Public-Private Partnerships and Debt in Africa

Framing the Discourse

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OUTLINE OF THE PRESENTATION

- Defining PPPs
- Models
- Rationale and Impacts of PPPs
- Recommendations

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Defining PPPs

- **Public Private Partnerships -** A form of **<u>legally enforceable contract</u>** between the public sector and private sector, which **<u>requires new investments</u>** by the private contractor (money, technology, expertise/time, reputation, etc.) and which **<u>transfers key risks</u>** to the private sector (design, construction, operation, etc.), in which **<u>payments are made in exchange for performance</u>**, for the purpose of **<u>delivering a service</u>** traditionally provided by the public sector. IP3/WB

- PPPs are long-term contractual arrangements where the private sector provides infrastructure and services that have traditionally been provided by the public sector, such as hospitals, schools, roads, water and sanitation.

Models

Type of contract	Contract purpose	Private sector risk	Contract length (years)	Capital invest ment	Asset ownership	Common sectors	Provides sectoral Planning and regulates service
Service Contract	Infrastructure support services such as billing	Low	1-3	Public	Public	• Water utilities • Railways	• Public
Management Contract	Management of a part/whole of the operations	Low/ Medium	2-5	Public	Public	• Water utilities	• Public
Lease Contract	Management of operations and specific renewals	Medium	10-15	Public	Public	• Water sector	• Public
Build – Own- Transfer contract	Investment in and operation of a specific component of the infrastructure service	High	Varies	Private	Public / Private	• Energy • Highways • Sanitation plants	• Public
Concession	Financing operations and execution of specific investments	High	25-30	Private	Public / Private	• Transport • Energy	• Public
Divestiture/ Privatisation	Transfer of ownership of public infrastructure to the private sector	High	Indefinite	Private	Private	•Telecoms	•Public

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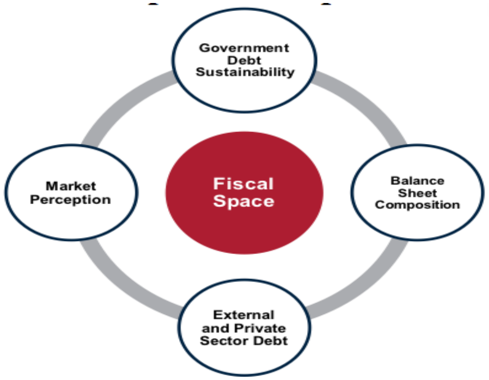
Rationale: Why PPPs

- Limited fiscal space for governments to meet development needs
- Low public sector capacity to increase the level of investment to meet increasing development demands/needs
- Greater efficiency in project execution and service delivery
- Tends to offer better value for money (VfM)



Why PPPs : The Actors

- The European Union – AU-EU Partnership, Team Europe,
- G20 Compact for Africa
- World Bank Group – Maximising Finance for Development, GRID, DBR, BEE - Position on Blending vs Dwindling ODA
- UN FfD, AAAA (SDG Agenda) – paragraphs 30, 36 and 48
- Chinese Overseas Investments
- African Union - Agenda 2063 - Resource Mobilisation Strategy 10 YP – External Resources Mobilisation 10%-30%
- SADC, EAC, ECOWAS Protocols
- Various national development plans e.g. the Vision 2050s, Vision 2030, NDS1,

  MGDS III,

WORLD BANK GROUP

Impacts of PPPs

History RePPPeated: How PPPs Are Failing

Positive

- Staff capacity development
- Creation of employment
- Infrastructure and services enhancement
- Some positive economic ripple effects i.e. SME inclusion and development

Negative

- Off-Budget Accounting - Skewed Debt Sustainability Analysis
- Risk Transfers - Project Costs Inflation
- Contract Negotiation Undermines Democratic Accountability i.e. Leads to Corruption esp. tendering & soliciting
- Parliamentarians' oversight role usually side-lined - National policy makers usually lose control over privatised services as they are governed by corporate institutions.
- High User Fees and Out-of-Pocket expenses for Public Goods - Inequality
- Crowding Out of Expertise and resources from public to private sector services delivery
- Commodification of public goods

Lesotho’s Queen Mamohato Memorial Hospital (QMMH)

Queen Elizabeth II vs QMM Hospital

Queen Mamohato Memorial Hospital

- QMMH is a 425 beds plus 3 filter clinics (inclusive of 35 private ward beds)
- IFC provided support for contract management to the Government of Lesotho (GoL)
- 2009 contract awarded to Tsepong (consortium led by Netcare, AFRINNAI, Excel Health, D10 Inv & Basotho Women Inv Company)
- Partly financed, designed, built, maintain and operate
- Tsepong contracted to treat 310,000 outpatients and 20,000 inpatients per year
- Excess patients were charged to the government at a fee pegged by the consortium
- International Finance Corporation was paid a success fee of approx $720,000
- The financial model projects a 25% return on investment (Tsepong will have made 7.6 times their initial endowment after 18 years)

No. of Patients Treated Under PPP	Year 4 31/12/12	Year 5 31/12/13	Year 6 31/12/14	Year 7 31/12/15
Inpatients	23,857	27,182	26,148	27,388
Outpatients	356,318	365,879	350,274	348,941
Hospital	168,041	111,313	96,631	99,375
Gateway	43,104	42,878	33,325	31,732
Likotsi	43,276	68,076	72,359	72,313
Qoaling	54,765	71,164	78,372	77,659
Mabote	47,132	72,448	69,587	67,862

Stakeholders	Amount Contributed	Percentages
GoL	M400 million	33.22%
DBSA	M800 million	66.45%
Shareholders	4 Million	0.33%

Queen Mamohato Memorial Hospital Concerns

- No Legislative Framework – Shelved 1994 PPP/JV Policy
- Weak Negotiation Capacity
- No Parliamentary Oversight //Transparency – Social and Economic Cluster
- Anomaly in Contract Signing – UNGA Dismissal

Queen Mamohato Memorial Hospital Impacts

Positive

- Admissions increased 51%
- The hospital and filter clinics assisted 45% more deliveries
- Length of stay for an inpatient was 16% lower
- A 41% reduction in the overall death rate
- A 65% reduction in pediatric pneumonia death rate
- A 22% decline in the rate of stillbirths and 10% lower maternal deaths;
- Patient deaths within 24 hours of admission has fallen in every ward
- A better emergency service, prompt laboratory tests and access to surgical procedures not performed previously.

Negative

- Tsepong contracted to treat 310,000 outpatients and 20,000 inpatients per year
- Excess patients were charged to the government at a fee pegged by the consortium were high **($4.72 Out - $786 In)**
- **Basotho Women's Investment Company**
- It costed twice is affordability threshold set at inception
- Debt repayment 56% **($67 mln)**of Health Budget for 2016/17
- It costed 3 times the cost of refurbishing the old hospital
- Payment of salaries problematic i.e. industrial action
- Contract has collapsed and GoL liable for repayment of loans to DBSA, Tsepong

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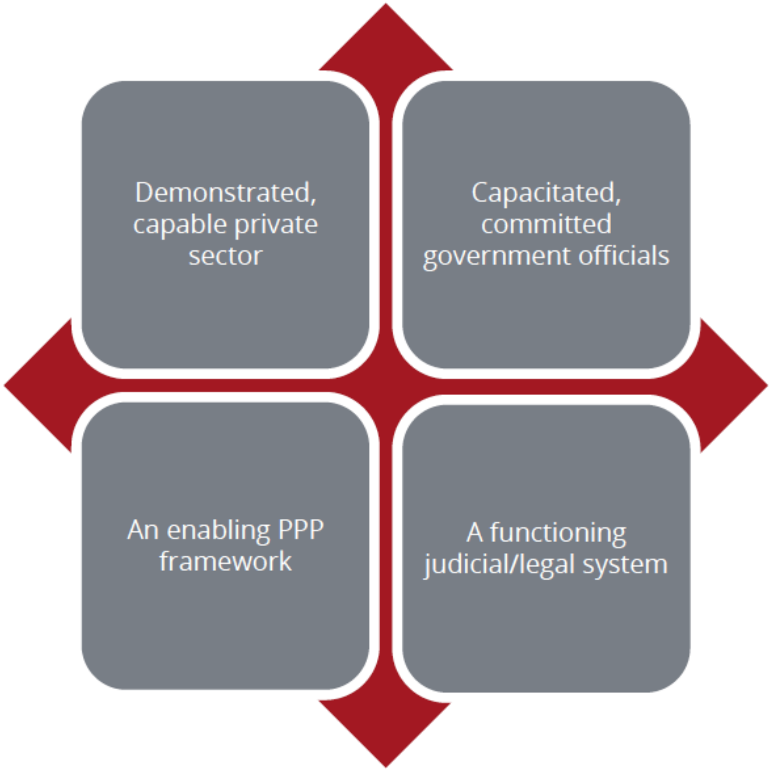
Recommendations

- **Governments – Central and Local**
  - Ensure that there is clear rationale to engage private players across any sector
  - When engaging in PPPs government should ensure that they do due diligence to evaluate the merits and de-merit to such ventures. Besides financial costs, they should also assess the capacity of the communities to pay for the services that the PPP projects will bring.
  - Over and Above, Governments should develop clear policies on PPP project implementation.
  - Stop Pushing for PPPs and Privatisation without fully addressing the negative impacts caused by ill-advised PPPs within the region



But for this to happen, the **CSOs, Councils, Parliament and Residents & Consumer Associations** have a critical role in ascertaining and influencing sustainable reforms and or investments

- For where there is no capacity, capacity development for the these key stakeholders is needed as they are critical in shaping public opinion as well as policy

Thank you

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