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PROSPECTS OF PUBLIC- PRIVATE PARTNERSHIP (PPP) IN ETHIOPIA

UNDP ETHIOPIA
NO. 1/2015

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I Introduction

The investment in infrastructure and public service delivery has traditionally been the sole domain of governments around the world. This is partly due to the huge cost of investment and the fact that the returns on such investments take a longer time to be realized. The state of infrastructure in many developing countries tends to be poor and inadequate to meet the rising demand. This reveals the constraints that governments in developing countries and especially in sub-Saharan Africa (SSA), face in terms of scarcity of funds, corruption, poor planning and project formulation, as well as inefficient capacities. Public Private Partnerships (PPPs) have emerged as one of the ways to overcome these constraints. By tapping into private sector finance and ingenuity, governments are able to finance critical infrastructure, improve project preparation, execution and management and deliver efficient services to the citizens..

Many governments around the world have engaged in PPPs with the aim of improving infrastructure and enhancing public service delivery. Tapping into private resources is an ideal form of financing public developmental plans when faced with budget constraints. A recent report by the World Bank's Independent Evaluation Group has demonstrated a rise in PPPs in the last two decades, including in developing countries mainly in infrastructure and the delivery of public services. According to the report, in developing countries, private capital has contributed between 15 and 20 percent of total investment in infrastructure over the last 10 years. Moreover, PPPs are back on the rise in the aftermath of the 2008 global financial crisis, after experiencing a slowdown from 1997 to 2004 as a result of the Asian financial crisis. PPP investments increased by $79 billion per year on average during 2007–2011 compared to $30 billion during the 2002–2006 period. "PPPs have now spread across the globe with 134 developing countries having implemented new PPP projects in infrastructure alone. Although initially restricted to infrastructure, PPPs have increasingly moved into the provision of "social infrastructure" such as schools, hospitals, and health services. Much of the growth of PPPs has been captured by middle-income countries (MICs) in Latin America, the Caribbean, East Asia, and the Pacific."[1] (IEG, 2012).

In the early 1990s, PPPs were mostly concentrated in the transportation sector however more recently they have been used in a variety of areas. PPPs are used in the construction of roads, bridges, airports, schools, incarceration facilities, water and waste treatment, medical facilities, recreation facilities, property management, and utilities (Bettignies & Ross, 2002). The growing use of PPPs is premised on efficient allocation of resources and better value for money for taxpayers. The selling point of PPPs is that they combine the strength of the private sector (board efficiency, local innovation, cutting edge technology and finance) with the strength of the public sector (regulatory authority, budget support, capacity development support) to effectively and efficiently delivers public services.

Despite their benefits however, PPPs have their fair share of critics. Most public sector unions view them as vehicles used by government to shift work to the private sector in order to pay lower wages and offer inferior quality of services. According to Boase (2002), PPPs come with costs such as the lack of transparency and accountability, and they potentially contribute to badly designed contracts (Bettignies & Ross, 2002). Despite the criticism, there is overwhelming support for PPPs in the public sector, private sector, and international community and the benefits far outweigh the cost.

The United Nations Development Programme (UNDP) has, over the years, supported countries, particularly in developing countries, to develop robust and workable PPP projects. For instance, UNDP has developed a comprehensive Public-Private Partnership for Service Delivery (PPPSD) programme. The aim and objective of PPPSD is to improve access of the poor to basic services such as water, waste management, and health by promoting inclusive partnerships between local government, private sector and communities. It facilitates PPP arrangements in the context of alleviating poverty and achieving the Millennium Development Goals (Luuzan, 2007). The work of the UNDP in PPPSD highlights the growing recognition of the potential of PPPs for infrastructure and public service delivery.

1 World Bank Group Support to PPPs: Lesson from Experience in Client Countries. 2012

Given the above background, the use of PPPs has increased over the last two decades. PPPs are now used in more than 134 developing countries, contributing about 15–20 percent of total infrastructure investment. During 2007– 2011, investments in PPPs accounted for $79 billion annually and are now also being applied outside the traditional infrastructure sectors, including in the health and education sectors. Although initially restricted to public infrastructure in the form of roads, railways, power generation, or water and waste treatment facilities, PPPs have increasingly moved into the provision of so-called "social infrastructure," such as schools, hospitals, and health services. The funding gap in infrastructure is not only due to lack of revenue, but also a consequence of inefficiencies in public spending resulting from poor governance, poor investment planning, under-investment in maintenance and high operating costs.

The objective of this short analysis is therefore to look at the status of PPPs in Ethiopia and explore the prospects in the future in relation to the demand for infrastructure and public services. Section two deals with the concept of PPP and followed by models and country experiences. While section four deals with prospects and challenges for the PPP, section five reviews the institutional, legal environment of PPP in Ethiopia. The paper also provides recommendations and conclusion.

II Definition and Concepts of PPP

The concept of public-private-partnership (PPP) has been defined differently in different contexts, and there is no broad international consensus on what constitutes a public-private partnership (PPP). Generally it refers to a collaborative arrangement between government or the public sector, and a private entity for better provision of public infrastructure and services. The classical definition of public–private partnership (PPP) describes it as a government service or private business venture which is funded and operated through a partnership of government and one or more private sector companies. In the context of the United Nations, PPP is defined as a voluntary and collaborative relationship between various parties, both state and non-state, in which all participants agree to work together to achieve a common purpose or specific task, and share risks and responsibilities, resources, and benefits (Hodge & Greve, 2011).

According to the World Bank[2], PPP refers to arrangements, typically medium to long term, between the public and private sectors whereby some of the services that fall under the responsibilities of the public sector are provided by the private sector, with clear agreement on shared objectives for delivery of public infrastructure and/ or public services. PPPs typically do not include service contracts or turnkey construction contracts, which are categorized as public procurement projects, neither to they include the privatization of utilities where there is a limited ongoing role for the public sector. PPPs are different from other forms of private sector engagement in the provision of public goods where the private sector gets involved as a provider of goods and services to public procurement. PPPs involve long-term private sector engagement and partnership with the public sector.[3]

The theoretical underpinning of PPPs can be traced back to Leibenstein's X-efficiency theory (1966). Leibenstein claimed that expansionary financial and monetary policies would limit the probability of the failure of public institutions or enterprises. He argued that inefficiencies in public institutions or enterprises are due to the bureaucratic organizational structure of the state and distortionary government interventions. He therefore asserted that PPPs are necessary to reduce inefficiency in public organizations and allow these organizations to respond to market forces, thus making them more competitive (Hammami et al, 2006). It is worth noting that Leibenstein's work eventually influenced the development of the New Public Management[4] in the United Kingdom and other countries. The main goal of New Public Management was to introduce the functioning principles of private firms into public administrations with the aim of modernizing the state structure and improving the management of public enterprises.

Urio (2010) explains the importance of integrating PPPs into the development policy of developing countries. He further elaborates that the major goal of integrating PPPs in the development strategy is to build a society that improves the attainment of the four values, namely – efficiency, equity, sustainability and security .

2 See PPP Resource Centre: http://ppp.worldbank.org/public-private-partnership/overview/ what-are-public-private-partnerships

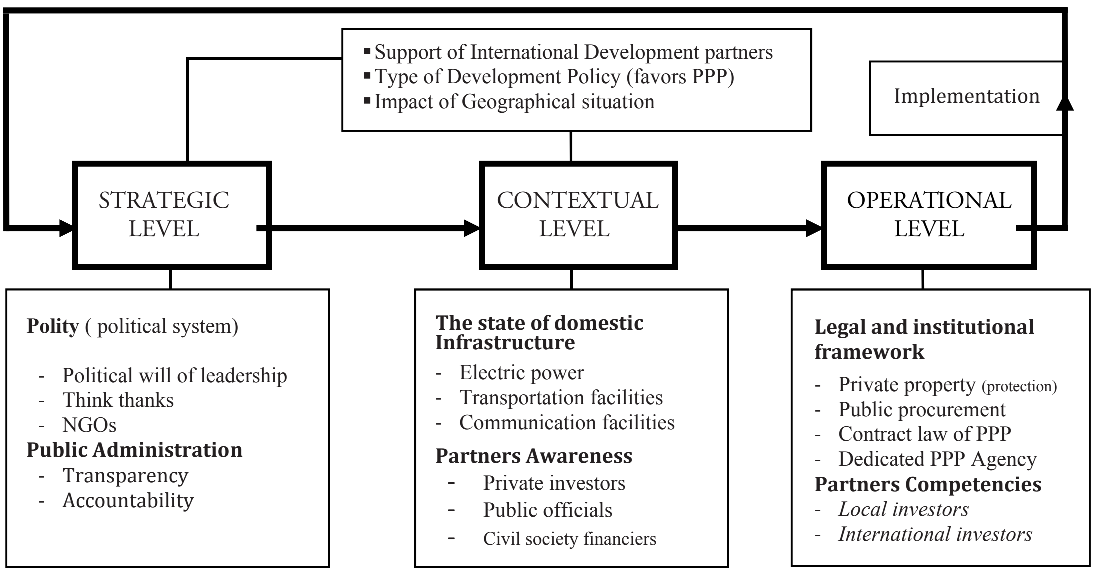
3 CDPR Report, 2011

4 New public management (NPM), a term formally conceptualized by Hood (1991),[1] denotes broadly the government policies, since the 1980s, that aimed to modernize and render more efficient the public sector.

In other words, 'an economy developing with a level of efficiency compatible with a sustainable pace, human activities (both private and public) organized and coordinated in a way that preserves the environment, and more particularly scarce and non-renewable natural resources, organized in a way that realizes a balanced society with a reasonable, acceptable, and improving level of equity, and security' (Urio 2010, p. 52). There are some conditions expected to be fulfilled, so that PPPs are considered as part of the development strategy of a given country.

Accordingly, these conditions can be defined in three interrelated levels: strategic, contextual, and operational, each of them comprising a set of conditions or factors which have an impact on PPPs (Urio 2010). In reality these three levels are not mutually exclusive and can be clustered into 3 components at strategic, contextual and operational levels. Figure 3 summarizes the 3 components or factors that influence the adoption and implementation of PPP.

Figure 1. Three Levels of Conditions for PPP adoption as Part of the Development Strategy. Adapted from Urio (2010, p.321)



At the strategic level, there are two major components that influence adaptation and implementation of PPPs, the polity and the public administration. The polity comprises think thanks, NGOs and the political will of the leadership. These are listed under polity because of their expected access to the political decision-making process. Transparency and accountability are important factors under public administration.

The contextual level incorporates the conditions within which the strategy for PPP is implemented. The following contextual elements are considered: the state of the development policy; availability and provision of infrastructure (electricity, transport and communication facilities); the awareness of partners (private, public and civil society) about PPP; impact or support of international development partners; and favorability in terms of geographical location and natural resources.

The operational level includes the legal and Institutional framework i.e., the rules governing the economy, private property, public procurement, contract law (and more specifically rules governing PPP), as well as the prevalence of PPP dedicated institutions. It also includes the competencies of private and international investors.

III Models of PPP and Country Experiences

The public-private partnership can take on very different models. There are various options of PPP models including service contracts, management contracts, lease agreement, franchise, joint venture, concession, BOT (Build, operate, own & transfers) and BOO (Build operate and own).

Service Contracts are a model where the government contracts the private sector to conduct specific tasks such as revenue collection for 1-2 years. The model is used when services are already well managed and commercially viable.

Management Contracts give the responsibility for operation and maintenance of publicly owned business to the private sector (Jutting, 1999). The objective of management contracts is to rapidly enhance public provider core technical capacity and efficiency.

Lease agreement is a process where the private sector leases assets from Government, provides services, and maintains assets for 8-15 years. Lease agreements are used when there is scope for gains in operating efficiency but limited need for investment (Jutting 1999).

The Franchise is a model where the private sector invests in operation and maintenance equipment, and maintains built assets. This includes the collection of user chargers, and the payment of a surcharge (% of user charge) to government. The model is used when financial resources, operation, maintenance expertise, and effective revenue mobilization is needed.

Joint Venture is when both the government and private sector jointly own a utility either through sales of some of the shares in an existing utility, or through the creation of a new utility. Joint ventures are utilized in strategic sectors where the government wants to closely monitor the activities of the private sector and provide management inputs to service providers (Jutting, 1999).

Concession is a model where the private sector operates and maintains public assets and investments, but ownership remains with the government. The role of the government is then confined to regulating price and quantity. Concessions are used where large investment is needed to expand coverage (Jutting, 1999).

The BOT model is one where the private sector builds and operates a public service company such as a waste treatment plant for 20-30 years, after which ownership reverts to the government. In this model government usually commits to buying part of output so that the government is both a customer and a regulator of the service. BOT is used where the existing public service provided cannot meet the projected demand and where projects require significant finance. Factors that determine the choice of PPP model a government may adopt include the degree of control desired by the government, the government's capacity to provide the desired services, the legal framework for monitoring and regulation, and the availability of financial resources from public or private sources (Jutting, 1999).

TheBuild-own-operate-and-transfer scheme (BOOT) is a model where the private sector company finances, constructs, owns and operates the infrastructure for a fixed term. The ownership company is allowed to make any decisions it sees fit during the ownership tenure, with minimal or no government interference. The company is also allowed to recover its total investment with reasonable return. This would be done through the collection of tolls (in the case of highways) or fees, rentals, and charges. At the expiry of the fixed term, the infrastructure is handed over to government, which would then take over all responsibilities.

TheRehabilitate-operate and transfer (ROT) is a model that involves rehabilitation of existing infrastructure where the infrastructure is handed over to the private sector player for refurbishing, maintenance and reconditioning. The private player is allowed to operate the infrastructure for a period, and recoup investment costs at reasonable return before handing over to the government.

Country Experiences in PPPs

Public-private partnership arrangements can play a vital role in driving economic growth by providing well-planned, well-funded, and well-maintained infrastructure and public services. This is significant for trade facilitation and raising the living standards of the people. Many governments in developing countries have ventured into PPP arrangements as alternative vehicles for mobilizing resources to fund the much needed infrastructure and to deliver on quality public services. These arrangements have significantly contributed to the GDP growth of countries like Nigeria, Ghana, South Africa, Mozambique, and Kenya (CDPR Report, 2011).

In the context of Mozambique and South Africa, an example of successful PPP arrangement is the N4 Toll Road connecting the two countries. One of the key aims of the project was to promote stronger economic integration between the two countries. The PPP arrangement was particularly attractive to both governments since they faced budget constraints. Thus, they partnered with the Trans African Concessions (TRAC) a private consortium to design, upgrade, construct, operate and maintain the N4 Toll Road. A 30 year agreement was signed in 1996, estimated to be worth $660 million at the time. Control and management of the N4 Toll Road will revert to the respective governments after the expiry of the agreement. The project was financed by several investors with 20% coming from equity, and 80% coming from debt markets. South Africa and Mozambique agreed to jointly guarantee the debt of the consortium (CDPR Report, 2011).

The PPP arrangement for the N4 Toll road was branded a success by both governments, and the success was partly due to the sharing of commercial risk by the several partners. Mozambique particularly benefited from the PPP arrangement, as the N4 toll road led to substantial discounts for regular Mozambican users. The road also facilitated further private sector investment in Mozambique leading to increase tourism and other spillover benefits (CDPR Report, 2011).

Another successful Mozambican PPP arrangement is the Port of Maputo. The government of Mozambique formed a joint venture with a private consortium for a 15-year concession to finance, rehabilitate, operate and upgrade the Port of Maputo. The partnership was a huge success with the private consortium investing $70 million to rehabilitate and develop the port, including the construction of transport links (road and rail) to neighboring countries. The partnership increased efficiency and handling volumes in the port. The PPP also had spillover effects allowing the government to facilitate consequent operations regarding the rail network in the country (CDPR Report, 2011).

In 2001, the government of Tanzania, recognizing the potential of the private sector to bring about socio-economic development, formed a public-private partnership with the Abbott Fund. The aim of the PPP arrangement was to strengthen the country's health care system and address critical areas of need. In this more than 10-year partnership effort, Abbot Fund has invested more than $100 million and given $5 million in corporate donations. Overall the, the PPP arrangement was a success and led to comprehensive modernization of the Muhimbili National Hospital in terms of use of technology and capacity development. A hospital-wide IT system that tracks inventory, prescriptions and patient health history was installed in the national hospital. Furthermore, in order to improve capacity, training was provided to hospital managers and health care workers. The partnership has helped improve the overall quality of the health sector and allowed increased access to health care. The improvement in the health service, as a result of the partnership, is believed to have supported significant progress in achieving the MDGs relating to health sector. (GoT & Abbot Fund, 2013).

It is important to note however, that not all PPP arrangements are successful. A good example is Tanzania's state-owned Electricity Company (TANESCO) that entered a 20-year power purchasing agreement with Independent Power Tanzania Limited (IPTL) for 100MW of power from diesel generators. Details of the agreement were highly controversial due to the overall cost, the chosen technology, and the projected demand for power. All these factors delayed the commissioning of the project until 2002 (CDPR Report, 2011). The negotiated PPP arrangement was considered to lack stakeholder consultation and a proper feasibility study. It later emerged that the main issue facing the power sector in Tanzania had to do with lack of gridlines rather than insufficient generating capacity. However, since TANESCO had signed a 20-year lease agreement, the company was forced to buy electricity that it did not require to avoid breaching the agreement (CDPR Report, 2011). This highlights the importance of 'exit clauses' to avoid similar situations. It also highlights the importance of doing proper research to ascertain the risks and benefits of any business venture. The table below summarizes country PPP experiences in different sectors, as well as factors behind successful PPPs.

Table 1: Summary of Success factors in PPP in different Countries and Sectors

PPP Project/ Sector and Country	Partners/stakeholders	Results	Lessons/success factors
Water and sanitation: Water Provision in the Dolphin Coast/Ilembe District Municipality/, South Africa	South Africa's KwaZulu-Natal province and Siza Water Company (Siza) 30-year concession signed contract	The quality of the service has been improved. However the results have been different in different areas	• More accurate information for feasibility study, Policy clarity and Transparency are important • Capacity building in terms of a management contract Defining investment obligations helps to limit the investment risk of the private operator • Regional coverage obligations with significant penalties can help to extend services in remote areas (but should not be too restrictive or complicated to assess
Transport: N4 Toll Road from South Africa to Mozambique	Governments of South Africa and Mozambique with a private consortium Trans African Concessions, 30 year concession	Reduced overloading of heavy vehicles, which have a major cause of road deterioration It has also facilitated the growth of tourism in the region	• Risk sharing between range of partners is important for successful PPP • Cross-subsidization to reduce user payment risk is helpful
Transport: Maputo port, Mozambique	An agreement between Mozambican national ports and rails authority and consortium of private companies 15 year concession	Increased efficiency and handling volumes at the Maputo harbour	• Defining the investment obligations of each stakeholder provides clarity for the public and private partners.
Power: Multi-Utility Provision in Gabon	Government of Gabon signed a 20 year concession- (BFOM) with Societe d'Energie et d'Eau du Gabon (SEEG)	The multi-utility service provision has allowed cost reduction through sharing of resources	• There are benefits to a long process of preparation • Multi-utility provision allows cross-subsidization of less profitable areas • Granting exclusivity to the main operator may result in exclusion of small-scale operators who can contribute in terms of service expansion in specific areas

PPP Project/ Sector and Country	Partners/stakeholders	Results	Lessons/success factors
Power: Graft Taints Power Purchasing Agreement in Tanzania	Tanzanian government's state-owned electricity company Tanesco and Independent Power Tanzania Limited (IPTL), a joint venture between a Malaysian company and a local investor for 20 years.	**Not successful:** because of corruption, high cost of electricity, it was approved without proper feasibility study consultations with stakeholders	• A proper feasibility study in terms of cost, value for money, technology and power demand is needed. • All the necessary stakeholders need to be consulted and the necessary approvals obtained.
Eco-tourism: Eco-tourism Concession in South Africa's Kruger National Park	South African National Parks (SANParks) signed a build-operate-transfer (BOT) concession with Nature's Group, a consortium, for just under 10 years	Significant increase in SANParks' profit, and an eventual improvement in service and quality	• Successful PPPs require good transaction skills on the part of the public sector partner (including legal, financial, negotiation and industry specific skills) as well as an experienced service provider from the private sector. • Projects with good business opportunity are more attractive to private partners • Strong commitment and intervention plan from the public side is necessary to avoid potential failures

Source: Extracted from- Peter Farlam (2005). Assessing Public–Private Partnerships in Africa. Nepad policy Focus Report No.2. (http://www.oecd.org/investment/investmentfordevelopment/34867724.pdf)

IV Prospects and Challenges for PPP in Ethiopia

In spite of a growing interest in the use of the PPP model around the world, its adoption in Ethiopia remains limited. Previous efforts at public divestiture and privatization were not adequate in addressing the unmet demand for infrastructure and public services. There have been attempts to tap on PPP initiatives however these have been few and fragmented. These include the pilot projects in irrigation and the running of an exhibition center owned by Addis Ababa City Administration in the form of management contracts and service contract modality (Asubonteng, 2011).

Ethiopia has good prospects for the development of PPPs in the infrastructure sector particularly roads, railway, energy, telecommunications and transport, to mention a few. In addition, the gap between public service delivery and public service demand in Ethiopia highlights the urgent need for PPP arrangements especially in sectors such as education and health--especially in improving the quality of social services.

PPP in Road Development, Railway and Ports

The transformation of Ethiopia to a middle income economy by 2015 requires enormous investment in critical infrastructure particularly roads, railway and dry ports. The Ethiopia Roads Authority (ERA) is currently focused on maintaining quality national roads, rehabilitating bridges, and expanding the rural roads network at double digits and this requires huge investment. According to GTP (2011-2015), the strategic objective of the Road Sector Development Program is to expand the road network by constructing 4331 km of new link roads, upgrading 5023 km of trunk and link roads, rehabilitating 728 km of trunk roads, and conducting heavy maintenance of 4700 km of asphalt and gravel roads. The implementation of this roadmap could explore use of PPPs as an alternative sources of funding.

The government of Ethiopia is prioritizing the development of the railway sector as a cost-effective and efficient mode of transport for bulk goods. In the current plan, the objective is to build a nationwide railway infrastructure network totaling 2,395 km. This comprises the Addis Ababa-Diredawa-Dewele line (656 km), the Awash-Woldiya-Mekele line (556.2), the Woldiya-Semera-Galafi line (256.4 km), the Addis Ababa-Ejaji-Jimma-Bedele line (339.3 km), and the Mojo-Konso-Weyto line (587.1 km). Work has commenced on the construction of the Addis Ababa light train scheduled to be launched in 2015, and this project could also provide an opportunity for PPP.

Ethiopia is a landlocked country and depends on the port of Djibouti for 90 percent of the country's cargo handling. The country has also developed dry ports to manage the flow of goods to and from the port. Diagnostic findings from a National Logistics study conducted by UNDP, indicate that inefficiencies (including at the Port of Djibouti) affect the country's trade competitiveness as they make exports more expensive compared to other potential producers. On the import side, the extra costs associated with delays, unreliability, and additional processes, divert economic resources away from productive sectors. The private sector could play an important role in improving efficiency through some form of PPP modelling.

PPP in Energy Sector

The GTP provides strategic direction for the development of renewable energy, expansion of energy infrastructure, and capacity building for efficient management of the sector. The GTP targets for the energy sector are summarized on the table below:

Major investment Target	2010	2015
Hydroelectric power generating capacity (MW)	2000	10,000
Total length of distribution lines (km)	126,038	258,000
Total length of rehabilitated distribution line (km)	450	8,130
Number of consumers with access to electricity	2,000,000	4,000,000

Source: MoFED, 2010

Ethiopia has huge potential of generating renewable and clean energy from hydro, wind, geothermal, solar, bio-mass, and others. Studies indicated that the country has a hydropower generating potential of 45,000MW, 10,000 MW from wind and 5,000 MW from geothermal sources annually. As indicated in the table above, currenet generating capacity is only 2,000MW per annum indicating that there are enormous opportunities for PPP projects in both the generation and transmission of power. Ethiopia can produce and export electric power to its neighboring countries. So far Ethiopia has put in place a management contract for the billing system – also referred as "Lehulu".

PPP in Education sector

Ethiopia has made significant progress in providing universal primary and secondary education. However, there has not been any significant progress in increasing coverage and access in Technical and Vocational education training (TVET). Since 2009/10, enrollment into TVET programs has been declining, from 353, 420 in 2009/10, to 335,058 in 2012/12. The 2012/13 enrollments figure in TVET programs was 238,884 against a target of 963,439 students, and this was lower than the last three years (GTP Progress Report, 2012/13). This suggests that significant investment is necessary in order to combat the declining enrollment trend in TVET in Ethiopia. While there has been substantial progress in increasing enrollment in primary, secondary, and tertiary education in the country, significant investment is needed to improve the quality of education at all levels. In 2012/13, the number of qualified teachers in primary education for example, was 64.7 percent against the target of 72.3 percent. The drop-out rate was 16.7 percent, while the repetition rate was 8.1 percent. While the government of Ethiopia has made the improvement of education quality a priority through its General Education Quality Improvement Package (GEQIP), a coordinated effort may be required to improve quality in education making PPPs a valuable arrangement (GTP Progress Report, 2012/13).

PPP in Health sector

In the health sector, [5]while significant achievements have been made in the expansion and construction of health facilities, and in improving the quality of health service provisions, there is still room to improve on the quality through partnership with the private sector. Major challenge facing the health sector is in the improvement of maternal and newborn care, child health care, and in halting and reversing the spread of communicable diseases such as HIV/AIDs, tuberculosis, and malaria (GTP Progress Report, 2012/13). However, improving these areas is proving to be a challenge with data showing mixed results in terms of progress. With regard to maternal, new born and child health services, the Contraceptive Prevalence Rate (CPR) is still low at 28.6 percent in 2011/12. In Antenatal Care, Ethiopia experiences regional variations, with regions such as Oromiya having high coverage (103 Percent), while regions such as Somali lag behind with 41.6 percent coverage. A similar situation is observed in terms of deliveries attended by skilled birth attendants. Addis Ababa has a high coverage at 72.9 percent, while Somali lags behind at 17.4 percent. At 50.5%, national Postnatal Care is also well below the target rate of 70 percent for 2012/13 (GTP Progress Report, 2012/13). The situation in the maternal, new born, and child health services suggests a strong need for investment in order to meet target rates in the health sector. Thus, the Ethiopian health sector could benefit from PPP arrangements as alternative source of funding the health infrastructure.

What are the constraints for PPP in Ethiopia?

It is evident that PPPs have not been initiated in key sectors such as energy, tourism, transport and telecommunications. According to a survey conducted by Kwame A. Asubonteng[6], the main reasons could be: lack of clear-cut regulations and policy direction; high investment requirements; and high risks. However, even though some form of PPP arrangement exists as a bridging arrangement between the transfer of state assets from public ownership and management to full scale privatization, it is perceived by government as a bridging

5 The number of health post constructed has increased from 15,095 in 2010/11, to 15 668 in 2011/2012, and to 16, 048 in 2012/13

6 Kwame A. Asubonteng. The Potential for PPP in Ethiopia. AACCSA, 2011

arrangement in the normal privatization process. (Asubonteng, 2011)

Broad stakeholder participation has been observed in the current pilot PPPs with stakeholders including civil worker contractors, SMEs, Small scale commercial farmers, federal government, regional government agencies, corporations, city/urban governments, the Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA), commercial banks, and development partners. (Asubonteng, 2011).

Various studies have confirmed the presence of policy, legislative, institutional and operational challenges. In terms of policy, it could be said that partnership between the public and private sectors is one of the required strategies to promote growth and development. More specifically, promotion of PPPs has been identified as a way to assist infrastructure development, and ultimately improve access to public services.

V. Institutional and Legal Environment around PPP

The implementation of sound and robust PPP projects depends on the existence of appropriate legal framework as well as political certainty which is a prerequisite for long term projects. Uptake of PPP projects in Ethiopia is constrained by several institutional, operational and legal impediments:

(i) Kwame A. Asubonteng (2011), in his study on the potential of PPPs in Ethiopia, noted the existence of a policy provision for PPPs in Ethiopia. He also noted that this has been the basis for the attempts made by development partners such as UNDP, UNCDF, GIZ and others to pilot PPPs in different sectors. Despite the existence of the policy provision, the challenge is that regulations with regard to options and modalities for PPPs are not clearly defined. There exists a further challenge in the form of a lack of capacity to analyze PPP modalities and implement different contractual arrangements. Regarding institutional challenges, Asubonteng pointed out insufficient awareness of PPPs as a concept, as well as the fact that existing institutional frameworks are skewed towards privatization. At the operational level, the challenges in the formulation and implementation of PPPs are lack of access to land, lack of access to capital, and lack of adequate technical skills relating to the adaption to new technologies; management; strategic advisory; and contract negotiations (See Asubonteng, 2011)

(ii) In the same way, Teshome Tafesse (2014) has tried to identify the policy, legal, and institutional challenges affecting the adoption of PPPs through a stakeholder's survey. According to the survey results, opportunities such as political will, geographic advantage, and protection of private property, are prevalent in Ethiopia. It was also found that the country lacks special legal instruments for PPPs (Teshome Tafesse, 2014).

(iii) Research shows that the country lacks special legal instrument for PPPs. The term PPP did not exist in any legal document in Ethiopia until 2009 when it was introduced in the Ethiopian Federal Government Procurement and Property Administration Proclamation No. 649/2009, which clearly defined the term. All legal documents preceding this proclamation do not directly address legal or regulatory frameworks for PPPs. The proclamation No. 649/2009 however, empowers the Minister of Finance to issue the rules and directives on establishing and implementing PPPs. This document was later supplemented by the Investment Proclamation No. 769/2012, which confers the power to approve or disapprove any proposal submitted by any private investor intending to engage with the government (Tafesse, 2014).

(iV) Despite the above proclamations, the prevalence of PPPs is limited in Ethiopia because PPP arrangements are not incorporated in the development policy. In addition, existing laws and regulations limit the ability to attract investors to engage in PPP projects.

Current Trends of PPPs in Ethiopia

It is estimated that the private sector provided $1.4 trillion of finance for public infrastructure projects in developing countries from 1990 to 2008. For Ethiopia to fully harness the potential of PPPs as a strategy for accelerating the development process, certain reforms will have to be initiated to make the environment conducive for such investments (CDPR Report, 2011). It is recommended that the Ethiopian government incorporate PPPs in the development strategy, and establish specific laws, regulations and procedures for PPPs. Furthermore, the Ethiopian government should establish an institutional framework for PPPs that is led by a public agency with a full mandate at federal level. A public agency for PPPs would help to integrate the capacities of all relevant sectors towards the development goals of Ethiopia (Tafesse, 2014).

Ethiopia has had some exemplary initiatives of PPPs including "Lehulu", Addis Ababa Exhibition and Market Development Enterprise, and Africa Juice Tibila SC. Lehulu is a network of centers providing a unified billing system which allows one to pay all utility bills (electricity, water, and landline phone) by merging the three service payments into one window. The Addis Ababa Exhibition and Market Development Enterprise is a venture between the city administration and the chamber of commerce with a management contract in place for 10 years. The venture has resulted in the improvement of annual turnover from birr 2.3 million to over 20 million (Beyene, 2008). The Africa Juice Tibila SC and the Ethiopia government have a joint venture in the production of passion fruit. The venture led to the employment of sixty-six (66) outgrowers to supply passion fruits on 13 hectares. Spillover effects from the venture include development support towards agricultural infrastructure, and capacity building by the German Agency for International Cooperation (GIZ) and other groups (Beyene, 2008). In these sectors, PPPs have been largely effective in garnering exemplary results and positive spillovers.

Ethiopia could also learn from the experiences of other African countries which have undergone PPP arrangements for infrastructure and public service delivery. Countries such as Mozambique were able to mitigate budget constraints by adopting PPP arrangements to fulfill their infrastructure and public service ambitions. Therefore, the development of an environment conducive to PPPs in Ethiopia could potentially allow the country to tap into the private sector to help with infrastructure and public service delivery.

VI Recommendations

- To ensure the successful implementation of PPP projects, Ethiopia should create a PPP Unit within the MoFED in order to provide a key point of contact and facilitate the coordination of PPP projects. In the medium to long term, the government should consider establishing a Federal PPP Agency under the office of the Prime Minster.
- To incorporate PPPs in the existing development policy as one of the development strategies for development. As a result of this, PPPs should be considered one of the

pillars of the forthcoming Growth and Transformation Plan II (GTP2).

- To develop appropriate legislation and regulatory frameworks, so that the public interest can be safeguarded. This includes preparing a PPP specific legal framework as per the PPP strategy, and conducting stakeholder consultations on the draft legal framework. The law could prescribe the areas of investment that are going to be open for PPPs; the enabling environment and incentives to be put in place for PPPs; the preferred modalities; the applicable laws and regulations; the institutional arrangements; and the expected requirements for partners to initiate PPP project proposals (unsolicited projects) or to participate in open bid of PPP projects (solicited), among others.
- To build a critical mass of relevant expertise and skills to ensure that performance monitoring and regulatory functions can be fulfilled by the public entity;
- Establish an ad hoc taskforce of experts for PPPs with a special task to review the existing sectorial policies, rules and regulations and then prepare a draft national PPP strategy.
- Prepare PPP Standard Procurement Procedures, and model contracts.

VII Conclusion

Public- private- partnerships (PPPs) have been introduced as an alternative strategy to resource mobilization and as a way of embedding efficiency gains in building the infrastructure and delivering public services. Ethiopia is pursuing an ambitious transformational change involving huge public investment to address infrastructural deficit and public services delivery gaps. While the Government is committing significant budget resources to infrastructure needs and social services, it nonetheless faces significant budget constraints. It behoves government and development partners to explore alternative vehicles which could mobilize resources to fund public investment. The environment in Ethiopia suggests that the private sector is ready to get involved in PPP arrangements provided that the government puts in place the necessary policies and regulations. Moreover, there have been some pilot PPP initiatives in public services delivery – as in the case of "Lehulu", a centralized billing service for water, electricity and telephone services.

Moving forward, the Ethiopian government should consider putting in place a legal and institutional framework to foster the establishment of PPPs. It is important that the development of appropriate legislation and regulatory frameworks factor in the public interest to ensure win-win arrangements. The potential of PPPs in a myriad sectors of the economy particularly in the infrastructure and social sectors, makes it an ideal strategy to help Ethiopia reach its development goals. The Ethiopia government should therefore be encouraged to mainstream PPP arrangements in the next medium term plan.

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