PUBLIC PRIVATE PARTNERSHIPS FAD, FASHION OR FUTURE?

Public-Private Partnerships (PPPs) are commercial arrangements between the public sector and the private sector corporations. The arrangements involve the public sector making use of the private sector finance and skills to develop, construct and operate new infrastructure projects in return for operating concessions.

As PPPs have been lauded for relieving governments of the burden of large capital expenditure outlay at the start of development projects and transferring the risks of cost overruns to the private sector -the party best able to control the source of risk and for whom protection against the risk is less costly -they have become the preferred method of procuring public infrastructure services in both developed and developing countries.

But the market for infrastructure project finance in Botswana is still at an infancy stage. The biggest challenge that this country is facing is to develop an environment that can attract private investment, to complement government's developmental efforts. The country lacks adequate infrastructure to facilitate trade and development. Transport, energy, telecommunications, water and sanitation, are potential areas that can attract private capital and efficient managerial skills.

In an attempt to address this challenge, government has recently approved a Public-Private Partnership Policy and Implementation Framework (the PPP system). The stated objective is to create a policy and legal regime that can support private sector participation in infrastructure development. That the adoption of the PPP Policy has coincided with the approval of the P 10.1 billion Economic Diversification and Budget Support loan by the African Development Bank (AfDB loan) to the Botswana government, arguably the single largest loan ever to be disbursed by the bank, is remarkable.

In addition to the AfDB loan, Government is reported to be involved in negotiations with the World Bank to make further loans for transport infrastructure development and Morupule B power transmission project.

If that be so, it would then be interesting to know how these loan facilities are intended to be utilised. Since it is expected that the PPP system will facilitate the use of PPPs to bridge the disparity between the country's developmental needs and the available resources, then this level of borrowing may be less than justified.

Which is why there is an apparent disconnect between the AfDB loan and the PPP system. PPPs by their very nature are alternative sources of financing to state borrowing. If private sector funding would be mobilised for procuring infrastructure services then, for what use would the AfDB loan be utilised?

The AfDB loan facility would allow Government to itself procure the required infrastructure through the conventional means of procurement. A PPP arrangement on the other hand would not require this level of state borrowing as all the funding is provided by the private party, through a combination of limited recourse or non recourse debt and equity financing and the Government's obligation to make a unitary payment would only arise upon delivery of the service to the prescribed quality standard.

The advantage with PPPs is that not only do they provide alternative financing of infrastructure projects which in turn reduces the burden on the public purse, but also that they increase competition, private sector efficiency and innovativeness, which promote economic development.

There are other multiple benefits as there are multiple risks. However, since PPPs enable cash strapped governments to provide infrastructure services which but for its collaboration with the private sector it otherwise could not provide, it can be either fad or future depending on the character of the strategic objective that informs the PPP route.

A common mistake with developing countries is to see PPPs as a short term solution to their budgetary constraints. PPPs can only work best when they are underpinned by a fully integrated cross sector long term policy designed to promote competitive private sector participation in infrastructure development.

In order to ensure that money lent and advanced is used in accordance with the set strategic goals and objectives, multilateral development banks -and the AfDB is no exception -have tended to place "conditionalities" for accessing loans by borrowing nations. One of such is the promotion of private sector participation in the development of infrastructure projects through public private partnerships. It is therefore conceivable that, the PPP Policy, a draft of which had been lying dormant for almost four years was precipitously dusted and presented as evidence of government's commitment to promoting private sector participation in the development projects.

Thus, if government ultimately adopted the PPP Policy in order to access the AfDB loan facility, then that begs the question of whether the PPP Policy is really underpinned by a long term strategic vision to find competitive solutions to infrastructure development. In the event, the policy framework could potentially turn out to be a mere pretense as apparently is the fate that has befallen the Privatisation Policy.

As PPPs involve significant levels of capital investment by project developers and commercial lenders with long term payback periods covering some 20 to 30 years, the financial risks are a major concern to potential private investors. From the perspective of local and international investors, the absence or deficiency of an underlying long term strategic framework, more so in a developing jurisdiction, as ours is, will be perceived as a significant obstacle in the way of implementation of the wider PPP programme.

Following the Asian Financial Crisis of the late 1990s and now the Global Financial Crisis, PPP project developers and commercial lenders have increasingly become selective in their choices of investment. And, the competition for project finance has thus become much more intense, as a result.

Instead of taking a hit and miss approach to the programme, as it seems to be the case with other public sector reform programmes, government would be better advised to seek technical support from development agencies to ensure successful implementation of PPP projects from the very start of the programme.

The future of PPPs in this country lies in the recognition by government and other relevantly affected stakeholders that PPPs are no short term sources of finance to bridge the fiscal gap, but a means to achieving long term socio and economic developmental goals.

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