

PUBLIC-PRIVATE PARTNERSHIPS AND THE VALUE OF THE PROCESS: THE CASE OF SUB-SAHARAN AFRICA

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ABSTRACT

In the current age of fiscal austerity, Public-Private Partnerships (PPP) continue to be a dominating force as a policy tool to help plug widening funding gaps and deliver vital infrastructure. There is much debate over PPP models; risk allocation and financing. Partnerships UK is currently reevaluating its Private Financing Initiative (PFI) model, questioning whether competitive dialogue brings value to the process. France recently announced PPPs worth €60bn to come to market in the coming decade, developing economies' appetite for PPPs is increasing. According to a World Bank study Africa in particular needs around US\$16.5 billion a year, to reach the Millennium Development Goal (MDG) for improved water access in Sub-Sahara Africa. When over 300 water Public-Private Partnerships (PPPs) were evaluated, contract type mattered to some degree, but not significantly. There were reportedly exceptional increases in the number of connections after the private sector was involved, but without an increase in financial investment. If financing and contract type were not a significant game changer, how else can we explain success and failures of different PPPs?

Keywords – Africa, process design, public-private partnerships, water

INTRODUCTION

This article aims to examine how the process design features and institutional frameworks of successful PPPs might play a key role in determining the success of the policy instrument, by identifying and extrapolating the successful components.

The piece begins with a brief look at characteristics and analysis of PPPs, then institutional frameworks, before looking at how Bardach (Bardach, 2004) and Barzelay's (Barzelay, 2007) process extrapolation and design analysis methods can be adapted for the study. This constitutes the foundation for analyzing the two case studies, Tanzania and Mozambique water PPPs. There is a discussion of possible reasons, addressing political, institutional, management and stakeholder involvement and arguing for the need

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to evaluate the process by using a framework to examine the effects of the process context factors and process design.

Characteristics of successful partnerships

For the basis of this article, the definition of PPP will be:

Cooperation between public and private or NGO sector, to develop new ways of producing and delivering public services; sharing risks and rewards, where *all* parties, public, private and society, benefit from the transaction. (Hodge and Greve, 2007)

This article defines PPP as a governance tool for government, because in all definitions, governance is the common denominator and requires unwavering political support in order to prop up the institutional frameworks, attract financing and private sector participation to the table. A view supported by Vining and Boardman's (Vining and Boardman, 2008) first rule for government. This article will explore the process involved in bringing these elements together.

Varying characteristics for effective partnerships have been asserted: Vining and Boardman (Vining and Boardman, 2008) suggest eight rules for government, Hodge and Greve (Hodge and Greve, 2007) explore financial, legal, risk transfer and political frames of PPPs focusing on OECD economies. Hailey finds that all parties have built rapport, learned about each organization's strengths, needs and interests. Hailey's study of successful characteristics leads to five principles: *clarity of purpose, mutual trust and respect, investment of time and resources, negotiation of roles and responsibilities and long-term sustainability* (Osborne, 2000).

Benefits of PPP

Partnering with the private sector enables governments to mobilize much needed investment. It essentially allows government to fund investments that are offset against future user fees, so it constitutes an alternative to government borrowing directly on the bond markets. It also taps into experience in operational, technological and managerial expertise from the private sector. PPPs present an opportunity to modernize existing operations, share costs, and achieve economies of scale. For developing economies, benefits accrue to establishing Southern ownership, better address interdependency and serves as a strategic management process tool (Hately, 1997).

A further potential theoretical benefit of PPP is the supposed limited political interference due to the separation of evaluation and administering agency, however this is a problematic assumption. PPP by definition involves the public sector, so it requires political intervention to make it work, which does not rule out political interference at all. Whether the benefit accrued depends on the process followed.

Critique of PPP

Limitations of contracting out public services in developing countries are: lack of capacity and institutional weakness, widespread corruption and the private sector do not necessarily introduce efficiency (Bangura and Larbi, 2006). In a development setting, potential drawbacks include: poor regulatory environments and power imbalances between

partners, where one partner is the donor with greater expertise, financial and political power. If the private sector partner is based in the developed world and the government is based in the South, the government is likely to lack resources to offset disparities.

There is also a strong feeling that international operators, participating in PPPs, enjoy profits and revenues, which do not stay in the host country, thereby shifting ownership away from the sovereign into international companies. Moreover, opportunities to develop local capacity are lost when international operators are contracted and in addition, the loss of jobs to maintain efficiency is a popular trend in private sector participation. However, in the long-term, there is evidence to suggest that jobs were created as a result of innovation investment.

Increased price of services is sometimes associated with private sector participation, excluding the poor from gaining access, when the PPP model is based on a revenue stream from service users. There are also examples of PPPs that have created construction cost over-runs, such as the case of the contract to maintain and repair London's underground railway through a consortium called Metronet (see Vining and Boardman, 2008).

Institutional frameworks are a defining element that differentiates PPPs from other forms of public and private engagement to deliver services, which is why governance is crucial. If successfully managed, PPPs can be an effective way to mobilize private sector capital, develop a domestic private sector, and build capacity in government, which will ultimately deliver services to the public.

PPP Institutional framework

According to the OECD report (OECD, 2010), the functions of units created to manage PPPs vary across countries. Some provide policy guidance, technical support, capacity building, and direct funding for projects or promotion of PPP. Equally, jurisdictions and locations of PPPs differ between countries. They can be an independent agency, a centralized unit within the finance ministry or devolved within exclusive units on line ministries.

The independent model might be a government agency or commercial venture part or fully owned by the government. Potential drawbacks of this model include the conflict of interests between the public and private sector. The public sector is concerned with securing value for money, whereas private sector wants to maximize profit. There's also a risk that the unit will promote PPPs simply to keep itself in existence.

This article adopts OECD's (2010) interpretation of a dedicated PPP unit:

Any organization set up with full or partial aid of the government to ensure that necessary capacity to create, support and evaluate multiple public-private partnership agreements is made available and clustered together within government.

For and Against Dedicated PPP Unit.

Arguments for dedicated PPP unit	Arguments against dedicated PPP unit
Separation of policy formulation and project implementation.	PPP policy can be made by same authority as traditional procurement. Dedicated unit may not separate policy formulation and implementation if it can directly fund PPP projects.
Pooling expertise and experience within government can help with project preparation, negotiation and implementation. Cost savings for government.	Knowledge can be attained by internal and external advisors appointed by individual ministries.
Standardization of procurement procedures.	Finance & planning ministries as well as line ministries have expertise in assessing cost-benefits of projects.
Budgetary consideration of projects.	When a unit is closer to the political leadership, it is more receptive to political bias when selecting PPP projects.
Political will and trust.	Signals approval of PPP as policy tool and may weaken the case for other procurement methods.

Source: OECD (2010), PPP Institutional survey.

Turning to the case studies, the following provides a guide on how the process from the successful case study can be extrapolated and serve as a learning experience for the failed project.

Data sample

For the data sample, purposive sampling was used to locate specific information of contrasting cases. The basis for choosing a success referred back to Hodge et al (Hodge and Greve, 2005) definition of PPPs: public, private and consumer should all win. Additionally, due to constraints of this article, limits for cases were set to ensure there was ample information to compare the central issue of study, the process. A case study on Mozambique was retrieved from the World Bank's Public-Private Infrastructure Advisory Facility (PPIAF) for a success story.

Water projects are amongst the least successful PPPs, so it is valuable to examine a successful and less successful water example, to isolate the causes from differences between sectors. It could be argued that this study is sectoral specific therefore cannot be generalised but as institutional frameworks are impacted by changes in political landscape, as demonstrated in the OECD study (OECD, 2010), a sectoral study should not affect the analysis of the process.

Whilst there were initial problems, the Mozambique PPP turned out to be a success. It achieved strong growth; increased access from 56,000 in 2007 to 95,000 in 2009 number of connections, which means consumers were benefiting from increased access. A high collection rate was achieved in some systems and falling non-revenue water (NRW), which was a win for the government and private sector. Government of Mozambique (GOM) achieved its policy objectives and the project was up-scaled and still in operation. For these reasons, it qualified as a success.

Finding the failure was not as easy due to the lack of published in-depth story to study the process. In the end, a study of Tanzania (McKague and Bransei, 2007) was selected. The private sector was losing money, investments promised were not made, consumers were unhappy and government was not achieving its policy objectives: the project was terminated after only two years.

After comparing both case studies and deriving theoretical explanations for the outcomes, an attempt is made to extrapolate the process design features.

Analysis

Analyses methods from Bardach (Bardach, 2004) and Barzelay (Barzelay, 2007) have been adopted as both have studied process design and how to learn from them.

It will begin by mapping the PPP process for each case; identify what are believed to be the mechanisms serving as the driving force behind the success. A key candidate for replication is “causal mechanism”; mechanisms that set causes in motion producing the desired effects. In order to determine whether the mechanisms warrant extrapolation, examining the contingent features of each mechanism follows this. Three categories are borrowed to identify them (Bardach, 2004). First its' *implementing features*: essential functional roles that directly implements essential mechanisms, such as political will. A question to ask would be: what were the basic mechanisms and the implementing features of these basic mechanisms. The second category is *optional features*: they differ according to local preferences and constraints and unlike *implementing features*; they do not play a primary role. For example the level of government or PPP model for delivery. And finally, *supportive features*: those that help bring the implementing features into existence, such as the institutional frameworks.

Conceptualisation

To conceptualise the causal mechanisms, three data categories for process design analysis will be applied (Barzelay, 2007): *process design features*, *process context factors* and *participation*. The rationale here is that the social mechanisms are said to be stimulated within the context of these processes. Since a person is a product of their environment, analysis of the process context that activated social mechanisms, and not the mechanisms itself, will suffice within the parameters of this article. The process design features include: *ideas*, *governance* and *structural events*. Process context factors include: *institutions*, *ideas*, *policy development* and *political streams*.

Barzelay argues that there is a causal claim, creating an outcome, activated by three social mechanisms: *actor certification*, *attribution of opportunity* and *performance feedback*. The logic behind this is that each mechanism has a compound effect to cause a chain of events. Due to the limited scope of this article and short supply of instrumental, in-depth case studies, this will be excluded from the analysis. Moreover, discussing the contingent features, as proposed by Bardach, should serve the purpose of extracting causal mechanisms for analysis.

This method will be used to extrapolate the process of the successful study. A simple representation of these will appear in a table after mapping out the process.

Map the PPP procurement cycle

- Bardach's contingent features
- Barzalay's three data categories for analysing process

CASE EXAMPLES

Tanzania's failure

Why was this PPP a failure? After two years of dispute between the government of Tanzania (GOT) and a private operator, the government terminated the contract due to under-delivery. And there were disputes between the private and public sector, where the private operator withheld payments to the public sector in an attempt to renegotiate the contract.

Backdrop

Tanzania's population more than tripled from 1976 to 2004, reaching around 37 million, a period where very little was done to improve the water and sewer systems. With centralised water provision the government was responsible for financing, maintenance and expansion of water services. Only 50,000 homes were connected to the city's water supply, with up to 1 million people sourcing water from neighbours with a connection. Customers with connection were typically middle or upper class households; only a few wealthy households were required to pay for water. The government made water freely available for everyone else; however Dar es Salaam's slums mostly lacked water service. In Tameke, the largest slum, most of the 1 million residents sourced water from wells, community kiosks or hand carted sellers.

Since gaining independence in 1961, Tanzania was a one party state until holding its first multi-party elections in 1995. The first elected leader, President Nyerere, adopted a socialist model for economic development. Businesses were nationalised and the government initiated large-scale centrally planned projects to provide services. Whilst it was an economic disaster (McKague and Bransei, 2007), the socialist model was crucial in constructing a unified, peaceful nation. After the 1980's economic crises, Government of Tanzania (GOT) signed a Structural Adjustment Programme (SAP) with the International Monetary Fund (IMF) and initiated a journey of comprehensive conditional recovery programmes.

Reforms

The reforms included rationalisation of government employment, local and regional government administration reform, efficiency and management reform.

Water Partnerships for Dar es Salaam emerged from Tanzania's Minister of Water, Edward Lowassa's leadership in 2002, in a bid to improve Tanzania's aging water infrastructure. The deal was seen as the most ambitious in Africa's water sector. Success would have great implications to attract investors to Africa and provide a model to replicate. The US\$165 million loan for the project financing deal was led by the World Bank with US\$61.5m; accompanied the by the African Development Bank US\$48m, European Investment Bank US\$34m, Government of Tanzania US\$12.6m and a private company US\$8.5m. The conditional loan required GOT to procure an international wa-

ter utility operator as the service provider and to form a consortium with a Tanzanian company.

The loan was dispersed to the government to restore existing water facilities, improve access, reduce water loss, develop community water service for poor and under-served, upgrade commercial operations whilst reducing illegal tapping and enhance tariff collections.

Process

In 2002 a new water policy was strengthened, based on the following code: role of government shifts from provider to regulator; decentralise planning, implementation and management of services to the lowest administrative level; incorporate private sector in service delivery; cost recovery; demand led with community ownership and management. The existing water utility provider, Dar es Salaam Water and Sewerage Authority (DAWASA), was given a new mandate to own existing and future water system assets and managed day-to-day operation of the water system.

During the international competitive bidding process, three companies participated, with two of them dropping out at the final stage. The remaining bidder, City Water Services Ltd, was awarded the 10-year lease contract in February 2003. The consortium was a Tanzanian registered private water operator led by Bi-Water, GauffIngenieure, and a Tanzanian company, Superdoll Trailer Manufacturers.

A lease contract was adopted where the private sector was tasked with operating and maintaining water and sewage infrastructure, billing and collection of fees, thereby bearing all the commercial risk. The Minister of Water and Livestock Development was responsible for negotiation and implementation on behalf of GOT; and regulation until regulating body Energy and Water Utility Regulatory Authority (EWURA) was formed.

The terms of the lease were enforced in August 2003 and set out the following directives: DAWASA retained full ownership of all fixed assets of the water utility while City Water operated and maintained DAWASA; DAWASA was responsible for financing and developing water supply; the international utility had to partner with a Tanzanian company; City Water was awarded two US\$9million contracts for procurement and installation of water meters and water plant equipment, which were crucial components of the contract to enable City Water to start raising revenue. And finally, City Water was to employ DAWASA's 1,400 employees, bill DAWASA's 50,000 household customers at a specified rate and collect fees.

City Water was paid by revenue collection from customers, keeping the 'lifeline' amount, which was the discounted rate. Anything over the discounted rate was paid to DAWASA to cover operating costs, servicing debt and investment opportunities.

When the contract was underway, City Water perceived it to be flexible and negotiable whereas DAWASA observed the terms to be strictly followed and binding. For example: as soon as City Water began running, they sought to revise technical and revenue terms of the lease, having established the advanced level of disrepair. They were unsuccessful in this bid.

A year after the lease came into effect, City Water began withholding their monthly fee owed to DAWASA in an attempt to bring them to the negotiating table and coerce the local partner to pay their equity share.

In June 2005 the Minister of Water unilaterally terminated the contract with City Water on the grounds that it failed to meet performance targets specified on the contract. Following this, a new government owned entity was formed: Dar es Salaam Water and Sewerage Corporation, to take over from City Water and EWURA finally came into effect in 2006.

We will now move to examine the successful programme.

Mozambique's success

The Government of Mozambique introduced a Delegated Management Framework (DMF) in 1998, which separated asset management from operations. Asset management was the responsibility of the autonomous public agency (FIPAG) and operations was contracted out to private sector. The contract championed recouping full tariff cost for water supply. Additionally, the Water Supply Regulatory Council (CRA) was formed with a mandate to regulate tariffs, ensuring economic sustainability and customer satisfaction.

There were problems in the beginning where devastating floods caused severe setbacks causing the lead private sector partner to drop out and sell their share. A new contract was immediately put into place. Consumers benefited from increased access to water. In 2000, none of FIPAG's customers received 24 hours access to water, whereas in 2007, water was available 24 hours a day in three districts, 22 hours per day in 1 other and 14 hours per day in another district (Triche, 2008). Collection of user fees ratio increased to over 90%. Financial performance in four provincial capitals steadily improved, where in some regions there was negative operating income, the revenues were growing faster than costs. Tariff increase was minimal, after 5 years, investment started nearing break-even, meaning the private partner was able to begin servicing debt. The delegated-management contract was scaled up to meet needs of an additional 9 cities.

Backdrop

Since the mid 1970s, war ravaged Mozambique had experienced very little investment in the decayed water supply infrastructure. Since independence in 1975, Mozambique had a single-party system lead by Frelimo.

Mozambique is now a multi-party democracy, with its first general election in December 1999. According to domestic and international observers, there was a high voter-turnout, which suggests a participative population. It was a closely run contest where the Frelimo party won.

Reforms

In 1991 the Water Law was enacted, just before the end of the civil war; this was followed by the inauguration of the National Water Policy in 1992. In 1998 the DMF was created in a bid to introduce sweeping institutional reforms to develop, regulate and deliver urban water supply. The policy included the creation of two independent public bodies: an asset management agency with authority to contract operators Fund for In-

vestment and Ownership of Water Supply Assets (FIPAG), and an independent regulator, Water Supply Regulatory Council of Mozambique (CRA).

FIPAG's mandate was to represent the State and act as the custodian of water supply assets in designated areas, manage financing and investment of water supply, award and supervise contracts with private providers in designated areas and temporarily operate services not yet transferred to private operators. A Performance Contract was signed by FIPAG and Ministry of Public Works and Housing whereby government obligations were to facilitate payment of water bills by government agencies and allowing disconnection in the result of non-payment by private or public parties.

The National Water Directorate (DNA) was responsible for water at the national level, while five Regional Water Administrators (ARAs) were responsible for regional. However under the reforms, DNA's mandate was reduced to focus on water policy and strategic guidance, whilst decentralising its operational activities to FIPAG.

DMF centralised responsibility of FIPAG with a view to eventually decentralise to municipalities after developing infrastructure and capacity. In the interim, municipalities participated in planning and monitoring through a *Stakeholders Forum*.

In 1995 the Government adopted a National Water Policy based on the following principles: increased access to water for the population, notably the poor and rural population; create financial sustainability and boost cost-recovery; reduce role of State in setting standards and priorities; promoting development; regulating and investing in infrastructure and delivery of services by independent companies or private operators.

The World Bank, African Development Bank, European Investment Bank financed it through loan instruments, and Government of Netherlands, French Development Agency and several others, in donations, totalling US\$450 million for investment, operational support and technical assistance to FIPAG from 1999 to 2007. A further US\$8million was pledged to provide CRA support to develop the regulatory framework.

Process

International and local consulting firms prepared tender documents and four international companies were pre-qualified to bid. Selection was based on technical and financial with financial scores based on net present value of four criteria. In the end, three submitted bids and in 1999, FIPAG awarded a US\$25million contract in two parts to AdeM: a 15 year lease to operate water and distribution for Maputo and a 5 year management contract to operate water and distribution in four other cities. AdeM was consortium led by French private operator SAUR (38.5%), IPE-Aguas de Portugal (31.5%) and five national investment organisations MAZI Mocambique (30%). In 2000, CRA began operating.

AdeM's bid was to provide delegated works and management of water supply operations, maintenance, financial and commercial management and commercial success of investment programmes. The tasks included design, preparation of tenders and supervision of capital works projects, rehabilitation, replacement of networks, operating equipment, meters and damaged connections. Their financing obligations were limited to providing maintenance and working capital; compensation was arranged at a fixed rate per m³ of water. New customer connection fees were paid to FIPAG and a monthly

'regulation levy' was paid to CRA. The contract allowed for reviews of tariffs every five years and interim reviews under exceptional circumstances.

Terms of the lease required FIPAG to transfer assets in Maputo and Matola to AdeM for use and care during the contract term. Delegating both the management and operational aspects to AdeM was called to question and there were delays in achieving operational efficiency.

FIPAG paid for AdeM to carry out delegated works, such as replacing meters and damaged connections during the first five years, after which all meters were to be replaced at AdeM's expense. Construction of new connections, renewal of distribution mains and pipes were FIPAG's expense for the duration of the contract. FIPAG continued responsibility for approving investment program and financing capital investments. AdeM outlined annual investment programmes and was compensated 1.2% of the value of programme.

Staffs were transferred to AdeM, who assumed responsibility for all staff related costs, could not be terminated during first year of contract.

Severe flooding strained performance of the contract resulting in the lead private operator SAUR withdrawing in 2001 and causing near-bankruptcy of AdeM. Aguas de Portugal purchased SAUR's share.

Strong leadership and political support helped sustain reforms. Donors discussed with FIPAG to launch new tender, but they decided not to as it was unlikely to attract acceptable competition and avoid further delays.

In 2001 a Memorandum of Understanding (MOU) was signed between AdeM and FIPAG to continue operating whilst the new contract was being renegotiated. Consumer tariffs were not increased to reflect increased operator's rate, so the Government subsidised it during a 23 month MOU period. MOU period was an opportunity to improve governance and supervision. CRA's role to approve customer contracts became more exact.

In 2004 FIPAG signed a revised 15-year contract that included raised fees and proposed improvements in framing the service obligations and procedures, with a restructured AdeM. Additionally the four original contracts were consolidated into one to maximise economies of scale and an independent auditor to monitor operator's performance and updated targets were introduced. 2008 saw key capital investments completed and coverage was expected to increase.

The Government remained committed to the reform and maintained independence of the CRA and FIPAG, which earned respect amongst stakeholders. To that end, the CRA balanced conflicting objectives of protecting consumers by monitoring satisfaction levels, resolving complaints and improving services for poor, advocating efficiency, whilst allowing FIPAG to realise financial sustainability. And FIPAG was in a position to start servicing its debt. National Directorate of Water (DNA) focuses on policy and strategic guidance, while decentralising and deconcentrating implementation to FIPAG.

EXPLAINING THE SUCCESS AND FAILURE

The next part of this article contrasts the cases, grouping them into *Political*, *Institutional*, *Management* and *Stakeholder* categories and seeking theoretical explanations as to why each PPP worked as it did.

Political

In both cases, the political context appeared to be a determining factor in the success and failure. GOT approached elections during the second year of implementation. One could reasonably assume GOT was motivated to reverse support of the reform in favour of the electorate in order to secure re-election. This would explain the sudden shift in sentiment and lack of commitment. An ODI study supports this assertion “(the Tanzanian Government) are more contented with winning elections” (ODI, 2007).

GOM remained committed to the reforms and supported the partnership project despite catastrophic flooding, even after one of the private sector players had to drop out. They demonstrated decisive management despite slight pressure from the donor community to put the project back to tender, which would have caused more delays.

How could political interference be eliminated from a policy that requires strong political support in order to succeed in the first place? The comparison suggests a political compound of the public-choice theory, which holds a motivational assumption that each party will act to prevail over the other to stay in power (Udehn, 1996). This application is discarded, because public choice theory suggests bureaucrats aim to enlarge budgets, however, in a PPP context, it requires them to control less money and fewer staff. On the contrary, it could be said that taking on more debt is another way of expanding budgets and therefore still sits within the realm of self-interest. So basically whatever a politician decides is explained as being in self-interest. Again, this does not fit, because practically speaking there are too many external influences at play, namely donor influence to enable the politician to gain preferences.

It is important to separate the functions of politicians and government institutions. Corrupt politicians will have greater opportunity to act with self-interest when the correct institutions of government are not in place.

Institutional

A centralised government was instrumental in driving Mozambique’s policy forward. Even though it was a *delegated management framework*, the asset management, contract management, operational issues and regulatory body were managed centrally, so was the formation of institutional architecture.

However, in Tanzania’s case, a legal infrastructure was missing, as was monitoring and accountability mechanisms to hold the private sector and government accountable for the failed project and wasted money. Donors continued to provide more money after the project failed. There was also a high volume of customers tapping into the water supply without paying and legal customers who were not paying their bills. GOT was aware of this and failed to implement the legal or regulatory frameworks to support the collection process and ultimately ensure success of the programme. To mitigate this, City Water took legal action against both groups, but neither approach worked to reduce water loss

or increase revenues. Illegal tapping of water continued and there were a large number of payment delinquencies.

Efficiency gains are a key benefit of neo-classical policies. Under normal conditions of competition, it could be expected to catalyse efficiency and therefore driving prices down. For this mechanism to work, significant choice in supplier is required, which was lacking in Tanzania's case, where out of three interested parties, two dropped out. Under these conditions, it would have been prudent for GOT to raise inquiries why the other two dropped out and then pressed the restart button to attract more bidders. Whereas Mozambique's government successfully installed an independent regulator, from the beginning, mandated to balance the conflicting objectives of ensuring government were meeting their financial goals whilst securing fair pricing for customers.

Management

Contract management methods differed. GOT treated the contract as set-in-stone while the private sector considered it negotiable, which underpinned an on-going conflict. The private sector withheld payment in an attempt to renegotiate terms. GOT's lack of flexibility was evident in the procurement of water pumps. City Water advised GOT that the water pumps were unsuitable and proposed a different approach. GOT declined the proposal, insisting on abiding to contract specifications. The water meters turned out to be unsuitable for the low-water pressure environment, which impacted the accuracy in water billing. This scenario mirrors the Metronet case, pointed out by Vining et al (Vining and Boardman, 2008), where conflicting interpretations on the fundamental nature of the contract emerged.

GOM was more flexible and factored it into the terms of the lease, developing clarity from the beginning.

Superdoll Trailer Manufacturer, the local private company forming part of the private partnership in GOT's case, failed to contribute their share of the equity instalment and neither was it enforced by the regulators.

Imperfect due diligence was performed by City Water. According to the report, their initial bid was based on information provided by Tanzanian government and World Bank. Revenue expectations set by City Water did not meet forecasts, therefore affected the financial viability of the project.

Notwithstanding failures within the private sector operator and the relative inexperience on the government of Mozambique's part, GOM maintained support from the donors, interest from private sector and successfully arranged delivery of water services to consumers. Also, public and private sectors shared the goal of financial sustainability. So it was in GOM's interest to secure effective collection mechanisms were in place to ensure financial goals were met. This was aided by the CRA.

Unlike Tanzania, flexibility was built into the terms of the lease enabling all parties to conduct interim reviews. Regular monitoring and evaluation empowered FIPAG keep informed and make changes to strengthen governance and improve contracts when needed.

The issues underscoring contracting stems from *New Institutional Economics* (NIE), a branch of neo-liberal economics, where NIE challenges the dominant part played by

markets, and presents instruments to arrange institutional design. NIE begins from a view that information is rarely complete and opposes the notion of individualism, presented by neo-liberalism, instead, argues that individuals have different motivations and behavior. William Ouchi (Ouchi, 1980) suggests market failures occur due to the impossibility of stating every possible future event resulting in incomplete contracts, producing high transaction costs. This is especially the case when there's high ambiguity in performance measurement or lack of goal congruence. This can be remedied by 'clan' mechanisms: reciprocity, legitimate authority and common values and beliefs (Ouch, 1980).

As Coase (Coase, 1937) pointed out in his seminal article on New Institutional Economics, "operation of the market costs something", therefore transactions have costs associated to them, such as finding out information, negotiating, monitoring and administering them. In NIE, institutions are formed to reduce uncertainty and therefore viewed as pivotal to the outcome of efficient markets.

Lessons from NIE can help guide decision-making in service delivery.

Stakeholder involvement

And finally, the culture of Mozambique probably played a huge part, from a governance and civil society standpoint. First of all, Mozambique was undergoing a massive privatisation, which was part of the structural adjustment conditional loans from the IMF. So they had dealings with private sector before. GOT on the other hand, was relatively novice at working with the private sector, requiring higher levels of accountability than dealing with donors.

Culturally, Tanzanians, especially from rural areas, believed water to be freely coming from the heavens, expecting government to provide their basic needs. Furthermore, the approach adopted by City Water to collect revenues was perceived as confrontational. Given Tanzania's history of socialist rule and Minister Lowassa's assessment, the manner of City Water's dealings with the public was perceived as being aggressive.

Part of the contract involved City Water acquiring DAWASA's former employees. As a result, there was a discrepancy in pay between former DAWASA employees and the expatriate workers from City Water, creating grievances amongst the population. Moreover, the local partner, Superdoll Trailer Manufacturer (STM) wanted a more active role in managing City Water; however, CEO was apprehensive about this fearing STM's lack of utility management experience.

Government telling the private sector what to do, in the case of procuring and installing water meters, in an area where the private sector should have been able to use their better judgement.

Several commentators recognize the importance of personal relationships (e.g. Osborne 2000). In operational reality, this means identifying the impact of personal and cultural biases, the motives of participants and their objectives. Also it requires identifying where conflict may arise from imbalances of power and resources, and coherence on expectations of the partnership, and the roles and responsibilities of participants.

Mozambique's success story certainly is not a textbook success case, without setbacks. There were bumps in the beginning, problems within the private sector's camp and sub-

sequent changes in private sector operators. However, the outcome was an increase in connections, overall customer satisfaction, strong political and donor support, profit was made and the DMF was scaled up to other cities.

In summary, Tanzania’s PPP failed due to lack of consistent political support, poor institutional frameworks, weak contract management and absence of effective stakeholder management: the entire process was incapacitated. These are all the things that Mozambique got more or less right.

Having eliminated public choice and new institutional economy theories as the cause for the failures and that perhaps the institutional arrangements may have instigated a positive environment. The next portion will explore how to extrapolate GOM’s process.

VALUE OF THE PROCESS

Lessons for PPP’s in infrastructure

In order to provide guidelines to extrapolating the process, Mozambique’s process features were extracted and plugged into following framework; created by blending Bardach’s suggestions with Barzalay’s process design analysis.

Process features of Mozambique’s PPP

Contingent Features	Process Design Features	Process Context Factors
<p>Implementing features Governance, centralised government, stakeholder forum, competition, full cost recovery, flexible management contract</p> <p>Optional features Delegated Management Framework,</p> <p>Supportive features PPP model, institutional framework, political will, cultural context</p>	<p>Ideas: increased access to water, accountability, regulating services, capacity building, contract management approach – flexibility, improved management processes</p> <p>Governance responsibilities of CRA – protecting consumers and ensuring economic sustainability, and FIPAG – approving and financing investment programmes, management continuity, disconnection of service in event of non-payment</p> <p>Structural events FIPAG improved specifying and monitoring performance targets monthly and annually, sustained donor support, private sector participation, CRA managing customer experience, planning and oversight meetings, CRA and FIPAG conducting seminars to municipalities</p>	<p>Institutions presidency, establishing separate independent asset management (FIPAG) and regulatory body (CRA), Ministry of Public Works and Housing, Stakeholder Forum, personnel training</p> <p>Ideas Water reforms, competition, long-term financial sustainability, full cost-recovery</p> <p>Policy development water reform, promote development of decentralised, financially viable services, subsidised access to poor</p> <p>Political stream political will, commitment to reforms</p>

According to this framework, the effects of the *process design* features were supported by the *process context* factors, so the columns on the left and right helped create the effects in the middle column. So starting from the right hand column, for example, creating an independent regulator for consumers and private sector operators, with the guiding idea of full-cost-recovery, reinforced the governance arrangements to discon-

nect delinquent payments. This was also supported by the full-cost recovery and financial sustainability context ideas. The earlier discussion showed how GOT failed to implement any cost recovery mechanisms, which had detrimental effect on the financial viability. So creating an independent regulatory body before partnerships are implemented could have eliminated some of the challenges faced by City Water while protecting customers' interests.

Taking a long-term view on partnerships was an essential catalyst for management continuity, developing a continuous improvement mindset on planning, customer service and adopting a flexible approach to contract management. In addition, institutional arrangements and financial viability created an environment where actors ensured the programme was a success. It also reinforced the commitment of donors, whilst maintaining the interest of the private sector.

Political will was the *cause* that created the desired *effect* of delivering the necessary institutional frameworks and commitment to reforms despite massive setbacks and effective stakeholder engagement.

Mozambique was effective at stakeholder engagement. The stakeholder forum was a mechanism to keep the donors informed. It enabled FIPAG and CRA to meet regularly and municipalities to be engaged and receive training, therefore building capacity and an enabling environment for local ownership. CRA was also effective in maintaining a harmonious relationship with customers. GOT's issue was the cultural context where water was previously free, so there was discontent amongst civil society. Had the Minister added a public education campaign or gained the support of community leaders, it could have subverted opposition to the reform.

One could argue that the delegated management contract underpinned success, where the key characteristic was the separation of asset management from operations, with both entities operating as autonomous public units and thus eliminating exposure to political interference. However both governments were centralised, so this would not necessarily relieve it from political distortion.

CONCLUSIONS AND IMPLICATIONS

The PPP model could be a supportive feature, though there is not enough evidence to suggest this. A comparison with additional successful PPP models would be required to draw this conclusion. This article supports adopting a process analysis method to provide some guidance as to how to extrapolate the process.

PPP serves as a *governance tool* formalising partnerships between stakeholders. Governance involves economics, institutional frameworks, strong political support, as well as managing a process. Therefore it is required to implement necessary accountability measures in order for it to succeed. This could serve as a *causal mechanism* to shape attitudes of the international investment community, private sectors and civil society. The idea suggests permanence.

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The *process context* factors, such as the institutional architecture supports the *process design features*: ideas, governance and events, that maintained the success of the PPP in GOM's case. Using Vining and Boardman's guidelines on the *Eight Rules for Government* (Vining and Boardman, 2008), could be added: conduct a thorough stakeholders mapping exercise, as it is vital to recognise the key actors, their incentives and interests in reforms and how they might influence the process. Additionally, public engagement combined with a continued public education campaign, before and during implementation. A flexible approach to contract management can aid cost-recovery, as during implementation, the private sector is best placed to make recommendations on allocation of resources and the contract should reflect this. These will serve to support the *process context* factors.

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