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of Erasmus University Rotterdam

**MSc Programme in Urban Management and  
Development**

Rotterdam, The Netherlands

September 2011

**Thesis**

**Title:** Assessing Value for Money in Public Private  
Partnerships Infrastructure Projects in Zambia: Case of  
Lusaka City Council

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UMD 7

## Summary

Value for money has been regarded as the primary objective for the attraction of governments to Public Private Partnerships in many developed and developing countries (Ismail et al 2009). Thus, if a project does not promise to deliver VfM, such a project is better off being procured through other means. The attraction to PPPs in many countries has been necessitated by the need to meet the growing infrastructural challenges being faced in the advent of rapid urbanisation, globalisation, decentralisation, informality and climate change. In addition, the inability of governments to reduce the infrastructural gap due to inadequate resources in terms of local taxes, intergovernmental transfers and borrowing has necessitated the recourse to PPPs. Although VfM has been viewed as a primary objective for the use of PPPs, other reasons such as the need to shift capital expenditure to the private sector and to enhance the efficiency in infrastructure delivery and services have been identified (Asian Development Bank 2008). Regarding the need to shift the capital expenditure to the private sector, Morillos and Amekudzi (2008) argue that the ability to shift the financial burden for providing and maintaining of infrastructure services is the major reason for the use of PPPs in countries facing financial constraints on their infrastructure budgets.

In Zambia, the use of PPPs in the delivery of infrastructure was first implemented by the Lusaka City Council through joint venture agreements signed with two firms in the early 2000s to construct the Luburma and ChaChaCha Markets on a Build-Operate-Transfer basis. The structuring of the projects have been characterised by challenges related to contract management, contract monitoring and enforcement, identification and allocation of risks, tender evaluation criteria and processes and undertaking of feasibility studies to determine the reasonable payback periods for the private parties to recoup their investments. With the foregoing, the central question has been; *are the two market projects generating any value for money to the Lusaka City Council given the challenges that have been encountered in the process?* Therefore, the main objective of the study was to establish whether or not the urban markets PPP infrastructure projects have delivered value for money to the Lusaka City Council and to make appropriate recommendations on how value for money can be achieved, maintained and/or enhanced. The study undertaken was exploratory in nature with a case study adopted as a strategy. Research instruments used were in-depth interviews and questionnaires.

The research findings revealed that the projects did not incorporate the key factors that influence the attainment of value for money which are optimal risk transfer, competition, output based specifications, contract duration, private sector management skills and performance measures and incentives. Risks were not optimally transferred while competition was nonexistent in the Luburma Market project and very low in the ChaChaCha Market project. In terms of specifications, they were outlined as inputs contrary to the output based specifications approach for PPPs. Although the contract durations were long enough to warrant the private parties to recoup their investments, the same were not linked to the alternative service delivery approaches as well as whole life costing mechanisms to ensure that facilities were well maintained and performed according to specifications. As for private sector management skills, it was revealed that the award of the contracts to the private parties was dependent upon their experience in similar projects and their financial capabilities. Hence, there were no linkages with cost reductions, efficiency in delivery or incorporation of private management skills in the design and construction standards. The findings also revealed that there were no measures and incentives embedded in the contracts to enhance the performance of the private parties.

Furthermore, it was discovered that there was no value for money analysis undertaken when carrying out the projects. Similarly, there were no value for money assessment models in Zambia but that competitive bidding was used to ensure that the best offer possible is obtained. The research also disclosed that although risks are considered an integral component in PPP projects, there were no processes in place to evaluate them. Instead, the tabulation of risks, likely impacts and the indication of who was likely to bear them are relied upon. The study also exposed that the major hindrance to undertaking VfM assessments was lack of human capacity. Additionally, political interference was regarded as being rife in the PPP procurement process and hence affecting the undertaking of rigorous assessments in the projects.

Overall, it was concluded that value for money was not being delivered by the Luburma and ChaChaCha Markets to the local government following the non incorporation of the key value for money drivers in the structuring of the projects. Ironically, VfM was being delivered to the private parties through the long term nature of the contracts. However, it was also highlighted that a few benefits to the local government have been gained through the provision of conducive trading environments to traders, generation of income to the local government as well as creation of employment opportunities for the citizens.

The study recommends that for value for money to be attained in PPP projects, there is need to ensure that there is optimal risk transfer in projects, high competition, specifications to be outlined as outputs, contract durations to be linked to alternative service delivery approaches and whole life costing apart from facilitating the recouping of the investment, full usage of private sector management skills and the inclusion of performance measures and incentives in the contracts. It is also recommended that capacity building measures be implemented to enhance the skills of the staff in various areas of structuring PPP projects. There is also a need to turn the PPP Unit into a standalone quasi government institution in order to mitigate the occurrence of political interference so as to allow for the enhancement of the achievement of VfM in the projects.

**Key words:** *Public Private Partnerships, Infrastructure, Value for Money, Risks, Whole life costs*

## Acknowledgements

First and foremost, I would like to express my sincere gratitude to the Dutch government through the Netherlands Fellowship Programme (NUFFIC) for granting me the Fellowship which enabled me pursue the Master programme in Urban Management and Development. I am also grateful to my employer, Lusaka City Council for granting me study leave which made it possible for me to follow the programme.

My special appreciation goes to my supervisor, Aloysius Bongwa for his valuable advice and guidance. The time spent away from your busy schedule with me on reviews and discussions greatly helped to shape the thesis to be what it has become. I am also indebted to my mentor, Dr. Maartje Van Eerd for her guidance in the formative stages of this research.

I am also grateful to all the academic staff of IHS and Erasmus University for the knowledge imparted in me that prepared me for this challenge.

Special gratitude go to Cocky, Rene and Frank of the Course Bureau for their support and for facilitating my travel back home during the funeral of my late sister Mercy in the middle of the programme. I am also indebted to Sharon and Nigel for their help regarding accessing information in the library, and Parmelia for ensuring that I had a wonderful stay in the Netherlands.

I also wish to thank most sincerely all my respondents for according me an opportunity to interview them and also to respond to the questionnaires without which, this research would not have become a reality. Thank you so much for enabling me complete this piece of work.

Further, my sincere gratitude to my Dear friends, Mwaka and Farai for having been there for me at all times. I truly valued your friendship; you were such an incredible pair!

I am also grateful to my roommates Boyd and James for all those moments we shared together.

Special thanks to my workmates, Mrs Kaputula and Paxina for helping me gather the critical information I needed to undertake this research. I am also grateful to all my colleagues and friends too numerous to mention who have contributed enormously to my success in the programme as well as the completion of this research project.

I would like to thank all my classmates (UMD 7) for the support and for all those moments we shared together in our journey to attaining the Master of Science Degree in Urban Management and Development. I really enjoyed every moment and I will surely miss u all.

Lastly but not the least, I would like to thank the Almighty God for all the good health and blessings you continue bestowing upon me without which this achievement would not have been possible. I will forever be indebted to you my LORD.

## **Dedication**

I am pleased to dedicate this piece of work to my parents, Dominic and Violet for your love and support and for continuing believing in me. I also wish to dedicate it to the rest of my family; brothers, sisters, nephews, nieces and in laws for all your prayers and support during the time I have been away from home. May the good Lord continue to richly bless you!

## Abbreviations

<b>BOT</b>	Build-Operate-Transfer
<b>BEE</b>	Black Economic Empowerment
<b>BDO</b>	Build-Develop-Operate
<b>BOM</b>	Build-Own-Maintain
<b>BOO</b>	Build-Own-Operate DCMF
<b>DBFO</b>	Design-Build-Finance-Operate
<b>DCF</b>	Discounted Cash Flow
<b>DCMF</b>	Design-Construct-Manage-Finance
<b>EC</b>	European Commission
<b>EU</b>	European Union
<b>GRZ</b>	Government of the Republic of Zambia
<b>LCC</b>	Lusaka City Council
<b>MLGH</b>	Ministry of Local Government and Housing
<b>MoFNP</b>	Ministry of Finance and National Planning
<b>NPM</b>	New Public Management
<b>NPV</b>	Net Present Value
<b>OBC</b>	Outline Business Case
<b>OECD</b>	Organisation for Economic Commission and Development
<b>PFI</b>	Private Finance Initiative
<b>PIT</b>	Public Interest Test
<b>PPP</b>	Public Private Partnerships
<b>PSC</b>	Public Sector Comparator
<b>PSP</b>	Private Sector Participation
<b>PV</b>	Present Value
<b>UEGL</b>	United Engineering Group Limited
<b>UK</b>	United Kingdom
<b>UMDP</b>	Urban Markets Development Programme
<b>VfM</b>	Value for Money

## Exchange Rates

<b>1 Euro (€)</b>	<b>7,128.60</b> Zambian Kwacha (ZMK 7,128.60)
<b>1 US dollar (\$)</b>	<b>4,950.42</b> Zambian Kwacha (ZMK 4,950.42)

Source: Bank of Zambia website ([www.boz.zm](http://www.boz.zm)) as at 19<sup>th</sup> August 2011)

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## Definition of Keywords used in this Research

Competition	<i>Competition refers to the presence of a large number of buyers and sellers in a market, complete knowledge on quality and production costs, arms length negotiations and absence of impediments to the entry of firms in the market. It should not only involve 2 or 3 players in the market because chances of collusion would be very high as the few players can easily agree to influence the market in order to serve their interests.</i>
Concession	<i>These are long term contracts that transfer a maximum amount of risk to the private party in terms of demand, financing and operating in exchange of exclusive use of the facility by the private party. They involve new investment to expand service delivery as well as assumption of existing assets.</i>
DBO(BOT)	<i>These are long term contracts that involve the private party undertaking significant investments in an infrastructure project in terms of construction, financing, operation and maintenance.</i>
Local Government	<i>Refers to the City, Municipality, District Council or Local Authority. In this research it refers to the Lusaka City Council.</i>
Infrastructure	<i>Infrastructure refers to facilities that are essential for the functioning of the economy and society by allowing for household consumption, enhancement of economic opportunities and promotion of production.</i>
Output Based Specifications	<i>These are specifications which outline a framework for the services to be fulfilled in a PPP infrastructure project by focusing on what to deliver, by what function and to which standard instead of how.</i>
Performance Measurement	<i>These are benchmarks in PPP contracts that are meant to ensure that standards and specifications outlined in the original contract or deal are implemented. They ensure that private party remuneration is paid dependent upon actual measured performance relative to contractually agreed performance. The benchmarks have to be measured and monitored throughout the lifetime of the contract.</i>
Private Sector/Party	<i>This refers to participants from the private sector in a PPP infrastructure project, e.g. concessionaires or developers.</i>
Public Finance Initiative	<i>This refers to the UK PPP model for provision of public infrastructure whereby the private consortium builds a facility under a contract from a public sector body which undertakes to pay for that service directly.</i>
Public Sector/Party	<i>These are participants from the public sector in a PPP</i>

	<i>infrastructure project, e.g. National or Local Governments.</i>
Public Private Partnerships	<i>Public Private Partnerships are long term relationships between the public sector and one or more private parties for the delivery of a facility and involves the optimal transfer of risk, the payment of user fees/rent and the reverting back of the infrastructure back to the public sector.</i>
Public Sector Comparator	<i>The Public Sector Comparator refers to a hypothetical scenario used to compare the public sector procurement method with the PPP procurement model in assessing the attainment of value for money in an infrastructure project.</i>
Risk	<i>Risk is the measurable probability of unforeseen circumstances occurring which lead to deviations in the delivery or performance from the expected outcome.</i>
Risk Allocation	<i>Refers to the apportioning of responsibility to bear costs or benefits which may result from each identified project risk. They may either be allocated to one party or shared between both parties.</i>
Risk Evaluation	<i>This involves the assessment of risks identified in a project by establishing the likelihood of their occurrence and severity of loss due to risk events which could be done either quantitatively or qualitatively or a combination of both. The risk valuation is done as a requirement for risk allocation which helps in risk allocation, management and can also affect whether a party would be willing to accept it.</i>
Risk Management Plan	<i>Refers to the actions taken by parties to control or reduce costs, anticipate, respond or to absorb risks.</i>
Risk Matrix	<i>Identifies project risks, consequences, probability of occurrence, costs and allocation.</i>
Risk Identification	<i>Refers to two common approaches adopted for identifying risks when structuring a project. These are through the use of a predefined checklist which allows for the comparison of project characteristics with risks for similar projects. The other is through expert knowledge where project experts are asked to help identify the risks.</i>
Traditional Procurement	<i>This refers to procurement forms whereby the public party is responsible for the financing, construction, operation and maintenance of an infrastructure.</i>
Value for Money	<i>Value for money refers to the optimum combination of whole of life costs in terms of quality, time, and risks of a good or service to meet the requirements of the users.</i>
Whole of life costs	<i>These refer to the full costs of a project and include costs related to design, construction, operation and maintenance of a facility.</i>

# Chapter 1

*This chapter introduces and gives the background of the study. It highlights the statement of the problem and the objectives which the research seeks to achieve. These are translated into the research questions that will be answered by conducting the study. The Chapter also highlights the significance, description of the research area and the structure of the thesis.*

## 1.1 Introduction

The attainment of Value for Money has been regarded as the most fundamental reason for the attraction of governments to Public Private Partnerships in many developed and developing countries (Ismail et al. 2009). Public Private Partnerships have become a famous model through which infrastructure and services are being delivered since the early 1990's. This is in order to respond to the various challenges that are being faced by governments in the advent of rapid urbanisation, globalisation, informality, decentralisation and climate change. These challenges call for increased investments in infrastructure so as to facilitate the functioning of the economy and society. Additionally, the inadequacy of the traditional sources of revenue such as local taxes, intergovernmental transfers and borrowing to finance the infrastructure gap has necessitated government's attraction to PPPs in order to meet the growing infrastructure demands. Although PPPs have attracted worldwide attention as a means of providing infrastructure and services, there are still debates as to whether or not this procurement method leads to the achievement of *value for money*. This study therefore focuses on assessing the achievement of value for money in the Public Private Partnerships infrastructure projects implemented by the Lusaka City Council.

## 1.2 Background to the Research

A variety of reasons have been advanced by governments for pursuing Public Private Partnerships. One of the major reasons as earlier alluded to is the achievement of improved value for money (Grimsey & Lewis 2005), that is, creating better value for money compared to the case where a service is delivered by government using the traditional public procurement (OECD 2008). This therefore implies that if a project is not able to prove the attainment of value for money, a government is better off pursuing such a project through other delivery means. However, a number of other arguments have been put across as motives for the use of PPPs in governments' responses to the demand for infrastructure. These include the need to shift capital expenditure to the private sector and to contribute to enhanced efficiency in infrastructure and service delivery (Asian Development Bank 2008). Regarding the shift of capital expenditure to the private sector, it is argued that the ability of governments to shift the financial burden of providing and maintaining facilities and services is a primary driving force to engage in PPPs for nations and states facing financial constraints on their infrastructure budgets (Morrillos & Amekudzi 2008).

While PPPs have traditionally been used in the provision of infrastructure related to transport, energy and power, water and waste water, attempts are now being made by governments to use the concept in other infrastructure such as schools, prisons, solid waste, office accommodation and other public infrastructure projects at the local government level.

In Zambia, the first attempt at the use of Public Private Partnerships to deliver public infrastructure was carried out by the Lusaka City Council (LCC) in its quest to provide modern trading facilities in the early 2000s. Following advertisements and tendering procedures, LCC entered into joint venture agreements with two private parties (China Hainan Zambia Limited and the United Engineering Group Limited) to build two (2) urban markets

infrastructure projects within the City on a Build, Operate and Transfer (BOT) basis. Under these contracts, the private parties provided the finances, designed and constructed the urban markets while the LCC provided land. According to the Lusaka City Council Status Report (2007) on the construction of the urban markets, the agreements provided that the developers would have exclusive use and rights to lease and occupy the facilities as well as the rentals accruing thereof in order to recoup their investments. The private parties' exclusive use and rights covered periods of sixty five (65) and sixty (60) years respectively after which the improvements would revert back to the local government (Lusaka City Council 2007). The duration of these agreements raised public outcry among various stakeholders, central government inclusive. This led to directives being issued by Government to the local government to renegotiate the contract terms (Times of Zambia 29th July 2004) citing that by the time the infrastructure will be transferred back to the local authority, it will have outlived its lifespan, as such, no economic or financial benefits will accrue to the public as well as the local authority. Similarly, there were other demands by a major opposition political party for the LCC to repossess<sup>1</sup> the markets because of the long contract periods (Ministry of Information and Broadcasting Services 2006). In addition, it was highlighted that local governments in Zambia were only obliged to enter contracts that are only valid for a maximum period of 14 years as provided for under the Local Government Act Chapter 281 under section 67(2)<sup>2</sup> of the Laws of Zambia. To date, the lease terms have not been renegotiated despite the protracted attempts to renegotiate them. In addition, the LCC has been taken to arbitration by one of the private partners claiming compensation for breach of some of the terms of the contract.

### 1.3 Problem Statement

Local governments in Zambia face a challenge of providing infrastructure and delivering services due to limited financial resources to meet the increasing demands. As an alternative, the PPP financing mechanism has been embraced as a viable option to deliver infrastructure and provide services. As such, the intention of the Lusaka City Council to enter into the Public Private Partnerships was to provide modern trading facilities that would provide better trading environments to the public and also allow the private partners to recoup their investments. However, the implementation of the two (2) urban markets public private partnership projects have been characterized by challenges related to contract management, contract monitoring and enforcement, identification, evaluation and allocation of risk, tender evaluation criteria and processes and the ability to undertake feasibility studies so as to determine the viability of the projects and reasonable payback periods for the private sector to recoup their investments. These challenges were manifested in the long contract periods that were embedded in the agreements which are almost equivalent to the lifespan of the assets that were created. The decisions to undertake these public private partnerships were thus purely based on the highest bidder with adequate financial resources to undertake the projects. *However, the attainment of value for money which the PPPs are meant to achieve has not been proven. It is therefore imperative to investigate whether or not value for money has been achieved through the implementation of these projects considering the various challenges that have been encountered in the process.*

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<sup>1</sup> See ANNEX 1 for the full Ministerial Press Statement on the calls to repossess the markets by the opposition Patriotic Front

<sup>2</sup> Section 67 (2) provides that a Council (local government) shall not sell, let for a period of fourteen (14) years or more, or otherwise dispose of any land or building except with the approval of the Minister.

## **1.4 Objectives of the Research**

In view of the foregoing, the main objective of the study is to establish whether or not the urban markets Public Private Partnership projects that were implemented by the Lusaka City Council have delivered value for money and to draw conclusions on how value for money in Public Private Partnership projects could be attained, maintained and/or enhanced.

The specific objectives of this study are to:

1. Establish whether or not the use of PPPs in the delivery of the urban markets projects implemented by the Lusaka City Council has delivered value for money.
2. Establish the key factors that influence the attainment of value for money in the implementation of Public Private Partnership infrastructure projects.
3. Establish the approach adopted in the assessment of value for money in PPP projects and how it is used in Zambia.

## **1.5 Research Questions**

### **1.5.1 Main Research Question**

*Has value for money been achieved by the Lusaka City Council through the implementation of the urban markets Public Private Partnership infrastructure projects?*

### **1.5.2 Sub Research Questions**

1. *What are the key factors influencing the attainment of value for money in the Public Private Partnership infrastructure projects implemented by the Lusaka City Council?*
2. *What approach has been adopted in the assessment of value for money in PPP projects and how is it used?*

## **1.6 Significance of the Study**

Local governments in Zambia are faced with the challenge of providing infrastructure to the public in the advent of rapid urbanization, globalization, informality, decentralization and climate change. These trends have an impact on the way Cities are managed and developed as far as Urban Management and Development is concerned. Nevertheless, the financial constraints being faced by Local Governments have affected their ability to deliver infrastructure and services in order to make the cities livable and competitive. Consequently, Public Private Partnerships have been recognised as a viable option through which infrastructure could be delivered. The essence of undertaking this research therefore is to reveal insights on the achievement of value for money considering that VfM has been regarded as the main objective for pursuing PPPs. It will also draw conclusions and make appropriate recommendations on how value for money can be maintained and/or enhanced. The results of the research will therefore be of significance to all the stakeholders who are involved in such partnership agreements who include the Central Government, the local governments as well as the private sector especially that PPPs are still in their infancy in Zambia. The study will also contribute to the body of knowledge in Urban Management and

Development as far as value for money assessments in PPPs are concerned especially in developing countries.

## 1.7 Description of the Research Area

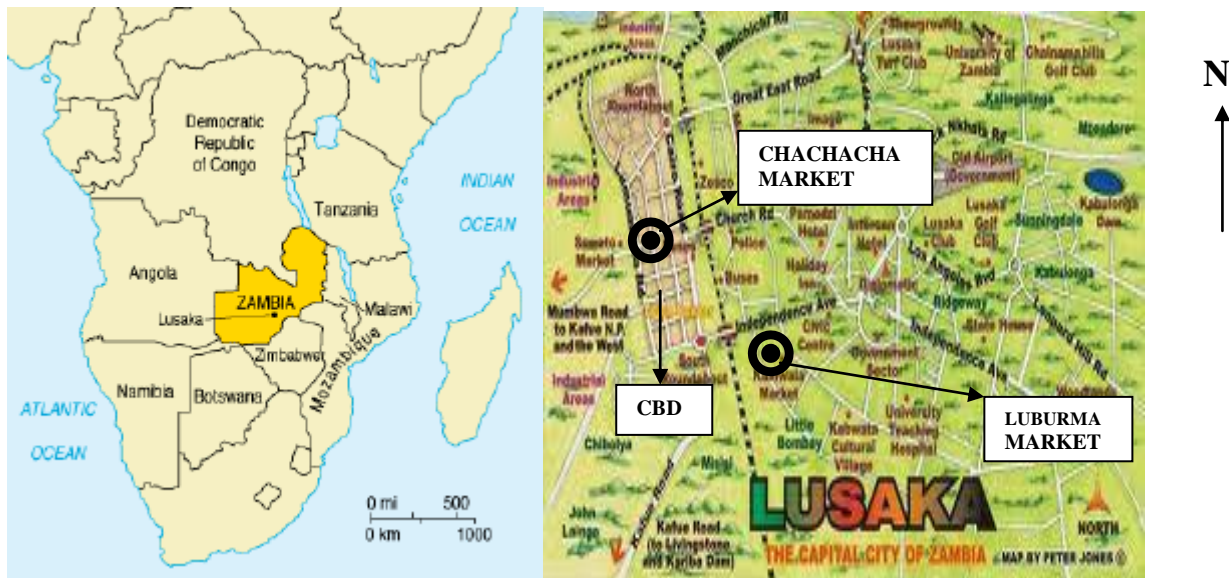
Lusaka is the Capital City of Zambia and the largest City in the Country. According to the 2010 census of population and housing preliminary report, Lusaka has the largest population in the country of 2,198,996 as at October 2010 which represented a growth rate of 4.7 % compared to the census figure of 1,118,844 in 2000 (Central Statistical Office 2010).

It is bordered by Kafue district on the south and west, Chongwe district on the east and Chibombo district on the north. It is located between longitude 10 and 28 degrees East of the Greenwich and between latitude fifteen and half ( $15\frac{1}{2}$ ) degrees south of the Equator. It lies on a plateau with an altitude of 1280 m<sup>2</sup> above sea level (Lusaka City Council 2009).

Lusaka is the major political, administrative and commercial centre of the Country and seats the national and international governments.

In trying to fulfil its mandate of infrastructure and service delivery, the Lusaka City Council has been grappling with budget constraints due to the reduced revenue base following the Government directive to local governments to sell their housing stocks to sitting tenants which provided a major source of income through collection of rentals. The loss of revenue has therefore necessitated the need for local government to find innovative financing mechanisms to provide the needed infrastructure and services to the residents through the Public Private Partnership model (UN-Habitat 2007). This is in order to meet the growing demand for infrastructure and services by the increasing population which has been necessitated by the high urbanisation rate.

**Figure 1: Map of Africa showing the location of Zambia and Lusaka**



Source: <http://www.google.com/search?q=map+of+zambia&hl>

## 1.8 Thesis Structure

This research is divided into five chapters broken down as follows:

*Chapter 1* provides the background to the study and defines the problem under research. It also highlights the objectives and the research questions that the study seeks to answer. The



chapter further elaborates on the significance of the study, describes the research area and gives an indication of the location of the units of analysis.

*Chapter 2* reviews the theories and concepts that underlie the study. It gives an overview on infrastructure before focussing on the concept of PPPs, their models, arguments for and against as well as the enabling framework for the implementation of PPPs. It further elaborates on the concept of Value for Money before discussing the factors that influence the attainment of value for money, the approaches to the assessment of value for money in PPP projects and their criticisms. It also gives selected Countries' experiences as far as the VfM assessment approaches are concerned on which lessons for the study will be drawn from.

*Chapter 3* discusses the research methods, processes and instruments that have been employed in the study in detail. It also gives the operationalization of the variables and the reliability and validity of the study.

*Chapter 4* gives an overview of the Urban Markets Development Programme initiated by the Government of the Republic of Zambia with the help of the European Union aimed at rehabilitating and rationalising urban markets in the Country. The chapter also reviews the Zambian experience in PPPs before discussing the units of analysis. It further presents the data collected and analyses the research findings. The analysis is undertaken within the framework of the literature reviewed in the study in order to pave way for drawing of conclusions and making recommendations.

*Chapter 5* presents the final analysis of the assessment of value for money in PPPs in Zambia, the approaches adopted for VfM assessment and outlines the necessary measures that need to be undertaken for the achievement, maintenance and/or enhancement of value for money in the implementation of PPP projects. In this chapter, conclusions and recommendations to all relevant stakeholders in partnership arrangements are also made as well as areas for future research.

## **1.9 Conclusion**

This chapter has set the foundation of the research by highlighting that value for money has been regarded as the most fundamental reason for governments to resort to the use of Public Private Partnerships in infrastructure and service delivery during the past two (2) decades. This is apart from the other motives of increasing efficiency in the delivery and the limited financial resources being faced by the public sector in meeting infrastructure needs. The chapter has also highlighted the challenges that have been faced in the implementation of the urban markets infrastructure projects by the Lusaka City Council in terms of contract management, monitoring and enforcement, identification, evaluation and allocation of risk, tender evaluation criteria and the undertaking of feasibility studies to determine reasonable payback periods for the private parties. With these challenges, the attainment of value for money which PPPs are meant to achieve has not been proven. Hence, the impetus to undertake the research. The study thus seeks to establish the key factors that influence the attainment of value for money, the approaches to VfM assessment and whether or not VfM has been delivered by these projects. The establishment of these factors will therefore be of significance to Central Government, local governments and the private parties that are engaged in such partnerships especially that PPPs are still in their early days in Zambia.

## Chapter 2: Literature Review and Conceptual Framework

*This Chapter discusses the salient theories and concepts that will assist and guide the study. These will also provide a firm foundation on which to draw final conclusions and make recommendations for the attainment, maintenance and/or enhancement of value for money in Public Private Partnership infrastructure projects that are undertaken in Zambia. The chapter begins by giving a general overview about infrastructure before focusing on reviewing literature on Public Private Partnerships. It then discusses the concept of Value for Money, the Value for Money Drivers in PPP projects and the various approaches used in assessing it. It further discusses the use of the Public Sector Comparator as a tool for assessing Value for Money in PPP projects including its criticisms. The chapter also gives an overview of experiences of VfM assessments in different countries before linking all the theories in a conceptual framework.*

### 2.1 Introduction: What is Infrastructure?

Infrastructure is at the very heart of economic and social development (OECD 2006). The rationale is that it provides a cornerstone for virtually all modern-day economic activity. It also constitutes a major economic sector in its own right and immensely contributes to the improvement of living standards and the quality of life. However, its definition has been a subject of debate as there has never been a commonly agreed usage of the term ‘*infrastructure*’. When defining infrastructure, inconsistencies and *sector-specific biases* abound (Fulmer 2009). It can thus be defined from different schools of thought which range from *international organisations’* points of view to *disciplinary approaches* such as *public policy, engineering and economics and finance*.

From the international organisations’ perspective, the OECD defines infrastructure as a “*means for ensuring the delivery of goods and services that promote prosperity and growth and contribute to the quality of life including the social well-being, health and safety of citizens, and the quality of their environment*” (OECD 2007). Sectors such as electricity, water, transport and telecommunication have been identified as the key areas covered under this definition.

In a similar way, the World Bank in the Infrastructure Development Report goes a step further and refers to infrastructure as *economic infrastructure* and gives a broader overview which includes services from:

- **Public utilities:** these include power, telecommunications, piped water supply, sanitation and sewerage, solid waste collection and disposal and piped gas.
- **Public works:** these refer to roads, dams as well as canal works.
- **Other transport sectors:** these include railways, urban transport, ports, waterways and airports (World Bank 1994).

From the above categorization, the role of infrastructure has been noted as the adequacy which helps in determining one country’s success from another’s failure in diversifying production, expanding trade, coping with population growth, reducing poverty or improving environmental conditions. Good infrastructure therefore will raise productivity and lower production costs although its expansion should be fast enough in order to accommodate growth. However, despite assertions stipulating that the availability of infrastructure leads to economic development or vice versa, the exact linkages between infrastructure and development are still a subject of debate.

Furthermore, the World Investment Report defines infrastructure in its broadest sense as “physical facilities, institutions and organizational structures, or the social and economic foundations, for the operation of a society” (United Nations 2008). From this broad concept, the Report distinguishes between *social infrastructure* (e.g., schools, hospitals, housing, prisons, and urban markets) and *economic infrastructure* as alluded to above. The Report further highlights the following as the key characteristics of the infrastructure industry:

- Investments in infrastructure are usually very capital intensive and complex. This is because they are long term, involve huge sunk costs and are location specific.
- It involves (physical) networks which are frequently oligopolistic or monopolistic. This entails that control or access to them can create competitive advantages and therefore requires strict regulation.
- Access to infrastructure is considered as a social or political issue by many societies.
- Infrastructure is regarded as a major determinant for the competitiveness of an economy as a whole, and
- It is a key to economic development and integration into the whole world economy.

Regarding the *public policy* view point, infrastructure is viewed as public works and includes *facilities with high fixed costs, long term economic development and a tradition of the public sector involvement* (Moteff & Parfomak 2004). These include transportation, water and waste systems, public buildings, recreational facilities, electrical power production and communication among others.

Under the *engineering realm*, public infrastructure is regarded as part of the *built environment* in contrast to *the natural environment*. These are *facilities that are essential for the functioning of the economy and maintenance of public health, roads, bridges, sewers, airports, dams and public buildings* (Sanford et al. 1995).

According to the *economics and finance* perspective, infrastructure is considered as *tangible capital stock, goods and services provided by the public sector, impact of government spending or public capital stock on economic growth, aggregate output, private sector economic performance and production costs* among others (Romp & Haan 2007).

Other authors like Fox refer to public infrastructure as “*those services derived from the set of public works traditionally supported by the public sector to enhance private sector production and allow for household consumption*” (Fox 1994). Hence, infrastructure can be a basis for production and consumption benefits especially in the low income areas going by the definition’s emphasis on production and consumption.

On the other hand, Yescombe (2007) regards public infrastructure as *facilities that are important for the functioning of the economy and society*. It is therefore not an end in itself but a way of supporting the economic and social activities of the nation. It includes facilities that are secondary to these functions such as office accommodation. He also classifies infrastructure as *socio or economic infrastructure*. Additionally, infrastructure plays a key role in accelerating economic growth since it has a positive impact on output especially in developing countries (Andres et al. 2008). This is particularly so in that it can enhance economic opportunities, health and education levels for the poor. Through the connections to the economic activities, the poorer individuals and underdeveloped regions can access productive opportunities. Similarly, infrastructure development in underdeveloped regions leads to reductions in production and transaction costs.

For the purposes of this research, *the urban market infrastructure projects which are the subject of this research though primarily regarded as social infrastructure will be considered under the realm of economic infrastructure as they are derived from a set of public works to allow for household consumption, enhancement of economic opportunities and promotion of production.*

## **2.2 Traditional Public Procurement**

Traditionally, infrastructure has been provided by the public sector. Traditional public procurement refers to the procurement of a facility using funding from tax revenues or public borrowing (Yescombe 2007) and intergovernmental transfers in the case of local governments. The most typical public sector procurement according to Yescombe is the *design-bid-build* model whereby the public sector specifies, designs the facility, calls for bids based on the detailed design and pays for the construction works by a private contractor. All the full construction costs as well as the cost overruns are borne by the public sector. Furthermore, the operation and maintenance requirements are wholly managed by the public sector with the private sector contractor taking no responsibility whatsoever for the long term performance of the facility after the expiry of the warranty period. The rationale for the public sector procurement in infrastructure according to Yescombe is that:

- Externalities cannot be taken care of by the private sector,
- Infrastructure that are public goods (e.g. roads,) are not attractive to the private sector as they do not generate profit, hence the involvement by the public sector,
- Competitive provision of infrastructure may not be efficient. Therefore, there is need for public control in monopolistic provisions,
- In cases where competition is feasible, there is need for government intervention especially for merit goods which can be under provided by the private sector, e.g. schools being provided for the rich only without provision for the poor, and
- Since infrastructure involves lumpy costs with long term returns, private sector capital may be difficult to attract, thus, the need for public sector procurement.

In view of the foregoing, the public sector's limited financial resources to commit towards increased infrastructure expenditure, the need to improve public service delivery and the limitations in raising debt finance have necessitated a growing shift to Public Private Partnerships in infrastructure development (Davies & Eustice 2005). PPPs have been viewed as way to reduce the gap between the cost of infrastructure and the resources available and to ensure that it is delivered efficiently and effectively. Hence, PPPs provide a greater recourse to the private sector as well as greater diversification of public sector revenue sources (OECD 2007) in order to reduce the growing infrastructure gap.

## **2.3 What are Public Private Partnerships?**

The genesis of PPPs lies in New Public Management (NPM) which became famous in the 1980s (Khanom 2010). NPM emphasized on the shift of management from public service to service delivery and entailed among other things, privatization, market mechanisms, contestability in the delivery of public goods and services, deregulation and the reinvention of government by calling for the government to cut back through keeping its hands on the tiller rather than rowing. Through such measures, it was envisaged that there would be efficiency, effectiveness and quality in service delivery. Thus, the principles governing NPM led to the establishment of PPPs as a new management tool under the conservative government of

Margaret Thatcher. PPPs were as a result introduced in the UK in 1992 under the Private Finance initiative (PFI) to provide public infrastructure.

Public Private Partnerships just like infrastructure have no generic definition. Grimsey & Lewis (2005) describe PPPs as a new version of the Private Financing Initiative (PFI) for infrastructure that emerged in the 1990s in the UK and refers to the provision of public assets and services through the participation of government, the private sector and the users. Reasons such as the *enhancement of value for money* or improved service delivery for the same amount of money which the public sector would have spent on a similar project have been advanced as the rationale for undertaking PPPs. In terms of its definition, the OECD (2008) defines a PPP as “*an agreement between the government and one or more private partners through which the private partners deliver services in order to align the service delivery objectives of the government with the private sector’s motive of profit and where the alignment depends on a substantial transfer of risk to the private partners*”. On the other hand, Yescombe defines PPPs as:

- long term contracts between the public and private sector parties,
- contracts for the design, construction, financing and operation of public infrastructure (the facility) by the private sector,
- with the payments for the use of the facility over the life of the PPP contracts made to the private sector party by either the public sector party or by the general public as users of the facility, and
- with the facility remaining in public ownership, or reverting to public sector ownership at the end of the contract (Yescombe 2007).

In the same vein, the World Bank Infrastructure Consortium for Africa (2009) indicates that PPPs come in different forms but those that involve the private sector to provide public infrastructure under a long term contract with the public sector transfer the following aspects of the partnership to the private sector

- the design, building or upgrading of a public sector infrastructure,
- assumption of substantial financial, technical and operation risks,
- receipt of a financial return through payments over the life span of the contract from the users, the public sector or a combination of the two, and
- a return of the facility to the public sector at the end of the contract although in some cases the private sector may retain the asset (World Bank 2009).

Furthermore, PPPs are viewed as “*corporation or some sort of durability between public and private actors through which they jointly develop products and services and share risks, costs and resources which are connected with these products*” (Van Ham & Koppenjan 2001). In this definition, Van Ham & Koppenjan pin point the advantages of PPPs by underlying the importance of *cooperation of durability* which implies a *long term relationship* and also emphasise on the *sharing of risks* as a vital component including other factors to be shared as well.

In view of the above, it can be construed that there is no generic definition of Public Private Partnerships. However, the definitions reflect common features such as *some form of partnership* between the public and the private sector, *transfer of risk* to the private party, the *contract being long term*, the *receipt of financial return* by the private sector over the life span of the project and the *transfer of the facility back* to the public sector after the expiry of

the contract. Consequently, it is evident that the urban markets projects implemented by the Lusaka City Council satisfy some elements that underlie PPPs which can be highlighted as:

- contracts for the design, financing, construction and operation of the urban markets by the private parties that are long term (i.e. 65 and 60 years respectively).
- payments being made over the life time of the projects to the private parties from the users in form of rentals in order for them to recoup their investments.
- facilities reverting back to the local government at the expiry of the contract terms.

For the purposes of this study therefore, Public Private Partnerships will be defined as a '*long term contract between the public sector and one or more private sector parties for the delivery of an infrastructure project which involves the transfer of optimal risk, payment of rent by the users and the reverting back of the asset (or facility) to the public sector after the expiry of the contract period.*'

## **2.4 Theories Governing Public Private Partnerships**

### **Principal Agent Theory (Agency Theory)**

Public Private Partnerships are governed by a number of theories. One of such theories is the Principal Agent Theory. According to Ayee (2005, pp.2-4), the Agency Theory formalises the assumptions concerning the distribution of property rights and the information in the drafting of contracts which define organisations. The Theory deals with the design of contracts and focuses on the relationship between the principal and agents who carry out tasks on behalf of principals. The challenges faced by principals according to Ayee is to choose best agents whether employees or contractors or other third parties. Secondly, the challenge is to monitor the behaviour of the agents in order to ensure that they perform their assigned tasks properly. In addition, the Theory provides a framework for studying the relationship between the Principal (owner) and the Agent (manager) who accomplishes a task on behalf of the principal (Halachmi 2010). This theory unfolds the importance of the asymmetry of information at the disposal of the parties and their desire to take advantage of the situation although at the expense of the other party. In essence, the principal would want to exploit the agent to get a better deal while the agent would also want to exploit the principal by reaping more benefits from the relationship since he usually has more information regarding the contract unlike the principal. This is what is referred to as the asymmetry of information. Halachmi further highlights that due to the asymmetry of information, parties cannot be certain that the contract they have between them is the best for each one of them which leads to the manifestation of all types of games and an atmosphere of distrust (Halachmi 2003). In terms of Public Private Partnerships, such a situation is likely to become apparent especially in circumstances where the public sector lacks the technical expertise and skills to embark on Public Private Partnerships which would advantage the private party who has better management and technical skills on a particular project.

### **The Transaction Costs Theory**

Ayee (2005) argues that unlike the Agency theory, the focus of the transaction cost theory is the contract. This is contrary to the agency theory which basically considers agents as merely responding to contracts designed by principals. It regards the parties entering into a transaction (exchange) as contracting both the terms of the exchange and their execution. The contracting costs are usually very high because they not only include the costs of structuring, monitoring, bonding and residue loss costs of agency theory but also encompass the costs of negotiations. Furthermore, Bovaird (2004) observes that in situations where contracts are

complex, the high costs of designing, letting, monitoring and enforcement of these contracts imply that organisations may be better off carrying out the activities through traditional procurement unless relational contracts which rely on trust rather than pure economic considerations are set up. Public Private Partnerships in this regard are likely to attract high transaction costs especially in circumstances where the public sector lacks the skills and expertise to structure them and would therefore depend on advisers, hence incurring more costs.

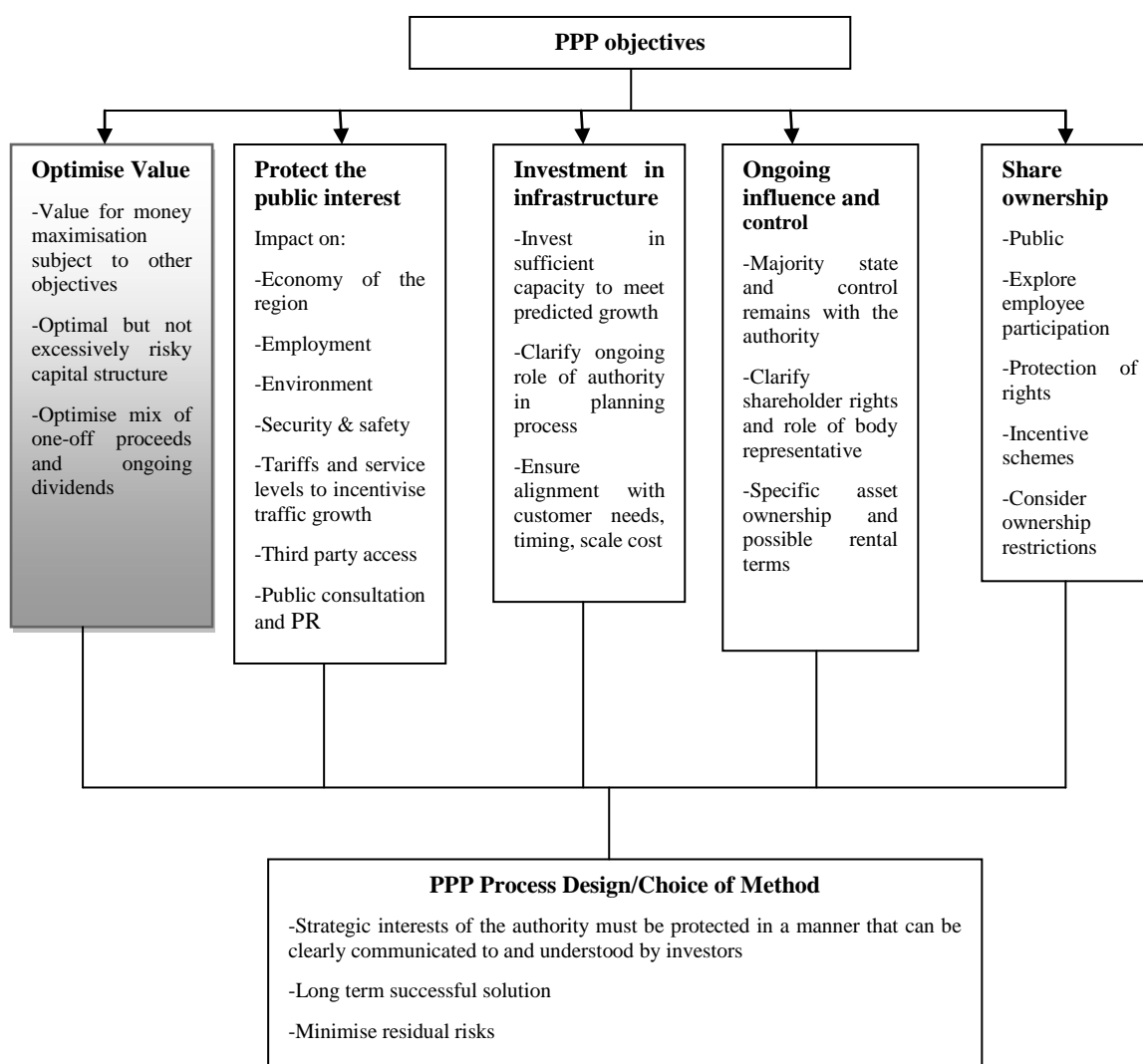
## **Objectives of PPPs**

Given the above theories, different reasons have been advanced by governments as motives for pursuing PPPs in infrastructure and service delivery. This is due to the fact that their success depends on these objectives. The Australian Government (2008) and UNESCAP (2008) underline the following as the objectives of PPPs. These are to:

- Encourage private sector participation in public infrastructure and related services whereby *value for money* for the government could clearly be demonstrated.
- Encourage innovation in the provision of infrastructure and other related services.
- Promote efficiency in project delivery and operation.
- Provide additional resources to meet the increasing needs for investment in infrastructure.
- Encourage rigorous governance over the selection of projects and competition for the awarding of contracts
- Clearly articulate accountability for outcomes.
- Access advanced technology, and
- Promote sustainable development in infrastructure facilities and services.

Other dimensions of the objectives are as displayed in Figure 2 with an emphasis on the achievement of value for money.

**Figure 2: Objectives of PPPs**



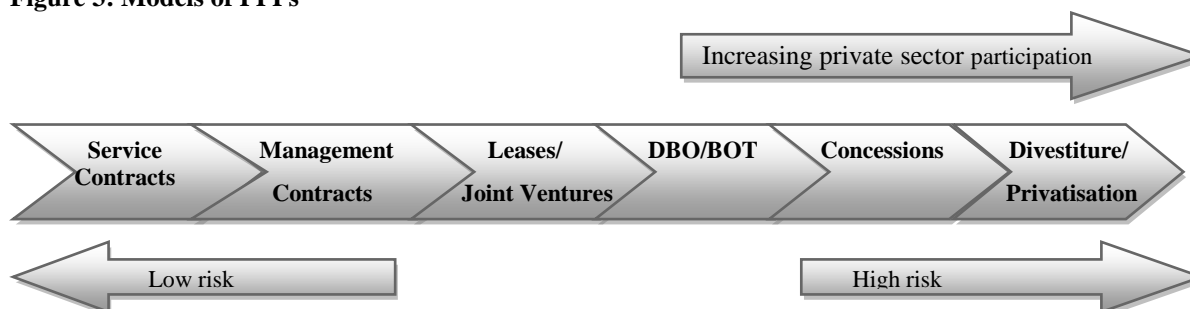
Source: Bongwa (2011)

## Models of Public Private Partnerships

PPPs come in different forms and depend on the nature of the procurement, desired allocation of risk and investment requirements (Asian Development Bank 2008, pp. 1-2). In addition, UNESCAP (2008) asserts that the models of PPPs may vary from the short-term management contracts to long term and very complicated Build-Operate and Transfer (BOT) models and to divestiture or privatisation. The main defining factors for these models are the ownership of assets, responsibility for investment, assumption of risk and the duration of the contract. Figure 3 below depicts the broad categories under which PPPs fall.



**Figure 3: Models of PPPs**



Source: Based on ADB (2008)

- **Service contracts:** These are a simplest form of PPPs. The private partner does not operate any public assets but simply enters into a contract with the public sector to provide a specified level of service for a shorter duration typically from 1 to 3 years.
- **Management Contracts:** Involve the operation of public assets by a private sector party who receives a management fee. In cases where there is risk sharing, the private party receives a profit-sharing incentive. These contracts run for periods ranging from 3 to 5 years.
- **Leases:** Are similar to management contracts although they entail a greater transfer of operational risk because the private party pays a lease fee and generates income entirely from the use of the assets. The contracts are usually between 8 and 15 years.
- **Joint Ventures:** These are projects whereby both the public and private parties contribute but overall, control remains under the private party. Usually, the public sector contribution serves to secure wider social benefits. Some of the requirements in joint ventures include that; private parties be chosen through competition, the public sector's contribution be defined and limited, allocation of risks and reward be clearly defined (Bay Area Economic Forum 2006).
- **Design-Build-Operate/Build-Operate-Transfer (DBO/BOT):** Are contracts that involve the private partner undertaking significant investments which include constructing and operating the infrastructure. The assets revert back to the public sector after the expiry of the contract. Although the demand risk may be shared between the public and private partners, the financing and operating risks are usually transferred to the private party. The contacts are mostly between 20 and 30 years in order to allow for the return on the investment for the private partner. Other forms of these contracts according to the OECD (2008) include:
  - ✓ Build-own-maintain (BOM)
  - ✓ Build-own-operate(BOO)
  - ✓ Build-develop-operate (BDO)
  - ✓ Design-construct-manage-finance (DCMF), and
  - ✓ Design-build-finance-operate (DBFO)
- **Concessions:** Concessions transfer a maximum amount of risk such as demand, operating and financing risks to a private party in exchange of rights to exclusively operate the assets. These contracts will more often require new investments in order to expand the services and may also include the assumption of existing assets. These contracts are the most complex since they require careful structuring and monitoring and are usually for 20 to 30 years.

- **Divestiture/Privatisation:** Privatisation entails the complete transfer of the asset to the private party.

Table 1 summarizes the types and characteristics of PPPs.

**Table 1: Classification of PPP/PSP models**

Broad Category	Main Variants	Ownership of capital assets	Responsibility of investment	Assumption of risk	Duration of contract (years)
Supply and Management contract	Outsourcing	Public	Public	Public	1-3
	Maintenance management	Public	Public/Private	Private/Public	3-5
	Operational management	Public	Public	Public	3-5
Turnkey		Public	Public	Private/Public	1-3
Affermage/Lease	Affermage	Public	Public	Private/Public	3-20
	Lease	Public	Public	Private/Public	3-20
Concessions	Franchise	Public/Private	Private/Public	Private/Public	3-7
	BOT	Public/Private	Private/Public	Private/Public	15-30
Private Ownership of assets (PFI type)	BOO/DBFO	Private	Private	Private	Indefinite
	PFI	Private/Public	Private	Private/Public	10-30
	Divestiture	Private	Private	Private	Indefinite

Source: UNESCAP (2008)

## Pros and Cons of PPPs

Public Private Partnerships have created a number of arguments regarding their advantages and disadvantages when it comes to their use in delivering infrastructure and services. Despite their growing usage worldwide by governments, there have been a number of criticisms regarding their usage and discontentment that they are not a panacea to resolving all the infrastructure backlogs. Table 2 below gives a summary of the arguments that are widely advanced for and against PPPs.

**Table 2: Advantages and Disadvantages of Public Private Partnerships**

Pros	Cons
<ol style="list-style-type: none"> <li>1. PPP projects can deliver value for money</li> <li>2. PPP projects can be undertaken off balance sheet</li> <li>3. Projects under PPPs are made affordable</li> <li>4. The use of private sector skills is maximised under PPPs</li> <li>5. The private sector assumes the whole life cycle costs in PPPs leading to cost savings</li> <li>6. Risks are allocated to the party which is able to manage the risks better</li> <li>7. There is budgetary certainty under PPPs</li> <li>8. PPPs encourage the private sector to focus on outputs and not inputs from the inception of the project</li> <li>9. The private sector is only paid after the services are delivered</li> </ol>	<ol style="list-style-type: none"> <li>1. Transfer of life cycle costs is not always possible</li> <li>2. Risk transfer is not absolute in PPP</li> <li>3. Undertaking PPPs can be costly and lengthy</li> <li>4. There is inflexibility under PPPs due to their relative long term nature</li> <li>5. Insufficient capacity and skills in the public sector to embark on the PPP approach</li> <li>6. There is higher costs of finance for the private sector</li> <li>7. The Public sector loses management control under PPPs</li> <li>8. Insufficient expertise in the private sector to warrant the adoption of the PPP model</li> <li>9. Asymmetry of information problem due to the Principal Agent arrangement</li> </ol>

10. PPPs enhance the development of other specialist skills such as whole life cycle costing	
11. Private sector capital is harnessed under PPPs.	

**Sources for pros:** (Cheung, E., Chan, P. C. A. & Kajewski, S. 2009), (European Commission 2003), (Kwak et al. 2009), (Perrot, J. Y. & Chalelus, G. (eds.) 1999), (Murphy 2008), (Deloitte & Touche 2006), (Davies & Eustice 2005), (Spackman 2002), (UNESCAP 2008)

**Sources for cons:** (Davies & Eustice 2005), (Yescombe 2007)

## Enabling framework for the successful implementation of PPPs

In order for PPPs in infrastructure projects to be successfully implemented, there is need for certain parameters to be in place. According to Scott et al. (2008), the Asian Development Bank (2006), Zhang (2005) and Yong (2010), the policy, legal, regulatory and institutional frameworks are paramount for the successful implementation of Public Private Partnerships. This is in order to ensure that there are social and economic environments present in a country that would foster the investment and attraction of the private sector to the PPP process.

Regarding the **Policy Framework**, Yong (2010) points out that a clear policy framework is the cornerstone for a Public Private Partnership programme in a country. In order for the PPP programme to be successful, the policy framework should outline the following aspects:

- the rationale and objectives of PPPs
- the government's plans to facilitate the rolling out of the PPP programme
- the overall guidelines on the assessment of PPPs, and
- the institutional structures and processes which will be involved, the role of different government entities in terms of project selection, preparation, procurement and approvals.

Through a policy framework, the government is able to develop a well structured investment framework that lays down the planned projects including the level of investment required. This will greatly assist the private parties to evaluate the links among various projects which might have adverse effects on the feasibility and other considerations of the projects (Yong 2010).

In terms of the **Legal Framework**, Alfen et al. (2009) accentuate that an enabling legal framework must be in place prior to embarking on PPP programmes by countries in order for governments to demonstrate a clear long term political commitment to the use of PPPs. Such commitment can be expressed in a variety of ways since PPP contracts involve highly sophisticated commercial and financial structures. This is because of the many stakeholders involved, the many risks associated with the projects which need to be allocated properly and the long term nature of PPP contracts which calls for the need for the arrangements to be flexible and responsive to changes over time. These requirements can be addressed through the enactment of specific PPP laws or other legislative changes which would be necessary to ascertain that the program is in tandem with the country's constitution (Alfen et al. 2009). Moreover, the legal framework sets up the parameters for the operations of the government units in terms of specific conditions for regulating project ownership and the use of particular PPP models especially in the early PPP Acts (Aziz 2007). Regarding operations, Yong (2010) reveals that the legal framework operates at three levels as outlined below:

- at the general country's legal framework by overseeing aspects such as property rights and land acquisition,
- as a specific legal framework which focuses on PPP aspects such as procurement processes, and

- the framework operating at contract level by drawing on specific issues pertinent to the contract whilst relying on the general legal framework for PPPs in entirety if available.

Consequently, the motivation for a well defined legal framework is to ensure the enforcement of contracts as well as their effectiveness while assuring the parties involved that their interests would be protected. It will accordingly save on time and effort and flexibility as far as contracts are concerned since reference can easily be made to the overall framework. On the contrary, it should be borne in mind that a legal framework need not to be onerous as it would imply higher transactions costs which would be detrimental to the parties involved in the PPP arrangement. It should thus be well balanced and rational in order to promote the implementation of the PPP programme by being clear, consistent and none conflicting in addition to the salient features of being stable and fair (Yong 2010).

Just as the case is for the policy and legal frameworks, a **Regulatory Framework** forms an important component of the country's PPP enabling framework. According to Alfen et al. (2009) and Yong (2010), regulatory frameworks have been set up in many countries in order to render support to the private sector involvement in Public Private Partnerships by protecting them from political opportunism, arbitrary actions, and improved or constant provision of infrastructure services to the consumers. The regulatory framework also protects them from abuse of market power, enhances economic efficiency and helps in maintaining stability. The issues dealt with under a regulatory framework among others include:

- the structure of the market as well as its impact especially on the prices of the service delivered by the infrastructure,
- regulation of quality of service delivered especially in circumstances where powerful market operators are prompted to cut costs at the expense of reducing the quality of the service delivered. In order to curb such practices, the regulatory framework will enact schemes that are aimed at ensuring quality standards, monitoring and impositions of penalties for non compliance in order to assure quality.
- in addition to enforcing provision of quality services, the regulatory framework designs schemes and incentives that are meant for environmental protection.

Lastly but not the least, **the Institutional framework** is crucial to the success of PPPs in that it facilitates the development of PPP programs and provides clear boundaries for the protection of the interests of all the parties involved (European Commission 2003). Therefore, institutional changes are required because the roles and responsibilities of the public sector change from that of direct service provision to managing, regulating and monitoring. In this regard, institutional frameworks can either be *decentralised* (e.g. in France) through the delegation of responsibility to regional levels and other concerned line ministries; or centralised (e.g. in UK and Ireland) through the creation of one *dedicated PPP Unit*. The World Bank indicates that the common practice for setting up PPP Unit capacities is through the establishment of the Units as new agencies or as special cells within a cross sectoral Ministry such as Finance or Planning (World Bank 2006).

Dedicated PPP Units according to the OECD refer to any organisational set up which has full or partial support from the government to ensure that necessary competencies to manage third party provision of goods and services are made available and clustered together within government (OECD 2010). The rationale of having such set ups is to enhance capacity of government to successfully handle risks associated with the increasing number and value of

Public Private Partnerships. The roles of PPP Units according to the World Bank (2006) and the World Bank PPIAF (2007) include:

- providing information and guidance on PPPs (e.g. standard contracts, concession agreements or contract clauses),
- giving procedures for identification, evaluation and procurement of PPPs,
- promotion of PPP benefits and acting as resource centres,
- development of guides and ‘self help’ tool kits for PPPs,
- rendering advisory support and funding to line departments as well as to sub national agencies implementing PPPs.

## Traditional Public Procurement Versus PPPs

While the public sector has increasingly chosen to adopt some form of PPPs to deliver infrastructure, traditional public procurement methods are still relied upon in most countries to deliver many projects. For instance, 85% of the UK's public investment is still delivered through traditional procurement methods despite having a well developed Private Finance Initiative (PFI) PPP system in place (Davies & Eustice 2005). The table below therefore summarizes insights on the traditional public procurement approach as differentiated from the PPP delivery system.

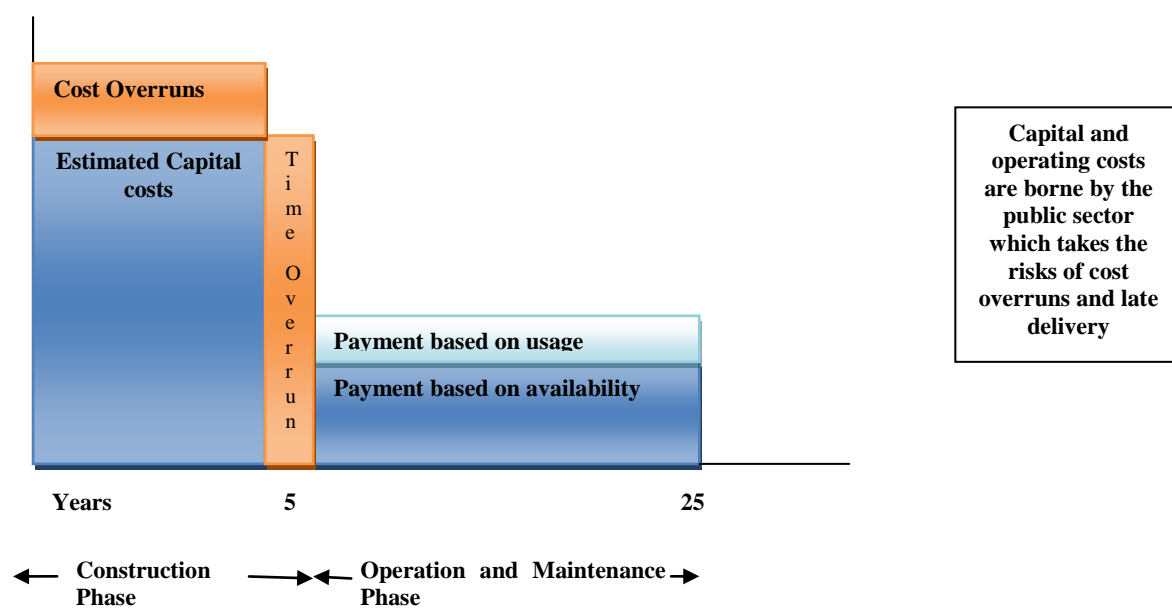
**Table 3: Traditional Public Procurement contrasted with PPPs**

Traditional Public Procurement	Public Private Partnerships
The public sector procures an asset not a service from the private sector.	The public sector concentrates on defining the objectives to be achieved by procuring the asset.
The assets are INPUT specified, i.e. the public sector designs the project prior to procurement.	There is emphasis on output specifications and not on the asset.
The private sector delivers assets based not on their long term performance beyond the standard warrant period.	There are relatively long relationships involving cooperation between the public sector and the private party
Project management mainly remains with the public sector including the risk of integrating successfully multiple works contracts.	The private party plays an important role in all stages of a project i.e., designing, construction, operation and financing.
	There is distribution of risks between the public sector and the private party.

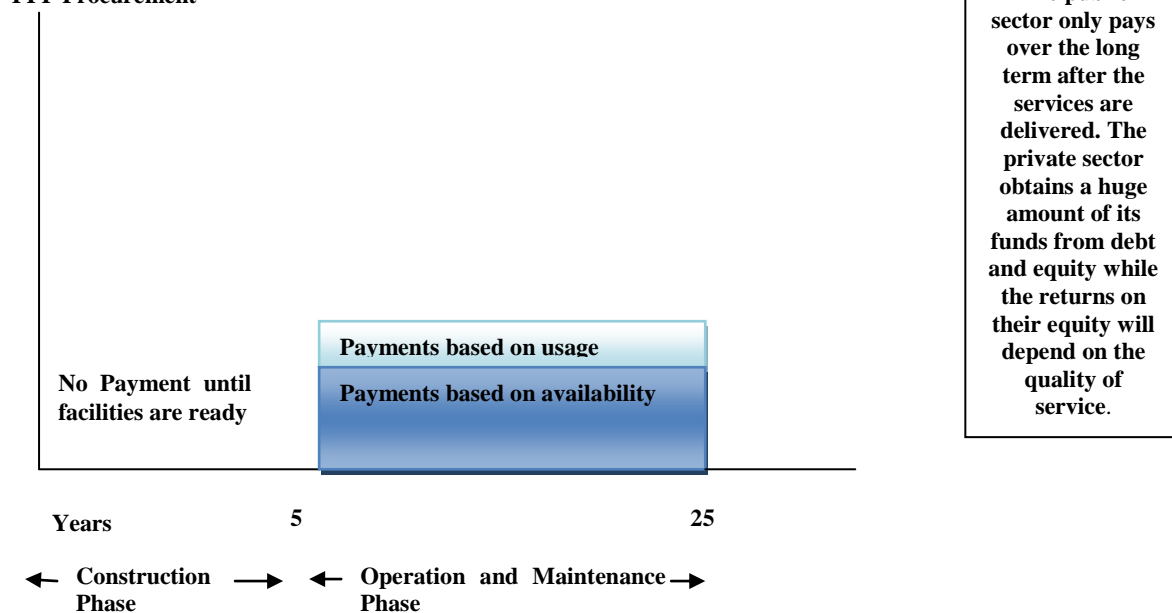
**Source:** Davies & Eustice (2005)

**Figure 4: Traditional and PPP procurement methods**

#### Traditional Procurement



#### PPP Procurement



Source: Davies & Eustice (2005)

## 2.5 What is Value for Money in PPPs?

Public Private Partnerships are increasingly being used by governments to deliver infrastructure in order to pursue value for money. Value for Money (VfM) according to the HM Treasury (2006, p. 7) and Grimsey and Lewis (2005) is defined as “*the optimum combination of whole-of-life costs and quality (or fitness for purpose) of the good or service to meet the user’s requirements.*” It is therefore not a choice of goods or services which is based on the lowest bid price but a choice based on the whole life costs of the project or service. Morillos and Amekudzi (2008, p.115) reveal that VfM aids public agencies to decide whether to implement a project as a PPP or through traditional public procurement. It is

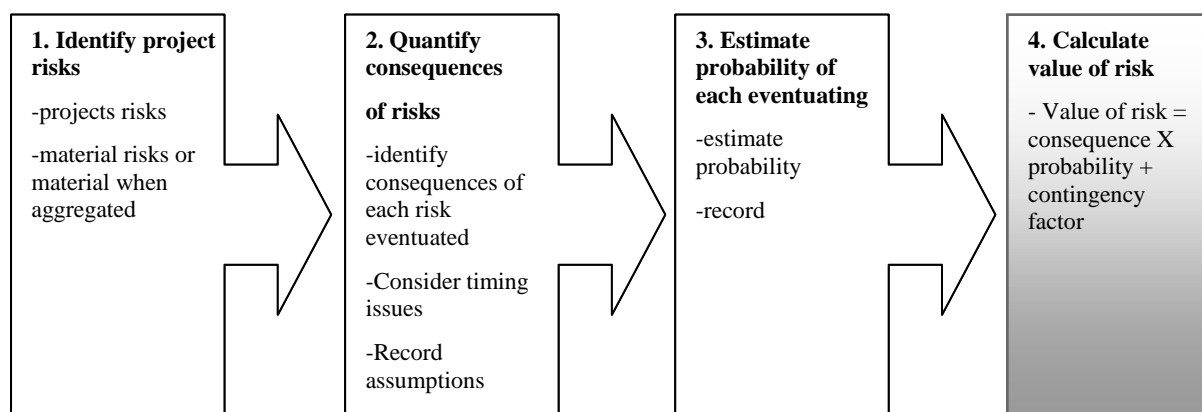
further argued that VfM assessment should ensure that the public sector focuses on the quality of the work as well as the competencies of the private party and not on the lowest bid in order to meet the objectives outlined in the project statement. Shaoul (2005) also associates VfM with three the (3) Es. These are, **Economy** (i.e., *acquiring or using resources of an appropriate quality at minimum cost*), **Efficiency** (i.e., *gaining maximum output from the resources employed or devoting a minimum level of resources for a given level of output*) and **Effectiveness** (i.e., *making sure that the output from any given activity attains the desired goals*). Since the PPP process is typically composed of four (4) phases, i.e. *the feasibility stage* (determination of the economic viability of a project and whether it should be pursued as a PPP), *the procurement phase* (which encompasses the bidding process), *the construction phase* and *the operation phase*, the VfM analysis is usually conducted during the *initial feasibility stage* during which the economic viability of a project is conducted prior to the opening of the bid. Similarly, the VfM assessment can also be undertaken in the procurement phase in order to ensure that costs submitted by bidders are less than the cost of undertaking the project using the traditional public procurement method (Morallos & Amekudzi, 2008, p. 116). In other situations, VfM assessments are also carried out during the other phases of the PPP process.

## 2.5.1 Drivers of Value for Money

In discussing the achievement of VfM in Public Private Partnerships' infrastructure projects, it is prudent that the factors that contribute to the attainment of VfM in a project are determined. These factors are also referred to as drivers of VfM. Morallos and Amekudzi (2008, p. 117) and the HM Treasury (2006) based on studies conducted by Arthur Andersen Enterprises LSE (2000) on the perceptions of the factors that are considered as drivers of VfM in PPP projects identified *risk transfer, competition, output based specification, contract duration, private management skills and performance management and incentives* as the most salient features that influence the attainment of VfM. These are discussed below.

**Risk Transfer:** The primary driver of VfM in PPP projects is the optimisation of the transfer of risk which is allocated to the party that is best able to manage it over the contract period. This implies that risk should not only be allocated but that it should be optimally allocated. Optimum risk allocation relies upon the *understanding of a project's context, identification of risks, valuation of risks, establishment of a risk management plan and a risk matrix and the implementation of the risk management plan* (Li 2006). Risk according to OECD (2008, p.48) is defined as the “*measurable probability that the actual outcome will deviate from the expected or most likely outcome.*”

Figure 5: Steps in valuing risk



Source: Australian Government (2008)

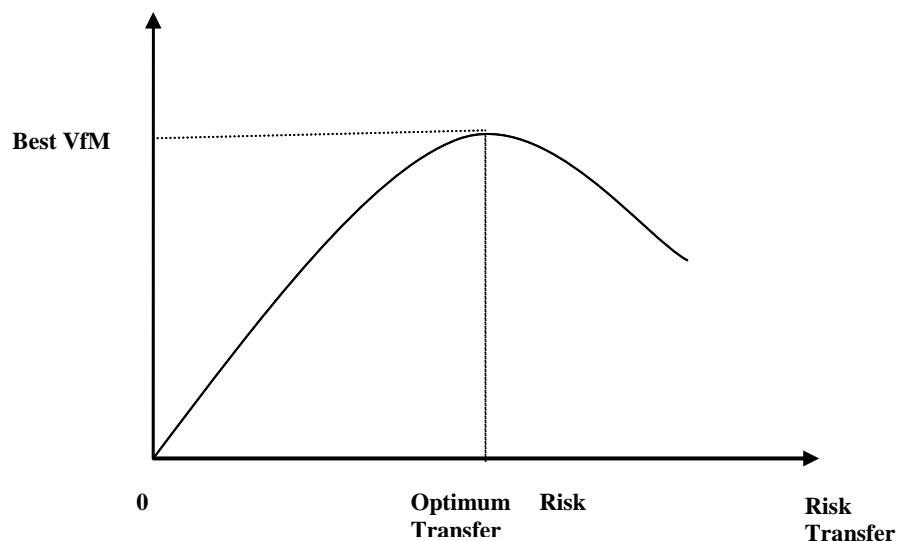
According to the Mauritius PPP Guidance Manual, the common forms of risks associated with PPP infrastructure projects are:

- **Planning risk:** the risk that planning permission for the construction of the project may not be granted.
- **Design risk:** the risk that the design solution adopted for the project may not function properly.
- **Construction risks:** the risks that changes in labour and material costs can lead to construction time and cost overruns.
- **Operation risk:** the risk that factors such as inadequate cost management and poor maintenance schedules may lead to operational costs being higher than envisaged and the required standards of performance and availability eventually not being met.
- **Demand risk:** the risk that the usage of the service/facility varies from the projected forecasts.
- **Financial risk:** the risk that factors such as fluctuations in market fundamentals e.g. exchange and interest rates) may lead to operating or capital losses.
- **Legislative risks:** the risk that a regulatory or legislative change may be implemented that would significantly impact on the ability of the contractor to continue to adhere to his contractual obligations (Government of Mauritius 2006).
- **Force Majeure:** this is the risk involving war and other calamities including acts of God which may have adverse effects on a project (Grimsey & Lewis 2002).

Li (2006) identifies other risks such as:

- **Inflation risk:** the risk that actual risk deviates from the assumed inflation risk rate.
- **Policy risk:** the risk of changes in policy direction which does not involve legislation.
- **Availability risk:** the risk that the quantum of the service delivered is less than required under the contract.

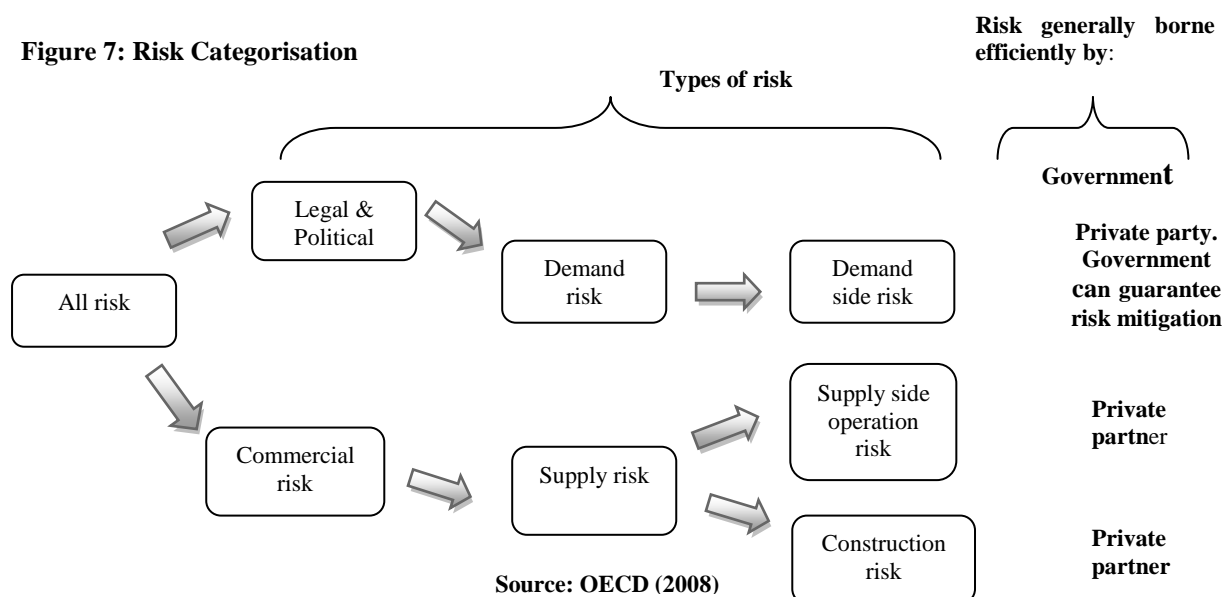
**Figure 6: Optimum Risk Transfer and Value for Money**



Source: OECD (2008)

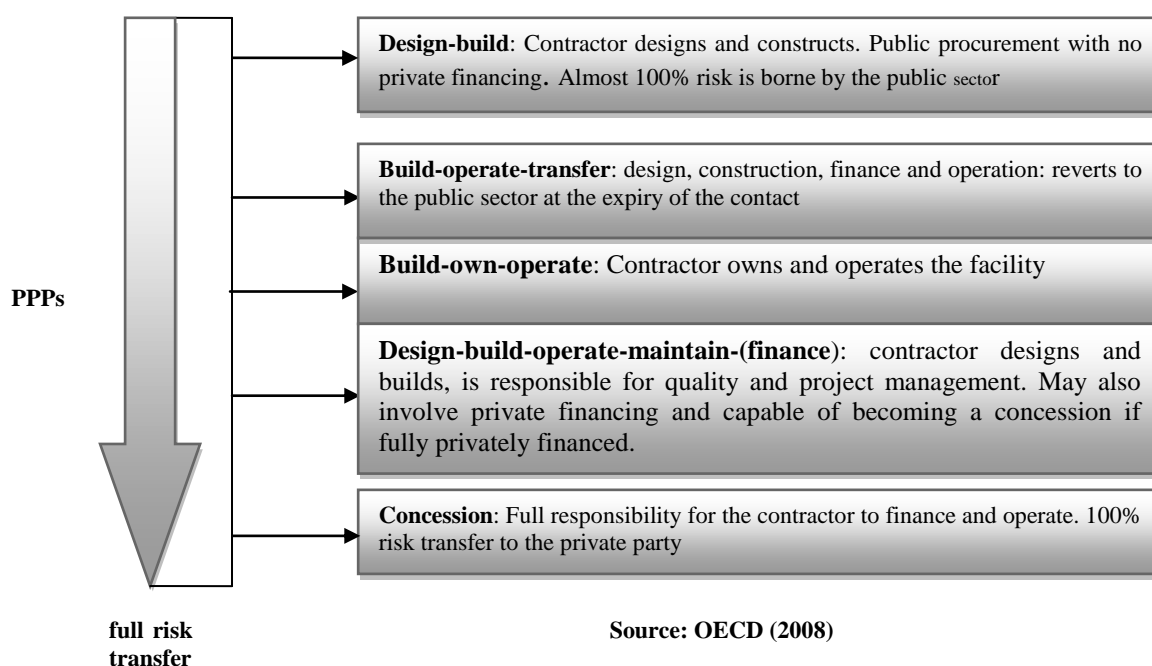


**Figure 7: Risk Categorisation**



Furthermore, apart from the categorisation of risk between government and the private sector as depicted in Figure 7 above, the degree of risk sharing is strongly linked to the particular model of PPP adopted for a specified infrastructure project. Figure 8 gives an overview of how risk is shared amongst different PPP models

**Figure 8: Degrees of Risk Sharing**



**Output based specifications:** The services provided under PPPs should be categorised as outputs. An output specification will outline a *framework for the services to be delivered* by focusing on *what to deliver*, by *what function* and to *which standard* instead of *how* (Bryntse 1992). To this end, the payments that are made to the private party should be linked to the quality and timing of the delivery of these outputs. The output based specification is the major technical difference which contrasts PPPs from traditional procurement where focus is on how to perform services and the inputs needed (Grunesberg et al. 2007; Pitt et al. 2006). By specifying the outputs, the client dictates the outputs they require from the contract instead

of describing the inputs they need in order to meet the outputs. The output specification will therefore measure the compliance of the private party by linking the output specification to the performance monitoring system as well as the payment mechanism. Through the specification of outputs, the public sector is likely to achieve value for money through the implementation of the PPP projects in that the private sector would use innovation and whole life costing methods in delivering the facilities.

**Long term nature of contracts:** The long duration of PPP contracts as well as the inclusion of facilities management enables the private party to consider properly the whole life costing aspects so as to minimise the costs during the contract period (Pitt et al. 2006). Consequently, long term contracts are regarded as a salient condition for delivering VfM in that the timeframe in the contract should be long enough in order to allow the private party recover the initial capital outlay. The other advantage of the long contract periods is that it allows for the development of alternative methods to service delivery which enables the private party to focus on whole life costing as well as ensuring that high levels of maintenance are adhered to assure the delivery of services.

**Performance measurement and incentives:** These incentives are meant to ensure that standards and specifications outlined in the original contract or deal are implemented. This driver plays a different role when it comes to achieving value for money compared to the other drivers which have a direct impact on the project pricing and are inherent to the VfM judgement against the PSC. Performance management and incentives ensures the delivery of VfM promised by the original priced deal (Arthur Andersen Enterprises & LSE 2000). This is achieved through measures like enshrining the performance measures in the contract, inclusion of penalties for non performance and continuous monitoring of the private parties performance.

**Competition:** Competition has been regarded as one of the most important factors in attaining value for money in PPPs. This is on the premise that competition amongst bidders can lead to improvements in pricing and alternative means of delivering VfM. According to Pitt et al. (2006), where a PPP project has been awarded through open tender, the argument for VfM is made easier to substantiate. Kee and Forre (2002) also observe that competition can produce an efficient delivery of goods and services. They further elaborate on a competitive market model which envisions many markets comprising *a large number of buyers and sellers, complete knowledge on quality and production costs, arms length negotiations, and absence of impediments* to the entry of firms in the market. With the presence of these conditions, it is believed that a market would be a producer and allocator of services superior to the public sector (Kee & Forre, 2002). In summary, although risk transfer has been regarded as the driver of efficiency, *competition and contestability* ensure that it is effectively transferred (OECD 2008). Competition can either be *for the market* (i.e. in the bidding process) or *competition/contestability in the market* which occurs after the contract is concluded and is in operation. One may therefore conclude that whether or not a PPP represents value for money is dependent upon sufficient risk transfer and competition. On the contrary, the absence of competition or potential entry would lead to difficulties in attaining higher efficiency and value for money.

**Private sector management skills:** The private sector's ability to effectively manage the delivery and operation of a project has been considered as a crucial factor in the success of PPPs. These skills can lead to reduced costs, increased efficiencies and improved standards of design, construction and operation of the assets and services and eventually the attainment of

value for money. Thus, skills and previous performance records of the private party are crucial in ensuring the attainment of VfM.

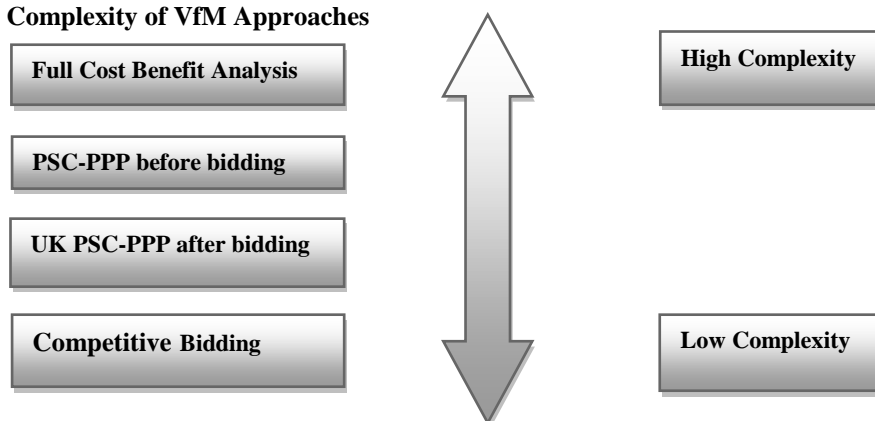
Other studies conducted on the factors that determine the delivery of VfM in PPPs reveal similar results. For instance, the *Fitzgerald Report* argues that the aim of PPPs is to deliver improved service delivery and better value for money through *appropriate risk transfer, innovation, greater asset utilisation and integrated whole-of-life management* (Fitzgerald 2004). Further, the OECD (2008, p. 37) outlines that VfM depends on *affordability and value for money, limited budget allocations* as well as *legally imposed budgetary limits, the role and nature of risk transfer, competition and the type of service provided*. Likewise, Nasir (2007) identifies factors such as *affordability, risk transfer and the project expertise* in a PPP project as VfM drivers which enhance the chances of a PPP being a viable option compared to traditional public procurement.

Additionally, there are other parameters that have been identified as secondary factors when it comes to drivers for VfM. For instance, Arthur Andersen and Enterprise LSE (2000) regards *innovation, alignment on interests of Authority and contractor, public sector project development skills, public sector comparator, quality of advice to public bidders, transparency process, cost of capital, deal flow, public sector implementation, release of hidden asset value, project bundling and involvement of third party financiers* as secondary VfM drivers. In a similar manner, the HM Treasury (2006) identifies *integrated planning and design of the facilities, sufficient flexibility, sufficient skills in both the public and private sectors and managing scope of the procurement process* as the other factors that determine VfM in PFI/PPPs apart from the key drivers identified earlier on. In conclusion, value for money drivers are therefore dependent upon the type of project being pursued, however, the above mentioned six (6) factors are the key drivers of VfM in PPPs.

## 2.5.2 Approaches to Value for Money (VfM) Assessment

Value for money in Public Private Partnership infrastructure projects has been assessed using different approaches in different countries. According to Grimsey and Lewis (2005), there are four (4) different approaches that could be used to assess VfM. These are: (i) full Cost Benefit Analysis (CBA), (ii) a PSC-PPP comparison before bids are invited, (iii) the UK-style PSC-PPP VfM test after the bids and (iv) reliance on a Competitive Bidding process once a PPP “road testing” has been established.

**Figure 9: Complexity of VfM Approaches**



Source: Based on Grimsey & Lewis (2005)

The first approach of using a complete CBA involves gathering a lot of information and assumptions in terms of costs, risks and benefits. Due to the subjectivity inherent in the

gathering of the assumptions, there is ambiguity created in determining whether or not the PPP would deliver the best value for money according to Grimsey and Lewis (2005). This method is mostly used in Germany.

Regarding the second approach of using the PSC before the bidding process, the PSC is compared to a shadow or hypothetical (Morallos and Amekudzi 2008) or reference PPP and only when the reference PPP has shown that a PPP can deliver better value for money than traditional procurement will the project proceed to the next phase which is the bidding phase (OECD, 2008, p.71). Following the bidding process, the VfM assessment can still be undertaken to establish whether or not VfM is still being delivered by the project. The use of the PSC method prior to bidding is applied in Japan, the Netherlands and South Africa (Grimsey & Lewis 2005).

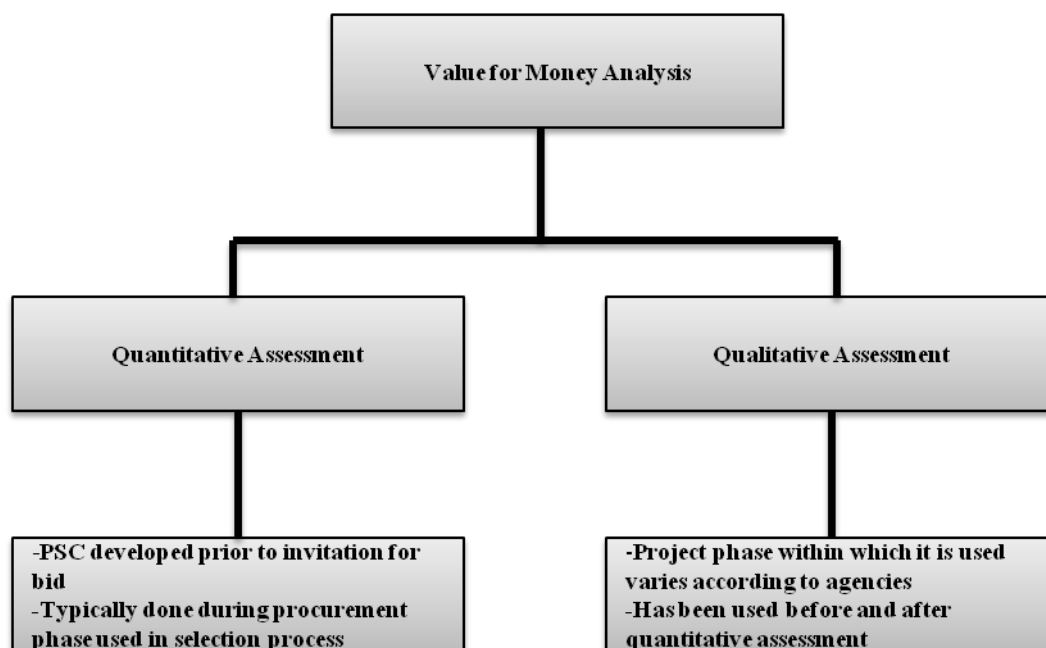
The third approach of using the PSC after the bidding process although undertaken before the bidding process is compared to the actual PPP so as to determine whether or not they represent VfM (OECD, 2008, p.72). This method is used in Australia (Grimsey and Lewis 2005).

The last approach involving competitive bidding is employed more in the realm of concessions instead of PPPs while the opposite is true regarding the PSC (OECD, 2008, p. 72). Competitive bidding is used in the USA, France, countries in Eastern Europe, Latin America and Francophone Africa.

Grimsey and Lewis (2005) further argue that the PSC is the preferred VfM assessment tool in many countries because it is less subjective and complex and therefore easier to compile compared to a full cost benefit analysis while still serving as a tool for comparing with the private bids.

In addition, Morallos and Amekudzi (2008, p. 116) point out that VfM assessment entails some financial comparison of the net present costs of the Public Private Partnership with that of traditional public sector procurement. These comprise two (2) components for VfM analysis which are the Quantitative and Qualitative assessments. The Quantitative component is composed of all the factors that can be valued. It encompasses a methodology that undertakes a comparison between the PPP project costs and a comparable project which is usually referred to as a *Public Sector Comparator (PSC)*. On the other hand, the Qualitative assessment considers the elements of the project that cannot be quantified. It also considers other factors concerning the market characteristics and the bidding environment competitiveness. Additionally, it takes into account the resources and capacities of both the public and private sector including any other benefits that would not have been valued under a quantitative assessment.

**Figure 10: Value for Money Analysis Components**



Source: Based on Morrallos & Amekudzi (2008)

On the other hand, the HM Treasury (2006) in its new guideline for the assessment of VfM which has superseded the Treasury’s Taskforce Technical Guidance Note. No. 5 emphasises on the use of the PSC as an assessment tool for VfM. Under the new guideline, the PSC has been replaced with the Outline Business Case (OBC) which outlines three stages in the assessment of value for money. These are the *programme level assessment*, the *project level assessment* and the *procurement level assessment*. The programme level assessment focuses on the appropriateness of the use of the PPP as well as determining whether or not VfM would be achieved by the project. Under the second phase, the use of the PSC is replaced by the OBC which has similar functions as the PSC and identifies all the essential aspects of VfM. The last stage encompasses an ongoing assessment of the procurement process.

### 2.5.3 The Public Sector Comparator (PSC)

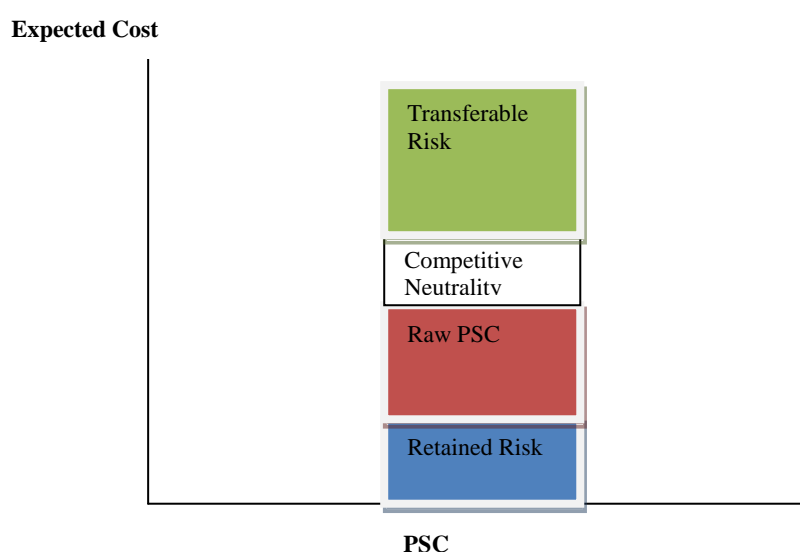
According to the OECD (2008, p. 69), there is need for the public sector to be certain that compared to traditional procurement, a PPP would deliver better value for money before embarking on it. This calls for the carrying out of an ex ante comparison of both the PPP and traditional procurement in all circumstances where the public sector contemplates the use of a PPP. Thus, the PSC is used by the public sector to carry out an ex ante comparison. The OECD (2008, p. 74) defines a PSC as a *benchmark project that represents a hypothetical exposition or scenario* (Morrallos and Amekudzi 2008) *of a project if that project was to be undertaken using traditional procurement*. In short, it is a *hypothetical scenario which is used to determine what would cost the public sector to undertake a PPP project as a traditional procurement*. Additionally, the Partnership Victoria (2001) notes that a public sector comparator “*estimates the hypothetical risk adjusted cost if a project were to be financed, owned and implemented by the public sector.*” Therefore, it is developed by sticking to the required output specification, proposed risk allocation and is based on the most efficient means of public sector delivery. In trying to appreciate the use of the PSC, Grimsey and Lewis (2005) highlight the following as the functions which it fulfils:

- Promoting full costing at the initial stage in the development of the project

- Providing a significant management tool in the procurement process by giving attention to the output specification, risk allocation and comprehensive costing
- Providing a means of testing *value for money*
- Providing a consistent way of testing VfM
- Encouraging competition by enhancing confidence in the market through the application of financial rigour and probity principles

The PSC is composed of four (4) components according to the Partnership Victoria as depicted in Figure 11. These are *Transferable risk*, *Competitive neutrality*, *Raw PSC (base costing)*; and *Retained risk*.

**Figure 11: Components of a Public Sector Comparator**



Source: Partnership Victoria (2001)

The above components reveal that the PSC should reflect a full and true cost to the public sector in meeting the output specification under a traditional procurement method.

The key characteristics of the PSC according to the Partnership Victoria (2001) are that:

- It expresses the Net present costs of a projected cash flow based on the specified public sector discount rate over the life time of the contract
- It is based on the most current or efficient method of public sector delivery for similar infrastructure or related services
- It includes a competitive neutrality adjustment so that there is no net financial advantage between the public and private sector ownership.
- It carters for all realistic assessment of the value of all material and quantifiable risks that would be reasonably be expected to be transferred to bidders if the project is delivered under the PPP policy
- It comprises the assessment of the value of all the material costs that are reasonably expected to be retained by government if the project is delivered under the PPP policy.

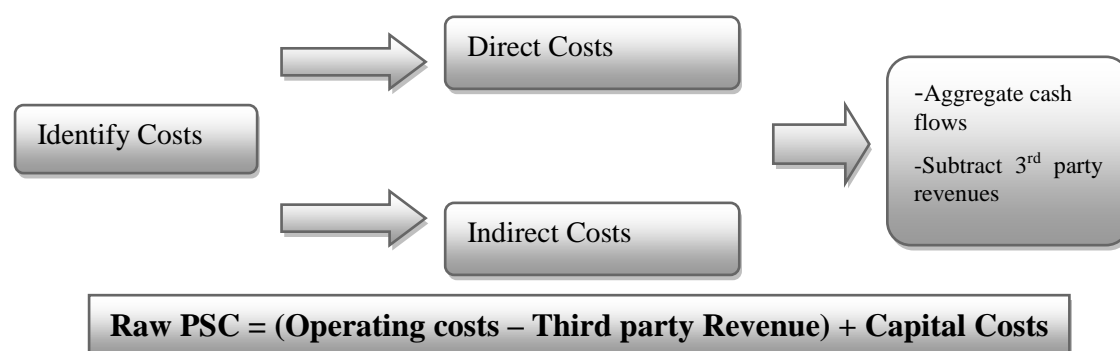
$$\text{PSC} = \text{Transferable Risk} + \text{Competitive Neutrality} + \text{Raw PSC} + \text{Retained Risk}$$

## Components of a PSC

**Raw PSC:** The PSC provides a base costing under the public sector procurement method where the underlying asset or service is owned by the public sector. It includes all capital and operating costs, direct and indirect costs associated with the building, ownership, maintenance and delivery of the service or underlying asset and to the performance standard outlined in the output specification (Partnership Victoria 2001). *Direct costs include project design costs, raw materials, payments to external providers, public procurement costs (e.g., project development, documentation and contract management), payments to consultants and advisers (e.g., engineers, financial experts, lawyers etc.), plant and equipment (e.g., machinery and core IT platforms), maintenance costs (i.e., raw materials, tools and equipment, wages and labour), cost of inputs (e.g., employee wages/salaries, entitlements, superannuation, insurance, training/development/annual leave/long-service bonus travel, direct management costs and insurance. On the other hand, indirect costs include: operating costs (e.g., ancillary running costs for power, stationery etc.), noncore IT and equipment, employees not directly involved in service delivery, facilities management, overall project management, capital costs (e.g., partial commitment of plant and equipment and usage of new buildings), competitive neutrality in terms of taxes such as land tax, property rates and payroll taxes (Australian Government 2008).*

Additionally, the PSC takes into account any third party revenues which have any effect of reducing the raw PSC or the net costs to the government in undertaking the project through traditional procurement. The raw PSC therefore caters for the base costs which are basically the capital and operating costs of producing a reference project (Morallos and Amekudzi 2008). It also includes the cash flows of the costs from the outlined services but does not include the cost of risks involved since there are determined under Retained Risk and Risk Transferred components.

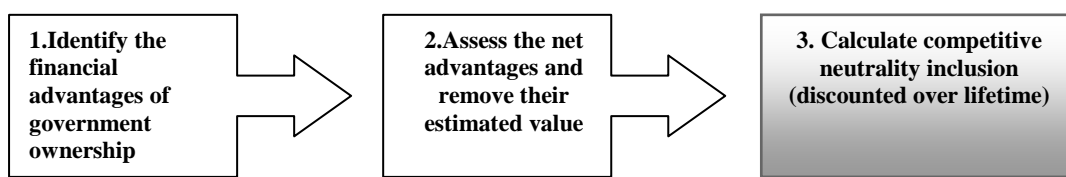
**Figure 12: Calculation of Raw PSC**



Source: Based on Morrallos & Amekudzi (2008)

**Competitive Neutrality:** These adjustments are meant to remove any competitive advantages that accumulate to the public sector due to its public ownership. The adjustments allow for a fair and equitable assessment between the PSC and the bidders. Advantages to the public sector include exemptions from land taxes, property rates and payroll taxes among others. Figure 13 shows the process of calculating competitive neutrality.

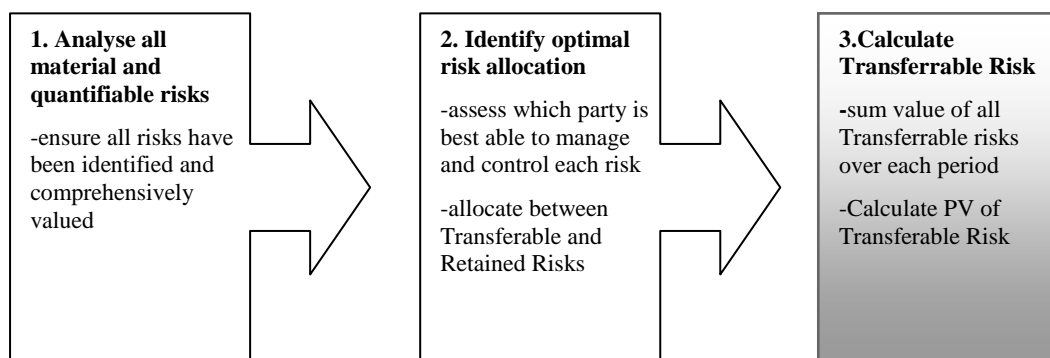
**Figure 13: Calculation of Competitive Neutrality**



Source: Based on Morrallos & Amekudzi (2008)

**Transferrable Risk:** The optimum allocation of risk is a significant objective in the PPP projects. This is because the inclusion of the value of the risk in the PSC allows for the like with like VfM assessment with the private sector. In allocating risks, the risks would need to be firstly identified, evaluated in terms of their economic impacts and their likelihood of happening assessed. These steps would help in developing a risk matrix (Li 2006). After the completion of the matrix, the allocation of risk between the public sector and the private party is made certain. In terms of the PSC, the inclusion of a full risk adjustment helps to give a full spectrum of the costs of the project. On the other hand, under the PPP, it would be necessary to deduct the transferred risks from the risks while the retained risks are added to the PPP cost. It is the transferred risk which is regarded as the key determinant of *value for money* (Grimsey & Lewis 2005).

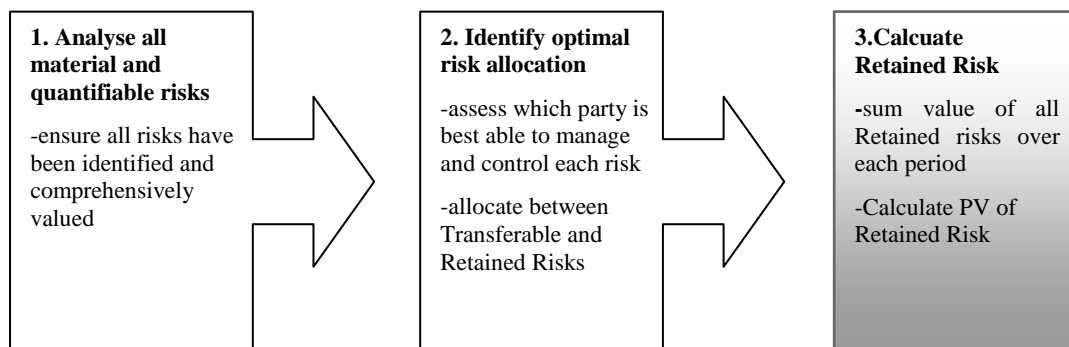
**Figure 14: Steps in valuing Transferred Risk**



Source: Australian Government (2008)

**Retained Risk:** Any risk that is not transferred to the private party in a PPP is retained by the public sector. The Retained Risk's cost should be considered in order to provide a comprehensive measure of the full cost to the public sector in a PSC. Under such a process, the PSC's value will need to be incorporated in each of the private bids so as to allow for a meaningful comparison.

**Figure 15: Steps in valuing Retained Risk**



Source: Australian Government (2008)

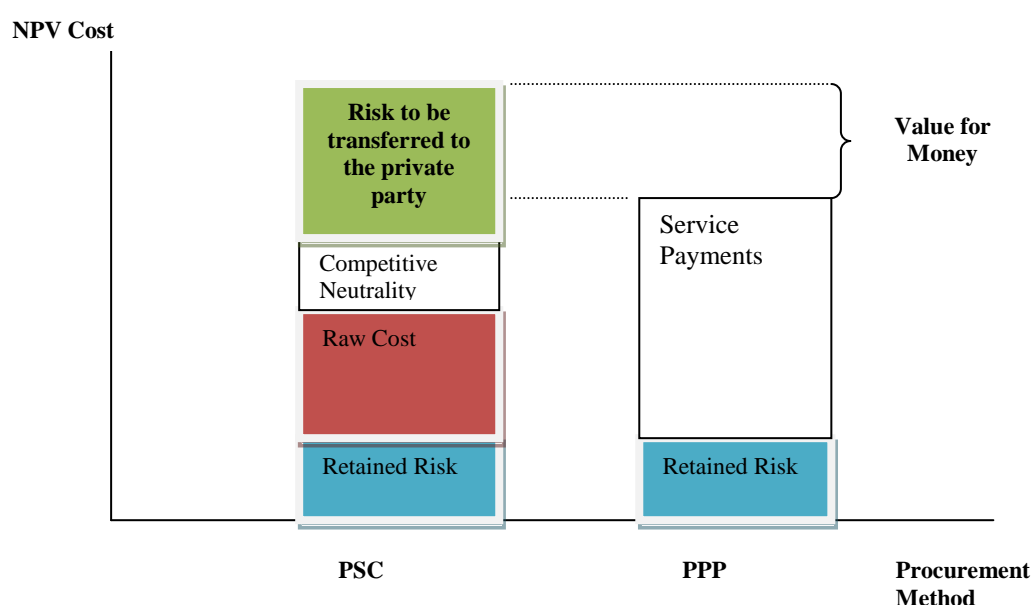


**Hypothetical or Reference Project:** The hypothetical project is a key component in constructing a PSC. It is the most likely and efficient method of public sector delivery that is used to satisfy all the aspects of output specification which focuses on the end result rather than the method of delivery. The framing of the method to meet the output specification from the public sector's perspective critically defines the PSC (Partnership Victoria 2001). The Partnership Victoria further highlights that the reference project should:

- Reflect the most likely and achievable procurement in order to satisfy the output specification if the project was to be delivered via traditional procurement
- Provide a similar level and quality of service as would be provided by bidders in order to allow for a like with like comparison
- Be constructed as a conforming bid as if it was part of the bidding process.

**Comparison of VfM:** According to Grimsey and Lewis (2005), VfM comparison is done after the NPVs of both the PSC and PPP have been prepared and adjusted to a state where they can be compared as depicted in Figure 16. Considering all things constant (i.e., quality and risk allocation) VfM is demonstrated when the total present value of private sector supply is less than the NPV of the base cost of the service which is adjusted for the cost of risks retained by the public sector, transferable risk cost adjustments and competitive neutrality effects.

**Figure 16: VfM comparison of PSC and PPP**



Source: Grimsey & Lewis (2005)

## The Discount Rate

The discount rate plays a very significant role as far as the determination of value for money is concerned. Morillos and Amekudzi (2008) emphasise that in calculating the expected cash flows in NPV terms, a discounted cash flow (DCF) analysis is employed in the cost calculations of the PSC and the PPP. This implies that each of the components mentioned in the PSC above includes its own DCF calculation. However, one critical factor in the DCF analysis is the choice of the discount rate to be used which can be controversial in that it can

significantly affect the achievement of VfM in the PPP project. The discount rate is assigned through the following ways according to Grimsey and Lewis (2005) and Yescombe (2007);

- by using a single discount rate for both the PSC and PPP without adjusting for the risks that would be acquired by the public sector under the PSC (traditional procurement) option.
- by calculating the value of the project risks (i.e., the transferable and retained risk) and the incorporation of the costs of such risks in the projected cash flows of the PPP and PSC procurement options. After that, a risk free discount rate is applied to the risk adjusted cash flows.
- Finally, a risk mark-up or a risk-adjusted discount rate can be summed up with the risk free adjusted rate to account for “risky” cash flows whereas the risk free rate can be used for non risky cash flows.

### **Criticisms of the PSC approach**

Despite the PSC being acclaimed as the mostly widely used tool in assessing value for money in PPPs, it has been subjected to criticisms over its usage by many authors. It has been regarded as being subjective and sensitive to shifts in cash flows, discount rates and risk assumptions. As such, the balance between the PPP and traditional procurement can easily shift with a change in any of these assumptions (Khadaroo 2008). Notable among the authors are Grimsey and Lewis (2005) who note the following outlined arguments as the major concerns of the issues that are raised relating to the PSC and VfM test.

- The VfM approach usually narrows down to a choice between two very large NPVs which have a very small difference between them and is dependent upon the risk transfer calculation incorporated in the PSC. Since the PSC is hypothetical, its value can easily be changed due to the assumptions that are made, notably the risk transfer to the private sector which is the most important element in establishing the VfM of a PPP project compared to the PSC.
- The choice of the discount rate is questionable as it does not provide a measure for social time preference. Due to the discounting which is inherent in the calculation of the NPV, minute changes in the discount rate could alter the outcome regarding the choice of the best VfM scheme.
- Despite the transfer of a number of risks to the private sector, the main risks such as obsolescence, changing needs and service performance outcomes still remain in the hands of the public sector and consequently the costs falls on the general public. Additionally, the real issue is uncertainty and not risk. For that reason, the significance of this distinction results into the risk calculation being problematic.
- When contracts last for periods up to 60 years like the case is for the urban markets projects implemented by the Lusaka City Council, financial evaluations concerning cost estimates, discount rates and risk allocation are incomplete bases to formulate conclusions regarding the viability of pursuing the PPP route. Moreover, a lot of attention needs to be given to the non financial elements when undertaking a longer term evaluation.

## 2.6 Assessment of VfM approaches in Selected Countries

### The UK VfM Assessment Approach

The UK VfM assessment model begins with a focus on key VfM assessment criteria which are affordability, risk sharing and competition (Grimsey and Lewis 2005; Pitt et al. 2006). In this case, affordability refers to the appropriate allocation of resources, the distribution of costs and within the budget. Risk sharing denotes the optimum allocation of risk between the public and private sectors whereas competition refers to contestability in the market (that is, both in the bidding and operation processes). In this model, the PSC which was adopted as a tool for assessing VfM has now been replaced by the Outline Business case (OBC) according to the (HM Treasury 2006) Value for Money Assessment Guidance. In this new Guidance, VfM assessment is conducted at the three (3) stages of the procurement process, i.e., **programme level** (*to ensure that the PFI is only considered in projects where it is appropriate and likely to deliver good VfM*), **project level** (*which requires an upfront procurement appraisal at the OBC stage which replaced the previous PSC and focuses on the key aspects to VfM*) and **procurement level** (*which encompasses an ongoing assessment during the procurement phase so as to ensure that the project is delivered in view of factors like competitive interest and market capacity*) after the submission of the bids. In addition, there is continuous VfM assessment until the contract/financial close. Under the programme level assessment, it is done qualitatively and the criteria used are the assessments of the viability<sup>3</sup>, desirability<sup>4</sup> and achievability<sup>5</sup> of the project. At the project level stage a quantitative assessment is conducted. The assessment takes into consideration the financial element (NPV) and qualitative factors (merit base). The VfM testing employs economic appraisal principles which include:

- Identification of costs and benefits
- Calculation of NPV
- Analysis of uncertainties
- Weighting of other factors and presentations of performance results.

The performance result of VfM according to Ismail et al. (2009) is demonstrated when the project reveals a reduction in cost, innovation in quality and appropriate level of project risk. However, throughout this process, there are some barriers encountered in the implementation of the OBC which include: being too subjective, simplistic and the presence of unquantifiable risks. In addition, there are several VfM drivers in the UK model which are needed to ensure that PFI projects have an effective outcome.

### The Australian VfM Assessment Approach

The VfM assessment approach in Australia is quite similar to the UK model and takes into account the key assessment criteria of affordability, risk sharing and completion; VfM appraisal, PSC, drivers and barriers (Ismail et al. 2009). However, the major difference is the

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<sup>3</sup> Viability involves assessing whether there are any efficiency, accountability or equity issues that require that services are provided by the public sector party directly instead of through the PFI. It also ensures that service requirements are captured under a contract with clear output based specifications in order for the PFI to effectively transfer risk to the appropriate parties

<sup>4</sup> Desirability involves the assessment of relative benefits such as incentives and risk transfer in the PFI or government's lower cost of borrowing under traditional procurement.

<sup>5</sup> Achievability involves the assessment of the probable market interest, skills and capacity of the private sector party, any lender constraints as well as the capabilities of the public sector party to manage the complex processes involved.

use of an additional assessment tool in the Australian model called the *Public Interest Test* (PIT) apart from the PSC. While the primary purpose of the PSC is to provide a benchmark for a qualitative assessment to judge against the VfM of bids, the PIT on the other hand ensures that a broader assessment of the public interest is considered before they can be delivered as private finance projects. The approach to the PIT according to (English, & Guthrine 2003) involve a checklist of components which include project effectiveness, impact to stakeholders, public access and equality, consumer rights, security, privacy and other non economic benefits and costs.

## The South African VfM Assessment Approach

In South Africa, VfM assessment according to the National Treasury (2004) is considered prior to the invitation for the bid although formal VfM tests (quantitative comparison) is done after the invitation to choose between the submitted bids. A base PSC is also constructed and includes all capital and operating costs. The risk adjusted PSC model includes a costing for all the risks associated with the project. Further, a PPP reference model which is a hypothetical private party bid to deliver the specified outputs is constructed and has a specific procedure for checking affordability. Additionally, there is also a qualitative analysis whereby a needs analysis is undertaken to evaluate how the project aligns with the goals and budget of the procuring agency. In justifying a project, a risk adjusted PSC and risk adjusted PPP are compared in order to determine VfM. However, the benchmark value is the affordability limit. This implies that a project must meet affordability for it to be viable. Furthermore, there are other factors that are taken into account as criteria for VfM. These include risk transfer, social benefits and Black Economic Empowerment (BEE)<sup>6</sup>.

**Table 4: Comparisons of VfM Approaches in selected Countries**

Country	Key Assessment Criteria	VfM Approach	Phase VfM is applied	Qualitative assessment
UK	Affordability Risk Sharing Competition	PSC	Approach applied in 3 stages  Programme level, project level & procurement stage.  Continuous assessment of VfM until financial/contract close	3 factors considered; viability, desirability & achievability in all 3 stages
Australia	Affordability Risk Sharing Competition	PSC PIT	Developed prior to invitation to bid. Formal VfM also conducted after submission bids to compare with them with PSC.	Identifies material factors not included in PSC
South Africa	Affordability Risk Transfer Value for money	PSC Social benefits Black Economic Empowerment	VfM taken into account before the bid. Formal test conducted after invitation to choose between submitted bids.	Needs assessment prepared to ascertain how project aligns with goals and budget of the procurement authority

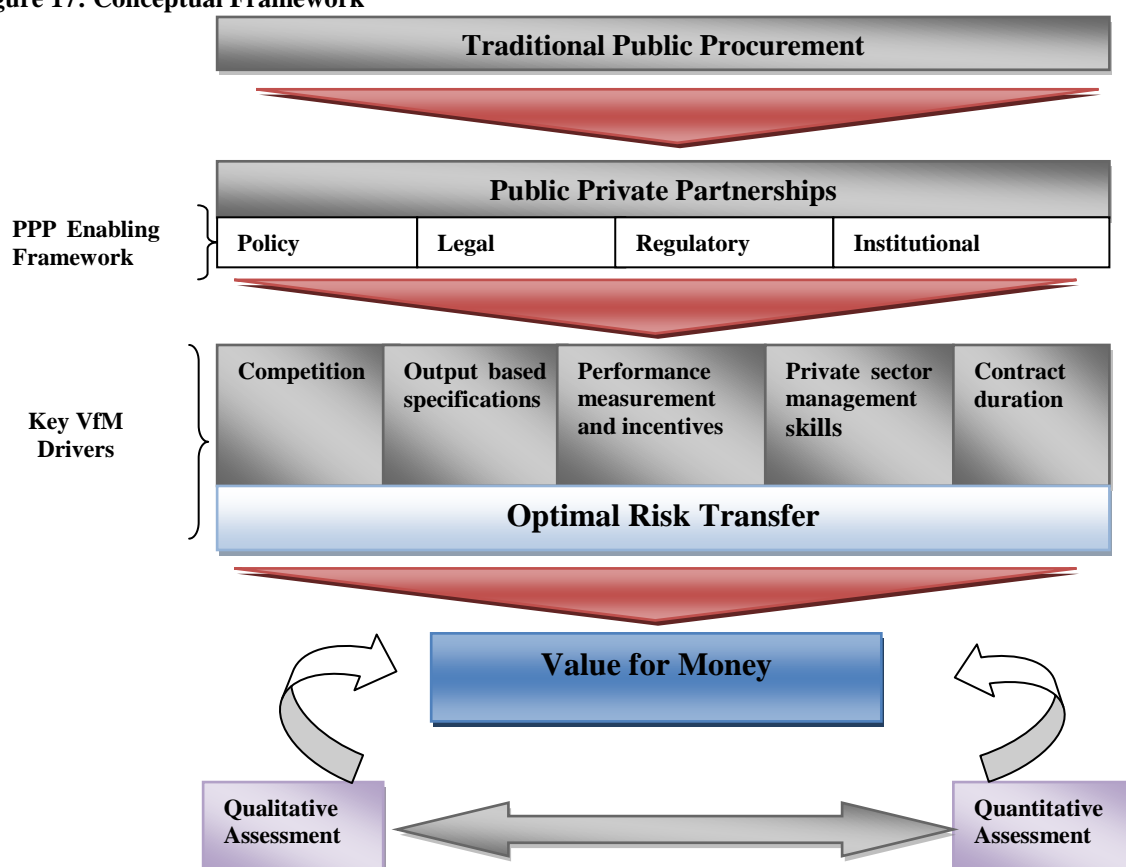
Source: HM Treasury (2006), Partnership Victoria (2001), National Treasury (2004)

<sup>6</sup> The BEE policy advocates for direct ownership of substantial equity interests, participation in the management control and ensuring that subcontracting and procurement in the Private Party to a PPP agreement is to Black People, Black Women and Black Enterprises.

## 2.7 The Conceptual Framework

Gilbert (2006) asserts that theories comprise concepts linked by relationships. The goal of a conceptual framework therefore is to develop preliminary concepts at the outset of a case study in order to place it within an appropriate research literature such that the lessons learnt from the case study will more likely advance the knowledge and understanding of a given topic. The essence of the concepts is to help in the definition of the unit of analysis, the sample population and the data required. The main concepts discovered through the review of literature are thus depicted in the figure below under a conceptual framework. From the review of literature, it has been observed that governments are shifting from traditional public sector procurement in infrastructure to Public Private Partnerships in order to bridge the infrastructure gap. In pursuing PPPs, the main objective has been identified as the achievement of value for money. This can only be achieved through the optimum transfer of risks to the party which is able to manage it better which has been highlighted as the core driver for the achievement of value for money in PPPs. Other drivers such as competition, private sector management skills, long term contract duration, performance measurement and incentives, and output based specifications have also been identified as key drivers for VfM in PPPs. These factors can only be employed in an enabling PPP environment which is governed by the policy; legal, regulatory and institutional frameworks. In terms of assessment, VfM is assessed qualitatively and quantitatively.

**Figure 17: Conceptual Framework**



Source: Author (2011)

## 2.8 Conclusion

The chapter has given an overview of literature which hinges on the premise that value for money is the main purpose for pursuing PPPs in infrastructure projects. In order VfM to be achieved, there should be optimal risk transfer to the party that is best able to manage it. Additionally, there should be sufficient competition or contestability in the market, output based specifications, a long term contract duration, performance measurement and incentives and the private sector management skills among others. It has also observed that VfM assessment is applied at three levels in the UK VfM assessment model which is at programme, project and procurement stages. However, despite having these VfM phases, there is continuous assessment to ensure that VfM is maintained until financial/contract close. In Australia, VfM is assessed prior to the invitation for bids while the formal test is conducted after the submission of bids to compare them with the PSC. In both countries, affordability, the optimal transfer of risk and competition are the key assessment criteria. On the other hand, the key VfM assessment criteria in South Africa depends on affordability, optimal risk transfer and the achievement of value for money which is taken into account before and after the bids so as to choose among them just as the case is in Australia. The chapter further reveals that VfM is assessed in different ways in various countries which include the use of a full cost benefit analysis, the use of the PSC before or after bids and competitive tendering. It has however highlighted that although the PSC is the common method used in many countries for assessing VfM in PPP projects, it has a number of flaws<sup>7</sup>. The chapter further lays a foundation for the development of research methods and processes which have been used to collect data for the research as outlined in the next chapter.

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<sup>7</sup> Its subjective, sensitive to shifts in cash flows, discount rates and risk assumptions (Khadaroo 2008).

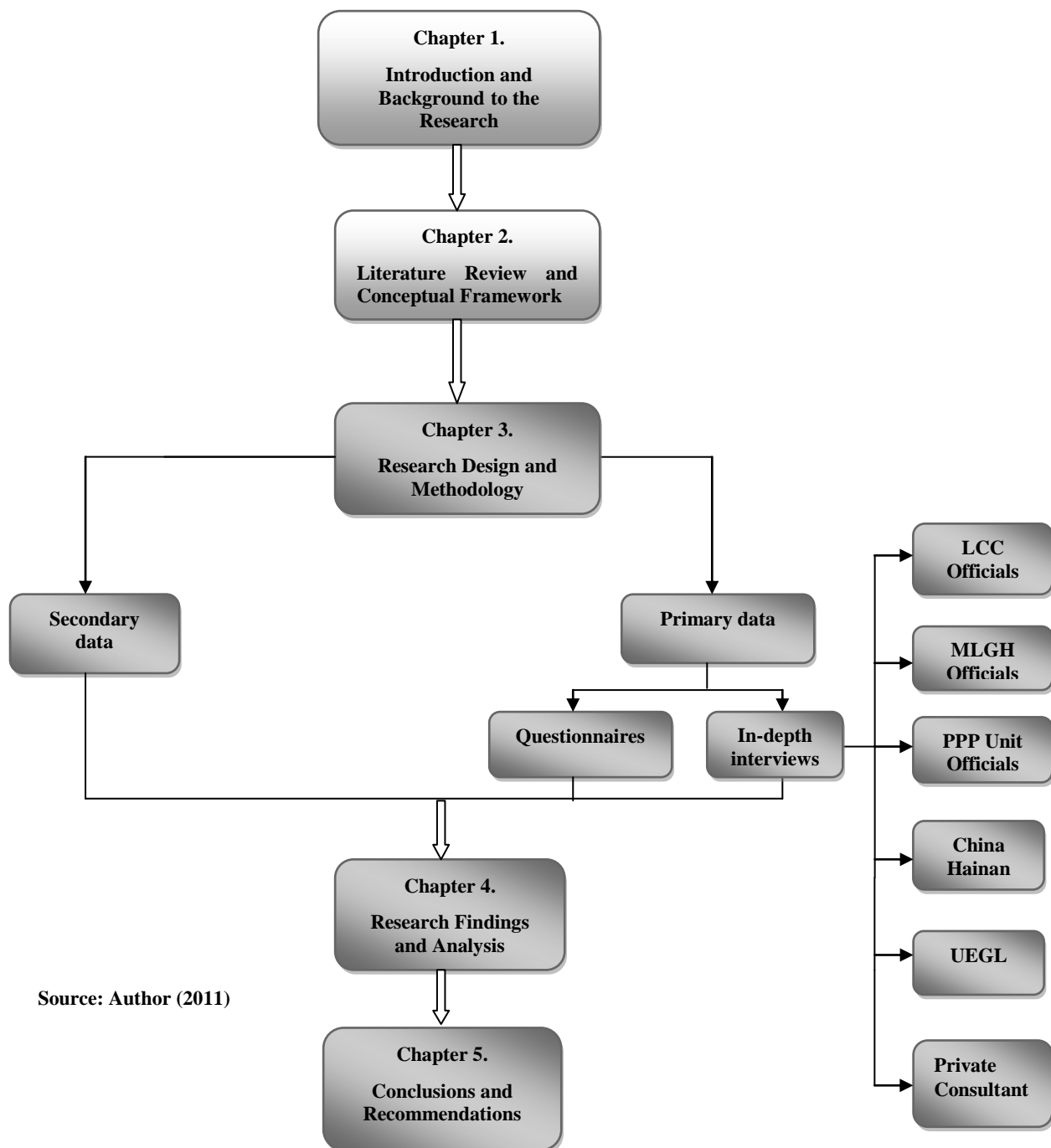
## Chapter 3: Research Design and Methodology

*This chapter focuses on the research methods, processes and instruments that were employed for data collection, analysis and presentation. It stipulates the research type that was used, the units of analysis covered and the sources where data was obtained from. The chapter also presents the sampling techniques, the operationalization of variables, reliability and validity of the research.*

### 3.1 Introduction: Research Design

The figure below depicts the flow of the research approach that has been adopted in the study.

**Figure 18: Research Design**



Source: Author (2011)

A research design according to Yin (2003) is the logical sequence that links empirical data to a study's research questions. In so doing, a research design discourages circumstances where the evidence is disjointed from the initial research questions. For this reason, it has been designed in such a way that every chapter builds upon the preceding chapter before the final conclusions and recommendations are drawn thereby providing a logical sequence.

### **3.2 Research Type and Strategy**

This research has been conducted in an attempt to explore whether or not value for money was achieved through the implementation of the Public Private Partnership urban markets infrastructure projects by the Lusaka City Council. As such, the study utilised an exploratory research type and the strategy was a single holistic case study. The case study approach facilitates an inquiry into a phenomenon or a real life occurrence (Yin 2003). It is particularly ideal for examining “*why, how and what*” questions which are enquiries concerning contemporary set of events whereby the researcher has little or no control. Yin further points out that the “*how*” question is appropriate for a case study in that the question deals with operational links that need to be traced over time instead of mere frequencies or incidences. As a consequence, the case study strategy was befitting to be employed in this exploratory research. This was particularly so as it focuses on finding out what is happening, and asking questions whilst assessing phenomena in a new light at the same time. Accordingly, the rationale for adopting an exploratory study and the case study was to gather more information needed to get a better understanding of the factors influencing the attainment of VfM and whether or not it was achieved in the projects under study.

### **3.3 Units of Analysis**

The unit of analysis according to Yin (2003) is relevant to the fundamental problem of defining what the ‘case’ is. This is because the specification of research questions leads into the appropriate selection of the unit of analysis. As the general definition of a case is established, the need for clarifications in the unit of analysis become significant, for instance, projects, individuals, organizations, cities, family/kinship, community, geographical area or time period. Thus, the units of analysis adopted in this study are the Luburma Market, Chachacha Market and the Public Private Partnerships Unit (PPP Unit). This was in order to establish answers for the research questions under this study.

### **3.4 Sources of Data**

Data for this research was obtained from primary and secondary sources as described in detail in the ensuing paragraphs.

#### **3.4.1 Primary Data**

Primary data was collected through conducting in-depth interviews and administering of questionnaires to the respondents which included management officials at Lusaka City Council, Public Private Partnerships Unit at the Ministry of Finance and National Planning, the Urban Markets Development Programme - Ministry of Local Government and Housing, a Private Consultant, China Hainan Zambia Limited and the United Engineering Group Limited (UEGL). The in-depth interviews were conducted using semi structured interviews and open ended questions with the public sector managers who are responsible for the policy and implementation phases of the projects. The questions centred on obtaining information which would help in the understanding of how the factors that lead to the attainment of value for money were integrated in the design, procurement, contract management and implementation



of the projects. As for the questionnaires, they served a purpose of obtaining detailed cost information on the projects from the private sector parties which was supposed to be used in undertaking a quantitative assessment of the attainment of value for money in the projects under study. The structuring of the interview guides and questionnaires was based on a combination of theories regarding the achievement of value for money with a view of exploring the underlying key dimensions involved in the concept of value for money. These research instruments were intended to promote discussions and probing for more information in order to comprehend the factors that influence the achievement of value for money so as to establish whether or not it was achieved in the projects.

### 3.4.2 Secondary Data

Secondary data was obtained from available documents and archives that are relevant to the study. These included various reports on the construction of the urban markets, books, articles and manuals on PPPs. Other documents included partnership agreements on the Luburma and ChaChaCha Markets, Reports on the Urban Markets Development Programme, the Public Private Partnerships Act No. 14 of 2009 and the Local Government Act Chapter 281 of the Laws of Zambia. The data also included the HM Treasury VfM assessment guidelines, Partnership Victoria (2001) VfM assessment manuals and the South African National Treasury (2004) PPP Manuals. The literature reviewed gave a basis for empirical data on theoretical and conceptual underpinnings on which guidance and analysis of this study has been anchored.

### 3.4.3 Sampling Techniques

The sampling techniques which were used in selecting the respondents was purposive sampling. Purposive sampling was applied in the selection of respondents from the management officials at Lusaka City Council, PPP Unit at the Ministry of Finance and National Planning, Ministry of Local Government and Housing, China Hainan Zambia Limited and the United Engineering Group Limited who had specific skills in their fields of operations as well as special insights regarding the projects under study. Snowballing sampling techniques were also employed as need arose during the process of undertaking in-depth interviews upon recommendations from the interviewees on other data sources who had specific knowledge on the projects and the subject under study. This led to the holding of in-depth interviews with a private consultant and the Programme Coordinator for the Urban Markets Development Programme.

### 3.4.4 Research Instruments

The research instruments employed in data collection as earlier mentioned for all the categories of respondents was in-depth interviews and questionnaires. Table 5 presents the respondents and the instruments that were used to obtain the relevant data for the research.

**Table 5: Respondents, Sampling Techniques and Research Instruments**

Respondents	Sampling Technique	Research Instrument
Director of Engineering Services, Lusaka City Council	Purposive Sampling	In- depth interview
Director of Legal Services, Lusaka City Council	Purposive Sampling	In- depth interview
Assistant Manager-Markets Unit, Lusaka City Council	Purposive Sampling	Questionnaire
Programme Implementation Officer, PPP Unit, Ministry of Finance and National Planning	Purposive Sampling	In -depth interview

Programme Coordinator, Urban Markets Development Programme, Ministry of Local Government and Housing	Snowballing Sampling	In-depth interview
Director, China Hainan Zambia Limited	Purposive Sampling	Questionnaire
Director, United Engineering Group Limited	Purposive Sampling	Questionnaire
Principal Consultant – Mukonde Chartered Surveyors	Snowballing Sampling	In-depth interview

Source: Author (2011)

Because of the exploratory nature of this study, in-depth interviews were used in order to provide secure and confidential interactions with respondents through the use of well designed interview guides which focussed on the critical questions under research. The interviews also gave comprehensive and valid information about the respondent's experiences and opinions on the subject under research. In terms of questionnaires, they were utilised in order to obtain quantitative data which could not be directly obtained from in-depth interviews.

### 3.5 Data Analysis

The data obtained through the research instruments was mostly qualitative data. This constituted opinions, perceptions and facts as elaborated by respondents during the discussions as opposed to the quantitative research which comprises numbers by frequencies, percentages and correlation, testing, generalisation and asking of how much/many questions, is there a relationship etc.? Being a qualitative research, the data collected has been analysed using the analytical hierarchy framework (Ritchie & Lewis (eds) 2007). This involved transcribing all the data collected via in-depth variables before undertaking data management (i.e., structuring of raw data),<sup>8</sup> using descriptive accounts (i.e., interpretation of data) and explanatory accounts (explanation of how and why decisions were made). Data was also archived according to themes/index on worksheets.

### 3.6 Operationalization of Variables and Indicators

Table 6: Variables and Indicators

RQ 1. What are the key factors influencing the attainment of value for money in the Public Private Partnerships infrastructure projects implemented by the Lusaka City Council			
VARIABLES	INDICATORS	SOURCE OF DATA	DATA ANALYSIS
<b>Risk Transfer</b>	<ul style="list-style-type: none"> <li>Risk identification</li> <li>Risk evaluation</li> <li>Risk allocation</li> <li>Risk management plan</li> </ul>	Secondary data/LCC officials	Qualitative Analysis
<b>Competition</b>	<ul style="list-style-type: none"> <li>Number of participants in the tender</li> <li>Type of information in the invitation for bids</li> <li>Nature of negotiating environment</li> <li>Presence/absence of impediments to entry of firms</li> <li>Flow of projects by public sector</li> </ul>		

<sup>8</sup> Comprises familiarising with data by reading the transcript, constructing an index through identifying initial key themes, labelling / tagging of data , sorting and summarising data and making of a typology based on Ritchie & Lewis (eds) (2007).

	<ul style="list-style-type: none"> <li>Existence of alternative private sector markets</li> </ul>		
<b>Output based specification</b>	<ul style="list-style-type: none"> <li>Type of specifications</li> <li>Mode of delivery of specifications</li> <li>Criteria used to outline specification</li> <li>outline of what is to delivered</li> <li>outline of function of facility</li> <li>outline of standards</li> <li>linkage of specifications to payment system/actual payment</li> </ul>		
<b>Contract duration</b>	<ul style="list-style-type: none"> <li>link between duration and recouping of investment</li> <li>link between duration and alternative service delivery approaches</li> <li>link between duration and whole life costing</li> </ul>		
<b>Private sector management skills</b>	<ul style="list-style-type: none"> <li>Record of delivering projects on or ahead of time</li> <li>record on reduction of costs</li> <li>type of skills</li> <li>efficiency in delivery</li> <li>presence of standards (design, construction &amp; operation)</li> </ul>		
<b>Performance measurement and incentives</b>	<ul style="list-style-type: none"> <li>Availability of incentives for performance</li> <li>Availability of penalties for non performance</li> <li>Presence of monitoring mechanisms</li> </ul>		
<b>RQ 2. What approach has been adopted in the assessment of value for money in PPP projects and how is it used?</b>			
<b>VARIABLES</b>	<b>INDICATORS</b>	<b>SOURCE OF DATA</b>	<b>DATA ANALYSIS</b>
<b>Approaches to assessment</b>	<ul style="list-style-type: none"> <li>Use of a full cost benefit analysis</li> <li>Use of PSC before bid</li> <li>Use of PSC after bid</li> <li>Reliance on the competitive bidding process</li> </ul>	Secondary data/PPP Unit Officials/LCC Officials	Qualitative analysis

Source: Author (2011)

### 3.7 Reliability and Validity

Black (1993) regards reliability as consistency in obtaining the same results after measuring the same variables repeatedly on different occasions. It entails consistence and quality measurement of data collected with minimum biasness and errors. In this study, reliability was achieved by structuring and designing questionnaires and interview guides in such a way that would avoid yielding different meanings. The interviews conducted with the different interviewees, i.e. officials from Lusaka City Council, Ministry of Finance and National Planning PPP Unit, Urban Markets Development Programme of the Ministry of Local

Government and Housing and the Private Consultant provided an opportunity to ask different questions while looking for the same information. This therefore guaranteed reliability of data collected by analysing responses from the different respondents.

Validity implies the extent to which the chosen research instruments accurately measure what they are intended to measure. In terms of validity of the research, it has been achieved by ensuring that the instruments being utilised in the research are logically consistent and comprehensive enough to take into account all the abstract concepts under study. Apart from the definition of the salient concepts, the research has ensured that construct validity of variables through covering all aspects of the concepts under research. This has been achieved through the use of different measuring instruments, i.e., in-depth interviews and questionnaires which have been triangulated with secondary data. In addition, audio recordings of the in-depth interviews were requested and allowed by the interviewees which helped in the triangulation with secondary data.

### **3.8 Scope of the Study and Limitations**

The focus of this study is only on the key factors that influence the attainment of value for money and the VfM assessment procedures. As a result, the other secondary factors have not been explored. During the research, the researcher encountered challenges in terms of the non-availability of empirical data especially related to the cost components of the projects due to the fact that records were either missing or some respondents especially the private parties were not willing to divulge such information. The quantitative assessment of value for money in the study using the Public Sector Comparator was thus not feasible. Other limitations included the inadequate time within which the research was conducted, and as such could not warrant the exploration of all the other factors that are relevant to the attainment of value for money in a PPP project.

### **3.9 Conclusion**

The chapter has given an overview of the research design and methods that were adopted in this study. An exploratory research using a case study strategy was adopted in order to provide a comprehensive understanding on whether or not value for money was achieved in the PPP projects implemented by the LCC as well as the key value for money drivers and the approaches to assessing VfM. The exploratory research was appropriate for answering the ‘how, what and why’ aspects in the research questions that the study sought to answer. The sampling technique employed was purposive sampling and snowballing techniques whilst in the field. This was in order to select respondents who had specific expertise in their fields and those with specific experiences with the projects under study. The chapter also highlighted the operationalization of the variables used in the research which are risk transfer, competition, contract duration, output based specifications, private management skills and performance measures and incentives. Other variables are the use of the full cost benefit analysis, the use of the PSC before or after the submission of bids and competitive bidding. The chapter has also presented the measures that were taken to ensure reliability and validity which involved structuring interview guides in such a way that they wouldn’t yield different meanings. Additionally, validity was assured by ensuring that the instruments were logically consistent and comprehensive enough to take into account abstract terms as well as through the use of different measuring instruments which were triangulated with secondary data.

## Chapter 4: Research Findings and Analysis

*This chapter presents the findings and analysis of the data collected from the field. It begins by giving an overview of the Urban Markets Development Programme which was an initiative of the Government of the Republic of Zambia with the help of the European Union to Rehabilitate and Rationalise Urban Markets in the country as a response to the rising levels of informal trading as well as the dilapidation of the markets. It then proceeds to introduce the Zambian experience in Public Private Partnerships before discussing the units of analysis, data collected and its analysis upon on which conclusions and recommendations are drawn.*

### 4.1 Introduction: Urban Markets Development Programme

Prior to the initiation of the Urban Markets Development Programme (UMDP), the provision of urban markets were a preserve of the various Local Governments in the Country as provided for by section 61 under the second schedule<sup>9</sup> of the Local Government Act Chapter 281 of the Laws of Zambia (GRZ 1991). However, the introduction of the UMDP was necessitated by the political and economical transitions<sup>10</sup> in the early 1990s which led to rapid urbanization amidst limited job opportunities. This consequently resulted in increased informal trade and the expansion of the phenomenon of street vending and illegal micro markets (GRZ/EC 2003). This was exacerbated by the degradation of the existing legal markets due to inadequate funding and maintenance over the years. Therefore, the UMDP was initiated by the Government of the Republic of Zambia and the European Union as part of the Master Plan to Rehabilitate and Rationalise the Urban Markets in the cities of Lusaka, Kitwe and Ndola during the period 1996-1999 (TYPISA 2010). The activities and expected results fell under the umbrella of the Governments Poverty Reduction and Growth Strategy. The programme comprised two (2) phases, i.e. phase I and II respectively. Under Phase I, three (3) markets were earmarked for rehabilitation in the City of Lusaka while Phase II initially had eleven (11) markets earmarked for rehabilitation in all the 3 cities but was later reduced to eight 8 due to increased costs and land acquisition problems among other reasons. The construction of the 8 markets were distributed among the three cities as follows; Lusaka, 3, Ndola, 2 and Kitwe 3 markets respectively.

According to the GRZ/EC (2003), the UMDP was aimed at addressing;

- The proliferation of street vending and informal trading,
- The inadequacy of the physical structures of the markets due to the absence of clear regulations in terms of physical and functional organisation which resulted in the markets being shunned by traders,
- The degradation of the environment due to inadequate refuse collection and disposal facilities which affected the markets including the hygiene of the sale products and the health of the general public,
- The deterioration of the quality of living due to incorrect location of the markets within the urban fabrics,

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<sup>9</sup> The second schedule lists 63 functions of local governments including provision of public amenities like markets

<sup>10</sup> Multiparty democracy was introduced in 1991 following the birth of the third republic. Economic measures such as the structural adjustment programme, privatisation and liberalisation were introduced under the auspices of multilateral and bilateral donors.

- The overall inefficiency of the distribution system which did not offer any guarantees to the consumers on the quality of goods and prevented the development of entrepreneur capacities relating to markets despite favouring strong price competition,
- The inadequate legislative system which apart from being obsolete for urban area's social trends also presented contradictions in some cases between the laws and regulations, and
- The disorganisation in the management system which resulted in the failure to adhere to ordinary market administration.

While government initiated the UMDP to rehabilitate and rationalise the urban markets, the Lusaka City Council developed two (2) urban markets using the PPP route in addition to those which were earmarked for rehabilitation under the UMDP. This was in an effort to improve the trading environment for the public considering that the UMDP could not cater for all the markets in the City. The projects are briefly described in the ensuing sections.

## **4.2 Public Private Partnerships in Infrastructure projects in Zambia**

Zambia's experience with PPPs in infrastructure dates back to the early 2000s when the Lusaka City Council entered into the Build, Operate and Transfer (BOT) joint venture agreements with private parties to construct urban markets infrastructure projects. Additionally, central government also entered into two (2) other concession agreements relating to the operations and management of an inland port Maunabo and the Zambian Railways concession respectively (Sakala 2005).

However, following outcries from the public regarding the contract periods which were perceived to be too long (i.e., 65 and 60 years for the urban markets and 20 years for the railway concession agreement respectively), government recognised the need to formulate a policy to guide the PPP process in the Country in 2004 (Mukela 2005). Therefore, a draft policy on PPPs was formulated in 2006 in order to facilitate the provision of infrastructure through PPPs (GRZ 2006a).

The need for the use of PPPs in infrastructure development was also enshrined in the Vision 2030 formulated in 2006 targeted at Zambia reaching the middle income status by 2030 which was however attained in July 2011 nineteen (19) years ahead of schedule. Under the Vision, Zambia intended to achieve a well developed and maintained socio-economic infrastructure by 2030 through the development and implementation of Public Private Partnerships (GRZ 2006b). The PPP policy was thus launched in November 2008 and was followed by the enactment of the Public Private Partnerships Act No. 14 of 2009 in August 2009 (Ngoma et al 2010). The Public Private Partnerships Act among other issues provides for:

- the promotion and facilitation of the implementation of privately financed infrastructure projects,
- the establishment of the Public Private Partnership (PPP) Unit and its functions which has since been established under the auspices of the Ministry of Finance and National Planning,
- the construction, operation, maintenance, rehabilitation, modernisation and expansion of either new or old infrastructure,
- the rules governing public private partnerships inception, procurement, contracting and management, and

- the implementation of public private partnership agreements between contracting authorities and concessionaires (GRZ 2009).

Under, the new PPP policy framework, the first project to be commissioned was the Kasumbalesa Border Post Project on 4<sup>th</sup> March 2011 and became operational on 14<sup>th</sup> March 2011 (ZipBCC 2011). In addition, the Sixth National Development Plan (2011-2015) has outlined a number of projects that are earmarked to be undertaken under the PPP procurement method which include housing, energy, roads, and airports among other projects (GRZ 2011).

#### 4.2.1 The Luburma Market Project

The Luburma Market (commonly known as Kamwala Market) project was conceived in the early 2000s in an effort to provide modern trading facilities. The LCC as such placed an advert in the print media on 30<sup>th</sup> April 2001 inviting potential investors to develop land at Kamwala Market into a high quality shopping complex comprising inter alia, market stalls, kiosks, shops and parking space among others. The major objective was to get the best development scheme. Hence, the architectural and financial aspects were considered together as a total package. Accordingly, the developer was required to make provision for traders and other business interests which were displaced by the development scheme. The agreement was subsequently signed between the Lusaka City Council and the Developer (China Hainan Zambia Limited) on 9<sup>th</sup> August 2001. Some of the salient features of the agreement was that the local government was to avail land for the development which measured approximately 2.7 hectares in extent while the developer would provide finances and construct the structure on a Build-Operate-Transfer basis at an estimated cost of ZMK 8.9 billion (€ 1.26 million). Other provisions were that:

- The local government would retain the use of 432 market stalls, a police post, administration office, ablution blocks and parking slots except for those earmarked for tenants in bigger shops.
- The developer would have exclusive use and right to use one hundred twenty one (121) shops and parking slots for tenants as well as rentals accruing thereof so as to recoup their investment.
- The developer's exclusive use and rights would last for a period of sixty five years (65) years after which the improvements would revert back to the Lusaka City Council. The development was supposed to be completed within 24 months after taking possession of the site.
- The agreement would be reviewed every ten (10) years.

**Figure 19: Photos of parts of Luburma Market**



Source: Author (2011)

### 4.2.2 ChaChaCha Market Project

The ChaChaCha Market (Town Centre Market) project was initiated through an advert in the public media on 26<sup>th</sup> August 1999 inviting companies to develop the ChaChaCha market into a modern shopping complex. As the case was for the Luburma market, the major objective was to get the best development scheme through the combination of the architectural and financial aspects as a single package. The developer was also required to take into account the displaced traders and other businesses as a total package. Consequently, the United Engineering Group Limited after interviews was awarded the contract for the development of ChaChaCha Market on 12<sup>th</sup> April 2000 by the LCC. Some of the salient features of the agreement were that:

- The LCC would provide land for the development which was approximately 2.07 hectares in extent while the Partner would finance, design and construct the market on a Build-Operate-Transfer basis at an estimated cost of ZMK 2.5 billion (€351,000).
- The LCC would be entitled to the use of 50 kiosks, 250 mini-kiosks, the police post, information desk, ablution block, the area for loading and unloading passengers and the parking slots.
- The Partner was entitled to the exclusive use and right to lease and occupy the ground floor shops and internal parking facilities including rentals accruing thereof in order for them to recoup their investment.
- The contract period was set for sixty (60) years after which the improvements would revert back to the LCC.
- The development was supposed to be completed within 24 months after taking possession of the site.
- The agreement was subject for review every five (5) years.

However, the ChaChaCha market project has been marred with problems which has led to the Private Party demanding compensation for additional costs and loss of rent during the time the private party could not lease the shops as their frontages were blocked by informal traders after the construction was completed. The matter has since been referred to arbitration.

**Figure 20: Photos of parts of ChaChaCha Market**



Source: Author (2011)



### 4.3 Presentation of Research Findings and Analysis

As a recap, the main research question for this study was:

*Has value for money been achieved by the Lusaka City Council through the implementation of the urban markets Public Private Partnership Infrastructure projects?*

The specific questions were:

1. *What are the key factors influencing the attainment of value for money in the Public Private Partnership infrastructure projects implemented by the Lusaka City Council?*
2. *What approach has been adopted in the assessment of value for money in PPP projects and how is it used?*

Based on these research questions, the data collected has been analysed in three parts. The first part focuses on the analysis of the key factors that influence the attainment of value for money in PPP infrastructure projects. Part II looks the approaches employed in the assessment of value for money in PPP infrastructure projects while Part III presents an analysis to establish whether or not VfM was achieved in the two urban markets infrastructure projects. This analysis provides the basis for improved policy making in the achievement, maintenance and/or enhancement of value for money in PPP infrastructure projects.

### 4. 4 Key Factors Influencing the Attainment of Value for Money

In answering the first sub research question which read, *What are the key factors influencing the attainment of value for money in the Public Private Partnerships infrastructure projects implemented by the Lusaka City Council?*, the study through the theoretical chapter identified six aspects as the key factors that influence the attainment of value for money in PPP infrastructure projects. These are discussed in the ensuing paragraphs in light of the data collected in the field.

#### 4.4.1 Risk Transfer

The optimal transfer of risk in PPP infrastructure projects has been regarded as the cornerstone for the achievement of value for money. For VfM to be achieved, risk needs to be transferred to a party that is able to better manage it as has been alluded to under Chapter 2. The study therefore sought to find out whether or not risks were identified, evaluated, allocated and managed in the Luburma and ChaChaCha markets projects.

The research discovered that the major risk that was encountered in the projects was that of securing land for the development since it was not vacant as it was occupied by traders. Findings revealed that although the sites were occupied by traders, priority was not given to the sensitisation and bringing of the marketeers on board. Therefore, there was a time lapse from the signing of the agreements with the developer to the taking of possession of the site by the developer due to the resistance from the traders. Because of this, the developer for ChaChaCha market for instance almost sued the local government for its failure to relocate the traders. That aside, the marketeers also accused the local authority of selling the land in question to the private parties fearing that they would not have any place to trade from should they vacate the premises to allow for the developments.

*“For me securing of land was the major risk and therefore if there will be any developments of this nature in future, it’s always important to start with the occupiers of the land. Take them on board and explain to them the principle and let them participate in the architecture and planning process in terms of what is needed*

and the size of the shops so that when you come to execution, nobody resists,” Director of Engineering Services, Lusaka City Council.

The other risk that was unveiled through the research was the failure by the Lusaka City Council to have a very strong legal team to provide water-tight legal advice pointing out that failure to have such would lead to litigation and other complications manifesting during the life of the contracts because most of the private parties come with ulterior motives during negotiations.

*“The other risk is that if you don’t have a very strong legal team to provide water-tight legal advice, you risk losing out because most of the private parties come with ulterior motives. I will actually give the example of the ChaChaCha Market where we have the developer planning to obtain title deeds for the bigger shops which was not part of the agreement. He is still pursuing the matter because he feels or thinks the Council has abrogated on most of its obligations. He tells us that we didn’t remove the vendors when we were supposed to remove them, so his shops were not leased out when they were completed and he lost so much and claiming he needs compensation of US \$ 8.2 million (€ 5.64million), that is about forty billion Zambian kwacha (ZMK40.7 billion). He wants to use that as leverage for him to obtain the title deed. He is saying, if you don’t compensate me, I will obtain the title,”* Director of Engineering Services, Lusaka City Council.

Furthermore, it was disclosed that there wasn’t any risk identification and evaluation undertaken prior to the implementation of the projects.

*“Clearly, there was no risk analysis or identification. This is because of the reason that at the time, the PPP concept was a very new concept and the Lusaka City Council apparently among all local governments in Zambia might have been the pioneer or one of the pioneers. So risk analysis and all that was not known,”* Director of Engineering Services, Lusaka City Council.

Accordingly, findings indicated that there was no risk management plan in place except for a requirement for the private parties to insure the facilities against destruction which has not yet been done to date.

*“There are provisions in the contracts requiring the insurance of the whole property against destruction by the private parties and claim from the local government for the insured portions that are under the jurisdiction of the local government but that has not been done to date. The developers are supposed to insure and claim from the local authority but they are sceptical that it can’t meet the payment obligation,”* Private Consultant.

Further, a review of the contract agreements indicated some sort of assigning of obligations or responsibilities concerning some of the prominent features of the projects which could be construed as risks. Table 7 below highlights the sharing of some of the responsibilities (risks) as obtained from the contract agreements.

**Table 7: Responsibility sharing in the Luburma and ChaChaCha Markets**

Type of Risk	Borne By	Comments
Land acquisition	The Lusaka City Council	The LCC pledged to make available the land for the construction of the urban markets and to ensure that the marketeers who were trading on the sites were relocated so as to allow for the developments to take place.
Design and Construction	The Private Parties (i. e. China Hainan and the United Engineering Group for the Luburma and ChaChaCha Markets respectively)	The private parties undertook to finance, design and construct all the facilities on the sites.
Operation	Private parties and the Lusaka City Council	The operation of the facilities is shared between the LCC and the private parties. The LCC oversees the market stalls, kiosks and public facilities such as ablution blocks, information desk and police posts while the bigger shops are under the jurisdiction of the private parties.

Planning	The Lusaka City Council	The local authority was obliged to ensure that planning permission and approvals were issued to facilitate the speedy delivery of the projects.
Force Majeure	Private Parties	The private parties are obliged to insure the facilities against any destruction and claim from the local authority for those portions that are under the jurisdiction of the local government.

Source: Author (2011)

Despite this sharing of responsibilities, there was no risk identification, evaluation, optimal allocation and risk management plans put in place to avert any unforeseen circumstances during the life time of the projects. The failure to undertake these processes affects the delivery of VfM in that risk would not be optimally allocated to the party that is able to manage it better.

#### 4.4.2 Competition

Competition amongst bidders leads to innovations in the project design and thus leads to best solutions being offered for the delivery of projects. It was therefore deemed necessary to measure the level of competition in the Luburma and ChaChaCha Market projects so as to gain insights regarding the achievement of VfM in the projects. On the matter, the research revealed that there was no competition in the projects.

*“There wasn’t any competition. Maybe people were not enlightened then because it was a new concept (PPP). They were probably sceptical about what would happen if they got involved in such partnership agreements with the local government. People didn’t trust the Council especially when there is a change of term of office for Councillors. They probably thought the new Councillors would come and change things and probably cancel the contracts,”* Director of Engineering Services, Lusaka City Council.

Furthermore, a review of the reports and other documentation on the projects revealed that the *Luburma Market* project received only one response from *Messrs China Hainan Zambia Limited* after an advert was run in the public media on 30<sup>th</sup> April 2001. It was also revealed that prior to the advertisement in the print media, the Council had received two (2) other unsolicited bids for the re-development of the Luburma Market from *Horizon Printing Press* and *Park and Shop Company Limited*. Despite three (3) firms expressing interest to develop the project, only China Hainan Zambia Limited was invited for interviews as it was the only firm that responded to the advert. It was also recommended for the award of the contract as a preferred bidder through a Plans, Works and Development Committee meeting held on the 22<sup>nd</sup> June 2001 which suggested that interviews be held to get first hand information from the firm. Interviews were subsequently held on 4<sup>th</sup> July 2001 where it was resolved that China Hainan be offered the contract. The offer of the contract was upheld by a Full Council meeting which is the highest decision making board of the local government on 13<sup>th</sup> July 2001 under Minute Number C/116/07/2001 (Lusaka City Council 2001c).

Regarding the ChaChaCha Market, the Lusaka City Council placed an advert in the print media on 26<sup>th</sup> August 1999 inviting companies to undertake the re-development of ChaChaCha Market into a modern shopping complex. Only three (3) firms responded to the advert. These were *Micmar Investment*, *United Engineering Group Limited* and the *Investment Centre*. Following the submission of the bids, a report was tabled in the Special Plans, Works and Development Committee meeting held on 31<sup>st</sup> March 2000 where it was heard that out of the three (3) companies that responded, only *Micmar Investment* and *United Engineering Group Limited* submitted impressive/credible proposals in accordance with the terms of development. It was thus resolved that the two (2) short listed companies be invited to the committee for interviews in order to get more details about their profiles as well as

share various aspects pertaining to the projects. Interviews were subsequently held on 4<sup>th</sup> April 2000 where it was resolved that the contract be offered to the United Engineering Group Limited. The recommendation was adopted by the Full Council in a meeting held on 12<sup>th</sup> April 2000 under Minute Number C/76/04/2000 (Lusaka City Council 2000).

Concerning the negotiating environment for the award of the contracts, the study brought to the fore the fact that the advertisement of the projects was meant to provide a free and fair environment so as to obtain as many credible offers as possible from which the best bidder could be selected. In addition, the bidders were offered a free environment by way of interviews through which they were required to share information about their development proposals. This was on condition that it was within the boundaries of the local government's requirements as expressed through the request for proposals. The requirements of the local government were basically the development of a modern shopping complexes which would comprise market stalls, shops, kiosks, parking space and other ancillary facilities. Further, the developers were required to take into account the needs of the displaced traders during the construction periods.

In terms of the number of PPP projects that have been undertaken by the local government, it was discovered that three (3) projects have been undertaken inclusive of the 2 urban markets projects. The other was a bus station which was also developed on similar principles as the markets. Nevertheless, it was indicated that some projects were still in the pipeline. Notable among the earmarked projects was the construction of a parkade in the CBD with a view of addressing the inadequate parking space whereby about four (4) companies had already expressed interest even before the expression of interests were advertised. Apart from this project, the local government had also passed a policy to develop various prime pieces of Council land and that they were closely working with the University of Zambia in an effort to get help in terms of packaging the projects considering that the University had experience with PPP projects.

#### **4.4.3 Output Based Specifications**

In undertaking Public Private Partnerships infrastructure projects, requirements of the public sector are outlined on the basis of output based specifications so as to indicate to the private party what is required to be achieved by the public sector instead of outlining inputs needed to deliver the required projects and services. Therefore, the study sought to inquire on the types of specifications that were given to the private parties when bidding for the Luburma and ChaChaCha Markets projects. It was disclosed during the research that no particular attention was paid to the outlining of specifications.

*"I think I will be very sincere as I stated earlier, because the concept of PPP was new, we did not even pay any attention to the specifications and standards. So now we are learning and we have to consider such things and do things that will benefit the people,"* Director of Engineering Services, Lusaka City Council.

Despite the above position being given regarding the specifications, recourse was also made to the contract documents to get insights on whether there were any specifications that were given to the private parties to deliver. The contract documents indicated that for the Luburma Market, the private party was required to build 432 stalls, 121 shops and other ancillary facilities as indicated in Table 8 below:

**Table 8: Specifications for Luburma Market**

Item	Stall/Shop Type	Quantity (nos.)	Dimensions (metres)
1.	Stalls	48	3 * 2
2.	Stalls	384	2 * 2
<b>TOTAL</b>		<b>432</b>	
1.	E	4	10 * 5.45
2.	F	5	12 * 6.6
3.	G	5	10 * 6.6
4.	H	5	12 * 5.38
5.	J	5	10 * 5.38
6.	K	2	12 * 5.925
7.	K1	1	12 * 5.75
8.	K2	1	4 * 6.1
9.	L	4	10 * 5.925
10.	N	14	8 * 7
12.	P	6	10 * 7
12.	Q	6	6 * 5.5
13.	R	8	6 * 5.8
14.	S	10	6 * 5
15.	T	43	4 * 3
16.	D	1	15 * 12
17.	M	1	578.30m <sup>2</sup>
<b>TOTAL</b>		<b>121</b>	
	<b>Other facilities</b>		
1.	Police Post Type A	1	12.6 * 9
2.	Administration Office/Council Type B	1	12.6 * 4
3.	Ladies and Gents Toilets Type C	1	12.6 * 12
4.	Car park along independence avenue, Chilimbulu, Sinda and Bombay Roads		

**Source:** Lusaka City Council (2001b)

Regarding the ChaChaCha Market, the developer undertook to erect a single storey shopping mall consisting of a ground floor of shops to which was to be attached certain internal parking facilities. The specifications in Table 9 below were outlined for the private party.

**Table 9: Specifications for ChaChaCha Market**

Item	Stall/Shop Type	Quantity (nos.)	Dimensions (metres)
1	Kiosks	50	2.5 * 2.7
2.	Mini - Kiosks	250	1.5 * 2.0* 0.6
<b>TOTAL</b>		<b>300</b>	
3.	shops	Quantity not specified	Various sizes
<b>Other Facilities</b>			
4.	Police Post	1	4 * 4
5.	Information Desk	1	3 * 3
6.	Ladies and gents toilets		
7.	Parking slots facing all 4 main roads		
8.	Loading and unloading bay for mini buses		

**Source:** Lusaka City Council (2001a)

In terms of the number of shops, it was discovered that they have built 105. Additionally, it was revealed from the research that the private party had actually built over and above what was agreed in the contract by constructing 219 kiosks above the agreed 300 kiosks bringing the total to 519 kiosks and an additional 500 temporal stalls for the relocation of marketeers. This has led to United Engineering Group Limited to demand compensation from the LCC for the additional costs incurred when constructing these structures.

*“The extra kiosks weren’t part of the contract, it came in as a subsequent agreement through a meeting. So it was not really binding because the contract they had specified the number of kiosks to be built. Compared to what was agreed, they have actually built more to cater for more people. So that one came actually as a gentleman’s agreement later although they are asking for compensation,”* Director of Legal Services.

Although it was revealed through the interview that no attention was paid to specifications, it is apparent that some kind of specifications which were supposed to be adhered to in the delivery of the projects were given to the private parties through the contracts as indicated in the Tables 8 & 9 above. It is further evident that the local government had some kind of knowledge about specifications although not elaborate enough to outline in detail what was required to be delivered as regards services.

On the aspect of the payment system being linked to the output specifications, it was discovered that there were no linkages between delivering the projects according to specifications and the payment system. Rather, the payment system was based on usage by traders who pay monthly rentals. This position was affirmed through the interview conducted with the local government officials as well as the perusal of contract documents which stipulate that *the Partner was entitled to the exclusive use and right to lease and occupy the ground floor shops and internal parking facilities including rentals accruing thereof in order for them to recoup their investment.*

#### 4.4.4 Contract Duration

The length of a contract period in Public Private Partnerships is viewed as a vital component. The research therefore set out to inquire on the criteria used by the LCC to offer to the private parties contract periods that were 65 years for Luburma Market and 60 years for ChaChaCha Market respectively. On this matter, it was discovered that no other criteria was employed except for the need to allow the private parties to recover their investments.

*“At the time the structuring of the projects was being done, issues like criteria were not considered. What was anticipated was that it would take a very long time for the developer to recoup their investment because the assumption made was that everyone who would be trading in the markets whether be it the stalls or the bigger shops were going to pay ordinary market levies which are very low probably about K 150, 000.00 (€ 21) per month. Now for an investor who put in for argument sake say US \$ 2 million (€ 1.4 million), how long would it take to recoup their investment if traders are paying K 150,000.00 (€ 21) per month? It would probably take a very long time. But what came out was that after the developers completed the construction works, since they are in charge of the markets, they are now charging about US \$ 1000 (€ 700) and US \$ 1500 (€ 1050) per shop per month. As we are speaking right now, we are quite sure that they have recouped their investment but we are tied up by the long periods of 65 and 60 years respectively,”* Director of Engineering Services, Lusaka City Council.

*“Being Build Operate Transfer (BOT) projects, their view (private parties) was that they wanted longer periods for them to recoup their investment. In addition, for them to come up with durable structures, they also needed longer periods. But mainly it was to recoup what they had invested,”* Director of Legal Services, Lusaka City Council.

Concerning whether or not the contracts contained any clauses that would give incentives to the private parties to invest in alternative service delivery approaches in the projects as well as incentives for the private sector to undertake whole life costing in order for the assets to be well maintained to assure the delivery of services, it was discovered that there were no such clauses in the contracts.

*“There are no such clauses. When you look at the conditions in the contract, for example the agreement for ChaChaCha Market, those conditions gave a favourable environment to the private party unlike the Lusaka City Council. The conditions were conducive for the United Engineering Group Limited (UEGL) because there was a provision that we (LCC) would remove the vendors who were obstructing access to the shops. Now the question of removing the vendors, is it something easily attainable? In addition, the markets have been given for longer periods than 14 years which is a maximum period provided under the Local Government Act Chapter 281 of the Laws of Zambia,”* Director of Legal Services, Lusaka City Council.

On the issue of the contract periods being beyond the 14 years provided for under the Local Government Act Chapter 281 of the Laws of Zambia, the study revealed that the local government attempted to have the contract periods renegotiated in light of the calls by the general public and central government to reverse the lease term but to no avail.

*“Following the outcry from the public questioning how we arrived at 65 and 60 year contract periods considering that these markets belong to the Local Authority and the local authority needs to take charge of the control, we sought legal advice from the Ministry of Justice who advised that we were already bound by the contracts we signed. The only way out was to compensate them for the remainder of the contract periods. But how much compensation would that be? So we left it because it was becoming difficult even for the Council to agree to such terms. So it was just left like that. Actually, we did offer the contracts for 65 and 60 years respectively beyond the 14 years with the approval of the Minister. So that makes it binding because of the approval of the Minister,”* Director of Legal Services, Lusaka City Council.

From the above, it is evident that the long term nature of the contract periods were not exploited to allow for the delivery of value for money to the local government, instead, it was inclined only to the private parties recouping their investments.

#### 4.4.5 Private Sector Management Skills

Private sector management skills are crucial in the effective delivery and operation of PPP projects. During the data collection process, it was revealed that the major attraction for the LCC to the private sector to undertake the projects was lack of capital. Other factors like value for money, efficiency, skills and standards of design construction and operation were notwithstanding.

*“The major driving factor to engage the private parties was actually lack of capital for us to develop the projects. We realised that these are quite capital intensive projects and looking at the demand on the type of services we are supposed to provide, we could not even take one or two year budget provisions to provide such type of capital investments because that would have meant forgetting about all the other services which are quite critical. Therefore, that was how the notion to engage the private sector was born since we were aware that the private sector may have the capacity to develop such projects but yet, they didn't have land to develop on, so that was the trade off. Basically it was lack of available capital on our part,”* Director of Engineering Services, Lusaka City Council.

Findings also indicated that the major factor considered when awarding contracts to the private parties was the experience they had in developing similar projects and their financial capabilities and the projected timeframes for the construction. Speedy of delivery, cost reductions and management skills were not considered as important ingredients when selecting the preferred bidders.

*“There weren't major considerations undertaken. It was more like unsolicited bids. The PPP concept being a new concept at the time, we only looked at what the bidders had done before. China Hainan who developed Luburma Market had developed similar projects like that in China while United Engineering Group had done similar projects I think in the Middle East as well as in Zimbabwe. When they heard that the Council was planning such projects, they jumped on board,”* Director of Engineering Service, Lusaka City Council.

In order to substantiate the above view, recourse was made to reports regarding the offer process of the projects where it was discovered that apart from the fact that the bidders had undertaken similar projects, they looked at the architectural designs and specifications as well as the timeframes within which the projects were supposed to be completed.

It was also revealed through the research that contrary to the expectation that the markets would be of very high standards and quality considering that they were being delivered by the private parties, their quality and standards left a lot to be desired.

*“The quality of the markets are far below in quality in terms of design and construction standards compared to all the markets that we have developed under the UMDP funded by the European union”* Programme Coordinator, Urban Markets Development Programme.

#### 4.4.6 Performance Measurement and Incentives

Performance measurement and incentives are meant to ensure that standards and specifications outlined in the original contract are adhered to and implemented. As such, the researcher set out to inquire whether there were any performance measures and incentives that were enshrined in the contracts. From the data collected, it was revealed that no performance measures or incentives were included in the contracts.

*“There are no measures that have been put in place. The private parties do whatever they wish to do. For example, the United Engineering Group Limited at one time even stopped the Council from placing a skip bin for waste management purposes within the market premises until it was explained to them on the health hazards concerned with waste, that is when they allowed us to place a bin. They have become so powerful because of their political backings. Even when you are talking to them, you can see that they are very powerful. They tell us that the market is theirs for 60 years and that none of us will be there after 60 years when the contract expires including the records which will have been taken to the archives. So eventually, they will assume ownership of the markets,”* Director of Legal Services, Lusaka City Council.



*“That is what I indicated that we had a weakness probably because these were the first projects to be undertaken. That is why we needed a very strong legal team to put these things into consideration to ensure that we didn’t get a raw deal. What we have gotten up to this moment to a larger extent one would say it was not worth it although we have those little advantages. I think we could have gotten a little bit more,”* Director of Engineering Services, Lusaka City Council.

It was also revealed that no measures have been put in place to ensure that the private parties perform according to the specifications of the projects.

*“There is nothing. Its do as you wish because if you read the agreements, of what benefit is it to the Council apart from the building of those structures?”* Director of Legal Services, Lusaka City Council.

Regarding the monitoring mechanisms that have been put in place so as to make sure that the private parties perform according to specifications, it was discovered that although such mechanisms were implemented at the initial stages of the projects through plan scrutiny and submission of bills of quantities, there were no monitoring mechanisms in place as at now.

*“The monitoring was there at the beginning although it was not very effective. Of course the starting point was that the private parties were asked to submit drawings, the bills of quantities and material schedules which were scrutinised from the plans scrutiny section. Those were part of the requirements .So when the Quantity Surveyors were supervising the works, they were looking at the drawings that were submitted as well as the bill of quantities. But of course what you find in most cases in such projects is that often times, there will always be an element of cheating on the part of the contractor because they would like to save on construction costs. That is why I would indicate that as much as there was monitoring, it may have not been effective to ensure that value for money was being delivered and so that we know how much money exactly these investors had put in the projects. Because on one hand, they wanted to save on construction costs while on the other hand they wanted to tell us they had spent so much so that they justify the longer periods they want to operate these projects,”* Director for Engineering Services, Lusaka City Council.

Furthermore, it was revealed that they were provisions in the contracts which calls for reviews to be undertaken every ten (10) years in the Luburma market project and every five (5) years for the ChaChaCha market but the reviews were put in such way that they have no bearing on the initial contract periods. He noted that the 65 and 60 years contract periods are sealed. As such, if any review was to be undertaken, it would be probably to intervene in cases where the traders complained, for example when rentals are too high and other issues like that. He further bemoaned the lack of impact the review clauses would have through the following statement:

*“Despite those review clauses being in place, the contract periods have been cast in concrete, no proper due diligence was undertaken to safeguard the interest of the Lusaka City Council,”* Director of Engineering Services, Lusaka City Council.

On the same aspect of review clauses, it was also learnt that the clauses are vague as they do not describe in detail what needs to be reviewed in the contracts.

*“Personally, I have not understood what this means because the question is, what is supposed to be reviewed? The contract doesn’t say what is supposed to be reviewed, is it the rent, is it the contract relationship, is it the performance of the private parties? The council could have used this clause to safe guard its interests but the clause wasn’t well framed,”* Private Consultant.

#### **4.4.7 Summary**

From the foregoing, it is apparent that the structuring of the projects fell short of embracing the key factors that influence the attainment of value for money in PPP projects. The major cited shortcomings are that there was no risk identification, evaluation, optimal allocation nor a risk management plan in place although the contracts indicates some sought of responsibility sharing. Furthermore, although there were some kind of specifications handed down to the private parties, they fell short of fitting in the description of output based specifications. They were instead prescribed by the private parties when they submitted their

bids which is contrary to the requirements of PPP projects. Further, the rationale for the long periods of the contracts was basically to allow the private party recoup their investments and not for alternative service delivery approaches or whole life costing. In terms of private management skills, it was revealed that emphasis was put on the experience of the private parties in undertaking similar projects, architectural designs, specifications and construction timeframes. There was no emphasis on whether the skills would lead to reduced costs, increased efficiencies and improved standards of designs, construction and operation of the assets. Additionally, it is evident that the LCC did not ensure that they were measures enshrined in the contracts to monitor the performance of the private parties in delivering on the agreed terms of the contracts. They were also no clauses related to sanctions or incentives in order to punish the private parties for failure to deliver or to incentivise them in the delivery process.

#### 4.5 Approaches to the Assessment of Value for Money

The study sought to get insights on the approaches that have adopted to assess value for money in Public Private Partnerships infrastructure projects in Zambia considering that the achievement of VfM has been regarded as the primary objective for the attraction of governments to PPPs worldwide. The researcher first and foremost set to establish whether the attainment of value for money was considered as an integral component in the structuring of the Luburma and ChaChaCha market projects as well as whether they had any model used to assess value for money. The research disclosed that there was no VfM assessment procedure undertaken when implementing the projects.

*“Basically we did not undertake any value for money assessment procedure. This is because the concept was new to us at the time and as a result such issues were not taken into account”* Director of Engineering Services, Lusaka City Council.

Findings further disclosed that implementing agencies are required to come up with projects which are evaluated using the benchmarks of achievement of value for money, affordability and economic viability by the PPP Unit. This was the major role of the PPP Unit which is summed up as *advisory* and the *undertaking of project appraisals*. Regarding the issue of how the PPP Unit ensures that value for money is attained in PPP projects and whether they had any model used when assessing VfM, it was established during data collection that there was no model used but that *competitive bidding* was used to guarantee the delivery of value for money in projects.

*“Currently, we have not developed a fully fledged value for money assessment criteria but borrowing from traditional public procurement, we just ensure that all PPP projects are procured in an open tender kind of manner. We do that by making sure that we get the best offers from bidders all the time. Although best practice requires that we use a public sector comparator (PSC), that is what we envisage to use but we are still in the process of developing the guidelines. So far, I haven’t seen any project in Zambia that have used the public sector comparator”* Programme Implementation Officer, PPP Unit.

He further pointed out that value for money assessments were supposed to be undertaken at the feasibility stage when the needs analysis, the economic viability assessments and the cost benefit analysis (CBA) are being undertaken. It was at that stage when the PSC was supposed to be compiled but that had not been developed as yet. In terms of qualitative factors that are considered in the value of assessment, affordability to the contracting authority, achievement of value for money and the optimal transfer of technical, operational and financial risks to the concessionaire are the primary qualitative factors considered.

Additionally, it was acknowledged that risks were a vital component which needed to be taken into account in the PPP procurement process as highlighted in the following statement;

*“Risks are an important aspect in that they are transferred from the public sector to the private party. They are important factor in that they shape the future of the project because if you don’t assess them right from the start and appropriately make allocations for those risks, the project is likely to fail in future because it might emerge if it wasn’t appropriately planned for in terms of litigation and costs”* Project Implementation Officer, PPP Unit.

It was also disclosed that there was no risk valuation mechanism that was employed and that they relied upon the tabulation of the risks. This was used to indicate if a risk was likely to occur, how it would be mitigated and who would bear it. As a result, no further costing was done to value them. He further indicated that no predefined list was utilised in the process to determine the risks. It was also revealed that the stakeholders involved in risk identification included the bidders, the contracting authority and any other concerned stakeholders who include the PPP Unit as the coordinating Unit.

Regarding the major obstacles encountered in the value for money assessment, it was discovered that lack of skilled human capacity and political interference were the major impediments encountered in the VfM assessment procedures.

*“The difficult is basically that of human capacity in the whole PPP Unit. We are only 6 of us in the Unit and all of us are economists undertaking various courses in PPPs. As such, very few people would even want to talk about undertaking the VfM assessment. Each time the issue comes up, everyone says that we can’t do that as yet. So from my analysis, it’s the lack of human capacity which is the major stumbling block. The other issue which is critical is political interference in the PPP projects procurement process because a private party talked to somebody in the higher offices, he is told to just take the project to the PPP Unit and that they will take it from here and then as a PPP Unit we are just told to approve it. This has already been agreed at a higher level, so just normalise it, just make sure it passes through. So basically, you can’t really apply all the stringent analysis to make sure that the projects fit in the PPP criteria and deliver value for money”* Project Implementation Officer, PPP Unit.

In the same vein, it was revealed that one project that has been successfully implemented through the PPP procurement route was the Kasumbalesa Border Post Project. Due to its successful implementation, the developer has been awarded another contract to develop a similar border post project referred to as the Nakonde Border Post without following tender procedures.

*“Because of the success he recorded in the Kasumbalesa project, the politicians thought let’s give him another project. This is single sourcing, no competition whatsoever because of what he did in Kasumbalesa. In the new project, there is the risk that government is not getting any value for money because somebody was just imposed without following any stringent assessments including the value for money assessments”* Project Implementation Officer, PPP Unit.

#### **4.5.1 Summary**

From the above, it can be construed that while international experience singles out the use of the PSC before or after the bidding process as the mostly used method for the assessment of value for money in PPP projects to ensure that projects deliver value for money and that it continues being delivered after implementation of the project, the Zambian experience reveals that the use of the PSC is still farfetched. This was confirmed by the fact that the PPP Unit is yet to produce even any PPP manual that is supposed to guide the process in the country as the case is in many countries where the PPP route has been religiously followed as far as infrastructural projects are concerned. This also explains the nonexistent of any procedures or guidelines as far as value for money assessments are concerned. However, what is apparent is that recourse has been made to the traditional public procurement guidelines of ensuring that projects are procured in an open tender manner by ascertaining that the best bids are selected. However, this route also leaves a lot to be desired considering that political interference in the procurement process has been identified as one of the obstacles in ensuring that stringent

assessment procedures are followed in the PPP projects procurement. Moreover, competitive bidding has been viewed as being more appropriate in concessions since they entail in most cases assuming existing assets and only adding new investments to expand the services unlike in the DBO/BOT models of PPPs which would require an array of activities that includes designing, financing construction and operations.

**Table 10: Comparison of VfM Assessment Approaches between Zambia and other countries**

Country	Key Assessment Criteria	VfM Approach	Phase VfM is applied	Qualitative assessment
UK	Affordability Risk Sharing Competition	PSC	Approach applied in 3 stages  Programme level, project level & procurement stage.  Continuous assessment of VfM until financial/contract close	3 factors considered; viability, desirability & achievability in all 3 stages
Australia	Affordability Risk Sharing Competition	PSC PIT	Developed prior to invitation to bid. Formal VfM also conducted after submission bids to compare with them with PSC.	Identifies material factors not included in PSC
South Africa	Affordability Risk Transfer Value for Money	PSC Social benefits Black Economic Empowerment	VfM taken into account before the bid. Formal test conducted after invitation to choose between submitted bids.	Needs assessment prepared to ascertain how project aligns with goals and budget of the procurement authority
Zambia	Value for Money Affordability Economic Viability	Competitive Bidding	Procurement stage	Affordability  Achievement of value for money  Optimal transfer of technical, operational and financial risks

Source: Author (2011)

## 4.6 Achievement of Value for Money by the Projects under study

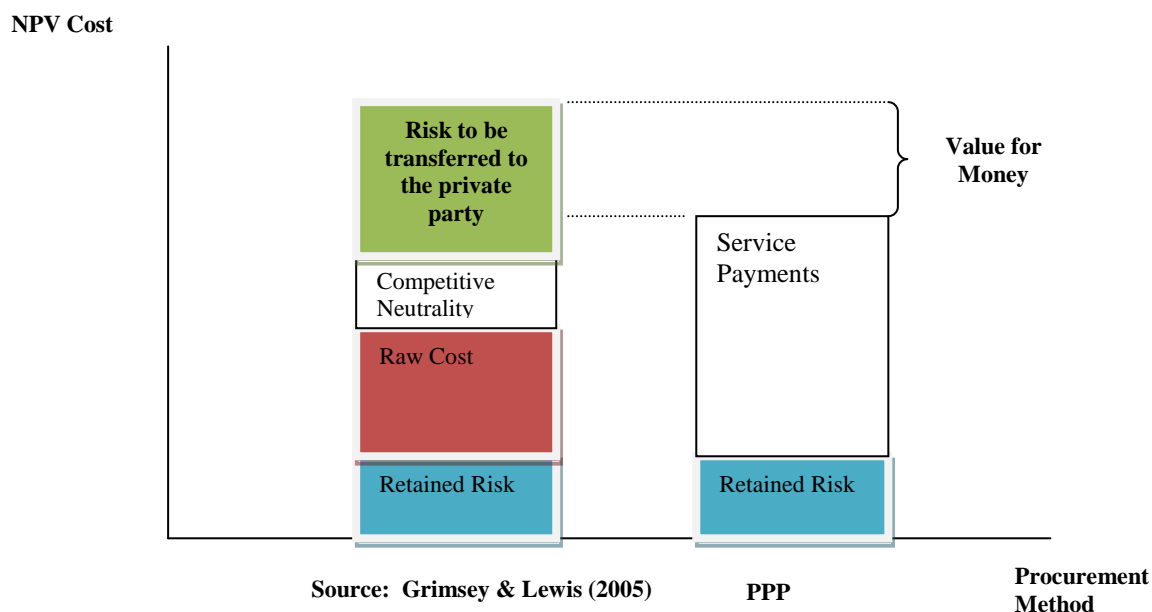
### 4.6.1 Introduction

Achievement of Value for money is the underlying reason for pursuing PPPs by governments in many developed and developing counties according to Ismail et al (2009). As such, a project being procured through the PPP model should only be undertaken if it creates value for money. This study sought to establish whether or not the urban markets infrastructure project embarked upon by the Lusaka City Council had delivered value for money.

As pointed out by Grimsey & Lewis (2005) and Morillos and Amekudzi (2008), the achievement of value for money in PPP projects is established through various approaches in different countries. These include the use of a full cost benefit analysis , the use of PSC before bidding, the use of the PSC after the bidding process and the use of the competitive bidding process. It was established further in the theoretical chapter that the PSC is a commonly used approach in establishing the creation of value for money by PPP projects. The approach

depends upon the construction of a reference or hypothetical project which is compared with the PPP bid. The PSC is composed of various components which are the raw costs<sup>11</sup>, retained risks, competitive neutrality and transferable risks. According to Grimsey and Lewis (2005) the comparison of VfM is performed after the NPVs of both the PSC and the PPP have been prepared and adjusted to a state where they can be compared as reflected in Figure 21 below. Taking all things constant in terms of quality and risk allocation, VfM is demonstrated when the total present value of the private sector supply is less than the NPV of the base cost of the service which is adjusted for the cost of risks retained by the public sector, transferable risk cost adjustments and competitive neutrality<sup>12</sup> effects.

**Figure 21: VfM comparison of PSC and PPP**



Ideally, the study sought to establish the attainment of value for money by undertaking a quantitative assessment through the compilation of a public sector comparator for the two (2) projects under study in addition to the qualitative analysis of the data that was obtained. However, as it has been pointed out in chapter 3 under limitations encountered during field work, it was not possible to compile the PSC due to inadequate information collected related to the costs of the projects. Therefore, it was found prudent to establish whether or not the projects achieved value for money using the qualitative analysis approach of the information gathered as discussed in the following sections.

## 4.6.2 Achievement of VfM in the Luburma Market Project

### Risk Transfer

From the data collected, it is evident that there was no detailed analysis of risks upon which the achievement of value for money could be ascertained in the Luburma market project. As it was indicated from the interviews, there was no formal risk identification, evaluation or allocation processes carried out. There was also no risk management plan<sup>13</sup> put in place. As

<sup>11</sup> These include direct capital costs, operational and maintenance costs indirect costs, third part revenues and competitive neutrality.

<sup>12</sup> Competitive neutrality refers to the evening out of advantages that accrue to the public sector by virtual of owning certain rights in a projects, e.g. land which makes it ineligible to pay land taxes.

<sup>13</sup> Involves reduction of levels of uncertainty in key components of projects, passing risks to third parties who can manage them at lower costs, using instruments in the financial markets such as interest rate hedges, charging users higher fees or diversifying project portfolios.

such, risks were not identified in detail, evaluated and subsequently not optimally allocated to the party that was best able to manage them. This was despite the contracts being embedded with provisions that distributed obligations to LCC and China Hainan respectively. LCC was given the obligations of securing land and granting planning permission while China Hainan assumed the obligations of designing, financing, constructing and operation of the facility as well as insuring the property against unforeseen circumstances or force majeure<sup>14</sup> which has not been done to date. From the findings, it was discovered that these obligations which can be likened to be risks were casually allocated to the parties without a comprehensive evaluation being undertaken so as to value their likely impacts before being optimally allocated to the party that is able to manage them better. Further, other risks that are inherent in the projects such as policy, inflation, legislative and demand risks were not even identified. Consequently, the failure to properly identify, evaluate, allocate and manage risks does not ensure the delivery of value for money by the Luburma market since the transfer of risks was a major determinant for the achievement of VfM.

## Competition

As has been noted earlier on in this chapter, competition in the Luburma market project during the bidding process was found to be nonexistent. This was despite the LCC receiving two unsolicited bids before the expression of interest was advertised. As Pitt et al (2006) postulates, where a project is procured in a competitive and open tender manner, the attainment of value for money is easier to demonstrate. However, in the case of the Luburma market project, the project was single sourced and does not therefore guarantee the delivery of value for money through pricing and alternative means of delivery. Hence, it would be construed that value for money is not being achieved as efficiency and innovation as well as the use of whole life costing mechanisms amongst the bidders which lead to attainment of VfM due to high levels of competition were not present in the bidding process. The public sector was therefore not availed with an opportunity to benefit from high competition as far as design, innovation and whole life costing mechanisms are concerned in the delivery of the projects which eventually culminates in the achievement of value for money.

## Output Based Specifications

Output based specifications are an important factor in the achievement of VfM in Public Private Partnerships unlike traditional public sector procurement which relies upon input specifications. The study has pointed out that there was no emphasis on outlining outputs which were required to be achieved in the implementation of these projects. Output specification as mentioned under chapter 2 subsection 2.8.1 *outline a framework for the services to be delivered focussing on what to deliver, by what function and to which standard instead of how* according to Brynste (1992). Moreover, the Bay Area Economic Forum (2006), points out that the fundamental difference between the PFI and traditional procurement is that under the PFI, project deliverables are specified as outputs while in the later as inputs. Outputs refer to the products of a service, the delivery of which may require an asset. On the other hand, input specifications describes an asset which would eventually be used to provide a service (Bay Area Economic Forum 2006). However, under the Luburma market project, it is apparent that there was no output specifications outlined. What was outlined instead were the assets that needed to be delivered as evidenced by the specifications of the number of shops that needed to be built and their sizes. These specifications did not in any way reflect the actual services that needed to be delivered by the assets that were being

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<sup>14</sup> Risks involving war and other calamities including acts of God which may have adverse effects on a project (Grimsey & Lewis 2002)

created since outputs are required to be a product of service the delivery of which requires an asset. It is evident from the field evidence gathered that the specifications were actually input specifications that described an asset which would be used to provide a service. These specifications were in addition prescribed by the private party through their development proposal which the local government had just to endorse. Hence, VfM is not being achieved in the project.

## **Contract Duration**

The other factor that has been used to determine the achievement of value for money in the Luburma market project is the length of the contract period. According to the Bay Area Economic Forum (2006), long term contracts are regarded as a key prerequisite for the delivery of value for money due to the scope of the time they allow for the recovery of the initial capital outlay, development of alternative service delivery approaches and the focus on whole life costing to ensure that the assets are well maintained and perform according to the specifications. From the results of the research, it can be concluded that while the long term nature of the contract of 65 years was justified by the need to recoup the initial investment in the projects by the private party, the same cannot be said to be true when it comes to the development of alternative service delivery approaches and the use of whole life costing mechanisms to ensure that the assets are well maintained and perform according to specifications. In essence, the project can be said to be delivering value for money to China Hainan unlike the local government through the long nature of the contracts which will allow them to recoup their investment. From the interviews and the contract documents, it is clear that there was no link between the contract periods and alternative service delivery approaches as well as whole life costing which are also cardinal for the attainment of value for money. Therefore, VfM is not being delivered to the LCC by the Luburma Market.

## **Private Sector Management Skills**

Private sector management skills like the other factors outlined above are also a key condition for the achievement of value for money in PPP infrastructure projects. This is because greater emphasis in the recent past has been put on the recognition and exploitation of the respective skills of both the public and private sectors so as to combine them into effective partnerships. From the data collected, it was discovered that emphasis was placed on the fact that the China Hainan Limited had undertaken similar projects before in China. Nevertheless, no detailed information was availed regarding its performance in those projects in terms of delivery of the projects on time or ahead of time, cost reductions, operational efficiency, general management skills and the standards of design, construction and operation. It is therefore apparent that despite the private parties having undertaken similar projects, their financial capability was considered as the major criteria for the award of the contracts although the architectural designs and specifications were cited as other factors considered. What is evident is that despite the structures being put up, there are no unique private sector management skills, cost reductions, high standard of design, construction and operational efficiency that have been put in place that would lead to the attainment of value for money from the aforementioned project. In fact, the market has been deemed to be of very low quality in terms of design and construction standards according to the interview with the Programme Coordinator of the Urban Markets Development Programme. As such, no value for money is being generated by the project.

## **Performance Measurement and Incentives**

Lastly but not the least, the achievement of value for money in the Luburma market project can be viewed from the perspective of performance measurement and incentives. These act as a means of ensuring the delivery of the value for money promised in the originally agreed competitively priced deal according to Arthur Andersen Enterprises & LSE (2000). Regarding the project under discussion, the research disclosed that there were no performance measures and incentives that are included in the contracts. The contract does not contain any penalties that can be meted out in case of lack of performance on the part of the private party. Additionally, there are no incentives to enhance performance by China Hainan which would persuade them to perform better and adhere to what was agreed in the contracts. As earlier affirmed by the interviews held with the local government officials, the private party is free to do as they wish and the local government has no control. Thus, it would be a fallacy for the local government to generate any value for money from the implementation of the project. This is exacerbated by the non effectiveness of the review clause as affirmed by the local government and the private consultant when they indicated that the clause does not clearly elaborate what needs to be reviewed, whether it is the rent, the contract relationship or indeed any other matter that is incidental to the operations of the project. In view of the foregoing, it can be concluded that value for money is not being delivered to the local government by the project.

### **Summary**

From the foregoing, it has been highlighted that the Luburma market project is not generating value for money to the Lusaka City Council. This is due to the fact that there was no optimal risk allocation, no competitive bidding process, specifications were outlined as inputs, the contract duration does not take into account the need for alternative service delivery approaches and the adoption of a whole life costing approach to ensure that the facilities are well maintained and perform according to specifications. Furthermore, the private sector management skills have not demonstrated cost reductions, operational efficiency and high standards of design and construction. Similarly, there are no performance measures and incentives that help in the attainment of value for money.

## **4.6.3 Achievement of VfM in the ChaChaCha Market Project**

### **Risk Transfer**

Just as the case is for the Luburma market project, there was no analysis of risks upon which the achievement of value for money could be justified in the ChaChaCha market project according to the research findings. As earlier mentioned from the interviews conducted, there was no formal risk identification, evaluation or allocation processes carried out including a risk management plan being outlined. As such, risks were not identified and subsequently not optimally allocated to the party that was best able to manage them. For instance, the responsibility of securing land and removing the vendors that was borne by the Lusaka City Council could be cited as one such area where the risks were not properly identified and evaluated so as to know the exact impact it would have on the delivery of the project.

The study discovered that the obligation given to the public sector in the contract which could be likened to the assumption of risk was just casually allocated to the Lusaka City Council being the legal owner of the land without fully understanding the implications of failure to secure the land in time as well as failure to remove the marketeers from the site. The consequence has been that the private party, United Engineering Group Limited has taken the matter to arbitration claiming extra costs incurred in the construction and loss of income for a



period of 3 years 3 months spanning from January 2004 to 31<sup>st</sup> March 2007 when the completed phase I shops could not be leased out. The amount of US \$ 8.2 million (€5.64 million) being claimed is probably more than what has been invested in the construction of the market. The state of affairs has left the local government in a state of hopelessness as they clearly do not know how to proceed apart from failing to put up a counter claim as was revealed through the interviews.

In view of the above, it is evident that the project is not generating any value for money, instead, more costs are likely to be incurred by the local authority which eventually defeats the whole purpose of undertaking the project. Echoing the words of the interviewees from the Lusaka City Council who bemoaned that the agreements were framed to favour the private parties and that the local authority was given a raw deal, it is evident that the failure on the part of the LCC to clearly identify all the risks in the project which include planning, land acquisition, designing, financing, construction, operations, demand, force majeure and legislative risks among others could have helped avoid some of the disputes and lack of trust that are now surfacing in the project. The conclusion therefore is that value for money is not being generated by the project to the local government.

## **Competition**

As has been noted earlier on in this chapter, the level of competition in the ChaChaCha market project during the bidding process was found to be very low according to the interviews conducted and the documents reviewed. Despite the LCC receiving three expressions of interest, only two firms were found to be credible and as such proceeded to the stage of evaluation in order for them to select the best bidder. According to Pitt et al (2006), a project procured in a competitive and open tender manner makes it easier to substantiate the value for money argument. However, in the case of the ChaChaCha market just as the case is for the Luburma market project, the project does not guarantee the delivery of value for money due to the low level of competition. The short listing of two firms for interviews does not also guarantee the delivery of VfM in that the presence of few firms in the market can easily lead to collusion amongst them and consequently lead to the firms manipulating the project sponsors with demands that are meant to advantage them. Subsequently, the public party would not receive value for money from such projects.

Moreover, the tendering procedures adopted in the project left much to be desired as a detailed tender procedure was not adopted. From the findings, it was discovered that the LCC only prepared an advert which was placed in the media inviting the private sector to submit proposals for the redevelopment of the project and the prospective developers were called for interviews by a committee which had no detailed evaluation criteria as well as indicative costs to compare with the proposals of the private party. All they relied upon were the architectural designs submitted and the financial capability of the bidders. Hence, it can be concluded that value for money is not being achieved as efficiency and innovation as well as the use of whole life costing mechanisms amongst the bidders which lead to the attainment of VfM due to high levels of competition were not present in the bidding process. The public sector was therefore not availed with an opportunity to benefit from high competition as far as design, innovation and whole life costing mechanisms are concerned in the delivery of the projects which eventually culminates in the achievement of value for money.

## **Output Based Specifications**

Regarding output based specifications, the study has revealed that there are an important factor in the achievement of VfM in Public Private Partnerships projects unlike in traditional public procurement which relies upon input specifications. The study has pointed out that

there was no emphasis on outlining outputs which were required to be achieved in the implementation of this project just as the case is for the Luburma market. Output specification as mentioned earlier *outline a framework for the services to be delivered focussing on what to deliver, by what function and to which standard instead of how* according to Brynste (1992). Moreover, the Bay Area Economic Forum (2006), points out that the fundamental difference between the PFI and traditional procurement is that under the PFI, project deliverables are specified as outputs while in the later as inputs. Outputs refer to the products of a service, the delivery of which may require an asset. On the other hand, input specifications describes an asset which would eventually be used to provide a service (Bay Area Economic Forum 2006). However, under the ChaChaCha market project, it is apparent that there was no output specifications outlined. What was outlined instead were the assets that needed to be delivered as evidenced by the specifications of the number of shops that needed to be built and their sizes. These specifications were stipulated by the private party and did not in any way reflect the actual services that needed to be delivered by the assets that were being created since outputs are required to be a product of service the delivery of which requires an asset. It is evident from the data gathered that the specifications were actually input specifications that described an asset which would be used to provide a service. In view of the above, value for money is not being achieved in the project.

## **Contract Duration**

The long term nature of the contract is another critical factor for the attainment of value for money in the ChaChaCha market project. According to the Bay Area Economic Forum (2006), long term contracts are regarded as a key prerequisite for the delivery of value for money due to the scope of the time they allow for the recovery of the initial capital outlay, development of alternative service delivery approaches and the focus on whole life costing to ensure that the assets are well maintained and perform according to the specifications. From the findings of the research, it can be concluded that while the long term nature of the contract of 60 years was justified by the need to recoup the initial investment in the projects by the private party just like the case is in the Luburma market project, there was no indication of the links of the duration to the development of alternative service delivery approaches and the use of whole life costing mechanisms to ensure that the assets are well maintained and performed according to specifications. From the interviews and the contract documents, it is clear that there was no link between the contract periods and alternative service delivery approaches as well as whole life costing which are also cardinal for the attainment of value for money. Therefore, the project can be said to be delivering value for money to the United Engineering Group Limited through the long term contract and the collection of rentals instead of the local government.

## **Private Sector Management Skills**

Private sector management skills like the other factors outlined above are also fundamental for the achievement of value for money in PPP infrastructure projects. From the data collected, it was discovered that emphasis was placed on the fact that the United Engineering Group had undertaken a similar project (market square project) in Zimbabwe. However, no detailed information was availed regarding its performance in that project in terms of delivery of the projects on time or ahead of time, cost reductions, operational efficiency, general management skills and the standards of design, construction and operation. The study also discovered that despite the private party having undertaken a similar project, their financial capability was considered as the major criteria for the award of the contract although the architectural designs and specifications were cited as other factors considered. What is evident is that, despite the structures being put up, there are no unique private sector management

skills, cost reductions, high standard of design, construction and operational efficiency that have been put in place that would lead to the attainment of value for money from the aforementioned project. Therefore, the project is not generating any value for money to the Lusaka City Council.

## **Performance Measurement and Incentives**

Lastly, the achievement of value for money in the ChaChaCha market project can be viewed from the standpoint of performance measurement and incentives. Performance measures and incentives ensure the delivery of the value for money promised in the originally agreed competitively priced deal as argued by Arthur Andersen Enterprises & LSE (2000). Regarding the ChaChaCha market project, the findings have revealed that there were no performance measures and incentives embedded in the contracts. The contracts do not contain any penalties that can be sanctioned for non performance by the private party. Likewise, there are no incentives to encourage the UEGL to perform better so as to deliver on the agreed terms. As earlier affirmed by the interviews held with the local government officials, the private party is at liberty to do whatever they wish to as the local government has no control. In addition, there are no monitoring mechanisms put in place apart from the review clause which requires a review to be undertaken every five years. The clause has however been criticised for being non effective as it does not clearly elaborate on what needs to be reviewed. Thus, it would be a fallacy for the local government to generate any value for money from the implementation of the project. In view of the foregoing, it can be concluded that value for money is not being delivered to the local government.

## **Summary**

The section has discussed that there is no value for money being attained by the Lusaka City Council through the implementation of the ChaChaCha market project. This is because the project does not demonstrate the adoption and utilisation of the key factors that influence the attainment of value for money in its structuring which are optimal risk transfer, competition, output based specifications, contract duration, private sector management skills and performance measures and incentives.

### **4.6.4 Other considerations in the projects under study**

While it has been established in the preceding sections that value for money is not being generated in the Luburma and ChaChaCha Market urban markets projects using an analysis based on the key drivers that influence the attainment of value for money in PPP infrastructure projects, the research discovered that there are some positive aspects that have been recorded as gains to the local government.

*“Basically, the two projects have in a sense performed some of the expected results. Of course there are some advantages and disadvantages. In terms of providing social amenities, market stalls or space for the traders, that has been to some extent achieved. What we have basically is that to some extent, decent trading space has been provided without the local government spending any money. The only collateral that the Council provided was land while the private parties built the structures. So you can see that even in terms of changing the appearance of the area, that has also helped because when you look at how Luburma and ChaChaCha markets were before they were redeveloped, there were ram shacks. But now you can at least see a little bit of an improvement. The structures may not be that of very high standard, but it is better than what we had before. Consequently, because of that improvement, the local government is able to realise a little bit more income than was the case in the past both directly from the marketeers through market stall levies and also when it comes to business licenses for the traders who are trading in the bigger shops which are now controlled by the developers”* Director of Engineering Services, Lusaka City Council.

In addition, the research revealed that there were three (3) forms of benefits being accrued from the projects to the local government and the residents as a whole. These were identified as:

- The increment in revenue sources for the local government from the marketeers that have occupied the newly constructed stalls.
- The revenue collected from licenses especially from the increment in the number of traders in the bigger shops including personal levy which is charged on the business owners depending on the number of employees they have.
- The creation of employment opportunities for a number of residents who are getting employed by shop owners.

Ironically, despite these benefits highlighted above, the research established that the agreements were not structured properly to warrant the delivery of value for money to the local government. They did not ensure that the key factors that influence the achievement of VfM were incorporated during and after the structuring of the projects. Consequently, the projects are delivering VfM to the private parties through the long term contracts. This position was affirmed by the local government officials interviewed when they described the whole contract arrangement for the projects as a raw deal for the local government.

#### 4.7 Comparative Analysis for VfM attainment for the Projects under study

Table 11 depicts a summary of a comparative analysis for the achievement of value for money in the Luburma and ChaChaCha markets based on the key factors that influence the attainment of value for money in PPP infrastructure projects and other considerations.

**Table 11: Comparative analysis for VfM attainment in Luburma and ChaChaCha Markets**

Key VfM factor	Luburma Market	ChaChaCha Market
Risk Transfer	X	X
Competition	X	X
Output based specifications	X	X
Contract duration	X	X
Private sector management skills	X	X
Performance measurement and incentives	X	X
<b>Other considerations</b>		
Conducive trading environment	✓	✓
Income generation	✓	✓
Employment Creation	✓	✓

**Key:**

- X Factor not considered in the project
- ✓ Factor regarded as a positive gain

Source: Author (2011)

## 4.8 Conclusion

The chapter has presented and analysed the data that was collected from the field. It has highlighted that the failure to ensure that risks were properly identified, evaluated, allocated and managed has led to the failure of the Luburma and ChaChaCha market projects to deliver value for money to the Lusaka City Council. Accordingly, the level of competition has also been noted as having been nonexistent in the Luburma Market project while it was very low in the ChaChaCha Market project. This lack of competition has also affected the delivery of value for money negatively. Other factors that have been used to ascertain the attainment of value for money include the long term nature of the contract duration, the outlining of output based specifications, private sector management skills, and performance measures and incentives as keys areas that were not attended to during the structuring of the projects and hence have culminated into the non delivery of value for money to the Lusaka City Council. The chapter has further revealed that no value for money analysis was undertaken in the projects and that they are no models that have been adopted in the analysis of value for money. Instead, recourse is made to the use of the traditional public procurement method's competitive bidding process where emphasis is put on ensuring that the best deal ever is obtained. However, the approach has been found to be ideal in concessions and not DBO(T) models of PPPs as pointed out under chapter 2 section 2.5.2. The approach is also prone to abuse by politicians who are fond of interfering by advocating for their allies to be awarded contracts. In summary, it can be concluded that the projects are not generating any value for money to the Lusaka City Council despite the few benefits that are being gained in terms of providing conducive trading environments, revenue being collected and the creation of employment.

## Chapter 5: Conclusions and Recommendations

*This chapter seeks to make conclusions to the study and present the actual position regarding the research questions that were posed at the beginning of the study in chapter one. In this chapter, a recap of all the other preceding chapters is made before coming up with the conclusions and necessary recommendations that will help the Lusaka City Council and other concerned stakeholders in the PPP arrangements to attain, maintain and/or enhance value for money in PPP infrastructure projects.*

### 5.1 Introduction: Recapitulation of the Study

This study set out to establish whether or not value for money has been achieved through the implementation of the urban markets Public Private Partnerships infrastructure projects implemented by the Lusaka City Council based on establishing and assessing how the drivers of value for money were employed in the projects. The foundation laid in chapter one brought forth the fact that value for money is the main purpose for the attraction of governments to Public Private Partnerships. Therefore, a project was only worthy to be undertaken if it gave promises of delivering value for money. In the urban markets infrastructure projects, the intention of the Lusaka City Council was to harness the experience and finance of the private sector in providing modern trading facilities for the public in the city of Lusaka. However, the structuring of the projects have been engulfed with challenges related to contract management, contract monitoring and enforcement, identification, evaluation, allocation and management of risks, tendering procedures and the undertaking of feasibility studies to determine the payback periods for the private parties. With these challenges inherent in the procurement process, the question that needed to be addressed was whether or not the urban markets infrastructure projects implemented by the Lusaka City Council was delivering value for money to the local government going by the challenges encountered.

Conceptually, value for money was deemed to entail the optimum combination of whole of life costs and quality (or fitness for purposes) of a good or service in order to satisfy the users requirements. It is therefore not a choice based on the lowest bid but on the whole of life costs of the good or service. It is also defined in terms of 3 Es which are; Economy (i.e., *acquiring or using resources of an appropriate quality at minimum cost*), Efficiency (i.e., *gaining maximum output from the resources employed or devoting a minimum level of resources for a given level of output*) and Effectiveness (i.e., *making sure that the output from any given activity attains the desired goals*). In order for value for money to be attained, there are key drivers of value for money that need to be in place. These are optimal risk transfer, competition, output based specifications, long contracts duration, private sector management skills and performance measures and incentives. These factors can only come into play in a PPP environment which is supported by policy, legal, regulatory and institutional frameworks. It was also highlighted in the theoretical chapter that value for money is assessed using different approaches which include the use of full cost benefit analysis, the use of the PSC before or after the bidding process and the use of the competitive bidding process. It was however revealed that the PSC method was the commonly used approach in many countries.

### 5.2 Reflections on Research Findings and Conclusions

In this study, the objective was to answer the main research question which states;

*Has value for money been achieved by the Lusaka City Council through the implementation of the urban markets Public Private Partnerships infrastructure projects?*

The sub questions are;

1. *What are the key factors influencing the attainment of value for money in the Public Private Partnership Infrastructure Projects implemented by the Lusaka City Council?*
2. *What approach has been adopted in the assessment of value for money in PPP infrastructure projects and how is it used?*

In order to provide answers to these questions, in-depth interviews and administering of questionnaires was used for the purposes of gaining insights.

Findings disclosed that there was no identification, evaluation and allocation of risk to the party that was best able to manage it properly. In addition, no risk management plans were put in place in the structuring of the projects. This was despite the fact that attempts were made to share some responsibilities of securing land, obtaining planning permission, design, construction and insurance which were reflected in the contract documents.

The study also found that the level of competition in the Luburma and ChaChaCha Markets ranged from nonexistent to very low respectively. It was discovered that there was only one bid for the Luburma market which was tendered and considered. The other two unsolicited bids were not considered. As for the ChaChaCha market, three bids were received but only two were found to be credible and thus proceeded to the evaluation stage.

In terms of the kind of specifications given to the private parties, the study revealed that input specifications as opposed to output specifications were outlined to the private parties in form of the number of shops/stalls and other ancillary facilities that were supposed to be built as well as their sizes contrary to the need for specifying outputs that needed to be delivered by the projects as required in the realm of PPP projects. These specifications were in essence prescribed by the private parties during the bidding process.

Concerning the contract duration, it was affirmed that the long term nature of the contracts was essentially to allow for the private parties to recoup their investment and was not in any way linked to alternative service delivery approaches or the whole life costing approach to ensure that the assets were well maintained in order to assure the delivery of services.

The study further unveiled that private management skills as they related to the efficiency and cost reductions in delivering projects were not a primary consideration in the award of the contracts, rather it was the experience in similar projects, financial capabilities of the private parties, architectural designs, specifications and projected timeframes within which projects were to be completed that were considered.

It was also discovered that there were no performance measures and incentives enshrined in the contracts that were aimed at ensuring that the private parties performed according to the specifications. There were no penalties for non performance or incentives to motivate the private parties to perform better. Similarly, the study disclosed that there were no monitoring mechanisms in place that are designed at ensuring the adherence to the specifications. This was despite the fact that there were contract provisions for the undertaking of reviews which are earmarked to be undertaken every ten years for the Luburma Market and every five years for the ChaChaCha market. On the review clause, sentiments were expressed that the review clause was not properly framed as it did not clearly specify what needed to be reviewed in the contracts.

The study also revealed that no value for money assessments were undertaken in the Luburma and ChaChaCha market projects. The reason that the PPP concept was new and thus the local government officials did not know how to conduct such assessments at the time was a major reason cited for failure to undertake the analysis. Additionally, it was discovered that there are no models for the assessment of value for money in PPP infrastructure projects in Zambia

although it was acknowledged that ideally the PSC should have been used at the feasibility stage of a project as per international practice. It was also learnt that presently, there was no fully fledged assessment criteria that had been developed. Therefore, use is made of the traditional procurement method of competitive bidding by ensuring that projects are procured in an open tender manner so as to obtain the best final offer possible.

The research also brought to the fore the fact that although risks were considered as an integral component in the structuring of projects, there was no procedure in place to value them. Instead, they are just tabulated by indicating whether they are likely to occur, how they would be mitigated and who would bear them. The main stakeholders involved in the tabulation process were the contracting authority, the bidders and the PPP Unit. In terms of the major difficulties encountered in undertaking value for money analysis, lack of human capacity was cited as the major impediment. The other obstacle noted was political interference whereby projects were agreed at higher levels and only referred to the PPP Unit for formalisation purposes. Under such circumstances, it was bemoaned that it was extremely difficult to apply all stringent analysis to warrant that the project fitted within the ambit of PPPs and led to the realization of value for money.

In conclusion, the absence of the key drivers for value for money in the projects under discussion has led to the non attainment of value for money. The major shortcomings in the procurement process was the failure to identify, evaluate and optimally allocate the risks to the party that was able to manage them. In the same vein, the non inclusion of a risk management plan for the projects resulted into the non achievement of value for money as the risks are likely to affect its achievement negatively. Moreover, since there was no competition in one project and very little competition in the other, delivery of value for money becomes unachievable since the contracts were not awarded in competitively priced environment. As such, there was no innovation in the bidding process on the part of the bidders which is a prerequisite for the attainment of value for money. Similarly, the failure to outline specifications through an output based approach by the local government does not guarantee the delivery of value for money as there is no linkage between the assets built and provision of the services. It can further be concluded that the long term nature of the contracts only warrants the delivery of value for money to the private parties and not the public sector (LCC) as there was no linkage with the alternative service delivery approaches as well as the whole life costing approach to ensure that the facilities were well maintained and adhered to the specifications.

Further, the non attainment of value for money has been perpetuated by the lack of private sector management skills being fully exploited in the operations of the facilities as their main concern has been the recouping of their investment and not necessarily the enhancement of efficiency and reduction of costs in the delivery system. This is worsened by the absence of performance measures and incentives in the contracts as there are no modalities put in place to monitor the performance of the private parties to ensure the delivery of value for money. The inclusion of the review clause in the contracts has not helped matters as the local government does not understand what needs to be reviewed. While from a technical point of view it has been concluded that the projects are not delivering value for money, there are some benefits that have gained in terms of the actual provision of social amenities which were in a deplorable state prior to the construction of the facilities. In addition, there have been some income that has accrued to the local government in terms of market levies, personal levy, issuance of business licenses and creation of employment opportunities for the citizens. But overall, the local government in no uncertain terms also acknowledges that the projects have been a raw deal on their part despite these few pecuniary advantages that have been gained.



### 5.3 Recommendations

The significance of the attainment of value for money in Public Private Partnership infrastructure projects cannot be over emphasised as it has been viewed as the prime objective for pursuing PPPs. The shortcomings associated with the failure of the Luburma and ChaChaCha Market projects to attain value for money require immediate attention. There is need therefore to undertake measures to realise the achievement of value for money in the PPP projects. The following are the recommendations:

- **Optimal Risk Transfer:** There is need for the Lusaka City Council to ensure that risk is optimally transferred to the party that is able to manage it better in the PPP projects. This should be achieved through the construction of a risk matrix which involves identification of all the risks that are inherent in a project, undertaking of a valuation of the risks to establish their likely impacts and costs, and then optimally allocating it to the party that is able to manage it better. In addition, there should be a risk management plan which will be able to cater for any eventualities that will manifest during the life time of the projects.
- **Competition:** There is need for PPP infrastructure projects to be procured in a competitive environment in order to enhance the chances of the projects to deliver value for money to the Lusaka City Council. The rationale is that the presence of many participants in the market will lead to competitive pricing and alternative delivery mechanisms which will subsequently lead to the achievement of value for money. In the same vein, there is need for tendering procedures to be strengthened by ensuring that the procuring authority undertakes detailed feasibility studies which should be incorporated in the request for proposals so that they will have a basis to assess the bids once tendered.
- **Output Based Specifications:** PPP infrastructure project specifications need to be outlined as outputs instead of as inputs as the case is for traditional procurement. This will ensure that the private parties are availed with information on what is required to be delivered and the services that will be delivered by the facilities. By so doing, the private party will be aware of *what to deliver, by what function and to which standard* which will subsequently lead to the achievement of value for money in the project due to the innovations and whole life costing mechanisms that will be embraced in the design process and operation of the assets.
- **Contract Duration:** There is need to ensure that the long term nature of contract durations in the PPP projects are not only linked to the need for the private sector to recoup their investment but also to alternative service delivery mechanisms and whole life costing measures so as to allow for the facilities to be well maintained and be delivered according to output specifications. By so doing, the project will be able to generate value for money to the Lusaka City Council.
- **Private Sector Management Skills:** Whilst engaging the private sector to undertake PPP infrastructure projects, emphasis should not only be placed on the experience of the private parties in undertaking similar projects, rather, it should be noted that factors such as the speed of delivery of such projects, cost reductions, efficiency in operations, quality of design and construction should also be considered critically to ascertain the achievement of value for money in the projects.
- **Performance Measures and Incentives:** There is need for the inclusion of performance measures and incentives in the PPP contracts to ensure that the private

parties adhere to the initially agreed specifications and bring in innovation when delivering the projects. Further, there is need for continuous monitoring by the Lusaka City Council to make certain that the private parties perform according to the said specifications. This will warrant the continuous delivery of value for money in the project long after the construction has been completed.

- **Review of Agreements:** It is imperative that the LCC takes advantage of the review clauses in the contracts by incorporating measures that would help realise the attainment of VfM in the projects by considering risk identification, evaluation, allocation and the risk management plans, linkage of contract durations to alternative service delivery approaches and whole life costing, outlining output specifications, the need for the private sector management skills to be fully utilised as well as the enshrining of performance measures and incentives in the contracts.
- **Value for Money Assessment models:** In order to ascertain the promise to deliver VfM in PPP projects, there is need to develop models such as the PSC that would be used to assess whether or not VfM could be achieved in a project. If the project doesn't promise to deliver VfM, other procurement methods should be considered. Models should also be used to continuously monitor the delivery of VfM. However, since PPPs are still in their infancy in Zambia, strict measures should be put in place to ensure that the use of the competitive bidding process is enhanced by following all the stringent rules that apply to such a process. With time, the use of the PSC could be relied upon once all modalities are developed.
- **Capacity Building:** In order for PPP projects to be able to generate value for money, there is need for capacity to be built within personnel in the procuring authorities (LCC inclusive) and the PPP Unit. Training in areas such as *project identification, screening and selection, feasibility analyses (i.e. risk, technical, economic, tariff and project financing), financing, procurement strategies, bidding, tendering procedures, bid evaluation, award, negotiation, performance monitoring, contract compliance and resolution of disputes* will need to be carried out so as to ensure that the structuring of projects culminates into the delivery of VfM.
- **Public Awareness and Stakeholder Consultation:** There is need to carry out awareness campaigns and stakeholder consultations when undertaking PPP projects. This will enable the smooth implementation of projects as there will be no resentment from the interested and affected parties and delays in the implementation of projects which may adversely affect the achievement of VfM by the projects.
- **Approval of the Establishment Structure of the PPP Unit:** Government should expedite the approval of the structure of the PPP Unit in order for it to become fully fledged and attract all the necessary personnel it requires to carry out its advisory and project appraisal roles. Accordingly, the Unit should be transformed into a standalone quasi government institution with independent funding so as to avoid political interference in the procurement of PPP projects by politicians which affects the delivery of VfM in projects negatively.

## Areas for Further Research

A quantitative VfM would be needed to be undertaken so as to substantiate the conclusions drawn from this study. Furthermore, it would be ideal to undertake studies on whether the use of the PSC is an ideal tool to assess value for money in developing countries like Zambia as far as PPP projects are concerned.

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# ANNEX 1: Ministerial Statement on the Calls to repossess the markets

## MARKETS PRESS STATEMENT BY ACTING MINISTER OF INFORMATION & BROADCASTING

Thursday, 21 December 2006

PRESS STATEMENT BY THE ACTING MINISTER OF INFORMATION AND BROADCASTING SERVICES DR BRIAN CHITUWO ON PATRIOTIC FRONT-PF LEADER'S REMARKS ON LUBURMA AND CHACHACHA (TOWN CENTRE) MARKETS The Lusaka City Council would be inviting unnecessary litigations against it and scare away investors to the council and the country, if it repossessed the ChaChaCha and Luburma (Kamwala) markets built by private companies as demanded by the Patriotic Front leader Mr. Michael Sata.

The Acting Minister of Information and Broadcasting Services, Dr Brian Chituwo observed that there were provisions in the binding contracts that the Lusaka Council entered with the companies under which it could seek review of some of the provisions. Repossessing the properties is an extreme measure that can only be justified if there was an infringement of the lease agreement, which does not appear to be the case.

The Minister said that the directive by opposition Patriotic Front Leader Michael Sata to Lusaka Central Member of Parliament Guy Scott, Lusaka Mayor Susan Nakazwe and the councillors to repossess Kamwala and Town Centre market shops would not only result into scaring away the investors but would also result into legal proceedings against the Lusaka City Council.

Mr. Sata was quoted in the Post Newspaper edition for Monday, December 11, 2006 directing Dr Guy Scott, Lusaka Mayor Susan Nakazwe and Lusaka City Councillors to repossess the two markets which he said had been leased to Chinese Investors for 65 years. The PF Leader gave the directive at a rally in Lusaka's Kaunda Square township on Saturday, December 9, 2006.

The Minister of Science and Technology who is also Acting Chief Government Spokesperson, said the construction of the two markets was carried out under the concept of Private -Public Partnership (PPP), with the understanding that the investors/developers would Build, Operate the shops and then Transfer (BOT) the entire development at the expiry of the Lease Agreements which provide for Review of the same.

The Minister drew the attention of the media to His Excellency President Levy Patrick Mwanawasa's address to Parliament on the occasion of the 1st Session of the 10th National Assembly, where he ordered the Ministry of Local Government and Housing to review all Lease Agreements. He emphasized that since the developments were agreed between the Parties and the Lease Agreements negotiated, signed, sealed and delivered, any frustration of Agreements outside the review clauses contained in the Agreements would not only result into scaring away the investors/developers but would also result into legal proceedings against the Lusaka City Council.

The Acting Minister explained that the Lusaka City Council entered into a Lease Agreement with United Engineering Group for the development of ChaChaCha Market in April 2001 and the development which is 80 % completed consists of 500 Kiosks, 150 concrete slabs, a police post, information office, toilets and shops. Out of this development, the Lusaka City Council is entitled to the 500 Kiosks, 150 concrete slabs, police post, information offices and toilets, while the developer/investor is entitled to shops fronting all the four roads surrounding the market namely ChaChaCha, Freedom Way, Kalundwe and Chiparamba Roads.

He said the Investor/developer for Luburma (Kamwala) Market is China Hainan (Z) Limited with whom the Lusaka City Council signed a Lease Agreement in August 2001. The Council made available the land on stand Lus/3502, 4563 and 4564 whereas China Hainan provided the finances on the understanding that on completion of the development the market would be managed by the Lusaka City Council and China Hainan (Z) Limited. The market is 100% completed.

The Acting Minister noted that Luburma (Kamwala) Market development consists of 432 stalls of 3m x 2m and 121 shops of various sizes. It also included the construction of a car park, police post, administration office and ablution block. The Lusaka City Council is entitled to all the market stalls, the administration office, police post and ablution block while China Hainan is entitled to all the 121 shops and parking facilities for tenants.

He also explained that Under the Lease Agreement, China Hainan (Z) Limited appointed a Consultant to manage the shops that have been allocated for their exclusive use and have since been allocated to a cross section of people after they were advertised and interviews later held with the applicants.

On the other hand, the Lusaka City Council had meetings with the marketers, conducted interviews and allocated the stalls under the Local Authorities control to avoid hand picking of marketers to occupy the stalls since the number of traders far outstripped the number of stalls.

In conclusion – he urged all peace loving and law abiding Zambians to remember that solutions to our problems either by omission or commission must be within the confines of the law. In this case re-negotiating the Lease Agreements is the only sober option in contrast to forceful repossession as advocated by the PF Leader.

He said the Ministry of Local Government and Housing will issue a more detailed statement.

Signed: .....

Hon. Dr Brian Chituwo  
ACTING MINISTER OF INFORMATION AND  
BROADCASTING SERVICES.

## ANNEX 2: Operationalization of Variables

RQ 1. What are the key factors influencing the attainment of value for money in the Public Private Partnerships infrastructure projects implemented by the Lusaka City Council		
VARIABLES	INDICATORS	QUESTIONS
<b>1.Risk Transfer</b>	<ul style="list-style-type: none"> <li>• Risk identification</li> <li>• Risk evaluation</li> <li>• Risk allocation</li> <li>• Risk management plan</li> </ul>	<p>Was there any risk identification in the construction of the Luburma and Chachacha Markets? If yes, who were involved in the process of risk identification?</p> <p>What are the types of risks inherent in the construction of the projects?</p> <p>How were the risks evaluated?</p> <p>How were the risks allocated between the Council and the Private Parties?</p> <p>What was the basis for this allocation?</p> <p>How are the risks managed in these projects?</p>
<b>2. Competition</b>	<ul style="list-style-type: none"> <li>• Number of participants in the tender</li> <li>• Type of information in the invitation for bids</li> <li>• Nature of negotiating environment</li> <li>• Presence/absence of impediments to entry of firms</li> <li>• Flow of projects by public sector</li> <li>• Existence of alternative private sector markets</li> </ul>	<p>How many bids were received for each project?</p> <p>What type of bidding information was availed to the bidders in the invitation for bids?</p> <p>In what type of market/negotiation environment were the tenders and negotiations conducted?</p> <p>In your opinion, where there any barriers to the participation of the private sector in these projects? If yes, what were the barriers?</p> <p>How many PPP projects have so far been undertaken by the Local Authority?</p> <p>What reasons can be attributed to this frequency of undertaking PPP projects?</p> <p>Are there any other private sector markets for the private sector to undertake such projects?</p> <p>How would you describe the level of interest and competition from the private sector in the tendering process for the construction of the projects?</p>
<b>3.Output based specification</b>	<ul style="list-style-type: none"> <li>• Type of specifications</li> <li>• Mode of delivery of specifications</li> <li>• Criteria used to outline specification</li> <li>• outline of what is to delivered</li> <li>• outline of function of facility</li> <li>• outline of standards</li> <li>• linkage of specifications to payment system/actual payment</li> </ul>	<p>What type of specifications were given to the private parties prior to undertaking these projects?</p> <p>How were these specifications communicated to the private parties to ensure that they are adhered to?</p> <p>What criterion was used to outline the specifications?</p> <p>Are there any provisions in the contracts which outline the specifications of the projects required to be delivered by the private parties? If yes, which are these?</p> <p>Do the project specifications indicate what functions the facilities will perform? If any, what are they?</p> <p>Do the specifications outline the standards required to be met by the private parties? If</p>

		<p>yes, what are they?</p> <p>How are payments made to the private parties?</p> <p>What is the basis of the payment system?</p>
<b>4.Contract duration</b>	<ul style="list-style-type: none"> <li>link between duration and recouping of investment</li> <li>link between duration and alternative service delivery approaches</li> <li>link between duration and whole life costing</li> </ul>	<p>What are the periods for the contracts of the projects?</p> <p>What criterion was used to determine the periods?</p> <p>Are there any clauses in the contracts that give incentives to the private parties to invest in alternative service delivery approaches in these projects? If yes, which are these clauses?</p> <p>Do the contracts give incentives for the private sector to undertake whole life costing in order for the assets to be well maintained and perform according to specifications? If yes, which are these clauses?</p>
<b>5.Private sector management skills</b>	<ul style="list-style-type: none"> <li>Record of delivering projects on or ahead of time</li> <li>record on reduction of costs</li> <li>type of skills</li> <li>efficiency in delivery</li> <li>presence of standards (design, construction &amp; operation)</li> </ul>	<p>What were the factors considered necessary in the selection of the private parties?</p> <p>What is the record of the private parties in the delivery of projects on or ahead of schedule?</p> <p>What is the record of the private parties in terms of achieving cost reductions?</p> <p>What type of skills have been brought by the private parties in the operations of the projects?</p> <p>Is there efficiency in the delivery of the projects by the private parties?</p> <p>How would you describe the standards of design, construction and operation of the facilities?</p>
<b>6.Performance measurement and incentives</b>	<ul style="list-style-type: none"> <li>Availability of incentives for performance</li> <li>Availability of penalties for non performance</li> <li>Presence of monitoring mechanisms</li> </ul>	<p>Are there any incentives that have been outlined to the private parties to enhance the performance in the delivery of these projects?</p> <p>What measures have been put in place to ensure that the private parties perform according to the projects' specifications?</p> <p>How often is the performance of the private parties monitored by the local authority</p>
<b>RQ 2. What approach has been adopted in the assessment of value for money in PPP projects and how is it used?</b>		
<b>VARIABLES</b>	<b>INDICATORS</b>	<b>QUESTIONS</b>
<b>Approaches to assessment</b>	<ul style="list-style-type: none"> <li>Use of a full cost benefit analysis</li> <li>Use of PSC before bid</li> <li>Use of PSC after bid</li> <li>Reliance on the competitive bidding process</li> </ul>	<p>How do you ensure that value for money is achieved through the implementation of PPP projects?</p> <p>Do you use any models to determine value for money in PPP projects? If yes, what type of model do you use in the assessment?</p> <p>How is the model used?</p> <p>At what stage of the PPP procurement process is value for money assessed?</p> <p>Which cost components are used in the assessment of value for money?</p> <p>How do you take into account the qualitative</p>

		<p>factors in value for assessments?</p> <p>Which procedure is used when considering and valuing risks in the VfM assessment?</p> <p>Do you use a predefined list when identifying risks?</p> <p>How are the risks evaluated?</p> <p>Who are the stakeholders involved in the risk analysis process?</p> <p>What are the main difficulties encountered when undertaking the value for money analysis?</p>
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## **ANNEX 3: Interview Guides and Questionnaires**

### **INTERVIEW GUIDE FOR THE LUSAKA CITY COUNCIL**

#### **DEPARTMENT OF ENGINEERING SERVICES**

**Name of the Respondent**.....

**Position**.....

**Date**.....

**Introductory Remarks** (Introduction, Purpose of interview/research)

#### **PART I: Key factors influencing the Attainment of Value for Money**

##### **Risk Transfer**

1. Was there any risk identification in the construction of the Luburma and Chachacha Markets? If yes, who were involved in the process of risk identification?
2. What are the types of risks inherent in the construction of these projects?
3. How were the risks evaluated?
4. How were the risks allocated between the Council and the Private Parties?
5. What was the basis for this allocation?
6. How are the risks managed in these projects?

##### **Competition**

7. How many bids were received for each project?
8. What type of bidding information was availed to the bidders in the invitation for bids?
9. In what type of market/negotiation environment were the tenders and negotiations conducted?
10. In your opinion, were there any barriers to the participation of the private sector in these projects? If yes, what were the barriers?
11. How many PPP projects have so far been undertaken by the Local Authority?
12. What reasons can be attributed to this frequency of undertaking PPP projects?
13. Are there any other private sector markets for the private sector to undertake such projects?
14. How would you describe the level of interest and competition from the private sector in the tendering process for the construction of the projects?

##### **Output based specifications**

15. What types of specifications were given to the private parties prior to undertaking these projects?
16. How were these specifications communicated to the private parties to ensure that they are adhered to?
17. What criterion was used to outline the specifications?
18. Are there any provisions in the contracts which outline the specifications of the projects required to be delivered by the private parties? If yes, which are these?
19. Do the project specifications indicate what functions the facilities will perform? If any, what are they?
20. Do the specifications outline the standards required to be met by the private parties? If yes, what are they?

21. How are payments made to the private parties?
22. What is the basis of the payment system?

### **Contract Duration**

23. What are the periods for the contracts of the projects?
24. What criterion was used to determine the periods?
25. Are there any clauses in the contracts that give incentives to the private parties to invest in alternative service delivery approaches in these projects? If yes, which are these clauses?
26. Do the contracts give incentives for the private sector to undertake whole life costing in order for the assets to be well maintained and perform according to specifications? If yes, which are these clauses?

### **Private Sector Management Skills**

27. What were the factors considered necessary in the selection of the private parties?
28. What is the record of the private parties in delivery of projects on or ahead of schedule?
29. What is the record of the private parties in terms of achieving cost reductions?
30. What type of skills have been brought by the private parties in the operations of the projects?
31. Is there efficiency in the delivery of the projects by the private parties?
32. How would you describe the standards of design, construction and operation of the facilities?

### **Performance Measurement and Incentives**

33. Are there any performance measures and incentives that have been outlined to the private parties for the delivery of these projects?
34. What measures have been put in place to ensure that the private parties perform according to the projects' specifications?
35. How often is the performance of the private parties monitored by the local authority?

## **PART II: Approaches to Value for Money**

36. How did you ensure that value for money was achieved through the implementation of PPP urban markets projects?
37. Did you use any model to determine value for money in PPP projects? If yes, what type of model was used in the assessment?
38. How was the model used?
39. At what stage of the PPP procurement process was value for money assessed?
40. Which cost components were used in the assessment of value for money?
41. How did you take into account the qualitative factors in the value for money assessment?
42. What are the main difficulties encountered when undertaking the value for money analysis?

**INTERVIEW GUIDE FOR THE LUSAKA CITY COUNCIL**  
**DEPARTMENT OF LEGAL SERVICES**

**Name of the Respondent**.....

**Position**.....

**Date**.....

**Introductory Remarks** (Introduction, Purpose of interview/research)

**PART I: Key factors influencing the Attainment of Value for Money**

**Contract duration**

1. What are the periods for the contracts of the projects?
2. What criteria were used to determine the periods?
3. Are there any clauses in the contracts that give incentives to the private parties to invest in alternative service delivery approaches in these projects? If yes, which are these clauses?
4. Do the contracts give incentives for the private sector to undertake whole life costing in order for the assets to be well maintained and perform according to specifications? If yes, which are these clauses?

**Output based specifications**

5. What are the specifications that were given to the private parties to undertake these projects?
6. What criteria were used to outline the specifications?
7. How were these specifications communicated to the private parties to ensure that they are adhered to?
8. Are there any provisions in the contracts which outline the specifications of the projects required to be delivered by the private parties? If yes, which are these?
9. Do the project specifications indicate what functions the facilities will perform? If any, what are they?
10. Do the specifications outline the standards required to be met by the private parties? If yes, what are they?
11. How are payments made to the private parties?
12. What is the basis of the payment system?
  - *payment systems and actual payments linked to the specifications*
  - *Based on usage*

**Performance Measurement and Incentives**

13. Are there any performance measures and incentives that have been outlined to the private parties for the delivery of these projects?
14. What measures have been put in place to ensure that the private parties perform according to the projects' specifications?
15. How often is the performance of the private parties monitored by the local authority?

# **INTERVIEW GUIDE FOR THE MINISTRY OF FINANCE AND NATIONAL PLANNING**

## **THE PUBLIC PRIVATE PARTNERSHIPS UNIT**

**Name of the Respondent**.....

**Position**.....

**Date**.....

**Introductory Remarks** (Introduction, Purpose of interview/research)

### **PART II: Approaches to Value for Money Assessment**

1. How do you ensure that value for money is achieved through the implementation of PPP projects?
2. Do you use any models to determine value for money in PPP projects? If yes, what type of model do you use in the assessment?
3. How is the model used?
4. At what stage of the PPP procurement process is value for money assessed?
5. Which cost components are used in the assessment of value for money?
6. How do you take into account the qualitative factors in value for assessments?
7. Which procedure is used when considering and valuing risks in the VfM assessment?
8. Do you use a predefined list when identifying risks?
9. How are the risks evaluated?
10. Who are the stakeholders involved in the risk analysis process?
11. What are the main difficulties encountered when undertaking the value for money analysis?



**QUESTIONNAIRE FOR THE PRIVATE PARTIES**  
**CHINA HAINAN LIMITED**  
**LUBURMA MARKET**

*This questionnaire is meant to obtain data for the purposes of completing the thesis in titled **ASSESSING VALUE FOR MONEY IN PUBLIC PRIVATE PARTNERSHIP INFRASTRUCTURE PROJECTS IN ZAMBIA: Case of Lusaka City Council** as partial fulfilment for the award of the Master of Science degree in Urban Management and Development at the Institute for Housing and Urban Development Studies, Erasmus University, Rotterdam, The Netherlands. The information obtained will therefore be used for academic purposes only.*

**Name of the Respondent**.....

**Position**.....

**Date**.....

**PART III: Quantitative Assessment for Value for Money**

1. What was the main reason to bid for Luburma market project?.....  
.....
2. How many Public Private Partnership projects have you carried out before and where?  
.....
3. What are your roles in this project?.....  
.....
4. How long is your contract for the operation of this market?.....
5. When did the construction of the market commence?.....
6. How long did the construction take?.....
7. When was it completed?.....
8. Was there any construction time over run?.....
9. If yes, how long was the time over run?.....
10. What are the total costs for the project?.....

**Break down as follows**

**i. Direct costs**

- Design costs.....
- Land costs/other development costs (purchase/lease).....
- Raw materials.....
- Costs of public procurement (project development, documentation, contract management).....
- Payments to external consultants/advisors.....
- Plant and equipment.....

**ii. Maintenance costs per annum**

- Raw materials.....
- Tools and equipment.....

- Salaries and wages.....
- iii. Operating costs per annum**
- Wages and salaries for employees involved in service delivery.....
- Employee entitlements.....
- Work cover/insurance.....
- Training and development.....
- Annual/long service bonus.....
- Expected redundancy.....
- Travel.....
- Direct management costs.....
- Insurance.....
- iv. Indirect Costs per annum**
- Ancillary running costs (e.g. power, cleaning, stationery).....
- Noncore IT & equipment ( e.g. used for administration).....
- Administrative overheads.....
- Employees not directly involved in service delivery.....
- Facilities management.....
- Overall project management.....
- Capital costs.....
- 11. Do you pay any land taxes? If so, how much?.....
- 12. Do you pay any property rates? If so, how much?.....
- 13. Do you pay any payroll tax? If yes, how much?.....
- 14. How much revenue do you collect in terms of rent per month from the users?  
.....
- 15. Do you collect other revenues apart from rentals? If yes, how much and from whom?  
.....
- 16. What are the types of risks that you bear in this project? Please tick

<i>Design risk</i>	<i>Legislative risk</i>
<i>Construction risk</i>	<i>Planning risk</i>
<i>Operation risk</i>	<i>Maintenance risk</i>
<i>Demand risk</i>	<i>Force majeure</i>
<i>Financial risks</i>	
<i>Other risks, (please specify)</i>	

**THANK YOU**

**QUESTIONNAIRE FOR THE PRIVATE PARTIES**  
**THE UNITED ENGINEERING GROUP LIMITED**  
**CHACHACHA MARKET**

*This questionnaire is meant to obtain data for the purposes of completing the thesis in titled **ASSESSING VALUE FOR MONEY IN PUBLIC PRIVATE PARTNERSHIP INFRASTRUCTURE PROJECTS IN ZAMBIA: Case of Lusaka City Council** as partial fulfilment for the award of the Master of Science degree in Urban Management and Development at the Institute for Housing and Urban Development Studies, Erasmus University, Rotterdam, The Netherlands. The information obtained will therefore be used for academic purposes only.*

**Name of the Respondent**.....

**Position**.....

**Date**.....

**PART III: Quantitative Assessment for Value for Money**

1. What was the main reason to bid for Chachacha Market project?.....  
.....
2. How many Public Private Partnership projects have you carried out before and where?  
.....
3. What are your roles in this project?.....  
.....
4. How long is your contract for the operation of this market?.....
5. When did the construction of the market commence?.....
6. How long did the construction take?.....
7. When was it completed?.....
8. Was there any construction time over run?.....
9. If yes, how long was the period?.....
10. What are the total costs for the project?.....

**Break down as follows**

**i. Direct costs**

- Design costs.....
- Land costs/other development costs (purchase/lease).....
- Raw materials.....
- Costs of public procurement (project development, documentation, contract management).....
- Payments to external consultants/advisors.....
- Plant and equipment.....

**ii. Maintenance costs per annum**

- Raw materials.....
- Tools and equipment.....

- Salaries and wages.....

### iii. Operating costs per annum

- Wages and salaries for employees involved in service delivery.....
- Employee entitlements.....
- Work cover/insurance.....
- Training and development.....
- Annual/long service bonus.....
- Expected redundancy.....
- Travel.....
- Direct management costs.....
- Insurance.....

### iv. Indirect Costs per annum

- Ancillary running costs (e.g. power, cleaning, stationery).....
- Noncore IT & equipment ( e.g. used for administration).....
- Administrative overheads.....
- Employees not directly involved in service delivery.....
- Facilities management.....
- Overall project management.....
- Capital costs.....

11. Do you pay any land taxes? If so, how much?.....

12. Do you pay any property rates? If so, how much?.....

13. Do you pay any payroll tax? If yes, how much?.....

14. How much revenue do you collect in terms of rent per month from the users?.....

15. Do you collect other revenues apart from rentals? If yes, how much and from whom?

.....

16. What are the types of risks that you bear in this project? Please tick

<i>Design risk</i>	<i>Legislative risk</i>
<i>Construction risk</i>	<i>Planning risk</i>
<i>Operation risk</i>	<i>Maintenance risk</i>
<i>Demand risk</i>	<i>Force majeure</i>
<i>Financial risks</i>	
<i>Other risks, (please specify)</i>	

**THANK YOU**

**QUESTIONNAIRE FOR THE LUSAKA CITY COUNCIL**  
**FINANCE DEPARTMENT**

*This questionnaire is meant to obtain data for the purposes of completing the thesis in titled **ASSESSING VALUE FOR MONEY IN PUBLIC PRIVATE PARTNERSHIP INFRASTRUCTURE PROJECTS IN ZAMBIA: Case of Lusaka City Council** as partial fulfilment for the award of the Master of Science degree in Urban Management and Development at the Institute for Housing and Urban Development Studies, Erasmus University, Rotterdam, The Netherlands. The information obtained will therefore be used for academic purposes only.*

**Name of the Respondent**.....

**Position**.....

**Date**.....

**PART III: Quantitative Assessment for Value for Money**

**Luburma Market**

1. What are the operating costs incurred in the running of the market per annum? What are the breakdowns?.....
2. Are there any land taxes payable for Luburma Market? If so, how much?.....
3. Are there any property rates payable? If so, how much?.....
4. Are there any payroll taxes payable? If yes, how much?.....
5. How much revenue is collected per month from the users?.....
6. What is the breakdown of this revenue?.....  
.....

**ChaChaCha Market**

7. What are the operating costs incurred in the running of the market per annum? What are the breakdowns?.....
8. Are there any land taxes payable for Chachacha Market? If so, how much?.....
9. Are there any property rates payable? If so, how much?.....
10. Are there any payroll taxes payable? If yes, how much?.....
11. How much revenue is collected per month from the users?.....
12. What is the breakdown of this revenue?.....

**THANK YOU**

## **INTERVIEW GUIDE FOR THE URBAN MARKETS DEVELOPMENT PROGRAMME – MINISTRY OF LOCAL GOVERNMENT AND HOUSING**

**Name of the Respondent**.....

**Position**.....

**Date**.....

**Introductory Remarks** (Introduction, Purpose of interview/research)

1. When was the Urban Markets Development Programme (UMDP) set up?
2. What were the major reasons for its set up?
3. What are the sources of funding for the UMDP?
4. How many markets have been constructed under the UMDP?
5. How do you compare the standards of design and construction of these markets with the markets constructed under the PPP route by the Lusaka City Council?

## **INTERVIEW GUIDE FOR THE PRIVATE CONSULTANT**

**Name of the Respondent**.....

**Position**.....

**Date**.....

**Introductory Remarks** (Introduction, Purpose of interview/research)

1. What in opinion are the major reasons for the private parties to tender for the development of the Luburma and ChaChaCha Markets projects?
2. When were the agreements signed?
3. What are the salient features of the agreements?
4. What are the durations of the contracts?
5. What are the reasons for the such local authority to give such long term contracts?
6. When did the construction of the markets commence?
7. How long did it take for the markets to be completed?
8. Has there been any time overrun in the construction of the projects? If yes, what is the time run?
9. What in your opinion are the qualities that the private sector have brought through the construction of these projects?
10. What measures have been put in place to ensure that the private parties perform according to specifications?
11. How would you describe the level of competition in the projects?
12. What are the total costs incurred in the construction of these projects?