europe and the US), PPPs have a long history spanning over several decades, are still advancing, but have still not reached the ideal levels. Also, some failures are still observed.

Several factors disturb the success of South Africa’s PPPs. PPP participants’ lack of knowledge and skill, poor PPP structure, inappropriate personnel managing the PPP contract, disagreement in service standards, improper research, failure to assess PPP feasibility, change of PPP personnel, risk sharing, poor contract management, inadequate capital and lack of capacity were the notable leading causes of many failures. While they are this many, each individual factor is enough to destroy the entire PPP progress and the ultimate failure of a PPP project. Other notable impediments of PPP projects were participants and officials lacking understanding of their roles, disrespecting contractual arrangements, violating resolutions, corruption, and political interference.
Some instances showed poor relationship between the parties, as well as improper and unaccepted legal frameworks that caused failure. No single element can ensure PPP project success. However, some factor combinations can enhance, but not guarantee success. The factors include that each party should know and understand their roles, deployment of suitably empowered and qualified players, participation in good faith and trust, political will and support, commitment, decent planning, role players’ buy-in, following all legal prescripts, proper communication, appropriately structured partnership arrangement, effective contract management, process monitoring and control, enforcing the required performance standards, and deploying skilled personnel.

To improve these PPPs, the proposed methods include financial models for procurement arrangement, using relevant skills to manage PPP processes, role players with knowledge and skills to manage PPPs, and educating on PPPs. It was also suggested that risk should be managed properly and that key success factors for each project be set at the onset.

Conclusion

Few females participated in the PPP projects. Also, private sector roles were limited in these projects. This seemed to have opened the gap for public partners to fail the projects with their lack of skill and focus, coupled with their corrupt activities.

The study also identified enhancers and inhibitors of South African PPP success. The plans to guide PPP improvement were designed. The PPP implementations had several failures. PPP benchmarks were not followed. The PPPs were still considered valuable platforms for synergies, wealth opportunities and service improvement, but were not exploited abundantly. Government role players transferred risk to private partners who were more empowered to manage risk. They also benefitted from PPPs to deliver services of better quality and quantity. Exploiting useful benchmarks was emphasized.

Enforcing PPP project performance standards cannot happen due to lack of regulatory bodies. Also, there are, generally, no penalties for failure to deliver a PPP project, but rewards exist for success. There were thoughts that many PPPs failed because of corrupt activities. Many participants who were involved in PPPs either joined in the middle or left before the end. Unsuccessful PPPs lead to waste of South African taxpayers’ money that could be used to advance other government objectives for poverty alleviation. Therefore, quality training of PPP role players is necessary. Also, each individual player should be accountable at the level where they operate. Also, the lack of a regulatory structure for South African PPPs is seen to be a drawback. Such a structure could enforce the law on preventable failures occurring on PPP projects.

Recommendations

Recommendations to South African PPP role players. It is recommended that:
- more females should be recruited to PPPs at high ranks for gender balance, as well as diversified resources;
- proportions of private sector participants should be more than the public sector ones for more skills and less corruption;
- PPP participants should be encouraged to be involved from beginning to end of projects;
- PPP players should sign a performance contract and be dismissed when they fail to perform as agreed;
- deliberate and negligent compromising or undermining PPP activities should lead to penalties;
- corruption (including deliberate undisclosed conflicts of interest) should be a criminal offence carrying hefty legal penalties;
- PPP parties should provide a defensible report of their work for public scrutiny;
- PPP projects should always be transparent to the public regarding the milestones and deliverables, role players who delivered, costs incurred; and
- PPPs should be scrutinized extensively to protect projects against abuses by officials and their relatives when more deserving role players could be recruited.

Recommendations for a regulatory body. It is recommended that a body should be established to enforce performance of South African PPPs. That body should collect data on PPP performance for monitoring, and also enable studies that may be helpful in improving South African PPPs.

References


