EXECUTIVE SUMMARY
Operations of Government and the private sector are quite diverse and to enable the two sectors to function harmoniously, it is vital that a sound policy, legal and institutional framework for public-private partnerships is established. Public-private partnerships allow the private sector to provide services mainly provided by the Government. It is in this regard that an environment in which the private sector functions is created to attract private investment; provide for equitable transfer of risk; and to ensure that a system for administering and regulating the services provided is well articulated. Policy, legal and institutional frameworks are able to achieve this if well designed.
In 2004, the Government of the Republic of Zambia recognised the need to provide infrastructure and services through public-private partnerships (PPPs). Though some forms of PPPs had been in existence, there was no framework for their implementation. As such, a number of challenges mainly relating to contractual obligations have been experienced in the execution of PPP projects.
The Government of the Republic of Zambia initiated the PPP reform process by engaging the private sector in dialogue. The private sector was allowed to drive the process through active participation in policy and regulatory reforms. The Donor community was the catalyst through the support to the private sector reform programme. The stakeholders and general public provided the consensus required to move the process forward at each stage.
In establishing a framework for private sector participation in infrastructure, Government confirmed its intentions and commitment by initiating a policy-making process on Public-Private Partnerships. This was supported by a study of best practices and an assessment of the capacity of the private sector to invest in infrastructure. This led to a policy that would address and balance the objectives of both private and public sectors.
Lessons learned from infrastructure reforms can be drawn from all aspects of reform historically, the distinct roles and relevance of stakeholders, and from the process by which reforms are undertaken. Co-operating partners can add value to reforms by supporting initiatives that empower citizens and create wealth.
As a mechanism for business environment reform, PPPs draw on the best resources of the public and private sectors resulting in efficient service delivery and effective utilisation of resources.
Ultimately, reforms should stimulate the growth of various sectors of the economy, create opportunities for employment and should provide a channel for empowerment of citizens. Thus, PPPs transform the business norms by engaging parties in unique partnerships that yield greater benefits that extend across various sectors of both the economy and society.
The “Significant Other” – A Case of Public Private Partnerships in Zambia

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1.0 INTRODUCTION

Public and private sectors have over the years had a mutually exclusive existence. Where one sector was prominent, the other was virtually non-existent; yet they affected each other significantly. This can be noted in the way economies were structured before and after privatisation. Further, the distinction between the public and private sectors is evident in the diverse systems within which they operate.

Despite the differences between the public and private sectors, it has been recognised the public and private sectors can stimulate economic growth and sustain development through concerted efforts. This can be made possible through public-private partnerships.

The Zambian Government has been embarking on economic reforms with the assistance of co-operating partners. Public Private Partnerships (PPPs) have been introduced as part of the structural reforms aimed at achieving economic growth and development.

In the Zambian context, a Public-Private Partnership (PPP) is a co-operative venture for the provision of infrastructure or services, built on the expertise of each partner that best meets clearly defined public needs, through the most appropriate allocation of resources, risks, and rewards. Instead of the public sector procuring a capital asset by paying for it in full upfront, the effect of a typical PPP structure is usually to create a stand alone business, financed and operated by the private sector. PPPs are generally considered to be the one of most efficient and effective means of delivering services to the public.

PPPs create a range of opportunities for business and investment. Through the various PPP options available – from management contracts to the build-operate-transfer (BOT) range – the private sector is facilitated with prospects to engage in commercial activities on behalf of and in conjunction with the public sector.

From being mutually exclusive, the public and private sectors could be mutually dependent on each other; thus recognising that for each to thrive, they need the ‘significant other’.

2.0 INFRASTRUCTURE REFORMS IN ZAMBIA

After Zambia attained independence until the mid 1970s, the Government was responsible for administering most of the economic affairs of the country. Further, Government was responsible for the provision of infrastructure and related services. During this period, it was possible to sustain economic growth mainly due to the favourable trends in the global economy. When prices of copper declined in the early 1970s, Zambia’s export earnings reduced. This resulted in macroeconomic instability resulting from huge balance of payments deficits.

In the early 1990s, the Zambian Government initiated economic reforms leading to the liberalization and a market driven economy. Privatisation of Government owned enterprises was one of the main actions taken in the process of reforming the economy. Despite the reforms, Government still remained responsible for provision of infrastructure and related services.
In 2004, the Government of Zambia recognised the need to provide infrastructure and services through public-private partnerships (PPPs). Though some forms of PPPs had been in existence, there was no framework for their implementation. As such, a number of challenges mainly relating to contractual obligations have been experienced in the execution of PPP projects.

PPPs provide opportunities for the Government and the private sector to share and manage risk appropriately. This option provided a more appropriate compromise that allows the Government to maintain statutory and regulatory oversight on the nation’s assets, whilst allowing the private sector to provide resources and management. Since then, the Government has actively engaged the private sector in dialogue on matters affecting the nation’s economic development.

One of the key issues to note the Zambian reform experience therefore, is that between nationalisation and privatisation, is an opportunity for the public and private sectors to merge and yet perform distinct roles in development programmes through PPPs without necessarily abdicating their respective responsibilities and objectives. This also provides significant economic rewards and is profitable to both the public and private sectors.

3.0 The Role of Stakeholders

It is important to recognize the relevance and interests of all players in the PPP reform process. All stakeholders have varying objectives and would benefit differently from PPPs; the challenge therefore is to establish a balance in addressing the needs and concerns of all players as effectively as possible. Some of these objectives may be in conflict, however, the important aspect is to weigh the long term benefits of each of them and prioritise actions to be taken in addressing the critical issues.

The Government of the Republic of Zambia initiated the PPP reform process by engaging the private sector in dialogue. The private sector was allowed to drive the process through active participation in policy and regulatory reforms. The Donor community was the catalyst through the support to the private sector reform programme. The stakeholders and general public provided the consensus required to move the process forward at each stage.

The recognition by Government that strategic alliances with the private sector could yield significant results in the development of the nation was the fundamental step in the PPP process. By initiating this process, Government took the leadership as well as affirmed its commitment to reforming the economy in association with the private sector. This provided the private sector with confidence to participate and support Government’s efforts.

The private sector on the other hand, as beneficiary of the reform process influenced the outcomes of the process by positioning their interests for the benefit of the nation. The private sector objectives were aligned with Government’s objectives for economic growth and development.

Co-operating partners on the other hand, provided the necessary tools through programme support to the reform process. The support from the co-operating partners extended beyond financial resources and included technical support through facilitation of information, advisory services and networking. The PPP process was significantly enriched by the work
and experiences of co-operating partners in various countries, studies undertaken globally and expertise in PPPs. The PPP initiative was also linked to related donor programmes. This enhanced the knowledge base as well as provided a foundation for future co-operation.

Being a developing country, stakeholders take particular interest in seeing the value added to livelihoods and the impact on economic growth. To that end, empowerment and wealth creation have become the benchmarks which the public uses to measure development. Considering the background that Zambia had with regard to privatization, it has been necessary that any misconceptions stakeholders had regarding public-private partnerships are clarified at inception and throughout the process.

4.0 DEVELOPMENT OF A FRAMEWORK FOR PPP IMPLEMENTATION

Any institutional process in Zambia involves the establishment of a policy followed by the legal framework in consultation with the relevant stakeholders. Being a relatively new concept to be institutionalised, the PPP process required a broad consultative process and a study of best practices in the region and beyond. It was also necessary to examine the Zambian private sector’s capacity to participate in PPP projects.

The study of best practices in the region and internationally particularly revealed a number of issues that needed to be considered for application in Zambia. Whereas the economies in the countries visited were distinct from each other, a common thread could be traced in the fact that there had to be a sound framework for the implementation of PPP projects. It was also observed that the scope and extent to which PPPs are implemented in various countries is dependent on the respective economic framework of a nation. For instance, some countries such as India allow for unsolicited bids to be undertaken under specific conditions and procedures, while it is not an option in other countries like South Africa.

It was also discovered that some countries apply a number of statutory instruments in implementing PPPs and others have one specific act that governs the implementation of PPP projects. This led to a review of the Zambian legislation that would have an impact on PPPs, in order to ascertain the necessity of establishing new legislation or strengthening the existing legislation. This was important in that the study revealed any existing conflicts in laws relating to PPPs; areas that required to be enhanced by additional provisions; it also highlighted the existing institutional arrangements and options for PPP administration.

Experiences of other countries with regard to PPPs were worthwhile, yet did not fully address some of the challenges unique to the Zambian environment. One of the major challenges Zambia faces today is the limited capacity of the local private sector to invest in large scale infrastructure projects and services. Whereas PPPs would attract foreign investment, it was also important to create opportunities for the local private sector. It was therefore necessary to ascertain the capacity of the private sector in Zambia to participate in the provision of infrastructure. The results of this study showed that the critical elements required to enhance local capacity were access to finance and deliberate policy to strengthen SMEs.

In addition, there is limited technical capacity in both the public and private sectors to administer PPP projects in Zambia. The complex and long term nature of most PPP projects demands skills and understanding beyond that of traditional contract management or administration. Experiences in other countries show that despite the advancements in PPP
implementation, there is substantial reliance on transaction advisors on most projects due to the range of expertise required in PPP transactions.

The PPP policy formulation was therefore influenced by the outcomes of the study of best practices and the assessment of local capacity to invest in infrastructure and related services. This led to a policy that was generic in nature, which could be adapted to most PPP options. The policy further hinged on principles that would address among other things:

a. Poverty reduction and wealth creation through affordability and empowerment;
b. Development of infrastructure nationwide through implementation of PPP projects at all levels of decentralisation;
c. Sustainability through feasibility and value for money;
d. Return on investment and appropriate risk allocation

Further, the PPP policy guidelines regarding implementation included periodic review of the policy to allow for consistency and modification in accordance with the development process. This was an important aspect in view of the dynamic nature of the economy and the extended durations of PPP projects. The policy also accounted for the need to build expertise in both the public and private sectors to administer and manage PPP projects.

The importance of a sound policy, legal and institutional framework for PPPs cannot be overstated as it is the foundation of successful partnerships and a profitable environment for business undertakings. Some of the reasons for this include:

- It fosters confidence for the private sector to subscribe to PPP arrangements;
- It provides a stable economic environment for the private sector to commit to long-term projects;
- Clarifies contractual obligations and provides recourse in case of disputes or changes;
- Defines the criteria for partnerships;
- Enhances competitiveness and transparency;

The above factors may not be standard for every country, however, they help shape, enhance and maintain good business practices.

5.0 THE LESSONS LEARNED

The lessons learned from the PPP process in Zambia can be drawn from the various stages of economic history; in the role of stakeholders; and in the steps taken to achieve the reforms.

5.1 Experiences in the Zambian context

Zambia has experienced two major reform programmes, the nationalisation and liberalisation programmes. Under nationalisation, monopolies were created, which were largely inefficient due to lack of re-investment, inadequate skills and lack of competition. The liberalisation programme on the other hand, brought about privatisation and institutional reforms. However, these reforms had negative impact on the overall economy as it let to unemployment due to lack of social safety nets; poor and ineffective regulatory environment; an uncoordinated policy framework; and lack of a well–developed financial sector to support local entrepreneurs.

Reform processes need to be managed and implemented with careful consideration for the objectives of national stakeholders to avoid misconceptions and in order to fully realise the goals of the reforms. The case of infrastructure reforms in Zambia,
through PPPs, has provided options for compromise between the two extremes of a state managed and private sector driven economy.

The structure, process and sequencing of reforms need to be carefully considered. Some projects have been undertaken in the absence of an appropriate regulatory framework and have resulted in the failure to perform and produce the intended results. Other projects could not be implemented due to lack of policy that affirmed Government commitment to the process and secured the private sector’s confidence. It is therefore important that the preliminary steps in the reform process, such as formulation of policy, legal, and regulatory frameworks, are completed before embarking on actual projects.

It is also important to consider various options in addressing reforms especially in view of the different sectors of the economy. Some reforms may not be applicable or may not be as effective for some sectors; therefore, in designing reforms Governments as well as private sector, should take into consideration the specific reform requirements of each sector.

African countries could learn from other regions that despite best practices being universally acceptable and adaptable, it is important that these are aligned in accordance with specific objectives, capacity and economic status of a nation. Further, the social goals differ from one country to another, as such, reform programmes should be designed to take into account existing social needs.

5.2 The Role of Stakeholders

Government’s affirmation of its commitment to reforms is the foundation of success in any reform process. By initiating the process, the Government creates the opportunity for stakeholders to participate and contribute positively to the transformations required. The association of Government, private sector and co-operating partners provides a platform for addressing economic issues in a transparent and meaningful way.

In establishing a framework for private sector participation in infrastructure in Zambia, stakeholders established a common agenda through dialogue, broad consultation, focus on areas of mutual interest and determining complementary benefits. It was necessary to recognize the differences in objectives of all parties in the process from the onset in order to design a system that would enhance mutually beneficial results.

It is therefore apparent that success in the reform process could only be achieved through combined efforts and harnessing of the strengths and advantages of each stakeholder. The reform process should also be subject to regular review and evaluation of its impact on the economy and society in general. This provides an opportunity for mitigation of any negative outcomes early enough.
5.3 The Significance of Co-operating Partners

Co-operating partners have been instrumental in instituting reforms in most developing countries. The PPP process in Zambia has progressed successfully mainly due to the support of various development agencies, not only through financing but also through the provision of material, expert advice, facilitation of training and sensitization workshops and seminars, and, linking the process to other initiatives. So far, the PPP process in Zambia has benefited from direct consultation with partners such as the World Bank and its related agencies, SADC Banking Association, Dutch Government, the Commonwealth Secretariat and the Commonwealth Business Council.

Figure 1. Shows the collective efforts and benefits of the stakeholders can result in sustainability and growth.
The above network of co-operating partners has supplemented Government’s efforts in specific ways especially through facilitation. Thus, the PPP process has been enriched and strengthened by the knowledge and expertise that the partners brought into the process.

The experience in the infrastructure reforms in Zambia has shown that support from development agencies or co-operating partners is most effective when they facilitate and allow the Government and private sector to drive the process. Despite the vast experience and expertise of development agencies, it is important that the Government and private sector, in some cases, take responsibility for the results and outcomes of the reforms. In this way, the partners maintain neutrality and are able to provide alternative solutions in cases where negative ramifications arise.

Co-operating partners are able to substantially enhance infrastructure reform efforts and increase the impact on poverty reduction and economic growth in some of the following ways:

a. Provision of support to economic empowerment initiatives for citizens;

b. Focus on reform programmes with a high incidence of positive results in addressing both economic and social needs;

c. Supporting policies that encourage of joint ventures between local and foreign firms;

d. Technical support to decentralized implementing agencies, especially local authorities;

e. Facilitation of capacity building programmes through training and support to SMEs.

5.4 The Benefits of Business Environment Reforms

The benefits of business environment reforms cannot be overstated. In a developing economy like Zambia, it is imperative that the business environment is transformed for it to achieve the goals of private sector development as well as national economic growth.

By creating opportunities for the private sector to invest in infrastructure through PPPs, development is accelerated and Government resources can be effectively utilised. Governments of developing countries like Zambia face the challenge of balancing resources amongst various competing needs. This constrains the national budget and impedes the rate at which Government responds to economic needs.

Introducing PPPs therefore enhances the capacity of Government to provide infrastructure and services to the public. PPPs provide benefits by allocating the risks to the party best suited to manage the relevant outcome. Some of the major benefits of private sector participation in infrastructure include:

- Cost effective implementation of projects;
- Improve value for money through competition and transparency;
- Efficiency in terms of quality and performance;
- Enhance completion of projects;
- Utilisation of private sector resources and skills.

PPPs also provide opportunities for the development of infrastructure in rural communities. Other than enhancing the quality of livelihoods in such localities,
infrastructure provides means by which economic activity can be stimulated. Improved communication, transport, water and energy services, can potentially multiply productivity in rural areas. Activities such as agriculture can be enhanced with a good network of infrastructure.

These benefits would seem to benefit Government only, however the effects would be that Government can focus on addressing other needs in the economy especially social goals. Further, by allowing the private sector to participate in infrastructure and service provision, Government would be facilitating the creation of employment opportunities; thus, creating wealth and reducing poverty.

The private sector on the other hand, by employing its resources in the form of finance and expertise in PPP projects has the potential to gain unprecedented levels of growth and profit. Further, business environment reforms can stimulate innovation among private sector players – thus creating novel solutions for service and infrastructure delivery which may provide greater value for money; enhance accessibility and affordability by larger populations; and, accelerate development in general.

6.0 Conclusion

One of the greatest lessons to be drawn from any reform process and particularly the PPP process is that the nation can only thrive and prosper as much as all its constituents - government, private sector and the general society are empowered; by facilities, opportunities for wealth creation and a platform for dialogue. Government on its own may not achieve its intended goals without the involvement of its constituents; the private sector, on the other hand, may not thrive or grow without the Government providing advantages for wealth creation. Society, in turn, benefits through from the successful synergy between the public and private sectors.

Thus, in establishing a framework for PPPs in Zambia, the Government is creating a platform for business to be undertaken at a new level and with broadened options. As business partners, the public and private sector become significant to each other’s success and sustainability.

References

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