ZAMBIA DEVELOPMENT AGENCY

Public - Private - Partnerships in Infrastructure Development in Zambia

29th January, 2014

1. PPP POLICY AND LEGAL FRAMEWORK

In December 2008 the Government approved a Policy Framework for the implementation of PPPs in Zambia. This sets out Government's strategic objectives to facilitate the provision of infrastructure and effective delivery of social services using PPP arrangements in order to ensure that economic growth is attained through enhanced productivity, improved competitiveness and wealth creation. Following the Policy pronouncement by Government, Parliament in August 2009, passed the PPP Act No. 14 of 2009 which aims to promote and facilitate the implementation of privately financed public infrastructure projects in Zambia.

2. PPP DEFINITION AND DISTINGUISHING FEATUTRES FROM TRADITIONAL PROCUREMENT

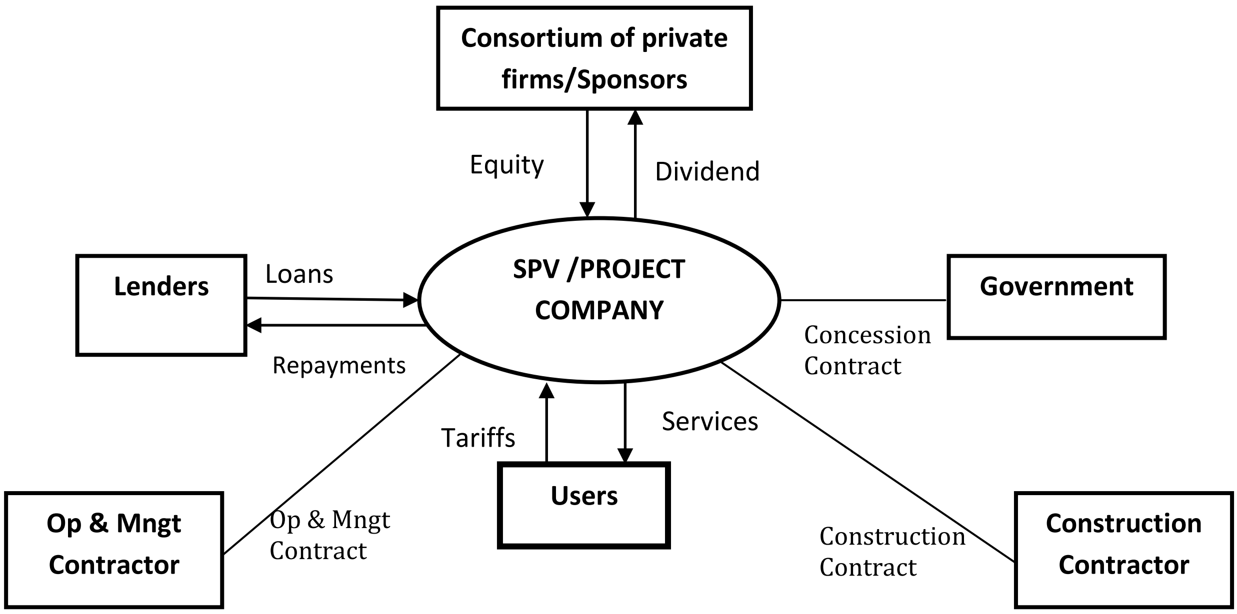
2.1 WHAT IS A PPP?

A public-private partnership refers to collaboration between the public sector (government and/or its agencies) and the private sector (profit driven individuals or corporate entities) to share the benefits and risks in undertaking specific projects. Thus, any form of partnership between public authorities and the private sector for the construction, management and/or provision of an infrastructure or public service can be considered a PPP.

PPPs rely on the expectation that the private sector is better suited to provide an infrastructure or public service through:
• Higher operating efficiency
• Better service quality/reliability
• More cost-efficient use of public money on other public services
• Better value for money
• Transfer of some of the risks to the private sector
• Transparency

Below is a simple example of a typical structure of a build-operate-transfer (BOT) project.

Figure 1: Typical structure of a Build-Operate-Transfer project



Based on the structure above, the expectations of key stakeholders in a PPP arrangement are as follows:

- The government's desire is to ensure there is certainty of service provision as well as the protection of the public interest;
- The private sector's desire is to generate an adequate return on investment (shareholders' funds and loans);
- The taxpayer's desire is to get value for money; and
- The user's desire is for adequate services.

2.2 KEY DISTINGUISHING FEATURES: PPPS FROM TRADITIONAL PROCUREMENT

PPP procurement is only one of the several options for procuring infrastructure. Government may choose to procure infrastructure or service through the traditional route or may decide to use the PPP arrangement. However, the most effective PPPs are those that adhere to certain core principles as described below:

2.2.1 **GOVERNMENT PURCHASES SERVICES NOT ASSETS: ALTHOUGH PPPS MAY ENTAIL FINANCE,** design, construction and/or operation of the physical infrastructure, the ultimate objective is the provision of the service. The payment that the private sector would receive for providing such services should therefore cover all costs for providing the service such as costs relating to development of infrastructure, operations and maintenance of the facility, spread over time. Because the government and/or the public is only purchasing services, Government would only pay the private sector upon satisfactory provision of those services.

2.2.2 **Government specifies the service output required and not the inputs**: The major difference between PPPs and traditional procurement is that the requirements to be met by the private sector service provider are defined as output specifications e.g. *"…a water treatment facility capable of providing one million kilolitres of potable water meeting WHO standards per day..."* could be a PPP output specification. This stands in contrast to the traditional approach which focuses on inputs i.e. specifying the precise construction details of the water treatment plant, including all the equipment and machinery installed in it.

2.2.3 **The private sector provides the design, build etc., capabilities**: This means that Government leaves the private sector to determine how best to achieve the ouput specified in the contract. As such, the private sector provides all the details in terms of design, construction, operation and maintenance – and if desired, the financing – of the infrastructure required to provide the services. However, Government should satisfy itself that the specifications (inputs) offered by the private sector to create the infrastructure by which the services are to be provided are, in their entirety, capable of providing the specified outputs.

2.2.4 **Risks are identified and placed with the party best able to manage them**: Because the specifics of the design, construction, operation, etc., of the facilities by which the services are to be provided are left to the private sector, the private sector also assumes the risk that the infrastructure so designed, constructed and operated will be capable of achieving the desired outputs.

2.2.5 **The private sector is paid only according to performance**: The private sector service provider is paid only when the levels specified in the PPP contract are achieved. Thus, the primary risk left with Government is that it has funds available during the terms of the PPP contract to pay for the services anticipated in the contract. This transfer of performance risk to the private sector is a significant incentive to the private sector service provider to be as efficient as possible in achieving the specified service levels.

2.2.6 **The key PPP project objective is to achieve value for money**: Value for money is a key requirement for a PPP. This means that, over the life of the project, Government total expenditure, adjusted for the risks that have been transferred to the private sector, will be less, on a Net Present Value basis, than if it had performed the services itself.

3. TOPICAL ISSUES IN PPPs IN ZAMBIA

3.1 HOW EFFECTIVE ARE PPPS WITH PARTICULAR REGARD TO INFRASTRUCTURE DEVELOPMENT IN ZAMBIA?

Since the PPP Act was passed by Parliament in 2009, there has been only one concession agreement under its provision, namely, the Redevelopment of the Long Acres Lodge by the Thuthuka Group International of South Africa. It is a US$ 200 million project that envisages the development of a five-star hotel, a shopping mall, conference centre, office complex and related infrastructure. However, the transaction has not yet achieved financial close due to reasons provided in section 3.4.1 of this paper. Thus, we will tackle the question of how effective PPPs are in infrastructure development in a generic approach as below.

3.1.1 **General Effectiveness of PPPs in Infrastructure Development:** PPPs can leverage government efforts in the development and provision of infrastructure and services. Below is some of the key general effectiveness of PPPs in infrastructure development.

A. **Zambia's Infrastructure Funding Gap**: According to the Africa Infrastructure Country Diagnostic Country Report (Zambia 2010) produced by the World Bank, Zambia needed to spend US$1.6 billion a year over the decade 2006-2015 to develop its infrastructure to the level found in the rest of the developing world. This would be equivalent to 20% of Zambia's GDP and it is about double the country's rate of investment in recent years. The report thus estimated Zambia's infrastructure funding gap at US$500 million per year (6.5% of GDP) for the ten years from 2006 to 2015. Closing the gap required raising more funds and looking for more effective ways to meet infrastructure targets, stated the report. PPPs could play a role in mitigating the funding requirements.

B. **Providing additional sources of funding and financing:** Government has limited resources to invest in infrastructure. The revenue collections i.e. taxes, levies etc. by Government are evidently not sufficient to support Government spending on infrastructure facilities to meet the demand. The financing gap for infrastructure in the wake of Government desire to reduce the infrastructure deficit is widening due to increased demand of public infrastructure facilities and services. Additionally, budget support received from cooperating partners has reduced over the years (now at 6%) forcing Government to consider alternative sources to sustain the budget. Further, with the external debt at US$3.2billion and internal debt at K18.52 billion and the proposal to finance 24.6% of the 2014 budget (K10,516.87 million) by borrowing, Government capacity to borrow for infrastructure development is declining.

By allowing the private sector to invest their own resources in the development of public infrastructure facilities through PPPs, Government can have access to private capital and speed up the delivery of public infrastructure. Mobilizing private sector resources in infrastructure development will help Government free up public funds for other socio-economic activities.
Additionally, PPPs which involve charging users for services may effectively increase total Government revenue and infrastructure funding. PPPs can also help government overcome short–term budget constraints because the capital cost of the project is spread over its life time.

C. **Private sector analysis and innovation of projects**: Applying private sector principles in the delivery of public infrastructure will enable projects to be delivered more effectively. Competitive procurement ensures that projects are subjected to market test assumptions of attracting private finance. Hence PPPs will ensure that projects are subjected to proper planning, coordination and analysis thereby ensuring only projects that add value to Government i.e. are affordable, provide value for money and transfer optimal risks to the private sector, are developed.

D. **Improving Project and service delivery**: The World Bank‘s Africa Infrastructure Diagnostic Study (2011) estimates that **inefficiencies** in State owned utilities and infrastructure providers in Sub-Saharan Africa cost around US$6 billion a year. This is because often construction projects managed by government run well over budget and behind schedule and any changes to the project cost are often at the expense of the Government. More so service delivery by Government entities is often poor due to limited capacity and week management incentives.

By engaging the private sector in the delivery of public infrastructure and services, Government can harness private sector innovation, commercial and management expertise in the direct provision of assets and services. PPPs can help improve infrastructure service delivery by reducing construction time and cost overruns for new infrastructure assets. The strongest motivation for private sector is to generate a return on their investment which depends on bringing the project on time and on budget; hence they are more incentivised to be more efficient and effective in managing infrastructure construction. Further, introducing a private operator under a PPP contract can help improve operational efficiency and service quality.

E. **Improving maintenance**: Government infrastructure is often not properly maintained due to limited funding resulting in poor infrastructure services and huge maintenance costs to Government.

PPPs can help improve maintenance of infrastructure assets. PPPs expose private sector capital to performance risk hence the private sector is more incentivised to design and build infrastructure assets taking into account the costs of longer-term maintenance and renewal leading to greater accountability in the delivery of the service. PPPs bundle construction, rehabilitation and on-going maintenance in a single contract thereby incentivising the private company to build assets to a high quality upfront to minimise the need for maintenance. Further, PPP revenues i.e. user charges or availability payments, depend on providing a working service to users or availability of the asset over time to a specified standard, hence the private sector has a strong incentive to carry out adequate maintenance. Adequate maintenance will therefore keep the infrastructure assets in a serviceable condition.

3.2 What is the Role of the Private Sector in Public Infrastructure Development in Zambia?

This question cannot be answered in isolation. It will be answered together with the one below (on government's role), since in PPPs the private sector and Government (or public sector) enters in a contractual arrangement (a partnership) to deliver an infrastructure and/or a service.

3.3 What is the role of the Government in Public Infrastructure Development

In combining questions 3.2 and 3.3, we will answer to a question: What are the roles of the private sector and the Government in public infrastructure development?

Traditionally, Government renders constitutionally and legislatively mandated public services through its employees or contractors and pays for the entire infrastructure/services, and all operations and maintenance likewise, from public funds. On the other hand, PPP collaborations can take a variety of arrangements with increasing permutations and combinations among them and can range from short term contracts (requiring minimal involvement of the private sector) to divestures (requiring maximum involvement by the private sector). As one moves along the PPP arrangements continuum, the PPP variant entails an increasing amount of risk transfer, more responsibility and financial obligations to the private sector.

Figure 2: Examples of PPP arrangements

Increasing private sector risk, responsibility and financing

The role of Government and the private sector in Public-Private Partnerships do fluctuate depending on the PPP variant used. The table below indicates some of the roles of Government and private sector in specified PPP variants. The First Schedule of the PPP Act No. 14 of 2009 enumerates the variety of PPP arrangements that can be used in Zambia.

Table 1: The Role of Government and the Private Sector in PPPs

PPP Type	Service contract	Management contract	Lease	Build-Lease-Transfer	Build –Operate – Transfer	BOO/Divestiture
Objective	Cost reduction & operational efficiency	Improve management & operational efficiency	Operating efficiency & limited private investment	Mobilize private capital & pay investment cost over time	Operating efficiency & Mobilize private capital	Operating efficiency & Mobilize private capital & total risk transfer to the private sector
Public sector role	Development, financing, O&M, Pays for services	Design, finance & build facility, pays for management	Design, finance & build facility	Operate and maintain facility and pay private sector lease fees	Government regulates the provision of the service	Government regulates the provision of the service
Private sector role	Supplies operational services to government	Management and operation of the facility	Limited financing, management and operation	Design, finance & Build facility, Lease to Govt & transfer ownership to Govt at end of period	Design, finance, build, operate, manage & transfer after a specified period	Design, finance, build, operate, manage and own facility

3.4 WHAT PPPS HAVE BEEN FORMED IN THE DEVELOPMENT OF INFRASTRUCTURE IN ZAMBIA

3.4.1 **PPP Transaction Post-Enactment of the PPP Act of 2009:** It may be noted that since the PPP Act of 2009 was enacted, there has only been one PPP agreement signed between Government and the private sector. This is the Redevelopment of Long Acres Lodge into a five-star hotel, a shopping mall, conference centre, office complex and related infrastructure signed with Thuthuka Group International of South Africa. The agreement was signed June 2011. The project is under the Hostels Board and the Contracting Authority is the Ministry of Transport, Works, Supply and Communications.

However, the agreement has not yet been consummated owing to gaps in the agreement which the parties have been renegotiating to close the transaction. These gaps largely relate to financial provisions of the concession agreement. It is likely that parties will conclude their negotiations in 2014 and if this is positive the development of the infrastructure could start during the year.

The developers propose to investment about US$ 200 million. This is expected to create about 350 jobs during the construction period and 200 workers during the operation phase.

3.4.2 **PPP Transactions Entered into Before the Enactment of the PPP Act of 2009:** It may be noted that since the enactment of the PPP Act of 2009, there has only been one PPP transaction entered between Government and the private sector under this Act. However, Government has had PPP transactions before the promulgation of the PPP Act of 2009. These transactions include:

a. The 20 year concessioning of Zambia Railways assets to Railway Systems of Zambia in 2003. This concession has since been cancelled (in 2012) by Government for breach of contract failure to perform to Government's expectation.

b. The 25 year concessioning of Mpulungu Harbour Corporation to Agro Fuel Zambia in 2000. The concession was cancelled by Government in 2010 for failure to perform.
c. The 65 year build-own-transfer contract between Lusaka City Council and China Hinani for the financing, construction, operation and transfer of Lubama Market around 2000/2001. This concession is still subsisting.
d. The Kasumbalesa One-Stop-Border Post 25 year build-operate- and transfer contract with Baran Trade and Investment Limited (operated as Zambian I.P. Border Crossing Company Limited) in July 2009. The contract has since been reversed by Government (in 2012).

Although the reasons for the collapse of the three PPP contracts out of four above could be varied, the key reason could have been the absence of the legal and regulatory framework as well as lack of a PPP institutional arrangement at the time the transactions were designed and implemented. The transactions depended on the concession agreements signed with Government without a backup legal framework – and agreements tended to be porous. This should give comfort that future transactions are likely to achieve success following the enactment of the PPP Act of 2009. A clear legal and regulatory framework as well as a functional institutional arrangement ensures that the expectations of the private investor, the government, and the public are equally and sustainably considered. However, it may be noted that after the enactment of the PPP Act in 2009, Government's inability to implement a PPP project to date could partly be attributed to lack of capacity as well as improper PPP institutional arrangement in the Ministry of Finance to implement such transactions.

3.5 The Challenges being faced in the Implementation of PPPs in Infrastructure Development in Zambia

Worldwide and in the region, private sector involvement in infrastructure development has progressed, although Zambia has not benefited much from this progress. Set against the country's impressive economic growth rates (average 6.6%) in the recent years and the level of potential demand for investments in the country, low demand for infrastructure is not a constraint to implementation of PPPs. Equally, if the growth of some sectors such as mobile telephone across the counrty is a guide, the ability and willingness of citizens to pay for better-quality infrastructure is not a constraint either. Thus the major constraints being faced in the implementation of PPPs are mainly related to factors affecting the supply side of PPP projects, resulting in obstacles to mobilize private sector resources.

The major constraints on the supply side that have been affecting the implementation of PPPs in Zambia include the following:

3.5.1 **Political Champions for PPPs**: Although the political leadership has made pronouncements and expressed desire and optimism to use the PPP arrangement to deliver public infrastructure and services, we require Political Champions to drive the PPP agenda. This is because PPP projects can only be implemented with a strong political will. PPPs deliver Government's public and social services in almost all sectors of the economy, namely, education, health, transport, irrigation and agro-process plants, prison facilities, community water systems, ICT, housing, government office accommodation, roads, railways, ports, airports, energy, social amenities such as stadia, and the list is endless. Political Champions will be necessary to marshal the support of stakeholders in the implementation of these projects. In Zambia, key ministries that would be in a better position to play the Political Champion's role include the Ministry of Finance, Ministry of Commerce, Trade and Industry, and the Ministry of Transport, Works, Supply and Communications. Unless this is recognised and done, even the technical staff in ministries, departments, agencies, and local government will not move at a speed adequate enough to implement the PPPs in Zambia.

3.5.2 **Lack of capacity in Government to undertake PPP projects**: A review of the PPP implementation process in Zambia has revealed that there is limited capacity in Government to implement PPP projects. The PPP process is a complex one that requires a combination of special skills mix in financial analysis and modelling, transaction structuring, commercial legal expertise, sector knowledge etc. These skills will together deliver one of the key elements for successful PPPs, namely, preparation as only properly prepared projects will attract investor appetite and competition. The project cycle involves a project identification process, a feasibility study, marketing sounding, a tender process, negotiation of the contract, and the management of the contract. PPPs also need to demonstrate (i) affordability/bankability (ii) economic viability; and achieve (iii) fair allocation of risks/rewards.

Thus in looking at the above, it should be noted that Zambia has lacked requisite skills mainly at two levels, at the PPP Unit and at Contracting Authority as indicated below:

i. **The Coordinating Unit:** Although the PPP Act of 2009 provided for the establishment of the PPP unit, the Unit has not been properly constituted. Due to considerations such as cost and time, it was decided that to kick start the process of implementation of the PPP projects, officers from the Ministry of Finance, particularly officers from the National Policy and Programme Implementation Department (NPPID), be seconded to the Unit. This resulted in critical gaps in requisite skills and expertise that has negatively affected the implementation of PPPs since the enactment of the Act. However, with the recent (November 2013) Cabinet approval to subsume and institutionalize the PPP Unit functions into the Zambia Development Agency, this challenge has been addressed to a greater extent. ZDA will now play a critical role in coordinating PPP projects between various key players and Contracting Authorities in Zambia.

ii. **Contracting authorities**: Most Government officers do not have sufficient knowledge, ability, skills and time to manage the PPP project cycle. Often, inadequately prepared projects that are not ready to go to the market are tendered resulting in delays in the procurement process as sometimes project outcomes are being changed or aligned during procurement. Further, poorly formulated projects by Contracting Authorities have resulted in PPP concessions being cancelled and projects being reverted back to Government or failure to achieve transaction closure in the first instance. There is need to create dedicated PPP Sub-Units in the Contracting Authorities that would also be staffed with trainable staff to enable the country implement PPP projects.

3.5.3 **Lack of financial resources dedicated to PPP projects:** One of the critical factors in PPPs is the preparation of the project in the form of a feasibility study. The absence of a solid feasibility study is likely to reduce the benefits of PPP project and diminish project attractiveness to private investors. In addition, without a feasibility study, the government cannot predict its total financial liability under various scenarios. In addition, it would be difficult to assess the proposals from the private sector as whether or not they meet the minimum criteria of affordability, value for money and whether they optimise the risk allocation between government and the private sector as provided for in the PPP Act of 2009. Further, without a feasibility study the Government's position during the contract negotiation would be weak with a high likelihood of achieving a weak concession agreement.

Thus, Contracting Authorities will require resources necessary for project preparation and implementation as well as resources required to build capacity within the public sector to implement PPPs.

3.5.4 **Lack of clear guidelines and regulations** to guide contracting authorities and the private sector in the implementation of PPPs. Since the enactment of the PPP Act of 2009, no regulations have been produced to clarify and guide the public and private parties in respect of those provisions that require regulations. PPP guidelines, manuals, regulations and standard bidding documents which should spell out in greater detail the guidance and steps in implementing PPPs have not been developed. This has added to the challenges being faced by Contracting Authorities in moving projects through the PPP cycle.

3.5.5 **High transaction costs and lengthy lead time:** PPP arrangements are complex and require the involvement of various experts including financial, legal, sectoral expertise, transaction advisory etc. PPP projects often require extensive expert input and the process could be lengthy resulting from the procurement processes of various expertise and the tendering process for the PPP transaction including complexities associated with the negotiation process. PPPs also require adequate sensitisation to ensure the buy-in of the public at early stages of the process to avoid rejection of the project once implemented. Moreover, once prepared the PPP project will have to be marketed through road shows, investment promotion missions, media coverage etc. Thus, Contracting Authorities will require requisite financial resources if they are to implement PPP projects. In addition, there will always be need to manage stakeholder expectations in the delivery of PPP transactions, especially the political leadership.

Appendix 1 shows the generic phases in the delivery of PPP projects.

3.6 WHAT ARE THE BENEFITS OF PUBLIC-PRIVATE PARTNERSHIPS IN INFRASTRUCTURE DEVELOPMENT IN ZAMBIA?

Notwithstanding the challenges and complications of implementing PPPs, introducing private sector effectiveness and productivity in delivering public infrastructure can help Government achieve what is termed ***"Triple Bottom Line"*** benefits of delivering <u>economically</u>, <u>socially</u> and <u>environmentally</u> friendly public good. Some of the major and documented benefits of PPPs worldwide include the following:

3.6.1 **PPPs can help create more jobs**: With a constraint on public financing, PPPs offer a viable solution to the creation of employment in infrastructure and related services. Infrastructure investments has the potential to create jobs quickly while providing a foundation for future economic growth and employment, especially for a country like Zambia where the infrastructure gap is great and unemployment is high. For example, empirical evidence has shown that every US$1billion investment in infrastructure has the potential to generate on average around 110,000 infrastructure related jobs. Employment creation arising from investment in infrastructure can be as a result of (i) direct jobs i.e. construction of roads, energy plants, railways; (ii) employment through increased demand for core inputs for infrastructure assets i.e. cement, asphalt, steel etc. and (iii) employment associated with growth of the economy i.e. jobs created by other industries that rely on infrastructure for their business. Thus private financing of public infrastructure is critical for both short and long term economic growth and job creation.

3.6.2 **PPPs are a catalyst for economic growth**: Infrastructure (transport, energy, buildings etc.) are all important inputs into the long term growth of the economy. Public sector infrastructure is essential to the growth and survival of a nation. And well planned, funded and maintained infrastructure plays a vital role in supporting a high standard of living and facilitating commerce and trade, thereby extending a nation's global reach. But government has limited resources, hence the need to tap the private sector for capital, technology and expertise to finance, develop and manage public-sector infrastructure projects. Hence PPPs coupled with the right set of policies and institutional environments can also become catalysts for economic growth.

Evidence suggests that the more infrastructure projects launched in a country, the higher the rate of GDP growth rate. Notably, according to World Bank (2005), countries with 70 or more PPP infrastructure projects demonstrated a 25% GDP growth rate between 1990 and 2003. Analyses also show that a 1 percent increase in PPP investment will increase GDP per capita by 0.3 percent, implying that consistent investment in PPPs will increase GDP levels sizably. PPP infrastructure projects are often higher-value projects which inject more financial resources and investments into the economy thus bringing capital into the market while creating long-term employment. Job growth drives more consumption, generating more wealth and fuelling a stronger economy. Private investment of this nature also attracts other private investors to the market, creating a sustainable model for economic growth.

3.6.3 **PPPs can increase infrastructure availability**: PPPs will enable government to accelerate the development of infrastructure by tapping into the private sector's financial resources, as well as its skills in designing, building, and operating infrastructure on a whole life-cycle cost basis. Because PPPs are financed by the private sector and Government pays for the facility over the life of the project, PPPs enable Government to have access to the infrastructure facility while paying for it. The public therefore benefits from faster implementation of infrastructure projects because Government would not have to wait until it can afford the construction of the facility to address the matter.

3.6.4 **PPPs make projects affordable**: Under PPPs, the private sector finances the construction of the project and is repaid by a service charge from the Contracting Authority over time or by revenues from the project; or a combination of the two. In addition, under a PPP arrangement, government will pay the annual payment only if services are being successfully delivered while in traditional procurement, the public sector pays both the capital and operating expenditure and is fully at risk for the actual out-turn costs. Making annual payments throughout the life of the PPP project will make projects affordable within annual authority budgets and the payments by the public sector will more closely match the user benefits of the project as they are delivered. Affordability is critical in determining the attractiveness of the PPP especially for Contracting Authorities who have limited budgetary resources to undertake the projects traditionally and have no direct power to borrow such huge amounts for infrastructure purposes, but can enter into long term contracts for the delivery of services and can afford long term annual payments under a PPP scheme. Further, where future revenues of the project can finance the majority or the entire project without recourse to public sector support, affordability of the project to the public sector is further improved. Hence PPPs are a pragmatic and innovative solution to overcome the budgetary and legal impediments.

3.6.5 **Other potential benefits of PPPs** in infrastructure development in Zambia will include the following:

i. PPPs can help develop local private sector capabilities through joint ownership with large international firms, as well as sub-contracting opportunities for local firms in areas such as civil works, electrical works, facilities management, security services, cleaning services, maintenance services etc.

ii. PPPs can help the public sector develop more disciplined and commercial approach to infrastructure development while allowing Government to retain strategic control of the overall project and service.

iii. Mobilizing private sector resources in infrastructure development will help Government free up public funds for other activities which are mainly social in nature.

iv. PPPs can create efficient and productive working relationships between the public and private sector.

v. PPPs can help create diversification in the economy by making the country more competitive in terms of its facilitating infrastructure base as well as giving a boost to its business and industry associated with infrastructure development.

vi. PPPs can help Government extract long term value for money through appropriate risk transfer to the private sector over the life of the project – from design/construction to operations/maintenance because of private sector efficiencies.

3.7 WHAT IS THE WAY FORWARD?

With a limitation on funds for infrastructure development and the growing infrastructure deficit, PPPs are the most efficient and effective ways to improve infrastructure availability and operational efficiencies. The triple bottom line benefits of PPPs (delivering economically, socially and environmentally friendly public good) are unarguably impressive. To ensure the country benefits from the PPPs, Government will need to deal with some of the challenges being faced in the implementation of PPPs. Some of the specific measures that Government may need to undertake include:

3.7.1 **Orientation of Leadership**: Leadership at Ministerial, Parliamentary (MPs), and Permanent Secretary levels will require orientation to acquaint them with the processes involved in the PPP projects. Not only will this orientation help the top leadership to appreciate the need for their involvement in approvals and other processes, but it will also create and enhance strong political commitment towards the implementation of PPP programmes. Further, there will be need to identify a minister or a number of ministers to champion and promote the PPP programme within the government. This is a key success factor in PPPs worldwide as ministers and permanent secretaries superintend over the Contracting Authorities.

3.7.2 **Build Capacity in Contracting Authorities"** Government should take a deliberate step to build technical skills and capacity in managing PPP projects in the Contracting Authorities. PPP capacity can be built through seminars and formal training. Engaging independent transaction advisors, especially on major projects, can also help build capacity within the PPP structures and improve the quality of project information relevant for project implementation.

3.7.3 **Regulations and Manuals:** As ZDA has now been mandated by Cabinet to subsume the functions of the PPP Unit through an amendment of the PPP Act of 2009, it will embark on developing PPP regulations, guidelines and manuals for implementing PPP projects. These regulations and manuals will translate the current policy guidelines and spell out in greater detail the steps that Contracting Authorities and the private sector should follow in implementing PPP transactions. These documents will guide Contracting Authorities in identifying, assessing and structuring PPPs effectively to ensure affordability, value for money and optimal transfer of risks in projects.

3.7.4 **PPP Centre of Excellence:** With the transfer of PPP functions to the ZDA, ZDA should be developed as a centre of excellence for PPP project implementation and should be equipped with cross-cutting technical skills and competencies in managing PPPs. ZDA will collaborate with Contracting Authorities to identify and prepare PPP projects, facilitate transparent private sector participation in projects and contract management.

3.7.5 **Funding Contracting Authorities:** Government should ensure that Contracting Authorities are adequately funded to undertake relevant studies for effective implementation of PPPs. To be successful, PPP projects should be attractive to the private sector i.e. have a strong business case or satisfy key commercial terms. This may require a feasibility analysis to establish whether the project makes sense at all and if it has the potential to be implemented as a PPP. The PPP policy emphasizes feasibility of a project as a condition precedent in delivering a successful project and states that a good and comprehensive feasibility study has to be undertaken to assess, among other criteria; affordability of project to both Government and the general public, bankability to attract private sector to commit finances in a project, value for money, optimal risk allocation among the parties, economic and social benefits and citizens empowerment. The PPP Act emphasizes that approvals are granted after the Contracting Authority undertakes a feasibility study and submits a project proposal together with the proposed agreement for evaluation of affordability, Value for money and optimal transfer of risks.

4 CONCLUSION

Worldwide, Public-Private Partnerships provide innovative ways of improving the delivery of socio-economic services to the citizenry. The majority of the people have no access to clean water and sanitation facilities. Few people in the rural Zambia have access to electricity and energy. The telephony connectivity per capita is low. Transport infrastructure is inadequate to spar economic development in most parts of the country. Health facilities are inadequate to march both the population growth and growing complicated diseases, while the country lacks more specialised diagnostic centres that could be available to the larger populace within the country as opposed to those outside our borders. Our public universities suffer from acute shortage of student accommodation making the school environment unconducive to learning. The agriculture sector, which is designed to diversify the economy from reliance on mining, requires irrigation facilities to enable even the small rural farmer to engage in commercial cash crop and agro-activities for wealth creation. The tourism sector suffers from poor infrastructure that prevents its exploitation for the benefit of our people, and this includes inadequate airport infrastructure and lack of large scale airline operator in the country. Border facilities require massive development to reduce inefficiencies that discourage smooth flow of trading activities with our neighbours and beyond. The energy sector suffers massive power cuts and yet Zambia boasts of having at least 40% of the water body in the sub-region. This could also be supported by solar projects that could exploit ever present sunshine. Our prisons are over-populated and this prevents these facilities to be facilities for human rehabilitation. The list is long.

Coupled with these needs, is the growing army of the unemployed arising from graduates that are off-loaded on the job market annually from our secondary schools, colleges and universities and who cannot find decent employment. The list of sectors requiring immediate attention is long. However, although PPPs are *not a panacea* to the country's many challenges, with political will, Zambia would attain greater heights in its quest to develop infrastructure through PPPs. In collaboration with Contracting Authorities, the ZDA will endeavour to support Government's efforts towards this agenda.

Appendix 1: Generic Phases of the PPP Process