IMPROVING PRIVATE PUBLIC PARTNERSHIP UPTAKE IN AFRICA: CASE STUDY GENERAL ELECTRIC AFRICA

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DECLARATION

This research project is my original work and has not been presented for a degree award in any other University.

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The research project has been submitted for examination with my approval as the university supervisor.

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ABSTRACT

Public Private partnerships have progressively transformed in the last decade from joint agreements between public and public sector to formal partnerships which are guided by clear policies and legislations to manage the expectations and outcome. World bank explains that if PPP’s are well designed and implemented in a balanced regulatory environment, they can bring greater efficiency and sustainability to the provision of public services such as water, sanitation, energy, transport, telecommunications, healthcare and education. As this thesis shows the principles of PPP’s in various parts of the world are standard but there is a variety of success from one country to another. The objective of the study was to identify ways that PPP uptake can be enhanced in Africa. The questions asked were; what are the main factors that hinder the uptake of PPP in Africa; what role does financial institutions play in the enhancement of PPP uptake and how can PPP strengthen the local capacity in Africa. The research used case study methodology in which the author examines the challenges and best practices exercised by General Electric Africa in its participation of PPP projects in Africa. Questionnaires and interview guides were used as the main instruments of data collection. The data was examined using both quantitative and qualitative approaches. Quantitative data analysis was used to analyze the data collected from the questionnaire. A qualitative approach was used to analyze the data retrieved from the interview guides. Secondary sources such as books, journals and thesis were used and proved beneficial in providing information for this study. The study established that political interference, lack of clear regulatory framework, uncertain bidding process and lack of funds are still key factors that affect the success of PPP’s however there are measures that the government and public sector can take to address this issues. This includes involvement of all stake holders from the onset of the project, the stakeholders should include the financial institutions, private investors, and sub-contracts. Bidding process should be transparent to ensure the government gets a competitive pricing of projects to minimize costs. Private investors should consider setting up fund management initiatives that will enhance their competitiveness in securing PPP projects and its implementation till completion. Also, in cases where the service provided is expensive, partnership with other financial institutions is necessary to provide funding options for the consumers of the service. Private investors can engage in various partnerships with the education institutions in Africa to enhance knowledge sharing between their employees and students to build capacity for future employees.

DEFINITION OF TERMS

Concessions	A contractual license formalized by a project agreement.
Contracting	Authority a state department, agency, State Corporation or county government which intends to have a function undertaken by it performed by a private party.
Feasibility Study	A study undertaken to explore the technical, financial, legal, social and environmental feasibility of undertaking an infrastructure or development facility as a public private partnership.
Node	A PPP node established by a contracting authority under section 16.
Project	A design, construction, development or operations of a new infrastructure, asset or facility.
Private party	A party that enters a project agreement with a contracting authority, it's responsible for contracting the project.
Value for Money	The net benefit accrued to the contracting authority defined in terms of cost, quality, quantity, timeliness and risk transfer under a PPP.

LIST OF ABBREVIATIONS

ADB	Africa Development Bank
CBK	Central Bank of Kenya
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GE	General Electric
GOK	Government of Kenya
IMF	International Monetary Fund
IRR	Internal Rate of Return
KAM	Kenya Association of Manufacturers
KEPSA	Kenya Private Sector Alliance
NGOs	Non-Governmental Organizations
PFI	Private Finance Initiative
PPP	Public Private Partnership
PWC	Price Water House Coopers
SSA	Sub Saharan Africa
UK	United Kingdom
USA	United States of America
USAID	United States Agency for International Development
USD	United States Dollars

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CHAPTER ONE: INTRODUCTION

1.0 BACKGROUND OF THE STUDY

There are various definitions of Public private partnership but can be summarized as "provision of public services or assets by the government in partnership with a private entity through an agreement or a contract whereby; a private party provides the service and assumes financial, mechanical and operational risk in the project while the government still retains the overall control on the service or asset and once the contract is completed full ownership of the project is passed to the government. The private sector is paid for the service upon project completion" (PPP Act 2013 P'8)[1]

In the last decade, there has been a growing interest in PPPs due to changing attitudes and expectations of the society towards the government and public services (Grimsey & Lewis, 2004 P'21)[2]. The society now expects the government to be more of a governor and regulator rather than the direct provider of public services. But it still expects quality infrastructure, efficient provision of public services, as well as better use of public money. Considering all this, PPPs are viewed as a mode that may satisfy these changing needs as they provide a new source of investment capital for projects, help to reduce government borrowings and associated risks, push the creation of local long term funding market, employ competences of private sector in running public services thus increasing the quality of services provided to citizens, and create more job opportunities for citizens. (Eng. Kamau 2013)[3]. World Bank reports that, in 2005, investment in private infrastructure projects in low and middle income country grew by over thirty percent against 2004 to almost $96 Billion. The World Bank estimates that about seventy percent of

[1] PPP Act 2013 on Pg 8 Section 2 defines PPP as an agreement between contracting party and private sector. More definition of PPP will be looked at in the literature review

[2] (Grimsey and Lewis, 2004 P' 21). This study focuses on social housing which is part of the social infrastructure.

[3] Presentation done by Eng Kamau, Director PPP Unit: Kenya-Spain multilateral partnership meeting Nairobi Dec 8-11, 2013

infrastructure investment comes from public sector, eight percent from official development assistance and twenty two percent from the private sector. (World Bank 2006)[4].

The question is, why does PPPs account for a small portion of all public projects if they provide extensive benefits that were earlier mentioned? To answer this, the study reviews the progress of PPPs in Africa, highlighting the challenges that affect its uptake to the completion of project and review the role that multinational corporation play or can play to improve PPP uptake in Africa. The study takes a case study approach and reviews General Electric Africa Company, which is a multinational American company that partners with Africa governments to support Africa's socio-economic in oil & gas, power, transportation, healthcare, renewables, energy sectors. The GE's footprint in SSA now covers over two thousand six hundred employees, with recorded revenues of about $3.3 billion dollars in 2015. They operate in twenty-five countries, the main countries being Nigeria, South Africa, Angola, Ghana, Mozambique and Kenya where its Africa Headquarters is located. (GE Internal publication) In 2013, GE was recognized as the "PPP champion of the year" by Ai Investor[5] based on its involvement in PPP energy projects in Nigeria.

1.1 STATEMENT OF THE PROBLEM

PPPs are adopted by the government with an aim of reducing the funding gap for public projects among other benefits. However, studies have found that establishing PPPs is not just a walk in the park or an absolute solution to the public and governments needs as they are faced with several challenges that may hinder the completion of a project or even worse lead to its

[4] World bank report from Public Private Infrastructure advisory facility - http://ppi.worldbank.org/~/media/GIAWB/PPI/Documents/Data-Notes/Note3-CurrentFeatureSept2006.pdf last access on 14th Nov 2016

[5] Ai Investor Website: http://www.ainewswire.com/?p=1249 - Last accessed 8th Nov 2016

termination. In addition, as much as PPPs are viewed as a better approach to efficiently meet and satisfy the societal changing expectations they are not a 'miracle' solution (European Commission, 2003; Harris, 2004; Meidute & Paliulis, 2011)[6] as they are more complex and expensive and, thus, only certain projects can be implemented through public-private partnerships. (Oluwaseun & Odun 2014)[7] explains that adoption of Public Private Partnership (PPP) to cub the infrastructural deficit in Nigeria with the aim of achieving sustainable economic growth, is still a farfetched goal since there is a high level of distrust for the Nigerian government based on previous experiences on completed or pending PPP projects.

In Kenya, (Kariuki 2014)[8] researched on the effect of financing infrastructure projects using public private partnership, in the paper she examined 60 infrastructure projects in Kenya and found that financing for infrastructure projects for PPP should be highly considered by government and other financial institutions as it contributes to the overall economic performance. In addition, (Kedenda 2010)[9] did a comparative study of PPP in Kenya and India, in terms of their structures and models and found that PPP model has been successful in India and if the right structures are put in place they are the best approach to boost development. Based on these studies the question remains; Are there initiatives that both the public and private sector can take to improve the uptake of PPPs in Africa considering that they are key players in the partnership? Most authors have already established that PPPs approach are not an easy approach but are the best approach when it comes to long term projects that require a large investment in both funds and time. But there is still a gap in the knowledge of what measures can be adopted by PPPs to ensure the success of the projects. Therefore, in this paper the author addresses this

[6] This are research done by different authors who came with one answer that PPP's are not a miracle solution
[7] Research on "Public Private Partnership and Nigerian Economic Growth: Problems and Prospects" submitted to the International journal of business and social science Vol.5, No. 11; October 2014
[8] Research submitted to the University of Nairobi - http://erepository.uonbi.ac.ke/handle/11295/76193
[9] Research submitted to the University of Nairobi - http://erepository.uonbi.ac.ke/handle/11295/3750

gap by using a case study approach of examining General Electric Africa which has been in the region for over 100 years. The questions we are asking in the paper are; What has been their experience in doing business in the region? What are the key learning's over the years? What measures have they taken to address the challenges faced in the projects they have undertaken?

1.2 RESEARCH OBJECTIVES

The main objective of this study is to examine the initiatives that both public and private sectors can take to improve the uptake of PPPs in Africa. However, the specific objectives are:

I. To investigate the main factors that are a hindrance to the PPP uptake in Africa and what initiatives GE has taken to overcome this challenges

II. To establish what role financial institutions, play in the enhancement of PPP market development

III. To investigate how Public-Private Partnerships can strengthen the local capacity in Africa to build local talent and enhance PPP uptake.

1.3 SIGNIFICANCE OF THE STUDY

This study will be helpful to the government in decision making in areas where reforms are required to enhance the uptake and implementation of PPP projects and provide information that will assist in budget allocation for PPP projects. The private investor will benefit from this project as it aims to highlight challenges and opportunities of PPP projects in Africa which will assist them in making decisions on whether to invest in the continent. This study will also be helpful to the PPP unit and other regulatory bodies like KAM[10] & KEPSA[11] in areas of policy

[10] KAM – Established in 1959, KAM is the representative organization for manufacturing value-add industries in Kenya
[11] KEPSA – KEPSA is the private sector body established in 2003, to bring together business community in a single voice to engage and influence public policy for an enabling business environment

formation to enhance PPP environment. Future researchers and academicians interested in this area of study or other related topics can use the findings of this study as a reference point. Furthermore, the study can be used as a platform for further research.

1.4 LITERATURE REVIEW

This section reviews literature of other researchers on Public Private Partnerships (PPP), reviewing the knowledge that currently exists, leading to the need of this study. Thorough review of current literature, texts relating to the definition of PPP, benefits and risks of PPPs and the impact of PPP to the economy was conducted.

1.4.1 Definition of PPP

There is no universal accepted definition of PPP; Marin (2009)[12] illustrates this point by stating that

> "It covers a wide range of transactions where the private sector is given some responsibility, including investment. It ranges from management contracts with no investment obligations to concessions contracts with significant investment obligations in addition to operational and management obligations"

Although definitions vary, they do have some common characteristics. Hodge (2004)[13] elaborates on this point by stating that:

> "Definitions of PPPs either differ in scope, formality of arrangements, operation and this varies from country to country. "

[12] Marin 2009, cited in the book Public-Private partnerships in developing countries P'17
[13] Hodge, G. (2004) The risky business of public-private partnerships. Australian Journal of Public Administration, 63 (4) pp 37–49.

Da Rosa present an extensive overview of 28 PPP definitions which they score along 14 dimensions. They point out that:

> "Most definitions describe that PPPs have different societal backgrounds, most of them share objectives, goals and problems and the main objective is provision of public goods. There is benefit from complementary resources and have partners which collaborate in an interdependent and interactive way. "(Da Rosa 2012)[14]

In Kenya, the PPP Policy Statement 2011[15], defines Public private partnerships as:

> "PPP are arrangement between a contracting authority and a private entity. Whereby the private entity performs a public function or provides a service on behalf of the contracting authority and is generally liable for risks arising from the performance of such function. The private sector abides by terms of the project agreement and is paid at the end of the contract either through public fund or the citizens who benefit from the service pay a service fee which is channeled to the private sector or the payment terms can be a blend of the two options."

PPP projects are different from traditional procurement projects in several ways[16]:

- In all PPP project phases, only a single contractor is involved, this allows better scope and smarter solutions while in traditional procurement, each phase may be contracted out to a different party.

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[14] Da Rosa 2012 This is cited in the book Public-Private partnerships in developing countries P'17 – Ministry of Foreign Affairs of the Netherlands
[15] Kenya PPP policy statement, page 4 was developed in 2011,
[16] Information obtained from Government of Netherlands website - https://www.government.nl/topics/public-private-partnership-ppp-in-central-government/contents/difference-between-ppp-and-traditional-procurement

- PPP project costs are determined in advance, the contracting authority (the government) undertakes to pay this sum if the outputs are delivered as agreed and may withhold payment if the agreement is not met. In addition, the contractor bears the costs of the project while the government repays the sum in installments based on the agreed outputs.
- Procuring process for PPP projects takes longer than traditional procurement processes therefore; PPPs are only worthwhile for projects which require large sum investment.

1.4.3 Benefits & Potential Risk of PPPs

Grabow (2005)[17] made a comprehensive review of PPP projects in Germany examining the distribution of PPPs in the country, the type of project, investments, obstacles and prospects of success since 2000. The findings reveal that the PPP were widely spread in Germany largely because PPPs recorded higher efficiency and faster implementation of projects. Two-thirds of projects had to contend with legal restrictions or difficulties but this did not often lead to a decision to abandon PPPs. Rather, they were viewed as challenges to overcome and called for the need of legal reform in some cases.

In Africa, PPPs have been implemented on a lower scale than developed country states Shepherd et al. (1997)[18], he states that Africa receives only a small share of private funds targeted for foreign PPP investment in infrastructure due to low creditworthiness. (Omondi 2015)[19] in his study of “PPP building projects in Nairobi” noted that:

[17] Grabow study was guided by the German Institute of Urban Affairs (Difu) by order of the PPP Task Force at the Federal Ministry of Transport, Building and Urban Affairs in 2005

[18] More information found on: Evaluating Public-Private Partnerships – IOB Study P’ 44

[19] Research submitted to the University of Nairobi (2015): A case study of Public Private partnership building projects in Nairobi city county

> "PPP model is more superior to other models of construction when a large amount of capital investment is required. The main hindrance to implementation of PPP is lack of knowledge regarding the importance of using PPP to meet the funding gap, there's need for further education to the stake holders and knowledge sharing with countries like South Africa which have been successful in utilizing the PPP model in building projects."

HM Treasury (2003)[20], notes that PPPs performance in terms of cost and time dimensions are effective especially in large-scale and complex projects as an analysis of 29 business cases show. Pollock et al (2002)[21] echoes this finding by indicating that PPPs are more cost efficient than traditional procurement methods. The efficiency ranges from 30.8 percent from the time of project inception, to 11.4 percent from the time of contractual commitment to the outcome. The study indicates that in absolute terms, the PPP cost advantage is economically and statistically significant and they are most likely to be completed on time and within budget. McKee (2006)[22] reviewed the success of PPPs in comparison to the traditional method of procurement of hospital infrastructure projects in Australia, USA, UK, Canada and the European Union. The study explores four main issues related to PPPs: flexibility, cost, risk, quality, and difficulty in the subsequent infrastructural project. They conclude that PPP work well on budget discipline and timely delivery aspects if neither budgets nor time are inflated at the contracting time. On the other hand, they found that PPP contracting procedures are complex because of regulatory policies, thus the private sector must keep construction times low to save on income. (Vining 2005)[23] has a different point of view on their research to evaluate the cost savings of PPP

[20] Public-private partnerships for hospitals - http://www.who.int/bulletin/volumes/84/11/06-030015.pdf - - last accessed 14th Nov 2016

[21] PFI and the National Health Service in England, Professor Allyson M Pollock: http://www.allysonpollock.com/wp content/uploads/2013/09/AP_2013_Pollock_PFILewisham.pdf - last accessed 14th Nov 2016

[22]

[23] PPP in US Volume 7, Issue 3, 2005. by Aidan R. Vining, Anthony E. Boardman & Finn Poschmann. P' 199 Evidence from six major infrastructure projects and a summary analysis of US prisons is then presented.

projects in Canada and the USA. Evidence collected on cost aspects of PPPs from six major prison infrastructure projects in these two countries operational at the year 2005, confirm that PPP contracting costs are usually high. They conclude that these high contracting costs reflect the presence of complexity and uncertainty and lack of contract management skills by governments. (Sappington and Stiglitz 1987)[24] state that PPPs are desirable in infrastructure because they promote efficiency among public projects. (Reeves 2004)[25] argues that PPPs might help derive value for money so long as they are established in an environment rooted in long term cooperative relations among stakeholders. This co-operation should incorporate risk sharing and proper description of authority, communication and information channels as well as responsibility and accountability.

1.4.5 Impact of PPPs to Economic Development

Economic growth is determined by an increase in investment and productivity output meaning that the public can command a higher value for their labor and improve the standards of living. The question is does the PPP approach allow resources to be used more efficiently and cause an output increase? Some analysts oppose that PPPs may harm the growth of a country since the decision made are politically driven as opposed to being driven by the market demands while other authors argue that the effective provision of public goods, such as education and roads, helps to promote economic growth. On the other hand, critics of PPPs argue that government inference has a huge impact on PPP, private sector can effectively provide public goods if there was a limited interference. They further argue that public officials make the resource allocation decision and this may likely lead to a net economic loss. As much as public officials may be as intelligent, talented and well-intentioned as their private-sector equals, the interference by

[24] David E. M. Sappington, Joseph E. Stiglitz. NBER Working Paper No. 2196 – Privatization, information & incentives
[25] Eoin Reeves (University of Limerick, Limerick, Ireland) “first public private partnership", International Journal of Public Sector Management, (2004) Vol. 17

government stakeholders makes political decisions unsuccessful. Even if the PPP is well-run like other government programs, the diversion of resources from purely private market-based decisions makes the projects less competitive. (Investopedia 2015)[26]

(Shediac, Abouchakra, Hammami & Najjar 2008)[27] argue that for PPPs to stimulate a country's economic growth, there's need to consider the number of PPP projects in place, the types of contracts and country's economic and political policies and the implementation institutions.

They further state that:

> "PPP success is determined by having the right framework coupled with knowledgeable and trusted advisors. In addition, project structuring, screening, and procuring should be done by both private and public sector to establish a win-win partnership whereby the government meets its financial goals without balance sheet shortfall laying a foundation for economic development to occur and the private sector will benefit through market availability to grow and invest its finances in a conducive environment leading to long-term cash flow benefits."

The below Fig 1.1 shows a summary of their key findings on PPPs effect on economic growth:

[26] Investopedia Article: http://www.investopedia.com/ask/answers/021715/what-impact-publicprivate-partnerships-have-economic-growth.asp

[27] Booz& Company – Public partnerships a new catalyst for economic growth P'10

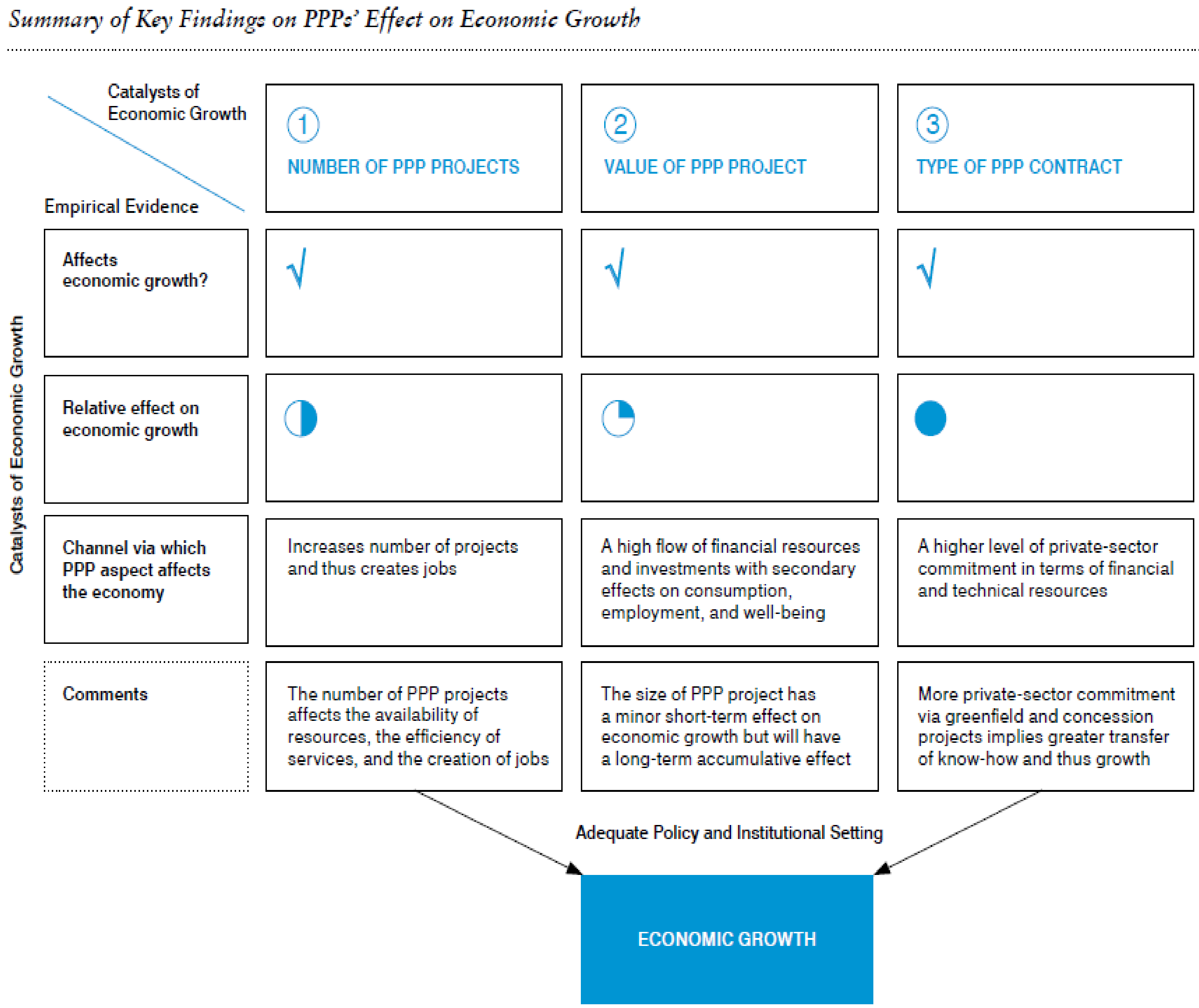

Fig 1.1: Source Booz & Company P'8

There is a growing evidence that the more PPP projects launched in a country, the higher the rate of GDP growth. Countries with seventy or more PPP infrastructure projects recorded a twenty-five percent growth rate between 1990 and 2003, the East Asia pacific recorded a total of about 1080 PPP's compared to Sub Saharan Africa that recorded 332 in the same period. (World Bank Report 2003)[28]. The World Bank report further explains that one percent increase in PPP investment will increase GDP per capita by 0.3 percent meaning that if there is a consistent

[28] Report found on http://documents.worldbank.org/curated/en/877581468762634492/Private-participation-in-infrastructure-in-developing-countries-trends-impacts-and-policy-lessons

investment in PPP, a sizeable increase in GDP will be noted. The use of private-sector management principles, combined with investment in modern technology and methods, leads to more cost-effective administration and greater access to services; this attracts more private investment into the economy and raises the overall standard of living. (Shediac, Abouchakra, Hammami & Najjar 2008)[29]

1.5 THEORETICAL REVIEW

In this section, relevant economic theories on economic growth in relation to public private partnerships are considered.

> "(Leibenstein 1966)[30] proposed the X-efficiency hypothesis of PPPs which explains that government-backed public entities are inefficient and PPPs are necessary to improve efficiency in such organizations. Private sector involvement allows public entities to be more competitive and meet market expectations. He believes that when the government intervenes in the operations of public entities with the intention of bailing them out during potential failure, leads to the inefficiencies in their operations."

The other theory is the market orientation theory which explains "the case for PPPs from the market demand point of view while incorporating PPP risk considerations" (Dailami and Klein, 1997)[31].

> " Kee and Forrer 2002[32] explain that market conditions affect the incentives of private firms to participate in any PPP in infrastructure projects. A private partner is bound to

[29] Booz& Company – Public partnerships a new catalyst for economic growth P'11
[30] Allocative Efficiency vs. "X-Efficiency". Harvey Leibenstein. The American Economic Review, Volume 56, Issue 3 (Jun., 1966), 392–415.
[31] Dailami, Monsoor and Michael Klein. (1997). "Government Support to Private Infrastructure Projects in Emerging Markets"

have a faster recovery of their investment in larger and profitable market segments with considerable purchasing power than otherwise. They further note that a competitive market is central to ensuring effective PPPs. In theory, a good PPP contract model is viewed as a better approach in delivering infrastructure since it encourages efficiency and competition among the market players."

1.6 HYPOTHESES

I. Conducive political environment and a distinct regulatory framework are key factors that determines the successful implementation of PPP project in Africa

II. Financial institutions play a major role in the identification and implementation of PPP projects Africa

III. PPPs if well-defined will play a major role in terms of strengthening local capacity through involvement of the locals in implementation of projects

1.7 METHODOLOGY OF THE STUDY

1.7.1 Research Type

Based on the nature of the research topic, characteristics of the problem and the purpose of the investigation, the researcher used exploratory approach that includes both descriptions and comparisons. These approaches allow the researcher to review the magnitude of the factors affecting the implementation of PPP and establish the feasibility of broadening the search to further understand the problem using the research objectives which include:

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[32] Forrer, J., J. E. Kee, and Z. Zhang. 2002. "Private Finance Initiative: A Better Public-Private Partnership. Public Manager 31(2):43–47

I. To investigate the main factors that are a hindrance to the PPP uptake in Africa and what initiatives GE has taken to overcome this challenges

II. To establish what role financial institutions, play in the enhancement of PPP market development

III. To investigate how Public-Private Partnerships can strengthen the local capacity in Africa to build local talent and enhance PPP uptake.

1.7.2 Research Design

Case study design method was used based on insights from Robert K. Yin[33] which states that

> "The case study method involves an experiential investigation that reviews a current phenomenon within its real-life context; to determine the boundaries between phenomenon and context through use of multiple sources of evidence" (Yin, 1984, p. 23)."

Therefore, this method will assist the author in understanding the specific factors that affect the implementation of PPP projects with a focus on GE Africa projects implemented in Africa.

1.7.3 Research Data Collection Method

Qualitative method of primary data collection was used in the study. The method entails gathering empirical evidence to understand a situation and answer questions that led to the

[33] Yin R K Case Study Research: Design and Methods Beverly Hills: Sage 1984 P 23 – more articles on the same can be found on - https://www.google.com/search?sclient=psy-ab&safe=active&btnG=Search&q=Kee+and+Forrer+%282002%29#safe=active&q=(Yin%2C+1984%2C+p.+23 last accessed 16th Nov 2016

undertaking of a study (Kothari, 2005)[34]. Secondary data heavily relied on documented case studies to collect information and data on PPPs already undertaken in the global arena, with attention to Africa. Other number of sources included but not limited to audited financial statements from GE Africa, information recorded on the GE website regarding projects completed. Former media reports & interviews, journals written by GE Africa communications team and general internet information on PPPs. Primary data was through use of face-to-face structured interviews with the selected sample, and using of open and close ended questionnaires. The data collected was further analyzed using statistical packaging for social sciences (SPSS) method.

1.7.4 Sampling

The target population for this research was the executive team in GE Africa who are directly involved in the decision making in the organization. Narrowing down to the supervisory team on the ground who are involved in the actual implementation of the projects. The study also included the GE Development and Investment team who are involved in the feasibility study of projects, this involves identification of a project, conducting a feasibility study on the project and giving recommendation to the executive team on whether to proceed with the project or not. All these stakeholders gave their expert and learned opinions on their experience in the projects carried out by GE. Private sector bodies engaged in influencing public policy for an enabling environment for Multinational Corporation, included Kenya Private Sector Alliance (KEPSA) and Kenya Association of Manufacturers (KAM). Managing committee of the PPP Unit were involved in the giving their views on the topic. Trusted advisors who are involved in the

[34] Kothari, S. P., Leone, A. J., & Wasley, C. E. (2005). Performance matched discretionary accrual measures. Journal of Accounting and Economics, 39(1), 163-197

feasibility study of PPP projects included executive team in PWC and Deloitte, funding agents included involved employees in USAID, and Kenya Commercial bank which has partnered with GE to provide funding for some of the projects.

1.8 SCOPE AND LIMITATIONS OF THE STUDY

The scope of the study is primarily the private public partnership projects in GE Africa, focusing on the different projects in the countries being operated in. The study begins with looking at the the PPP market development in Africa, and then narrows down to the projects implemented by GE Africa with the focus on the key challenges & milestones faced from the formation stage, due diligence stage, implementation and project handover in the different countries it operates in. Due to the diverse projects that GE has done in the areas of health care, aviation, oil & gas, power, energy connections, transportation, this research mainly focuses on projects that have been done in partnership with the government. These include the two projects in the Healthcare Sector one in Kenya and another in Nigeria. In the Oil & Gas sector the author focuses on partnerships built with government universities in Mozambique. GE has done numerous projects on the power sector, but this paper focuses on the projects done in Nigeria, Angola and Kenya and in the transportation sector looking into the rail project support in Kenya, Nigeria and Angola, Energy projects include GE's participation in the (Kipeto and Kinangop)[35] projects.

The allocated time was not enough to cover exhaustively all the projects mentioned earlier therefore the researcher selected a few of the projects accessible and collected the data required. The scope was set to ensure optimal response was obtained from questionnaire, personal interview conducted.

[35] Kipeto and Kinangop are wind projects in Kenya in which GE partnered with other organizations to supply wind turbines to generate electricity. Both projects had trouble in implementation this will be discussed further in this paper.

1.9 CHAPTER OUTLINE

Chapter 1 – Introduction

In this chapter, the study gives the reader an understanding of the project paper, including how she carried out the research, objectives and literature review on what was previously written on the area of the research problem.

Chapter 2 – Overview of Successes and Failures of PPPs in Africa

This chapter provides an overview of the PPP concept in India, UK, US and China highlighting the successful projects, then conducts a further review of PPP challenges in Africa giving examples of the failed and successful projects, highlighting the key factors that influence the success and failures of PPPs in Africa, and gives examples of approaches that GE Africa has taken to address some of the challenges faces.

Chapter 3 – Funding of PPPs in Africa

In this chapter, the author reviews the element of funding of PPP projects undertaken by GE Africa, focusing on the key factors taken into consideration ensure that the projects are completed within budget and the set duration. Also, a review of the challenges faced by local banking institutions, DFI in funding PPP projects and what measures need to be put in place to create a conducive investment environment.

Chapter 4 – PPP & Capacity Building in Africa

The chapter reviews the role played by PPP in building capacity in Africa. The chapter takes an in-depth examination of the partnerships undertaken with different universities across Africa to empower students in various courses with the aim of building their skills in the various sectors that they engage in. The chapter focuses on highlighting what have been the successes and failures of such partnerships and the benefits of such partnerships.

Chapter 5 - Summary and Recommendations

The study finally gives a conclusion and the recommendations based on the findings.

CHAPTER TWO: SUCCESSES AND FAILURES OF PPPS IN AFRICA

2.0 INTRODUCTION – OVERVIEW OF GLOBAL PPP MARKET

PPPs have played a vital role in stimulating economic growth in India regardless of which political party has been in power. New technologies and software have been the result of partnerships between the private and the public sector. The government now partners with privately owned companies for public infrastructure development and maintenance. These have led to quality provision of public services and knowledge transfer. Mumbai metro system and T3 of Delhi airport are some of the projects implemented under the PPP model which has improved the infrastructure of the country. (Lakdawala 2014)[36]

In the UK, back in 1992 there was an introduction of private finance initiative (PFI) by the conservative government of John Major. Focus was on reduction of the public sector borrowing requirement (budget deficit). The PFI was later improved and expanded by Tony Blair's government which changed its focus to laying emphasis on the value for money. This successfully ensured short term economic growth. However, it also proved costly as long term debts covering a period of almost thirty years into the future were realized. It turned out that the projects were not providing value for money but rather a new way of building things. (Roe & Craig 2004)[37]

Some other parts like in the United States of America PPPs have been exercised further in programs such as my brother's keeper and West Coast infrastructure Exchange (WCX). For instance, WCX was launched in 2012 as a state's partnership aimed at financing and facilitating development of infrastructure needed to improve the regions competitiveness, support jobs and

[36] Expert committee led by Lakdawalla, instituted by World Bank to examine poverty line for India.
[37] Reforming the Private Finance Initiative - https://www.cps.org.uk/files/reports/original/111028110829-PFI.pdf

families, to protect and enhance quality of life in pacific coast. This has been fruitful as indicated by the tremendous economic growth in that region as well as the standard of life. Other examples in the USA include Union Station and New York Avenue Metro Station in Washington, D.C, aimed at improving environmental sustainability which go hand in hand with sustainable development (Casady & Geddes)[38].

In China the municipal government of Shantou signed 50 billion RMB PPP agreements with CITIC group to establish Shantou Coastal New Town. The agreement involved the development of a residential project to cover 168 square kilometers on south district of the city's central business district. It included construction of infrastructure such as cross harbor tunnel and industry development. To this date the town is viewed as a up market cultural, leisure, business hub of the East Guangdong area. In Africa, PPP has been taken to a new level in trying to better economic growth and the standards of living in many of the developing countries. However, unlike the other parts of the world, the PPP market development in Africa has faced various challenges leading to either failure of projects to reach financial close or stagnation of projects thus they are not completed at the stipulated time. In this chapter the author takes an in-depth review of PPP projects in Africa highlighting the success and challenging factors that affecting the performance of the projects.

[38] Carter B. Casady & R.Richard Geddes 2016: Role of PPP Units: Private participating in Us Infrastructure

2.1 FACTORS THAT INFLUENCE THE SUCCESS OF PPPS IN AFRICA

2.1.0 Clear Funding Guidelines and Bidding Process

GE experience in South Africa PPPs has been different compared to other countries in SSA. The government has ensured that the structuring and planning for the Independent Power projects (IPP) are transparent and there is a clear bidding process.

This began back in 2009 when the government started exploring feed-in tariffs (FITs) for renewable energy, but later abolished it and opted for competitive tender's approach. The program, now known as the Renewable Energy Independent Power Producer Procurement Program (REIPPPP), has channeled successfully private sector expertise and investment into grid-connected renewable energy at competitive prices. Private sector has been assigned sixty-four projects in which the first projects are already on line with US$14 billion private sector investment committed. The expected outcome is that the projects will generate 3922 megawatt (MW) of renewable power. The three bidding phases in the program has led to the drop of prices by sixty eight percent on average for solar photovoltaic (PV) and forty two percent for wind this being achieved only after a two-and-a-half-year period of implementation. Stake holders categorized REIPPPP as "the most successful public-private partnership in Africa in the last 20 years." (Eberhand, Kolker Leigland 2014)[39]

When you compare this to Kenya, you find that the process is quite different. For example, in the case of Kinangop project the feasibility studies were done by the private investor, who later reports back to the ministry of energy to get the necessary approvals before the project implementation. Another factor that is a major hindrance is the availability of land, lack of grid

[39] PPIAF May 2014: South Africa's renewable energy IPP procurement program: success factors and lessons

and lack of commitment from the local communities on the ground. The infrastructure in remote areas is also very poor therefore a private investor must put this into consideration when planning for the projects.

2.1.2 Corruption and Political Interference

Political interference and corruption is a key factor affecting PPPs in Africa, we find this in the case of electricity IPP done in 1995 by the Tanzanian government's state-owned electricity company Tanesco[40]whereby a power purchasing agreement with Independent Power Tanzania Limited (IPTL) was signed, this entailed a twenty years' partnership between a Malaysian company and a local private investor to purchase 100MW power from diesel generators. The project became an enormous problem to the country's economy.

> "The donors and consultants involved did not approve the project due to high costs, poor technology and the projected demand for power. The project was finally commissioned on January 15, 2002 after local and international legal wrangling. In the first-year IPTL incurred $40 million cost in capacity payments with only ten percent capacity function. These has led to public outcry since there also alleged evidence of corruptible payments to government officials." (Brian Cooksey)[41]

The contract approval was only done by few government officials either two or three without a proper feasibility study and without consulting the necessary stakeholders. If this had been done properly, the government would have discovered that the actual problem was a lack of gridlines which led to Tanesco buying electricity that it doesn't need at a price that is too high[42] unit. This

[40] Tanesco: Tanzania Electric Supply Company Limited (TANESCO) is a parastatal organization under the Ministry of Energy and Minerals. The Company generates, transmits, distributes and sells electricity to Tanzania Mainland and sells bulk power to the Zanzibar Electricity:

[41] Brian Cooksey, an independent writer in Dar es Salaam

[42] According to those interviewed Tanesco charges consumers 7-9 cents for power while ITLP charges 12cents

is in addition to a charge of $3 million in legislative costs every month that Tanesco is charged by IPTL. (Gratwick, Ghanadan, Eberhard 2006)[43]

2.1.3 Lack of Clear Regulatory Framework

The Nairobi Commuter Rail project was started to address the problem of traffic in Nairobi. The city has about 3.5 million people who currently rely on either an out dated railway infrastructure (only available in Syokimau and Kibera) or congested public road transport since private cars are quite expensive for the lower-class population. The project participants are InfraCo Africa[44] and Kenya Railways Corporation (KRC)[45]and have been working on the feasibility study, design and procurement. The author found out that this project has been on development for almost a decade but has failed to reach bankability stage due to lack of identification of an operator for the line. Some of the respondents noted initially, there was unclear nature of stake holder involvement between KRC and Infraco. KRC assumed that that they would be the ones solely leading the project while InfraCo would play a supportive role. However, from the beginning of the project Infraco took a key role in the project through ensuring that the relevant feasibility studies have been completed, commercial and structuring processes are in place therefore project ownership became a problem.

The tendering for the operator was conducted in 2012, and attracted interest from seventeen recognized international companies from South Korea, China, Europe and South Africa. The government agreed to provide a guarantee associated with the traffic risk on the line, which if not

[43] Gratwick, Ghanadan, Eberhard 2006: Generating power and controversy: Understanding Tanzania Independent power project: Management program in infrastructure Reform and Regulation
[44] InfraCo Africa is a private company whose mandate is to provide funding for early stage projects with an aim of supporting it to become a viable investment opportunity
[45] Kenya Railway Corporation the government authority in railways

present would detract many investors given the risks associated with traffic flows. Despite the seventeen companies that applied for the tendering of the project they are yet to find an appropriate operator, and thus little progress has been in the last few years. One of the reasons behind this is that the PPP Act[46] failed to recognize the Joint Development Agreement that was in place between KRC and InfraCo. The Act states that contracting authorities should be responsible for the development of the project, which in this case would be KRC but InfraCo had already investment heavily in the development of the project and and would like to continue playing a key role in operator selection. Therefore, conflict on who should be responsible for the procurement process still lingers which has limited the project from coming to financial close. (DFID 2015)[47]

2.2 SUCCESS FACTORS FOR PPPS IN SOUTH AFRICA

Those interviewed stated that the success of PPPs in South Africa has been achieved due to the following factors;

- Before indulging on a project the government does a thorough scrutiny of infrastructure and basic services to identify the needs of the consumers. This is followed by a feasibility study that reviews the affordability of the project, what's the value for money, the risks involved and how they are transferred and mitigate then, compare service provision of public sector vs. private sector looking at the financial options for all models and project costs.
- In terms of regulation, the South Africa government has played an important role in by ensuring that regulatory agencies developed are credible and transparent and are effective

[46] The PPP Act was enacted in 2013 after the project had commenced

[47] Mobilizing Finance for infrastructure: A study of the UK department for International Development. (DFID)

in their delivery. In areas where agencies are not available a department has been created within the relevant ministry that is independent and furnished with the sufficient resources required to carry out its services. For example,

> "PPP unit was created in finance and national treasury ministry with a mandate to do PPP project planning, negotiation, implementation and monitoring and evaluation. There are PPP facilitation units in DFI's to encourage knowledge sharing and funding of projects." (Farlam, 2005, P'6)[48].

- The government has ensured that corruption is eliminated through coming up with mechanisms to guarantee transparency at all stages of the tendering process. This entails: inclusion of private sector in the procurement phase, open public hearings for major government contracts and the final selection of contractors.
- Transparency International which is an independent agency has been appointed to oversee the bidding process and ensure that integrity is observed by both government institutions and private bidders.
- Decisions around privation and PPP have been communicated to the public to ease complaints and doubts and to ensure that all are in harmony thus enhancing transparency. In addition, the government has offered clarifications to any issues concerning provision of free basic services.
- Before a project is commenced, an assessment is done to review the extent of social-economic benefits to both the bidder and the public. Also, the political commitment from government institutions to a project has been assessed before approval. (Farlam, 2005, P'6).

[48] Peter Farlam: South African Institute of International Affairs – Nepad Policy Focus Series

2.3 INITIATIVES TAKEN BY GENERAL ELECTRIC TO ADDRESS PPP CHALLENGES IN OTHER AFRICAN COUNTRIES

The company has come up with the Development and Investment team[49] whose core role is to assist with the feasibility studies of the projects; they ensure that cost of projects has been highly maintained and projected. They work together with the involved parties to come up with a multi-year budget framework to assess the affordability of projects. This is effective as most of the projects tend not to complete its life span but terminated due to un anticipated budgetary constraints. The issue of cost recovery has been addressed and infrastructure finances have been well outlined while there has been encouragement of competition that has allowed prices to be brought down.

Another initiative that the company has is the spirit and letter document that states how GE conducts its businesses. All GE employees and contractors and sub-contractors must sign compliance agreement with the company that stipulates all contracts must be done per the law and with transparency. The document emphasizes that all stakeholders should not take bribes or give bribes to the government or any other party to obtain business. All business trips, incentives or monetary gifts given to a third party must obtain necessary approval before being given out and all gifts received that are worth 50$ and above should be declared. The document stipulates that employees need to declare their businesses, board memberships before employment and in the cases, whereby their business is being considered as a supplier to the organization the employee should advise the necessary management in advance and the employee should be involved in the decision making of choosing the supplier. These compliance requirements have

[49] The D&I team consists of 12 team members spread across Africa, the team is attached to different GE Businesses and they assist with projects as need arises

helped the company to refrain from deals that are corruptible and have raised its integrity thus many government have found GE to be a credible partner to do business with.

2.4 CONCLUSION

The lessons learnt from the case studies presented are that a proper feasibility study is required to establish the cost, value for money, technology required and the associated risks of the project. All the necessary stakeholders need to be included from the onset of the projects and approvals obtained. Since PPP deals are vulnerable to corruption, especially in the absence of a proper bidding process and withdrawal from these deals once contract has been signed can be excessively expensive for government, thus they are forced to implement them. In the case of Nairobi Commuter rail, stakeholders noted that the legal framework was a key barrier that has prevented the project from reaching financial close therefore, an enabling environment is a key prerequisite to a project's success, even when international expertise is brought in to assist in the development. In addition, roles need to be adequately defined from the start of a project to prevent conflicting interests which may hinder the completion of the project. The best practices implemented by GE to address some of the issues have helped the company to conduct business with integrity, though at some instances it has had to lose out on some projects but this has been worthwhile since its integrity has been maintained. Clear and competitive bidding process needs to be defined to ensure the government obtains a cost effective and competitive private partner to take up projects, this is seen in the South African REIPPP process.

CHAPTER THREE: ROLE OF FINANCIAL INSTITUTIONS IN PPP UPTAKE IN AFRICA

3.1 INTRODUCTION

Constrained financing markets have made governments to come up with mechanisms to stimulate market interest and make PPP more attractive. The benefit of PPP approach is that government incurs a relatively small investment (for example through co-funding or a guarantee) while a much larger increase in total financing by private sector is done. In South Africa, Project Development Facility (PDF) is a single-function trading entity, created within the National Treasury in accordance with the Public Finance Management Act. Its main function is to support the government with reviewing the transaction costs of PPP procurement. The PDF works in collaboration with the department of provincial and local government's municipal service partnerships unit, to provide funding for the conveyance of feasibility studies and procurement of service providers, and may also consider funding the costs of procuring the project officer. (Farlam 2005).[50]

Similarly, in India project development fund IPDF was introduced by IL&FS towards funding expenses incurred in project for large-scale infrastructure projects in transport, ports, water and power. IPDF meets all project development costs and takes on the development risk upto financial closure. IPDF is one of the first equity fund in India to provide project development funding that covers project design & techno-financial feasibility; environmental, social & market Studies and establishing contractual framework.[51] In Kenya to enhance an enabling environment for PPPs to be successful the government has taken several steps to do so, this includes: Establishment of the PPP Project Facilitation Fund (PFF) under section 68 of the PPP Act, 2013.

[50] Peter Farlam is a researcher at the Nepad and Governance Project at the South African Institute of International Affairs: Paper Nepad Policy Focus P'16

[51] Information on IPDF http://www.ilfsindia.com/projects.aspx?prid=15&catid=3&slnk=65&cid=5 – last accessed 10th Nov 2016

The fund purpose is to support contracting authorities in the early-stage project review i.e. project preparation, assessment and tendering phase. It may also come in handy to assist in any financial gap and contingent liabilities that PPP projects may incur. Fiscal Commitment and Contingent Liability (FCCL) Management Framework has also been drafted with the aim of ensuring that funds are fully utilized during the implementation of PPP projects. The unit is considering deepening the domestic capital market to provide funds to invest in PPPs, and capitalizing on the rapidly growing pension and insurance funds. (Diba 2015)[52] In this chapter the author will review the funding options that are available for PPPs and how various key issues that affects the funding of projects and how GE has addressed this issue since it's a key component to the success of PPP projects.

3.2 APPROACHES TO FUNDING

3.2.1 Energy Financial Services

GE uses its energy financial services to invest in long-term and capital intensive projects The firm has thirty-five plus years of experience managing energy assets through multiple economic cycles, and a global portfolio that covers renewable power, oil and gas projects. (GE Annual report 2015)[53]

3.2.1.1 Equity Solutions

The company also provides equity investment that covers a wide range of energy assets and projects, depending on the kind of project, the investment will either be done individually or in partnership with others. (GE Annual report 2015)

[52] Presentation by Khadija Diba on PPP- 3rd November 2013 in Turkey
[53] Hard copy GE publications, annual report 2015 P'40 – To access the soft copy visit http://www.ge.com/ar2015/assets/pdf/GE_AR15.pdf last access 15 Nov 2016

3.2.1.2 Debt solutions

Another approach is through debt solutions which include debt financing, leases, or preferred limited Partnerships. This capital purpose is to support companies to engage in new projects, progress their operations, and indulge in new acquisitions opportunities or capital expenditures. (GE Annual report 2015)

3.2.2 Funding Approaches in Africa

In January 2014, GE partnered with USAID and Kenya Commercial Bank (KCB), in a $10 Million Healthcare financing program.[54] This approach was designed to give Kenyan healthcare providers access to local credit for the purchase of equipment. This was in response to the lack of local credit for health facilities in Kenya to purchase medical and diagnostic imaging equipment. The risk-sharing agreement with USAID will allow KCB to provide flexible lending rates to customers in the health sector looking to purchase GE equipment, including products manufactured outside the country. This partnership is one of a kind that supports a multinational company. The nature of funding is that qualifying healthcare providers will have access to financing through improved risk-sharing, training, and services. This approach will provide the customers with longer loan terms, modest interest rates, and upfront capital investments.

In Nigeria, there has been significant progress in equity investment to support the first phase of the development of a seventy-five bed women's hospital, the American Hospital in Abuja and will continue to support the hospital with diagnostic imaging equipment and training. The company has also partnered with National Primary Healthcare Department Agency (NPHCDA) and USAID to provide solutions for rural care of mothers and infants. In addition, they have

[54]https://www.usaid.gov/news-information/press-releases/jan-28-2014-usaid-and-ge-partner-kenya-commercial-bank-open-health-financing

signed a $20 million five-year contract with the Federal Ministry of Health and USAID to reduce child-maternal deaths in Nigeria. This entails forming a new Healthy margination Mother and Child Initiative as well as supporting the ongoing efforts of the Ministry of Health's "Save One Million Lives" programme which tackles maternal and infant mortality in Nigeria. This partnership enhances funding, provides more technology and expertise that develops solutions to assist Nigeria build capacity for maternal and infant care.

3.3 CHALLENGES TO ACCESSING FINANCING IN AFRICA

3.3.1. Access to international currencies

Due to volatile inflation in the recent years many SSA countries outside of South Africa, have experienced challenges in accessing international currencies. The below figure 3.1 shows the inflation trends in Sub Saharan African countries:

GDP GROWTH IN SUB SAHARAN AFRICA

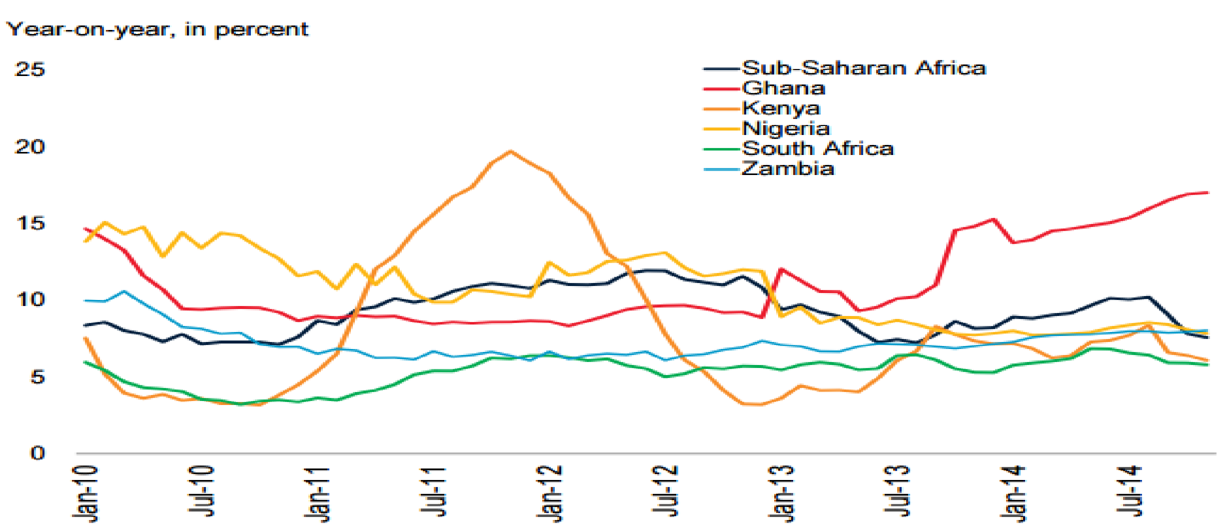

Fig 3.1 Source: World bank[55]

[55] Information found on the world bank report can be found on: https://www.worldbank.org/content/dam/Worldbank/GEP/GEP2015a/pdfs/GEP2015a_chapter2_regionaloutlook_SSA.pdf

These changing inflation rates limit the creditors from providing fixed rate local currency loans at flexible interest rates, considering that when they mature the value of these loans may have expressively decreased. Therefore, lenders providing credit in local currency are seeking to provide loans either of a short-term nature or index-linked. We also find that due to the nature of equipment required in some of the PPP projects for example the wind turbines for the Kipeto and Kinangop projects cannot be manufactured locally. This has caused the private sector to only accept projects in dollars as opposed to local currency which leads to high projects costs incurred by the government.

3.3.2 Lack of local long term fund

Due to the long-term nature of PPP projects has made it difficult for commercial banks to provide finance in local currency as their current account liabilities are mainly short-term in nature. Therefore, the maximum tenor local banks can provide on their loans is seven years, which is shorter than the financing required for large PPP projects.

3.3.3. Lack of capacity in Local banks to finance PPP transactions

Debt financing for PPP projects has been dominated by Donor Funding Initiatives (DFIs), with some financing also coming from South African banks and the financing is provided in tradable international currencies such as the US dollar. Therefore, local commercial institutions without easy access to foreign exchange have rarely been involved in transactions, except for CfC Stanbic, (Standard Bank, SA). Therefore, local institutions have not developed the relevant in-house skills to support PPP transactions, putting them at a disadvantage and to the private investor.

3.4 BARRIERS TO FUNDING OF PROJECTS

Despite the relatively high level of activity being undertaken by the private sector in some of the PPP projects, the respondents interviewed noted that Africa has not been on target for meeting their targets in Financing. To close this gap using private sources, stakeholders noted several issues need to be overcome so that projects can reach the bankability stage.

1. **Commitment by government to support private sector participation:** Government has looked at PPI as an alternative form of investment into the sector when public resources and / or donor funding is not available or if the Government feels such projects are less attractive, as opposed to selecting PPPs projects when private sector participation is ideal.
2. **Transparency and delays of projects:** This is an important issue in Africa that needs to be overcome. For example, in Kenya the nature in which Chinese involvement was brought onto the large-scale infrastructure projects such as the SGR line and the JKIA expansion has not been clear. While many stakeholders understood why the Government would prefer to bring in Chinese financing for infrastructure over other forms, there have been concerns over whether corruption was involved in the tendering and financing of these projects
3. **Lack of the ability to charge cost-reflective tariffs:** A key to bankability requirement of a project is ensuring that lenders can recover their investments through the tariffs charged for the provision of services. However, governments struggle to raise adequate

funding to pay for this, which explains the huge infrastructure deficit present in the continent. In transport, it is currently unclear whether individuals will be willing to pay tolls at levels sufficient to enable private sector provision. The introduction of tolls will need to be accompanied by significant improvements in the roads on which they are being introduced.

4. **Restricted capacity within government:** The understanding of the concept of PPPs in government has increased significantly over the past decade with the establishment of the central unit and the PPP nodes in both line ministries and key parastatals, although some have suggested that building this capacity has taken significantly longer than expected. In the case of the central PPP Unit, several stakeholders have commended the work they have been doing as of late, however, it was also suggested that the Unit is very over-stretched now due to the large number of proposals being received from line ministries. Despite the quality of proposals being received has significantly improved, a high number are still being forwarded to the PPP Unit, suggesting that individuals in government have not fully grasped what projects can be developed as PPPs.
5. **Project development issues at the initial stages:** The issues regarding the quality of project developers with the capital required to take a project to the bankability stage were mentioned as being one of the single key barriers to attracting investment for infrastructure, even in the relatively well-developed energy sector. Per some stakeholders, this is largely a result of the sector being in relative infancy and therefore developing the necessary experience has been particularly difficult.
6. **Clear project development rights:** While the PPP Act in many countries provides clear guidelines on the stages which PPPs should follow from identification through to

procurement of sponsors for newly developed projects, we find that this Acts were implement recently therefore some stakeholders suggested that the Act's guidance is less clear for projects that were already in development prior to the Act being enforced. This has resulted in the ownership of projects being disputed, and in turn has stalled projects from reaching the stage whereby procurement and attracting financing can begin.

3.4 CONCLUSION

In Africa, it is becoming increasingly critical to develop projects, to make them bankable, to solve the regions chronic infrastructure shortage in the Power, Oil & Gas, Transportation and Healthcare sectors. There is need to involve financial institutions in the PPP projects from the onset to weigh financial support options. The Local banks need to be provided with incentives and support so that they can support PPP projects putting into account the inflation rates and the duration of the projects. Multinationals need to come up with investment solutions and partner with financial institutions to seek funding options for PPP projects considering they require huge investments due to their nature. If all this factors are put into considerations it will be easier for projects to reach bankable stage.

CHAPTER FOUR: PPP & CAPACITY BUILDING IN AFRICA

4.1 BUILDING THE CAPACITY OF THE PUBLIC AND PRIVATE SECTORS

Skilled labor is a constraint in PPPs especially in fields that require a special expertise to perform a specific task. Capacity development is required so that employees are equipped with knowledge on how to plan, negotiate, implement and monitor PPP projects successfully. Large scale PPPs can be complex for counties with limited skilled laborer, the lack of a robust private sector in many countries means that governments are unable to get the right expertise required to develop projects, resulting to difficulties in raising funds for PPPs. Most of the private sectors involved in PPPs are usually forced to bring in expatriates from their mother companies to perform the tasks required. For example, in General Electric engineers are brought in from the US and other regions to operate and maintain the equipment's they install. This raises the cost of maintenance and of the project as well. There is need to empower the local talent to take over the operation of the service or project provided to minimize on cost. In this chapter the author will review initiatives that General electric has taken to build capacity in the countries they operate in to ensure reduction of costs for the projects they are involved in. In this chapter the author will review the various initiatives that the company has taken to address the issue of capacity development.

4.2 LOCALIZATION

In the last five years, GE Nigeria grew its employees count from 120 people to over 500 employees with offices in Lagos and Abuja and service workshops in Port Hacourt and Onne. Over 90 percent of the employees are indigenous Nigerians. There is also commitment to invest in new assembly and manufacturing facilities located in Calabar and service the power generation and Oil and Gas sectors. These initiatives are aimed at promoting local talents and increasing manufacturing firms within the country as opposed to importing from other countries. The company has signed a five-year contract with the government of Nigeria to encourage development of infrastructure projects and the transfer of skills and technology. As part of this commitment newly recruited technicians and engineers were sent to Brazil for training. The young Nigerians, most of whom are just fresh from school were in Brazil for a one month long training. (GE publications 2016)[56]

4.3 ESTABLISHMENT OF TRAINING CENTERS

There are various training centers that have been set up by GE with the aim of empowering the local capacity with skills that will enable them to operate the machines manufactured by the company, this includes:

1. South Africa – African Innovation center: This is a local center of excellence for innovation and technology transfer for both customers and employees, the company also invested R200 million in supplier development.
2. Calabar - GE has invested $1 billion in new training facilities, providing new equipment, as well as new mechanical and electrical workshops to empower staff on use of new technology equipment.
3. Nairobi - In June 2016, GE opened training school worth Sh1.3 billion, the main aim of the school is to train 10,000 healthcare professionals in the next three years. The facility will bring on board radiologists, biomedical engineers, and technicians and train them on better health practices. CS in the Ministry of Health Dr. Cleopa Mailu stated that "the center will play a critical role in supporting the development of a pipeline of future

[56]Information obtained from a publication of GE Nigeria edited by Osagie Ogubor – senior communication manager GE West Africa

biomedical engineers, radiologists and technicians thus help reduce skills gap and build a solid national healthcare system."[57]

4.4 PARTNERSHIP WITH UNIVERSITY AND COLLEGES

GE has officially commissioned the Lagos University Teaching Hospital (LUTH) Biomedical Training centre which it refurbished and equipped to train and build a sustainable pipeline of qualified medical engineers. So far about 19 technicians and engineers have been trained. Other partnerships that have been signed include:

- MoU with University Eduardo Mondlane with a commitment of $250,000 to support scholarships, curriculum development/enhancement, develop projects of mutual interest, deliver seminars and teacher training.
- MoU with University of Lúrio with a commitment of $250,000 to build a science lab and support capacity building.
- MoU with National Petroleum Institute for local delivery of courses normally delivered at the GE Oil & Gas University campus in Florence, Italy.
- Partnerships with accredited institutions, such as Mozal Artisan Training Centre, so that newly hired GE Oil & Gas field service engineers can be trained locally.

4.5 CORPORATE SOCIAL RESPONSIBILITY[58]

GE partners with communities to empower equip and elevate them with valuable skills, new tools and technology and ideas that will assist in solving some of the challenges faced in Africa. Some of the initiatives include:

[57] Information obtained from http://www.standardmedia.co.ke/health/article/2000205945/ge-opens-up-sh1-3-billion-training-institute-in-kenya - last accessed 11/11/16

[58] GE has invested heavily on its CSR through the kujenga initiative, more Information obtained from GE website http://www.gesustainability.com/where-we-work/africa-ge-kujenga/ - Last accessed on 11th Nov 2016

- Scholar program of $500,000 to students at African Leadership Academy (ALA) in South Africa and providing the students with internship opportunities once they graduate. In 2015 six ALA graduates were employed making the company one of the major employer of ALA graduates for the year. The foundation also donated $100,000 grant for students in Ghana and Mozambique with the aim of supporting governments in capacity development.
- The company has also supported education institutions with equipment's that will enhance learner experience, for example in South Africa, the underprivileged pupil's om Kromdraai community received 2 fully-equipped classroom containers and a service container. These provided about seventy-five children with access to fully-equipped education facilities and fifty adults who attend schooling and training in the evenings. Also St. Lucy's School located in Meru, Kenya benefited from a donation of $50,000 towards purchasing equipment's for a computer lab for students with visual impairment. The Technical College in Calabar, Nigeria also received a donation to assist in upgrading of its facilities, equipment, instructor training and the curriculum.

4.5 CONCLUSION

Capacity development is an important factor that contributes to the success of PPPs. It plays a key role in the costs of the projects. In Addition, PPP project duration is quiet long therefore it will require skilled labor to be able to manage the process to completion through the localization initiative. We find that GE has taken a key role in ensuring that the local skills are well trained and able to take up projects thus providing local labor as opposed to use of expatriates. Setting up of local training institutions is key to the development of skills for other players in the industries so that the knowledge is not only maintained within the multinational corporation but it is also share to the other stake holders involved especially in health this is seen in the building of training centers in Kenya and South Africa. Partnership with the universities like ALA assists in passing of knowledge to the future generation and providing the students with job opportunities assist them to build experience to the knowledge acquired. This is key for future PPP projects since the countries involved will have local skills that can take up future projects.

CHAPTER FIVE: SUMMARY & CONCLUSION

5.1 INTRODUCTION

This chapter presents the summary of findings, conclusions drawn from the findings and recommendations made. This chapter summarizes the findings of the study in relation to the study objective which was to examine the initiatives that both public and private sectors can take to improve the uptake of PPPs in Africa. The conclusion forms the basis on which the recommendations are made.

5.2 SUMMARY OF FINDINGS

From the study, it was evident from that over the years there has been an increase in collaboration between the private and public sector to improve the PPP market. Most respondents indicated that African countries have now embraced the enactment of PPP law and a PPP unit that fore sees the management of PPP and more private sectors are being invited to get involved in the PPP project onset process but not in all. But in as much as some governments have implemented a legal framework it is still too early to conclude whether it is helping the projects to reach financial close therefore, a further study may be required in future to assess whether the PPP act and policies are working.

Another challenge that came out strongly were lack of a proper feasibility study to establish the cost, value for money, technology and public demand. Most of the respondents felt there was still a failure by the government to involve stakeholders at the project development stage therefore evidence of corruption was still being experienced in some of the projects reviewed. The respondents agreed that some of the best practices e.g. the “spirit & letter” document, implemented by GE that defines how it does its business has helped to enhance integrity therefore they have experienced very few cases of corruption. The study also found that when there is a clear and competitive bidding process the government obtained a cost effective and competitive private partner to take up projects, this was seen in the South African REIPPP process.

The study also established that very few financial institutions involved in the early stage PPP project identification, this is because Africa has few local financial institutions that have the muscle to support large investments. Most of the respondents advised that the local banks do not get the necessary incentives e.g. long term loans from the Central Bank to support PPP projects. It was also noted that Africa is a volatile market therefore lending is highly affected by the changing inflation rates and currency depreciation making it difficult for the banks to give a competitive loan interest rates to private sector participating in PPP projects.

There is need for local skilled laborers to take up PPP projects as this helps to reduce the costs of the projects. Respondents noted that the initiatives taken by GE to enhance localization has helped the company to reduce it costs in terms of employee compensation and benefits compared to what is paid to expatriates. This initiative has also helped the company to meet government regulations in terms of how many local employees should be involved in a project. In Addition, the respondents noted that the partnership with universities is a long-term investment in growing specific talents that will benefit PPP's in the future as once the students have acquired skills from the universities, they will need to be absorbed in the work environment and build the experience and expertise that will benefit future projects.

5.3 RECOMMENDATIONS

From the case studies reviewed in this paper the following key areas need to be considered by governments and the private sector to improve the uptake of PPP's in Africa.

1. Conduct need analysis review of infrastructure and basic needs of the public, considering all the options that can be undertaken to meet these needs before deciding on which option is best suited to meet the need. For example if it's to enhance renewable energy for a certain area it's good for the government to check whether they can use the resources within the government or bring in private expertise.
2. A thorough feasibility study to determine the following:
   - Review the affordability of the project being conducted by public sector visa vie private sector.
   - Prior calculating of project costs to avoid unnecessarily high design specification. And, a review of all the financing options with all the necessary stakeholders
   - Risk identification should be done allocating specific parties to take up the risk and devise risk mitigation strategies and processes.
   - Multi-year budget framework should be planned with specific government institutions and addressing the issue of cost recovery and how the project is to be financed.
3. Create an environment that encourages competition to drive lower pricing for projects and Provide political guarantees to investors where appropriate to avoid political interference to projects.

4. Build clear regulatory framework that is transparent, credible and addresses the needs of the country. The regulatory agency can be created in any department within the

government ministry but they have ensured that it is independent and has resources to regulate over PPP matters.

5. Create a PPP Unit in the Ministry of Finance or other relevant ministry that is independent from government interference and has resources to manage & monitor PPP projects.
6. Develop capacity at all government levels through sharing expertise with the private sector employees involved in projects. The management contracts should emphasize on the transfer of skills to local staff. Partnerships should only be with experienced private operators with proven track records. Establish PPP facilitation units that are attached to development finance institutions (DFIs). And focus on developing the employees with the transaction skills i.e. finance, legal, marketing and industry specific skills.
7. Corruption should be eliminated through establishing mechanisms that guarantee transparency at all tendering stages. These should include:
   a) Setting of precise procurement conditions
   b) Open public hearings for government contracts, and the final selection of contractors;
   c) Involve independent agencies such as Transparency International to manage the bidding process and command private bidders to an integrity agreement.
8. Structural reforms should be implemented where appropriate to gain public buy in for projects. The reforms should involve a public communication framework that provides the public with all information regarding upcoming projects. In addition, conducting a survey to determine the extent to which a project contributes to the local socio-economic environment; and assessing the political commitment to a project from government institutions before implementation.

9. Define the investment obligations of the private sector. Provide incentives and penalties for network extension (or lack thereof).[59]

10. Institutions like the banking association, development finance institutions, donor community and non-governmental organizations have a key role in supporting government and private sector capacity in PPP through funding of projects or the feasibility study to ensure a project comes to financial close. To enhance knowledge sharing there is need to develop a peer review mechanism within African countries to highlight each country's best practices, showing the PPP structures and laws and advising on what need to be changed or reformed. In addition, conducive investment climate for both local and foreign companies is required for governments to harness partnerships that involve the best of the private and public sectors. (Farlam 2005)[60]

We also find that private sector has a key role to play to ensure the success of PPP projects, the following measures need to be put in place when engaging in PPP.

1. Have a well-defined structure that conducts feasibility study for projects before engaging in any project, ensuring they have a well laid out plan that will ensure the projects come into financial close
2. Seek to build capacity within the country they are operating in, this will ensure lower costs since the locals will be paid local currency. This will also help the organization move from use of expatriates to manage projects

[59] Peter Farlam Nepad Policy Focus Series: Assessing Public–Private Partnerships in Africa p' II -IV
[60] Peter Farlam Nepad Policy Focus Series: Assessing Public–Private Partnerships in Africa P'55

3. Work in partnership with other financial institutions to provide financing for projects, and seek ways that they can finance projects internally through use of equity investment or debt funding
4. Apart from just gaining from investment in projects, private sector should seek to come with initiatives to empower and equip the local communities within the areas which the projects are being implemented. This will help with enhancing relationships and building the community at large.
5. As much as the government is considering facing out corruption, private sector should also come up with internal measures that will prevent its employees and suppliers from engaging in corruptible projects. It should set up rules and regulations that bound the employees from giving or receiving bribes to secure partnerships with the governments. This will help enhance credibility of the organization and the integrity of doing business in Africa.

Policy makers should also put these measures into consideration when approving multinationals corporations that can participate in PPP uptake in Africa.

5.5 CONCLUSION

The main objective of this study was to examine the initiatives that both public and private sectors can take to improve the uptake of PPPs in Africa. The author noted in the hypothesis that a conducive political environment and a distinct regulatory framework are key factors that determines the successful implementation of PPP project in Africa, this was found to be true in the projects done in South Africa whereby in the last decade the country has experience a growth in PPP due to the measures put in place to ensure minimal political interference. In other countries like Kenya the author examined that it was still early to weigh the the impact of the regulatory framework as it had only been enacted 3 years ago but most of the respondents noted that having a right framework in place was the right direction for PPP development in Africa. The study also found that financial institutions play a major role in the identification and implementation of PPP projects Africa and their involvement at every stage of the project will help to increase the number of reaching bankable stage. In addition, the author found that multinationals like GE have put initiatives to build local capacity, since 2011 the number of local permanent employees has grown to 2600 compared to previously whereby the company use joint ventures approach with local companies and only send expatriates from abroad to monitor project performance. Partnership with university is a long-term investment that will ensure a continuous inflow of skills from the universities and the Kujenga initiative (CSR) is a great approach that ensures that the local community also benefits from the projects that have been put in their environment.

5.6 SUGGESTION FOR FURTHER STUDIES

Based on this research, there is need to do a further research on the performance of the PPP unit to enhance PPP's in Africa. A comparative study of the units in the developing world like in countries like China, Canada, US, UK and Africa to bring the best practices that country can use to develop or improve their PPP unit and uptake of PPP projects in the respective countries.

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APPENDIX

SAMPLE QUESTIONNAIRE

Part 1: Instructions

This questionnaire is designed to collect data that will help in better understanding in the implementation process in PPP in Africa and the role of the private sector.

The data provided in this questionnaire will be treated in strict confidence

Please specify the type of organization you are involved in.

- ☐ Public Sector
- ☐ Private Organization
- ☐ Financial Institution
- ☐ Trusted Advisor
- ☐ Sub-Contractor

Part 2: Data regarding the project under study:

2.1 Name of the PPP project that you are currently undertaking or those you have participated in the past.

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2.2 What was the type of PPP arrangement

- ☐ Design/Build/Finance
- ☐ Design/Build/Operate/Maintain
- ☐ Concession Contracts
- ☐ Traditional design-bid-build (turnkey)
- ☐ Design/build

Other: Please specify

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2.3 Please specify which sector the PPP is involved in:

- ☐ Infrastructure (Rail, Road)
- ☐ Energy
- ☐ Health
- ☐ Education
- ☐ Construction
- ☐ Other (Specify)

2.4 Rate the project success with regards to the objective set on cost, schedule and quality

- ☐ Very Successful
- ☐ Successful
- ☐ Moderate
- ☐ Unsuccessful
- ☐ Very unsuccessful

2.5 PPPs is an alternative method of delivering projects in Africa but it's still in premature stages in Africa. In your opinion, do you think the PPP model has been effectively implemented in the delivery of projects in Africa?

- ☐ Yes
- ☐ No

Comment

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PART 3: Success and Failures of PPP

3.1 Use the scale 1 (Strongly Disagree) to 5(Strongly Agree), and record a check (√) to indicate the extent to which each of the following statements apply to the PPP projects you have participated in

SCALE
1= Strongly Disagree 2= Disagree 3= Neutral 4= Agree 5= Strongly Agree

	Factors that affect the implementation of PPPs in Africa	1	2	3	4	5
3.1.1	Level of PPP stake holder awareness is inadequate in Africa, there is need to educate the public and the private sector on government initiatives on PPP projects to get a buy in from all stake holders.					
3.1.2	PPP implementation is only effective in selected infrastructure projects like transport, water and power as opposed to other sectors					
3.1.3	There are few locally based contractors, developers and agencies with the ability to invest on PPP projects					
3.1.4	The existing policy framework has not been effective in the implementation of PPP models					
3.1.5	High transaction costs and long concession periods involved in PPP projects reduce the number of agencies and participants in PPP deals					
3.1.6	There is lack of transparency from the government in the PPP procurement processes causing many investors to shy away from participating in projects					
3.1.7	Poor decision making in the decisions that provide the most cost effective project solutions have led to the failure of PPP projects in Africa					
3.1.8	Political interference is a key factor that affects the implementation of PPP projects in Africa					
3.1.9	Strong leadership and support from the government and private sector is required to ensure commitment to the completion of the project					
3.1.10	Lack of funding is a major hindrance in the PPP market development since the projects involved require heavy investment over a long period					
3.1.11	The lack of skilled local developers has resulted in many PPPs being developed by international organizations, which according to some stakeholders has significantly increased the cost of projects reaching financial close.					

Please specify any other challenge or success factor that impacted on the project you are working on:

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3.2 How would you rate the performance of the PPP regulatory framework in creating policies that support PPPs in the country you operate in?

- ☐ Very Good
- ☐ Fair
- ☐ Good

- Poor
- Moderate

3.2.1 Based on your answer above do you think the framework has played a major role in the success or failure of the project you were involved in?

- Yes
- No

Comment

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3.2.2 Are there policies in the framework that ensure knowledge sharing between the private sector employees and government employee?

- Yes
- No

If yes above how would you rate them

☐ Very Good ☐ Fair ☐ Good ☐ Poor ☐ Moderate

3.3 The political environment of a country determines the government commitment to the success of PPP projects. Would you agree with this statement?

- Yes
- No

3.3.1 In your opinion, how has the country political system interfered or supported the project you are involved in?

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3.4 In a scale of 1-5 (1 - little interference and 5 - high interference) how would you rate the level of political interference in the implementation of PPP in the following years of involvement:

- 1980 to 1990
- 1990 to 2000
- 2000 to 2010
- 2010 to 2016

Comment

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Part 4: Funding of PPPs

4.1 At what stage is funding for the PPP projects identified

- ☐ Initial phase
- ☐ Definition phase
- ☐ Design phase
- ☐ Development phase

4.2 How frequently is the funding agency involved in make decision regarding the project?

- ☐ Never
- ☐ Frequently
- ☐ Rarely
- ☐ Always
- ☐ Occasionally

4.3 In a scale of 1-5, How would you rate the below factors that form the basis of the criteria used when selecting projects for funding?

	Criteria for funding projects	1	2	3	4	5
4.3.1	Project risk					
4.3.2	Credibility of the private investor					
4.3.3	Project social benefit					
4.3.4	Project cost					
4.3.5	Expertise available for the project					
4.3.6	Country political structure					
4.3.7	PPP regulatory framework in place					

4.4 What measures are put in place to ensure accountability of funds given and completion of the projects

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Part 5: Private investor Involvement in Project

5.1 At what stage of the project is the private partner selected

- ☐ Initial phase
- ☐ Definition phase
- ☐ Design phase
- ☐ Development phase
- ☐ Implementation phase
- ☐ Other – Specify

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5.2 Are there defined performance requirements established before project commencement

- ☐ Yes
- ☐ No

If yes above how would you rate them

☐ Very Good ☐ Fair ☐ Good ☐ Poor ☐ Moderate

5.3 How does your organization approach the funding of projects to ensure continuity?

- ☐ Financial institutions
- ☐ Own investment
- ☐ Pay back from the government
- ☐ Other: Please specify

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5.4 Due to the long duration that PPP projects what measures are put in place to ensure completion of the projects?

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5.5 Is there a defined project handover to the government process?

- ☐ Yes
- ☐ No

5.5.1 If yes above who defines the process?

- ☐ Government
- ☐ Private investor

5.5.2 How would you rate the handover process?

☐ Very Good ☐ Fair ☐ Good ☐ Poor ☐ Moderate

5.6 What other initiatives has your organization developed to ensure capacity building in Africa

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5.7 What other measures would you suggest that private investors can take to enhance PPP capacity development in Africa?

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