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SYSTEMATIC RISK MANAGEMENT AND STRATEGIC CONTROL
IN PUBLIC PRIVATE PARTNERSHIPS

by

Danielle Nel

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Doctor of Literature and Philosophy
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in the
FACULTY OF HUMANITIES
at the
UNIVERSITY OF JOHANNESBURG

Supervisor: Prof G S Cloete

OCTOBER 2013
DECLARATION

By submitting this thesis, I declare that the entirety of the work contained therein is my own, original work, that I am the author thereof (unless otherwise stated) and that I have not previously, in its entirety, or in part, submitted it for obtaining any qualification.

Signature: ___________________________ Date: ___________31.October.2013
ACKNOWLEDGEMENTS

Dedicated to …

My late mother, Gerda Nel.

Thank you …

Elohim, Immanuel, Jahwe Rapha, Jahwe Jireh, יְהֹוָּ֨ הַיָּדוֹת – thank you God for making this study possible.

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ABSTRACT

Public Private Partnerships (PPPs) are contractual arrangements between the public and private sector, which are generally long-term in nature. If correctly implemented PPPs can mobilise socio-economic goals. The implementation of PPPs is to permit the delivery of continued, lucrative public organisation or services, by mobilising private sector proficiency and conveying a substantial amount of risk to the private sector, towards value for money. The incentive of the research is centred on the guiding principles of PPPs and the challenge of risk-sharing. The aim of this study is to encourage the systematic management and strategic control of PPPs in South Africa. In doing so, this study aims to determine how the PPP model can be improved to necessitate effective risk management in PPPs, and to provide for improved strategic control. The study supplies recommendations for improved practice, in both the public and private sectors, through strategic planning and shared apparata in PPP arrangements. Furthermore, the study suggests guidelines for effective risk sharing and management in PPPs, through integrated systems management. Integrated systems management proposes that the strategy, structures, systems and culture of PPPs are entrenched in organisational settings, in both the private and public sector, as well as in the PPP arrangement, to encourage capacity development and more developed institutions in South Africa. Effective risk management in PPPs necessitates the anticipation of risks; sufficient planning to address these risks and achieve project objectives; and, lastly, the entrenching of risk management within the organisation and project structures. The study commences with an overview of the development of public management and conceptual approaches of governance, providing a contextual synthesis of past and current theoretical perspectives. The study conceptualises the theoretical standpoints relevant to PPPs and the labelling of peripheral approaches. The research provides a synopsis of the role and functions of PPPs, international best practices in PPPs, and the nature of risk management in PPPs. This affords a foundation for investigating the trials and issues associated with PPPs and the challenges experienced in managing risks in PPPs. This is augmented with a systematic breakdown of the research design and methodology, to structure the research. In addition, a preliminary quantitative survey assessment is conducted, in order to derive preliminary findings for the primary analysis in the research.
Preliminary findings provide a basis for comparison of the qualitative findings. Furthermore, background is furnished for the empirical case studies in this study, for exploring qualitative multiple expert opinions. The conclusions derived in this research investigation identify the major barriers to good governance and effective risk management in PPPs. The research findings are interrelated in nature; hence the outcomes of the research are expansive. A review of the relevant literature strengthens the assessment of the research results. The findings are categorised according to strategic, structural, cultural and system challenges. The outcomes of the research suggest that greater institutional improvement is required, along with encouragement for, and the reinforcement of, performance management, risk transfer, modelling and management, stakeholder management, human capacity development and service delivery, through good governance mechanisms. A review of international practices indicates that the systematic management of PPPs, based on strategic planning and effective decision-making, can improve strategic policy and management decisions, in order to derive value for money from PPPs. The research concludes with recommendations for specific integrated strategic interventions.
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# GLOSSARY

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<td>AG</td>
<td>Auditor General</td>
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<tr>
<td>BAFO</td>
<td>Best and Final Offer</td>
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<tr>
<td>BBBEE</td>
<td>Broad-Based Black Economic Empowerment</td>
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<tr>
<td>BCC</td>
<td>Bombela Concession Company</td>
</tr>
<tr>
<td>BEE</td>
<td>Black Economic Empowerment</td>
</tr>
<tr>
<td>BRICS</td>
<td>Brazil Russia India China and South Africa</td>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<tr>
<td>CJV</td>
<td>Contractual Joint Venture</td>
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<tr>
<td>CSIR</td>
<td>Council for Science and Industrial Research</td>
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<tr>
<td>DA</td>
<td>Democratic Alliance</td>
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<tr>
<td>DBE</td>
<td>Department of Basic Education</td>
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<tr>
<td>DBFOM</td>
<td>Design, Build, Finance, Operate and Maintain</td>
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<tr>
<td>DBSA</td>
<td>Development Bank of Southern Africa</td>
</tr>
<tr>
<td>DEAT</td>
<td>Department of Environmental Affairs and Tourism</td>
</tr>
<tr>
<td>DG</td>
<td>Director General</td>
</tr>
<tr>
<td>DIMS</td>
<td>Document Information Management System</td>
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<tr>
<td>DPW</td>
<td>Department of Public Works</td>
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<tr>
<td>DRB</td>
<td>Dispute Resolution Board</td>
</tr>
<tr>
<td>DRDLR</td>
<td>Department of Rural Development and Land Reform</td>
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<tr>
<td>E&amp;M</td>
<td>Electrical and Mechanical Contractor</td>
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<tr>
<td>EIA</td>
<td>Environmental Impact Assessment</td>
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<td>EMP</td>
<td>Environmental Management Plan</td>
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<td>EPC</td>
<td>Engineering Procurement Construction</td>
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<td>ERM</td>
<td>Enterprise Risk Management</td>
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<tr>
<td>FIDIC</td>
<td>Fédération Internationale des Ingénieurs-Conseils</td>
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<tr>
<td>GCC</td>
<td>General Conditions of Contract</td>
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<tr>
<td>GRR</td>
<td>Gautrain Rapid Rail</td>
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<td>GRRL</td>
<td>Gautrain Rapid Rail Link</td>
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<td>GWRM</td>
<td>Government Wide Risk Management</td>
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<tr>
<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>HCD</td>
<td>Human Capital Development</td>
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<td>HDI</td>
<td>Human Development Index</td>
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<td>HOA</td>
<td>Head Office Accommodation</td>
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<td>HOD</td>
<td>Head of Department</td>
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<tr>
<td>IC</td>
<td>Independent Certifier</td>
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<td>ICT</td>
<td>Information and Communication Technology</td>
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<td>IDP</td>
<td>Integrated Development Planning</td>
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<tr>
<td>IIA</td>
<td>Institute of Internal Auditors</td>
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<tr>
<td>ISEM</td>
<td>Independent Socio Economic Monitor</td>
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<tr>
<td>JBCC</td>
<td>Joint Building Contracts Committee</td>
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<td>JV</td>
<td>Joint Venture</td>
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<tr>
<td>KNP</td>
<td>Kruger National Park</td>
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<td>LGBN</td>
<td>Local Government Business Network</td>
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<tr>
<td>M&amp;E</td>
<td>Monitoring and Evaluation</td>
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<td>M&amp;R</td>
<td>Murray and Roberts</td>
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<td>MBSA</td>
<td>Master Builders South Africa</td>
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<td>MSP</td>
<td>Municipal Service Partnerships</td>
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<td>NBI</td>
<td>National Business Initiative</td>
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<td>NEC</td>
<td>New Engineering Contract</td>
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<td>NGO</td>
<td>Non-Governmental Organisation</td>
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<td>NGP</td>
<td>National Growth Path</td>
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<td>NIA</td>
<td>National Intelligence Agency</td>
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<td>NPC</td>
<td>National Planning Commission</td>
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<td>NPG</td>
<td>New Public Governance</td>
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<td>NPM</td>
<td>New Public Management</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
</tr>
<tr>
<td>O&amp;M</td>
<td>Operations and Maintenance</td>
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<tr>
<td>ORT</td>
<td>Oliver Tambo International Airport</td>
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<tr>
<td>PAF</td>
<td>Principle Agency Framework</td>
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<td>PFMA</td>
<td>Public Finance Management Act</td>
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<td>PMS</td>
<td>Performance Management System</td>
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<tr>
<td>Acronym</td>
<td>Definition</td>
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<tr>
<td>PO</td>
<td>Project Officer</td>
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<td>PPP</td>
<td>Public Private Partnership</td>
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<td>PR</td>
<td>Province</td>
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<tr>
<td>PRM</td>
<td>Project Management</td>
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<tr>
<td>PSC</td>
<td>Public Sector Comparator</td>
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<tr>
<td>RFP</td>
<td>Request for Proposal</td>
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<td>ROD</td>
<td>Record of Decision</td>
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<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
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<tr>
<td>SA</td>
<td>South Africa</td>
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<tr>
<td>SAHRA</td>
<td>South African Heritage Resource Agency</td>
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<tr>
<td>SANParks</td>
<td>South African National Parks</td>
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<tr>
<td>SAPS</td>
<td>South African Police Service</td>
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<tr>
<td>SED</td>
<td>Socio Economic Development</td>
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<tr>
<td>SHEQ</td>
<td>Safety, Health, Environment and Quality</td>
</tr>
<tr>
<td>SME</td>
<td>Small Medium Enterprise</td>
</tr>
<tr>
<td>SMS</td>
<td>Short Message System</td>
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<tr>
<td>SOP</td>
<td>Standard Operating Procedure</td>
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<tr>
<td>SPCM</td>
<td>Supply Chain Management</td>
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<td>SPV</td>
<td>Special Purpose Vehicle</td>
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<td>TA</td>
<td>Treasury Authorisation</td>
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<tr>
<td>TKC</td>
<td>Turnkey Contractor</td>
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<td>VFM</td>
<td>Value for Money</td>
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CHAPTER 1

RESEARCH RATIONALE AND INTRODUCTION TO THE STUDY

“There are known knowns. These are things we know. There are known unknowns. These are things we know we don’t know. But there are also unknown unknowns. These are things we don’t know we don’t know”.

(Donald Rumsfeld).

1.1 Introduction

This study focuses on risk management in Public Private Partnerships (PPPs). This chapter provides an introduction to the research, with specific regard to the motivation of the study, the research problem, research question, research hypotheses and research objectives. Furthermore, this chapter introduces the research design, methodology and ethical considerations of the investigation, as well as an introduction to the structure of the study. Finally, the chapter considers the anticipated original contribution to scientific knowledge from this research.

1.2 Background

Frederickson (2003:207) contends that “during the last quarter century, industrialised democracies have witnessed a fundamental shift in the purpose and methods of governance”. This transformation in government structures has resulted in a number of prescriptive and descriptive governance paradigms. This study adopts a prescriptive approach to public governance, namely through market-based governance, with New Public Management (NPM) elements. Cloete (2005:1) defines governance as “a system of values, policies and institutions by which a society manages its economic, social and political affairs through interaction within and among the state, civil society and the private sector”. The NPM school of thought propagates liberal free market principles, minimalist state intervention, transparency and accountability, participative civil society, business
‘hands-on’ management principles to the public sector, a stress on outputs and outcomes instead of process, standards of performance, discipline and parsimony in resource use and competitive practice (Hood 1995; Cloete 2000).

The abovementioned principles of ‘hands-on’ management, competitive practice and discipline and parsimony in resource use are inherent functions of government outsourcing through PPPs. Hood (1995:47) explains that “there is a move towards a greater use within the public sector of management practices which are broadly drawn from the private corporate sector”. The PPP model entails an arrangement between the public and private sectors in order to achieve effective service delivery outcomes. Hood (1995:47) states that NPM constitutes “a move towards greater stress on discipline and parsimony in resource use and on active search for finding alternatives, less costly ways to deliver public services, instead of laying the emphasis on institutional continuity”. Governments turn to outsourcing through PPPs in instances where they do not have sufficient resources, or the skill to mobilise resources, with the aim of the project being more economically viable, supplying greater value for money.

The notion of subcontracting is not novel, but the substance of strategic outsourcing is a comparatively current expansion, with the contemporary body of knowledge merely beginning to recognise its impending offerings and risks to organisations (Schniederjans and Zuckweiler 2004:975). The process of outsourcing implies the subcontracting of construction (both service and engineering capability) from one locality (organisation) to another. This study examines government outsourcing, with specific focus on PPPs. A PPP can be defined as a “contract between a public sector institution and a private party, in which the private party assumes substantial financial, technical and operational risk in design, financing, building and operation of the project” (Farlam 2005:1).

Inherently, governments outsource projects through PPPs for a diverse number of reasons. The primary motivation includes the value for money gains from PPPs. Gerrard (2001:50) argues that “much of the improved value for money [in PPPs] comes from the fact that when the private sector capital is deployed and is at risk, the right commercial decisions are made about design, operating regime, human resource planning, whole-life
asset costing and so on”. Alternatively, where capital is “provided by the public sector, the private sector still provides value for money” through shared resources and expertise.

In many instances government frequently lacks the necessary skills related to allocating resources, and the public sector generally provides the expertise and acts as consultants, thereby ensuring better economic viability. Included, *inter alia*, among a number of the reasons or motivating factors why governments outsource through PPPs, are:

- PPPs conceivably bring the proficiency of business to public service delivery and avoid the politically confrontational aspects of full privatisation;
- PPPs allow governments to maintain ownership, while contracting the private sector to accomplish a specific function, for instance construction, preserving and operating infrastructure or supplying basic services;
- Governments earn returns by leasing government resources, or alternatively, they remunerate the private sector for enhanced infrastructure and improved service delivery; and
- Frequently the private sector can do the work more proficiently, which can decreases expenses and increases rollout (Farlam 2005: i, ii).

The prerequisites for PPPs include market-driven competition, shared risk, transparency, public service delivery, long-term contracts and value for money (Bloomfield 2006:400–406). There are a number of challenges involved in the successful execution of PPP projects, extending through issues of deregulation, project related barriers to competition, corruption, and inaccurate information regarding transparency, issues of accountability, and the practice of financing cash loans through long-term contracts (Bloomfield 2006:400–406).

Consequently, effective feasibility studies, regulation, monitoring and evaluation are required. In order to deal with the practical impediments encountered within the partnership. Overall, while notion and status seem to be in favour of outsourcing, there seems to be less research on the practical impediments and potential risks, in conjunction with the management thereof (Schniederjans & Zuckweiler 2004:975). Against this background, there is a requisite to bridge the gap between theory and practice, with
regard to the inherent challenges and risks in PPP projects. Risks and improbability may have harmful consequences for projects and can upset the throughput, enactment, value, and the budget of a project (Mills 2001:245). Hence, risks confronting an organisation can result in potential losses to the organisation. There are numerous risks that can affect PPP projects. For instance, “completion risk, cost overrun risk, design risk, exchange rate risk, force majeure, interest rate risk, market-demand risk, operating risk, political risk, contract risk, regulatory risk, utilities risk, environmental risk, project default, technical risk and so on” (Farlam 2005; Grimsey & Lewis 2002). The effective functioning of an organisation “requires that loss exposures be discovered, analysed, measured and treated, and the way in which such exposures are managed and controlled is called risk management” (Hollman & Forrest 1991:49). The controlling and mitigation of risks has become an essential part of an organisation’s undertakings and its principal aim is to support all other management activities to achieve the organisation’s purpose unswervingly and proficiently (Tchankova 2002:290). Moreover, “risk management is an important part of the decision-making process” in an organisation; the decision-making process involved in finding the most cost-efficient way in protecting an organisation against potential loss is called risk management (Tchankova 2002:290; Hollman & Forrest 1991:49).

Inherently, risk management is a continuous process. The quality of risk management is improved when risks are identified and evaluated, then either minimised, transferred or retained in a systematic way (Ward, Chapman & Curtis 1991:140). A “systematic approach makes the risks clear, formally describing them and making them easier to manage”, and requires practical experience, training and skill in the use of the techniques (Mills 2001:245). There are multiple benefits of systematic risk management, including:

- recognising, evaluating, and ranking risks, making the hazards, threats or issues clear;
- allowing an early-warning system for the timeous detection of risks,
- questioning the assumptions that most affect projects;
- focusing on the major risks of the project;
• making informed decisions on the provisions for adversity, for example, mitigation measures;
• concentrating attention on actions to best control risks and assess the cost benefit of such actions;
• reducing potential loss, should the worst occur;
• controlling the uncertain aspects of construction projects;
• elucidating and ratifying the organisation’s role, along with the role of others, in the management process; and
• identifying the prospects and potential actions to improve project performance (Mills 2001; Godfrey 1996).

In conclusion, PPP projects can pose substantial risks “to service delivery, especially risks created by unforeseen or uncontrollable circumstances, the absence of market forces, inadequate expertise, and the high cost of contract enforcement” (Bloomfield 2006:407). Therefore, a continuous and systematic approach for risk management is required in PPP projects, in order to maximise the proposed benefits thereof.

1.3 Research Rationale and Problem Statement

Governmental outsourcing of contracts through PPPs offers a number of “public benefits, including service delivery, risk-sharing with the private sector, and cost savings” (Bloomfield 2006:1). However, the problem of risk-sharing between the public and private sectors has resulted in poor project outcomes. Moreover, there is a lack of consensus in these projects, relating to how to share risk and where control over the risks is vested.

According to some research on government outsourcing, governments often lack the skill in determining, assessing, valuing, and transferring risk factors in PPPs. This has frequently resulted in insufficient or ineffective public service delivery (Aspin n.d.). There is also a deficit between theory and practice regarding effective risk management in PPPs.
This study aims to bridge this gap, though advocating measures for risk management and good practice. The purpose of this is to afford recommendations on effective means for risk-sharing and the control of risks between the public and private sectors within government outsourcing projects. Additionally, the study aims to provide a framework for the effective management of these risk factors. Furthermore, it will assist public and private decision-making towards successful service delivery through government outsourcing.

In an effort to advance service delivery and enhance cost-effectiveness in public sector operations, the SA government has adopted privatisation outsourcing methods through public private partnerships. However, no comprehensive measures have been instituted to assess the financial and technical outcomes of these practices.

The current task force is responsible for ensuring best practices in the National Treasury. It provides a framework, guidelines and regulations for such best practices. However, the task force does not provide an audit of efficiency and risk management in these projects. Moreover, the PPP model fails to consider a number of the issues and risks inherent in PPP projects. The issues addressed within the framework, guidelines and principles solely concern technical and fiscal factors (Russell & Bvuma 2008:247–249). Additionally, these strategies and guiding principles do not account for all the potential fiscal and technical issues and risks of concern to the feasibility of PPP projects. Furthermore, little consideration is given to non-fiscal and non-technical risks. Moreover, the task force provides no audit relating to what might be happening in practice, with regard to performance, practice and risk management (Russell & Bvuma 2008:249).

Therefore, the model fails to provide effective measures and controls for risk management in PPP projects. Consequently, the “model may well fall short in providing optimum efficiency gains for the nation” due to ineffective risk management (Russell & Bvuma 2008:249). Hence, the lack of appreciation of the relationship between risk management and good PPP practices is a concern for the effective achievement of PPP projects; accentuating the necessity to assess other relevant issues in the practice of PPPs and the risks surrounding these projects.
Thorough analyses of the model and case studies of current and past PPP projects are required. Overall, an alternative framework for risk management is requisite, in order to mitigate or ameliorate the shortcomings of the current PPP framework.

This study applied a mixed-method research design and methodology and, in order to resolve the above research problem, the research aimed to address the following research question: *How can the prevailing PPP model be improved to more effectively manage risks that prohibit the successful delivery of public service and best practice in PPP?*

Since this study applied a mixed-method approach to the research design and methodology, a number of hypotheses guided the preliminary analysis in this investigation. The hypotheses are:

**Hypothesis 1:** *Current best practices in risk management combine with performance management approaches in order to effectively mitigate risks.*

**Hypothesis 2:** *Consequently, effective strategic control of PPP projects necessitates systematic integration of strategic planning, risk management and internal control of such projects.*

To address the guiding research question of this study, the investigation was aimed towards the achievement of five research objectives. The initial objective related to assessing the role of systematic risk management in strategic control processes for government outsourcing, in the form of PPP projects, as well as evaluating and identifying the innate risks associated with related projects. Secondly, the research provided an overview of the private and public sectors' functions in PPPs, together with the nature and manifestations of PPPs.

The third objective was to determine the successes and failures of PPPs, through reflection on local experience. This comprised a number of case studies, involving current and previous PPP projects in SA. The case studies included a number of public service
delivery sectors, specifically infrastructure development, including transport, head office accommodation development and tourism and environmental affairs. The purpose of this objective was to determine the effectiveness of PPPs in serving the public interest, through efficient, functional service delivery, combined with determining the shortcomings of the prevailing PPP model.

The penultimate goal centred on establishing an effective risk management framework, in conjunction with effective controls to manage the implementation of government outsourcing strategies, which provided a schedule of risk indicators. Finally, based on the risks identified in this study, in association with the lessons learnt from the case studies, the investigation aspired towards constructing a systematic risk management and strategic control model for facilitating the effective and viable reduction of risks.

1.4 Research Design and Methodology

The study adopted a conceptual market-based governance approach in the New Public Management paradigm (NPM) for studying government outsourcing. The conceptual knowledge applied in this paradigm is prescriptive in nature (Cloete 2000:14). This approach entails the use of markets as a means to public ends (Donahue & Nye 2002:2). The study considered real-world entities, which could be measured and tested. Hence, the research design applied in this investigation combined both quantitative and qualitative analysis. Because the study’s principal objective involved the identification of the major risks involved in PPPs, along with the design of a risk management framework, it combined both inductive and predictive reasoning.

Prescriptive reasoning was applied as experimental testing and cause-and-effect tracks were required to resolve the research problem in this study. The research was grounded in a realist scientific paradigm, which focused on induction, objectivity and the commensurability of ideas (Guba & Lincoln 1994; Hunt 1991; Parkhe 1993). Inductive research suggests a more exploratory approach to theory building, whereas deductive research denotes a more confirmatory approach, where theory is tested. Hence, the
theory in this study was not based on prior knowledge, but was developed throughout the research (Perry 1998:785-791).

The study was a cross-disciplinary study that integrated issues to explain one subject in terms of another. Literature assessment and empirical research methods were employed. Observations, through the application of a series of case studies, were also used. In addition, the unit of analysis was PPP projects, encompassing the public sector, private sector, government, and civil society. Furthermore, longitudinal and retrospective observations were utilised.

The case studies employed consisted of a number of PPP ventures, from various service delivery sectors, as previously stated. Conclusions were drawn from the effective operation of organisations involved in PPP projects. Observations in the cases were done systematically, until a redundant body of knowledge was compiled. Thus, observations were made until the knowledge became saturated. A number of case studies were used to permit cross-case analysis for richer theory construction (Perry 1998:792). Furthermore, ‘maximum variation’ sampling was most applicable for the purpose of this study. This sampling allowed information-rich cases for analytical and general purposes (Perry 1998:793). Additionally, the information from the case studies was based on theoretical and linear replication.

Perry (1998:786) defines case studies as “a research methodology based on interviews that is used in a post-graduate thesis involving a body of knowledge”. Because multiple case studies were employed in the research, multiple respondents were utilised for the interviews. The study required approximately 35 to 50 interviews, with a minimum of five different interviews at different hierarchical levels of several organisations. Purposive, structured interviews made use of semi-structured questions and probe-questions in order to gather information from the respondents. In addition, interview protocols contained Likert-scale questions, summarising the general opinions of candidates (Yin 1993:69).

The research applied both quantitative and qualitative methods for data-collection. The primary data used in this study included quantitative data, whereas, a preliminary data
set incorporated qualitative data. Primary data encompassed data obtained from interviews and observations. The secondary data integrated archival information and financial and performance reports, relevant to the case studies.

Primary data was collected from a number of specialised consultants, agencies and publications on risk management and PPPs in SA. In order to ensure reliability and validity throughout the study, a number of control methods were employed, including the use of common indicators to allow trend analysis; an evidence approach to the application of data and findings; appropriateness was ensured by matching the methodology with the questions and hypotheses considered in the research; triangulation of multiple sources was used to build more effective findings (GWM&E 2007:3).

The research complied with the academic ethical requirements of confidentiality, integrity and honesty, and the non-plagiarism rules of the University of Johannesburg. Some respondents may have felt uncomfortable in commenting. To alleviate this fear, all questionnaires and interviews ensured strict confidentiality and the anonymity of respondents. There are a number of ethical approaches in the study of government. This study employed a 'value critical approach' towards the ethics and value of knowledge. Knowledge was treated according to a reasoned ethical discourse, in which knowledge is considered objectively and argued openly. Nevertheless, there were a number of ethical issues to be considered and ameliorated in this investigation.

Firstly, because the units of analysis examined in the study covered a range of professionals, in particular public officials and bureaucrats, there was a potential for conflict to arise between public rights, duties, personal morality and private interests (de Leon & Vogenbeck 2007:526). Interviews were conducted with these professionals. As a result, a number of issues came under scrutiny, especially in the public sector, for instance, corruption, issues of transparency and accountability, nepotism and favouritism in the bidding and tendering of PPP contracts, and so on.

In order to avoid the above challenge, an open and fair approach was taken to knowledge acquisition. Information was treated with objectivity, all data was disclosed and consent appropriated from interview respondents, prior to publication of the findings. Where
consent was denied, the study assimilated the findings into a general interpretation and situation, instead of a specific interpretation and situation, thus abiding by the principles of anonymity.

Secondly, where the private sector was concerned with the dissemination of financial data, which could pose a competitive disadvantage to stakeholders, confidentiality was agreed upon and dummy variables used instead.

Accordingly, value was obtained from the absorptive capacity of information; stated alternatively, capacity through learning, thus implying learning through acquisition and assimilation, rather than the transformation and exploitation of knowledge. Overall, objectivity and confidentiality was ensured throughout the study.

1.5 Structure of the Research

The research was structured systematically in an outline of eight chapters. The current chapter comprises a general introduction to the research, where specific emphasis is placed on the motivation and significance of the research. Chapter Two provides a synthesis of the theoretical and conceptual framework adhered to in this study. This chapter considers the previous and current trends in government reform and ideological paradigmatic standpoints, relevant to the purpose of this study. Chapter Three supplies an overview of the nature and manifestations of PPPs in SA; the purpose of which is to describe the role, functions and inherent challenges of PPPs.

Chapter Four describes the research design and methodology followed in this study. Additionally, Chapter Four concludes with a quantitative preliminary analysis, consisting of quantitative data and analysis techniques. Furthermore, Chapter Five contributes an introduction and background to the empirical case studies, relevant to this research. The overview of information on the case studies is conceptual in nature and describes the principal features thereof.

Chapter Six delivers an examination and assessment of the case studies observed, along with the individual interview data. Chapter Seven provides the outcomes, clarifications
and recommendations of the research. Lastly, Chapter Eight finalises the study with an outline of the primary suppositions and inferences of the research.

1.6 Original Contribution to Scientific Knowledge

The relevant literature suggests that further modification is needed in matching the comprehension related to how management activities can be inclined by performance measurement data and the amalgamation of risk management and strategic management, to enhance and facilitate management mediations (Lawrie & Cobbold 2004:620). Alternatively, the application of an empirical risk framework, developed in this study, aimed to establish effective measures for strategic management by combining risk management and strategic control, is advocated.

To demonstrate, this study constructed a strategic linkage model of the major causal relationships of risk factors and strategic objectives. Generally, this study makes a case for vision and strategy at the middle of the management process. The research also contributes to the study of Public Governance, by examining the shortcomings in the current PPP model, due to constraints in governance structures.

Issues in governance structures considered in this study include impediments to achieving market-driven competition; challenges of implementing long-term contracts at the local level; regulation; impacts of local resource constraints and barriers to transparency, skills and expertise; and effective contract management. Naturally, effective management forms an integral part of effective governance.

This study uncovered strategic management in the governance of service delivery through government outsourcing. Similarly, effective oversight of monitoring and evaluation in PPP projects was considered. Government often lacks the implementation of effective monitoring and evaluation structures; hence this study explored the constraints in monitoring and evaluation and provides relevant recommendations.

The framework and model afforded in the study aimed to deliver a peer appraisal apparatus for the continuous oversight of monitoring and evaluation of best practice in
PPPs, for both the public and private sectors. This allows the early, timeous identification of risks and pitfalls in the PPP model, and the framework will assist decision-making in PPP projects, with the internal control of these threats, towards the success of the venture.

By addressing the shortcomings of the PPP model, this study advocates recommendations for policy-makers, which will consequently assist the special taskforces involved in PPPs, including the National Treasury, with altering the framework, guidelines and principles of best practice and risk management for PPP projects. The outcomes of this research are relevant to practitioners, administrators, public servants, policy-makers, and decision-makers, in the private and public sectors and lastly, theoretically, for academic contribution to the body of knowledge. Hence, this study provides a balanced approach for theoretical, practical and conceptual application.

1.7 Conclusion

The goal of this chapter was to provide a general background and introduction to the research. This study focuses on risk management in PPPs, and since it is a mixed-method study, a number of objectives and hypotheses guided the research as outlined in this chapter. The outcomes of this study are intended to contribute to the scientific body of knowledge and to improve practice, decision-making and policy relevant to PPPs in SA.

The results of this study are proposed to advance the theoretical, practical and conceptual basis of public management and governance, with the purpose of contributing to best practice, by bridging the gap between theory and practice, through the provision of applied and empirical results. The various objectives of this research are conducted throughout eight chapters, as outlined in the research structure. The following chapter provides an overview of the conceptual and theoretical foundation of this study.
CHAPTER 2

CONCEPTUAL FRAMEWORK AND THEORETICAL SYNTHESIS

2.1 Introduction

This study examines PPPs from a market-based governance approach, combining various elements of New Public Management (NPM) and good governance. This chapter provides an overview of various approaches to public management and a synopsis of public sector alteration, in order to fortify the relevant theoretical perspectives in the development of public management as a discipline.

The chapter aims to underpin the theoretical functions of market-based governance and good governance. Additionally, it aims to clarify governance issues within relevant public sector reform approaches. This section of the thesis also explores the different conceptualisations of definitions of risk, the origins of risk and the problems in defining the relevant risks, in order to distinguish between the diverse and different risks.

2.2 Background to the Theoretical Perspective

This chapter aims to operationalise the theoretical perspective and conceptual approach to the research. In order to clarify the relevant public administration and management theory, a brief description of the relevance of theories is required. A theory is a logical pattern of a set of causal (prediction of a relationship) variables (Cloete, Wissink & De Coning 2006:27; Meehan 1988:11-14). Theories shape the process of decision-making; having cognitive implications in both knowledge and in practice. Public administration and management involves a process of systematic decision-making and is shaped by the intellectual requirements which directly influence individual and collective actions. The process of decision-making should demonstrate an interface between causality (predictions and theories) and principles (choice). Causality involves the anticipation of unobserved events. Choice involves a selection between available and substitute means.
to achieve a specific outcome. A well-grounded theory will allow anticipation (prediction), control and choice over future events; in effect, knowledge assertions of political or public accomplishment make morality foreseeable, to the extent that events are not left exclusively to nature’s selection (Meehan 1981:4-6). Public administration and management involves the process of making choices between alternative outcomes, based on a normative commitment to improve the functioning of the public good.

In practice, a theory is a set of ideas, principles or rules that govern our decision-making process and actions. A theory is a conceptual frame of reference. A result of the substantial breach between contemporary notions of government and those of preceding eras constitutes the increasing divergence between the realism of those serving in the public service and theory, which lags in the past (Bourgon 2007:15). In principle, theories exist to guide practice. In effect, the implementation of non-contemporaneous theories often results in poor service delivery.

As previously mentioned, theories stipulate an entity’s conceptual framework, which outlines certain concepts and indicators for the way in which an entity deals with situations and their environment. Concepts shape an entity’s perceptions, which translate into actions. Bourgon (2007:15) confirms this, stating that “our concepts or understanding of situations shape the way in which people think and act”. Conceptual stability is important, but a conceptual frame of reference can be potentially harmful when the conceptual frame of reference is not able to adapt to an ever-changing environment.

This study approached the research with a conceptual frame of reference in market-based governance, which, for the purpose of the study, is associated by elements of the NPM logic, which are explored further in this chapter. PPPs are primarily a product of NPM reform; PPPs are viewed as an instrument of NPM (Skietrys; Raipa & Bartkus 2008:45; Rakić & Radenović 2011:207; Broadbent & Laughlin 2003:334).

Current public management reform and practice is no longer fixed in NPM. There are a number of competing approaches in the development of public administration and management, which either build upon prior theories or aim to correct the weaknesses and failures of past NPM approaches. Thus, this study considers NPM as foundational for
PPP development, as the majority of PPPs were established during an NPM-prominent era. Conversely, current public administration and management aim towards good governance approaches. The good governance focus is not considered as entirely unattached from NPM in this study. Therefore, this study also considers the current theoretical standpoints of good governance, as an extension to NPM.

This study assumes that there is no single 'one size fits all' policy or model that would contribute to effective and efficient government, and considers a fusion of governance reform theory towards a fit-for-purpose approach to the research problem, which is to improve systematic risk management in PPPs, and thus construct a theoretical frame of reference, drawing on market and governance principles; in other words, using both NPM and good governance theory, in order to achieve market-based governance. The above theoretical perspective is assessed in this study.

As there is nothing as concrete as a worthy theory, there is also nothing as hazardous as a bygone theory (Bourgon 2007:15). A well-grounded theory must be flexible to the demands of an interactive dynamic environment. Therefore, it is necessary to contextualise current public management practice.

Public administration and management theory have experienced a significant transformation in recent decades. Current modalities of government have been under constant pressure for transformation, due to the dynamic nature of both national and global structures. The subsequent section will explore the theoretical development of public administration and management. In order to achieve this, the section will review the previous and current characteristics of administration and management by governments.

2.3 The Development of Public Administration and Management Practice

A debate, arising in the 1970s to 1980s, introduced the idea of acknowledging managerial concepts in the study of Public Administration. This debate introduced the concept of Public Management and Administration into the discipline in SA, which represented a
paradigm shift for extending beyond an administrative focus of processes and procedures in the study of government, to the more meaningful and comprehensive approach of Public Management (Thornhill 2008:12-14). Lynn (2012:20) proposes that “because the concept of public management as the responsible exercise of discretion is at least implied by the intellectual development of public administration as a field, public administration’s literature is also a literature of public management”. The administration implicates the “constitutional and political foundation of governance” (Lynn 2012:20). There is a lack of consensus in the literature as to whether public administration and public management are similar concepts: some authors believe they are similar and contrarily, others are of the view that they are two distinct concepts; nonetheless, Lynn (2012:19) argues that “yet many public administration scholars have held that, of the two concepts, administration is original and primary, public management is novel and subordinate or specialised”. According to classic American literature, public management can be viewed as a “structure of governance”, whereas contemporary literature views public management as a craft, referring to it as a “skilled practice by individuals performing managerial roles” (Lynn 2012:18). Furthermore, Lynn (2012:18) emphasises that public management is also “an institution that observes rules of practice”, which implicates “de facto restraints on or guides to behaviour, that ensure their legitimacy within a constitutional, or de jure, regime”. Both the concepts of administration and management are considered as interdependent in this investigation of government, for the purposes of this study, as administration and management are integral activities and are functions of the public sector.

The focus of administration and management is on best practice in the discipline and, therefore, goes beyond an overconcentration of semantics, as administration and management imply different but linked activities and functions; however, they are core functions of governmental functionality and public governance.

Therefore, this study applies the concepts of public administration, public management and public governance interchangeably. 1991 marked the introduction of NPM elements in SA (Cloete 2008:33). A paradigm shift emerged during the mid-2000s, as scholars started to deliberate the impact of NPM, where the discipline moved away from traditional
and classic models to a focus on the efficiency of government and started to explore new approaches such as governance, networks and alternative service delivery (ASD) mechanisms towards more holistic research and practice (Cloete 2008:35-36). The most recent paradigm shift is a move from NPM to governance.

NPM can be regarded as an umbrella term encompassing multiple reform strategies (Maravic and Reichard 2003:85). The discipline of public administration and management draws on key characteristics of past, present and, even, emerging models of the interaction between government and society (Pollitt 2003; Kettl 2000; Christensen & Laegreid 2007; Lane 2005). These include, *inter alia*, the Classic model, the neo-bureaucratic model, the Institutional model, the Chicago School of Economics, Managerialism, the Network theory, the Public Choice model and the Principal Agency Framework (PAF) (Denhardt 2003; Lane 2005:9-10). The most contemporary of the reformed editions include NPM and governance theory. The NPM perspective was one of the most significant re-conceptualisations of traditional administration. The most recent shift in the paradigm is that of good governance, which is discussed further on in this chapter. The changing in paradigms is taking effect in asymmetrical ways and tempos in different countries.

NPM did not supplant mature frameworks, but added a different method to public sector functioning, with its new focus on different degrees of regulated provision of public services through contractual (Lane 2000:3) implementation arrangements with autonomous external agencies, instead of the direct internal production of such services by government itself. This historical development is summarised briefly below.

NPM combines a number of the abovementioned traditional approaches to public management and governance. NPM can be viewed as one of the most prominent and significant reform efforts of the last quarter century (Drechsler 2005:1). The instructions or teachings of NPM were highly influential and had an impact world-wide (Chipkin & Liepietz 2012:5).

Hood and Peters (2004:267-268) distinguish “*three eras of NPM*”. Initial literature on NPM from the early 1980s focused on the “*philosophical critique of the new generation of public*
sector managerialism”, the middle age of NPM greatly focused on paradoxes in public sector management reform, whereas the third age of NPM was self-cognisance (Hood & Peters 2004:267-268).

NPM comprises a common set of managerial values, which focus on “entrepreneurial spirit, urge flexibility and downplay rigid procedures” (Breul 2004:645). Originating in Anglo-America in the 1980s, and mobilised by most international finance institutions, particularly the World Bank and the International Monetary Fund, NPM translates private sector business, and market and management standards, with the neo-liberal stance of the state and market (Drechsler 2005:1, see also Lodge & Gill 2011:142 and Siltala 2013:469).

Based on Pollitt’s (1990) work on managerialism, Aucoin (2012: 180) summarises the main elements of NPM as:

“The decentralisation of management power (to let managers manage), the separation of policy and management accountabilities (to better clarify and specify what ministers wanted from managers by way of outputs), and
the institution of measures to hold managers to account for performance in producing the required outputs (to make managers manage)” (Aucoin 2012:180).

For instance, the Classic public administration model did not anticipate changes in the socio-political and economic spheres of society. These changes, instrumental to the rise of NPM, include:

- the maturing of the public sector through specialisation and the introduction of managerialism;
- the information revolution and transfer of technology, that gives rise to competitive innovation in a knowledge-based economy;
- globalisation and the blurring of the home countries’ borders, creating interdependencies between countries, through, for instance, trade; and
- civil society growth, through the rise of different interest groups, demanding more accountability from government (Lane 2005:12).
Additionally, the increase in the capacity of the private sector in more developed countries, which provided alternative service delivery potential and mechanisms other than those of the state to citizens. The state could start to use these private sector agencies as agents to provide services on its behalf, though a variety of contractual arrangements.

The classic model failed to adapt to the abovementioned changes and this failure to address the issues of transformation and alteration, created the need within society for an approach that would comply to a widening public demand. Christensen and Laegreid (2007:5) confirm this, stating that NPM may be seen as:

“…the optimum solution to widespread technical problems, that is, it is adopted to solve problems created by a lack of instrumental performance or by economic competition and market pressure. In this instance NPM reforms are adopted not because of their ideological hegemony but because of their technical efficiency”.

Consequently, the adoption of NPM was a natural process, taking into account the increasing availability of private sector capacity and innovation in improving efficiency in public services delivery, and the possible exercise of choices by citizens among potentially competing service providers, where such choices existed. This approach assumed a free and competitive capitalist market context that could be seen as explicitly ideological in nature.

Some authors view NPM as a worldview that is ideological in nature, and while others view NPM as the standpoint part of a pluralistic approach of a number of reform perspectives (Drechsler 2005:1). For the purpose of this study, NPM is considered as the latter, as this investigation focuses on reviewing current government performance, based in the good governance paradigm, and, thus, good governance is considered an extension of NPM, as part of a heterogeneous process towards public administration reform and development.

Accountability in the Classic public administration model is aligned to a formal process of compliance, which is limiting because it is seen as ultimately concerned with control. On the contrary, accountability and performance in NPM both consist of an ‘evaluation
component’ that requires an explanation of conduct by entities. To supply an account of conduct in NPM becomes intertwined with performance monitoring, because accountability is based on the key performance indicators and targets of an entity.

NPM is concerned with the surveillance (increased ‘oversight’) and regulation of the public sector through mechanisms, for example audit and inspection (Hood, Scott, James, Jones & Travers 1999:191-193). Consequently, NPM oversight mechanisms are more oriented towards the throughput and achievement of outcomes, as compared to the rigid regulation over the input of processes in the Classic model.

By comparison, the Public Choice model contends that some individuals impose their preferences on others. These individuals form part of the collective community and consist of citizens, politicians, interest groups and bureaucrats (Lemieux 2004:23– 29). Conversely, Public Choice fails to include other actors, for instance private entities, the market and international entities, in the analyses of decision-making.

The inclusion of all actors into policy-making is vital, because they influence the immediate environment in which decision-making takes place. NPM considers the normative aspects in the analysis of public management; however, NPM aims to address the shortcomings of the Public Choice model by including all actors in the analysis of decision-making and public management.

Whereas, the Chicago School of Economics primarily focuses on market efficiency, for instance cut-backs by the public sector, in order to restore markets (Lane 2005:9). NPM does factor in market efficiency; nevertheless, NPM does not build its foundations solely on market efficiency, it encourages efficiency through competition in both government and the market.

The Chicago School influenced the start of public sector reform through deregulation (Lane 2005:36). Lane (2005:37) explains that this was constituted through a “shift from contested economic theory to the voting procedure transmitted through democracy in parliament and elections”. However, the basic premise of this school of thought relies on
the macro-management of a country in a political economy, and does not place much emphasis on the micro-management of a country and its public administration.

However, the scenario outlined in the Chicago School is that of a perfect market with perfect competition, and the efficient sharing of scarce resources. This is not the actual situation in practice; the market operates under uncertainty. The Chicago School failed to take into account the interrelationships between actors, political will, the role of the state, societal motivation and human error; thus, the Chicago School is not flexible and is unresponsive to any risks inherent in the system.

The Principle Agency Framework (PAF) underlines the role that incentives play in social exchanges between players in the principal-agent relationship (Lane 2005:33; Laffont 2003). Stated differently, the PAF does not take into account the incentive for interaction between the government and the contracting organisation.

The logic of the PAF is that of contracting in government, then the nature and essence of information and the role of incentives (Lane 2005:39; Laffont 2003).

The PAF argues that the information pertaining to each actor serves as a prediction of behaviour (Lane 2005:42). However, the PAF fails to take into consideration the pitfalls inherent in latent knowledge. The agent is risk-averse and the principle is risk-neutral (Lane 2005:42).

This is not entirely the actual case in practice; risks are evident in any environment, and risks can overlap from the agent to the principle. The PAF is concerned with the interconnected nature between the principle and the agent and models the interaction between the agents on the one hand and the principle on the other (Lane 2005:39). This can be limiting, as it restricts the roles of each entity, with the effect of overlapping functions not being taken into account.

The organisational structure of the public sector is characterised by a variety of structures, including bureaucracies, networks, traditional public enterprises and public private partnerships. Considering the complexity of the organisational structure, a more general
approach to public management and administration is required (Lane 2005:42). NPM is a heterogeneous approach to public management and administration, offering a more inclusive conceptualisation of the phenomena in public governance.

Network theory is concerned with the complex interaction between the public, private and the voluntary sectors, with the voluntary sector constituting civil society (Cloete 2000:15). This is in sharp contrast to other theories of public management, which are concerned with the differentiation of the responsibilities of each sector (Cloete 2000:15). Network theory functions on the principles of conjunction. Conjunction is a process where events happen simultaneously. Network theory accentuates the benefits of interagency conjunction. Conjunction encourages the exchange of professionalism and functional specialisation between ‘like-minded’ agencies. Furthermore, conjunction has little hierarchy, is more cost-effective, with no need to restructure government when introducing interactions (Frederickson 2003:223-224).

However, Frederickson (2003:224) criticises the concept of conjunction, stating that “politics in any given jurisdiction may produce powerful forces opposing cooperation”. Hence, a limitation of network theory is that it does not make allowances for political-interest and the willingness to cooperation. Conflicts may be inevitable within the network society and the network approach does not operationalise these contingencies. NPM attempts to address the abovementioned shortcomings. NPM defines the interests of each actor within the network society, thereby operationalising the behaviour within these networks.

Furthermore, network theory focuses on the public-private interactions within a network of complex relationship (Cloete 2000:15). NPM places great emphasis on network theory. NPM encourages contracting out between the public and the private sector, and accentuates collaboration and cooperation between all sectors in society. Moreover, network theory argues that networks are more or less stable patterns between actors, and that network rules offer a frame of action (Klijn 2003:32).

This is not the circumstance in practice; actors can break away from rules. Klijn (2003:32) confirms that “while network rules lend a certain stability and predictability to the strategic
action of actors, they do not determine the action”. These interactions are not easy, due to the large audience; a number of complexities are introduced, and consensus must be reached, by synthesising the large number of actors’ strategic goals, ensuring that conflicts do not arise and that there is no exclusion of actors (Klijn 2003:32). NPM recognise these networks; however, it aims to formalise agreements and partnerships, in order for these network rules to be binding and legitimate.

While the Classic model is based on a patrimonial administration, where the state is conceived as the sovereign’s property, with a focus on centralisation, clear hierarchical lines, rigid routines, and step by step control of administrative procedure, the adoption of state bureaucracy is essentially to reduce uncertainty in the decision-making process and to increase the predictability and control of behaviour.

The implementation of the bureaucratic school was increasingly recognised in the 18th and 19th century, where there was an impetus on the organisation of an organ as large as the state (Bresser-Pereira 2004:148-149). In the current network society this school of thought is irrational; the network society seeks a more efficient and flexible approach to public management, and uncertainty in human behaviour cannot be illuminated or considered within the organisation of the state.

Inherently, managing complexity in networks has introduced a number of uncertain and unpredictable phenomena, which may not always be defined in terms of probability and positivist methodologies. Neo-bureaucratic practices demand conformity to rules and regulations, thereby raising concerns with regard to efficiency and productivity. Strict adherence to conformity creates red-tape or bureaucracy, where the individual focuses on standard operating procedures (SOPs), routine activities and strict discipline, which does not necessarily translate into the transformation towards the goals of the organisation as a whole. In addition, the rigidity would result in a lack of integration of group activities into systemic action.

Consequently, bureaucratic systems contribute to the displacement of the goals of service delivery. Efficiency in a system of bureaucracy is defined in terms of productivity, equating
internal efficiency and cost. There is no focus on outputs and quality, but rather on singular objectives and the internal control of the organisation.

Dependence on the entrenched tasks of formalisation may then result in the individual and the organisation not being responsive to the needs of its clientele, and the public as an entirety (Shafritz, Ott & Jang 2005:104-107; Lane 2000:60-62). Furthermore, accountability over the bureaucracy requires the setting up of rules (legislation), covering the costs of operations (financing), monitoring policy (investigations) and finding out what is going on (questioning), (Lane 2005:43). However, this is costly and time consuming. Lane (2005:43) contends that “accountability can only be achieved when there is a strong and active legislative assembly and strong political leadership”.

However, this is seldom the case in practice; conflicts due to political interest can disrupt the relationship between the legislature and political leaders. Leadership in a system of bureaucracy is held by a number of officials who have autonomy over the organisation’s resources, policies and functions. This dominant coalition is responsible for coercion and sanctions. However, this is a negative inducement towards the cohesion of an organisation. The effect is that there is a lack of representation and transparency in the decision-making process (Sharitz et al. 2005; Lynn 1996).

The motives of the leadership in a neo-bureaucratic administration can be questioned, in terms of egoism and self-interest. The vocational and political benefits of autonomy within the bureaucratic system have proved to be a strong motivation for leadership (Lane 2000:73). The three main bureaucrats are political appointees, senior career officials and rank and file employees (Lane 2005:43). The neo-bureaucracy model can result in political patronage, for example, where high-level policy-making executives are appointed based on political considerations. NPM offers an approach of professionalism, where officials are elected on merit or when the outcomes of a project show high levels of competence and efficiency.

The rational decision theory separates politics from public administration and management (Lane 2005:101); however, politics cannot be separated from public administration and management. Moreover, rationality does not take into account
uncertainty. Criticism against rational theory argues that the over-reliance on technical means and mathematical models is superficial in decision-making, as it does not take into consideration the unpredictability of human behaviour and the normative assumptions inherent in decision-making (Marnet 2005:194).

Uncertainty can be isolated through measurement, however, there is always the possibility of alternative contingencies, and the rational decision-making model focuses on the measurement of events and does not explain behaviour. Additionally, a slight prominence is retained on the management of risks and uncertainty. Public administration and management does not occur in isolation of its external environment, and public managers should be readily equipped to factor in the management of complex risks and influences stemming from the external environment.

Rational decision-making is based on heuristic (rule of thumb) cognitive principles. Heuristics provide good outcomes through simplified strategies; however, it can lead to systematic biases in judgment, because correcting bias is an imperfect process.

A typical example of the faults due to cognitive bias is prevalent in groupthink. This occurs through the social pressures on an individual to be the sole dissenting voice in a group, with the effect that self-censorship limits opportunities of innovation, in order to maintain the status quo. NPM recognises the importance of heuristic rational mechanisms for solving complex tasks, however, it emphasises that motivation can affect reasoning, through biased choices of cognitive processes. In brief, contrary to the rational decision-making model, NPM does not rely on assessments and a decision based on how similar a given instance is to an earlier experience (Marnet 2005:196).

Lynn (1996:123) contends that “individual behaviour cannot be viewed solely or even primarily as a matter of calculation in the light of a reduced set of factors”. The neo-bureaucratic model and the rational-decision-making model share similarities in that behaviour is defined and controlled by a measured set of rules. In order to maintain the status quo within these two paradigms, public managers resort towards satisfaction rather than optimisation (Marnet 2005:197). Lane (2000:32) confirms this, stating that the logic of rational decision-making models implies that “a result is satisfying when certain ends
have been considered and standard operating procedures have been employed to accomplish these objectives”. This is also relevant in the neo-bureaucratic logic of Weber’s employment of the means to accomplish the ends (Lane 2000:32). The means-end rationale is especially evident in cost-benefit decision-making, as applied in Bayesian notions of probability (Marnet 2005:197).

NPM applies the mechanisms of such regulatory practices; however, NPM extends beyond a simplified logic to address the demands of a complex environment, in order for the organisation to advance by optimising its management strategies for innovation.

Max Weber (1922) asserts that the most appropriate public administration model is characterised by the following traits: “appointed civil servants operated under the principles of merit selection (impersonality), hierarchy, the division of labour, exclusive employment, career advancement, the written form, and legality” (Drechsler 2005:6). The work of Max Weber focuses on the role of the bureaucracy and predictability within the public service, with this author suppling the groundwork and foundation of early theories in public administration.

Conversely, institutionalism functions on a different premise. Lynn (1996:124) argues that “institutional theories attend to the relationships between organisations and their environments and, in particular, to an organisation’s sources of legitimacy and external support”. Therefore, management of these relationships is an integral part of institutional theories.

However, legitimacy is based on the economic sense of transactional power, or the ability or influence to enhance certain commodities (Collin, Tageson, Andersson, Cato & Hansson 2009:152). This raises concerns over the trustworthiness created between the individual within the institution and the institution itself. Collin et al. (2009:152) explain that “institutions not only direct human interaction in creating legitimacy, but are influential on the very shaping of human preferences”. As a result, individuals’ interests are marginalised and they lose trust in the institution, with the effect that they become demotivated and the actualisation of goals does not occur. Similarly, in the case of bureaucratic schemes, the individual engages in his/her tasks in a ‘business as usual'
manner. Stated alternatively, they do only the compliant and completely routine tasks, and do not achieve higher results and outputs (Collin et al. 2009:152).

Furthermore, tasks are often streamlined within the institution, resulting in fatigue and the limited development of the individual (Collin et al. 2009:165). In addition, institutions may come under pressure to change and often are resistant to this, as change might imply a shift in or adjustment of organisational strategy, structure, systems or culture. Because institutions are maintained by ‘traditionalising forces’ restructuring becomes an issue (Lynn 1996:124). NPM introduces new and profound ways of integrating change into an institution, by providing a more holistic approach and introducing a wide range of synergies of transformation by means of collaboration.

### 2.4 New Public Management

Although NPM refers to public sector reforms that have been recently conducted in advanced countries, NPM strongly rests upon a specific governance model that is entirely different from traditional public administration (Lane 2005:6; Kettl 2000). Nonetheless, the process of reform does not necessarily imply ‘reinventing the wheel’. It signifies a change in, and improvement of, established systems and practice.

NPM considers governments from the standpoint of markets and productivity, focusing on management approaches to achieve efficiency increases (Bourgon 2007:13). Government activity is no longer immune to market pressures, and in order for government to reach goals in a sustainable manner, it has to align decision-making to market demands. Therefore, NPM focuses on establishing a relationship between the government and markets.

The key concepts of NPM were launched by practical people with experience of business administration, but NPM has its origins in academic reflection pertaining to the conduct of government agencies and public enterprises (Hennessey 2001). The NPM theory that currently shapes government behaviour has a more hands-on approach, with greater potential to bridge the gap between theory and practice. Dent and Barry (2004:7-8) assert
that NPM is “borrowed from private sector managerial techniques, rooted in a long tradition founded on Scientific Management and Human Relations approaches”. Hence, NPM aims to deliver on beta- and alpha-risk (human aspects) within the public agenda, whereas the Classic approach focused more on the technical (beta) side of the public agenda. This study applies the concepts of Frei and Ruloff (1988:3) and refers to technical, financial and business risk as beta-risk, and non-business risk as alpha-risk.

NPM is often referred to as management reform, which aims to deliver improved public services and provides empowerment of those it employs and serves (Dent & Barry 2004:6). NPM promotes personal growth through self-actualisation and leadership that empowers individuals, hence there are stronger incentives for performance and response to the needs of citizens. Dent and Barry (2004:7) list NPMs various manifestations as including:

- “Greater decentralisation of public sector organisations into distinctly managed units;
- enhanced competition; use of private sector managerial techniques;
- emphasis on ‘hands-on management’;
- adoption of measurable standards of performance; and
- use of ‘pre-set output measures’ (Dent & Barry 2004:7).

The above manifestations address the shortcomings and failures of traditional public management models.

Incorporating competition into public management stimulates leadership, accountability and a willingness in officials to respond to the needs of society. Hence, NPM can be compared to professionalism (Fournier 1999). Within this context, public management officials become more goal-orientated, and a congruence of strategy and implementation takes place through the inclusion of different professions in the institutional circumstance. The emphasis, then, is to transform beyond bureaucratic practice towards building alliances for mechanisms to allocate resources through cooperative arrangements between and among professions.

Maravic and Reichard (2003:110) stress that an important element of the managerialism approach is the downsizing of the bureaucracy, or a move in the direction of smaller and
decentralised government. NPM also aims to reduce governmental red-tape for improved efficiency and effectiveness (Maravic & Reichard 2003:105). The above approach focuses on the strategies provided in managerialism.

Bowornwathana (2000:405) defines managerialism as “introducing private sector management methods to the public sector”. Managerialism focuses on taking responsibility for the performance of a system and strives towards setting measurable performance targets. In addition, NPM aims for a ‘best-value’ initiative (Dent & Barry 2004:3). Thus, NPM implementation is purposed with being cost-effective, accountable and market-friendly.

Public management reform implies that the responsibilities of the actors in public management are transformed. The conduct of government agencies and public enterprises in NPM is characterised by the following:

- **“Service to customers: public organisations have only one rationale, namely the efficient provision of services to citizens. All the effort in setting up and funding public organisations must be directed towards the accomplishment of this concrete objective. Productivity and effectiveness implies that the value of service delivery is measured internally and externally. Hence, customer service implicates that value derived from the appreciation of citizens within public programmes.”**

- **Leadership or entrepreneurship: public employees who are responsible for service provision need to be empowered, meaning provided with discretion to find the best means of achieving objectives. The complexity of service provision requires innovation and flexibility. Public employees cannot be restricted by red tape.**

- **Contracting and outsourcing: the leaders of public organisations must have great latitude with their employees or buy goods and services from outsiders. Outsourcing through privatisation or public-private partnerships provides government with more options available to achieve service delivery. Running a public organisation then is about negotiating, writing and monitoring contracts with insiders and outsiders.**

- **By downsizing or economy, governments increase efficiency by cutting back on oversized programmes.**

- **Governance: a public organisation lives in a complex setting with other public and private organisations placed in a vibrant civil society. To accomplish goals, public organisations must recognise reciprocity and engage in networks of governance with other public and private organisations. NPM is concerned with an emphasis on outputs and outcomes with an emphasis on**
the benefits that the implementation of public policy results in for society. The traditional public administration emphasises inputs and the rule of law, whereas NPM focus more on value.

- Re-engineering government: public organisations cannot be based on the traditional hierarchical and formal model of organisation, recommended in public administration. Front-line managers must be empowered. Leaner or flatter organisations imply that the giant hierarchy is removed and that lower-level managers are more empowered. This reduces centralisation of power and can limit corruption. Policy advice should be separated from policy execution. In addition, a process of decentralising or deregulation also takes place in implementation; government is often reformed by devolving tasks from central government to local government” (Lane 2005:5-6).

The process of NPM reform is not standardised or the same in all countries. The literature cites differences in implementation, together with the defining of NPM not being uniform (Ehrler 2012:328). Ehrler (2012:337) emphasises that “different types or patterns of NPM create opportunities and restrictions for the policy-making process”. The development and level of integration of NPM is significantly determined by the country’s internal, external and historical considerations.

Initially, the implementation of NPM would be contingent on environmental determinism (Christensen & Laegreid 2007:4). For example, the Organisation for Economic Cooperation and Development (OECD) countries are compelled to adopt structural changes due to market pressures and market ideology. Nevertheless, some countries implement the full range of reforms, while others may only concentrate on certain aspects, which generally address or involve inherent administrative issues. Christensen and Laegreid (2007:8) differentiate between the ‘hard’ or ‘soft’ implementation of NPM; contending that ‘hard’ NPM focuses on “addressing accounting, auditing, and performance measurement”, whereas ‘soft’ NPM focuses on “human factors, user-orientation, quality improvement and individual development”.

Fundamentally, NPM was drawn and developed from several conceptual sources within government practice. Firstly, the Public Choice theory, which focuses on maximising efficiency and self-interest in the public sector and political economy. Secondly, the Chicago School of Economics, which has a primary focus on market efficiency. In addition, the agency approach, which promulgates that interaction between players in the public sectors tends to be a game, also influenced the establishment of NPM.
NPM attempts to improve on the shortcomings of the Classic public administration model, which emphasises control and organisational design, the neo-bureaucratic model, originating from the rational decision-making process, as well as the Institutional model, which is intensely fixed in the behavioural sciences (Denhardt 1981). Furthermore, NPM borrowed from managerialism, originating from business administration and management. Finally, the network society approach was one of the most significant, and greatest influences on NPM. This approach aims to establish alternative methods and organise teams in order to adapt to societal and technological change (Lane 2005:9-10).

Aucoin (2012:178) stresses that NPM “challenged the management performance of the public service”. Occurrences of enhanced efficiency and financial success have been noted from studies on NPM (Luke; Kearins & Verreyne 2011:326).

Luke et al. (2011:350) maintain that “NPM has brought changes, costs, and benefits”. NPM promotes principles of innovation, risk-taking and proactivity, which is in contrast with more traditional approaches that are more bureaucratic, risk-averse and conservative in nature (Luke et al. 2011:329).

Current public administrations and management are moving towards governance approaches to reform, causing some countries to witness varying degrees and patterns of amendment. Currently there is a debate about whether NPM has been replaced, extended or has been passed. Lodge and Gill (2011:143) argue that “if it is difficult to define what NPM is, then the case of post-NPM is even more problematic”. However, Nemec and De Vries (2012:3) reveal that “recent literature on this subject indicates that really many NPM ‘generated’ tools and instruments are ‘alive’ all over the world”. In some instances the principles of NPM may have been translated into different mechanisms; however, the ideas of NPM are still functional (Nemec & De Vries 2012:1).

There are various views pertaining to the current status of NPM. Firstly, some authors believe that current reforms have been “supplemented by additional reform paths resulting in more or less complex mixtures of public management reforms”; others believe that NPM has not been replaced by absolutely diverse directions and finally, some believe
that NPM reform has been replaced by some dissimilar reform (Nemec & De Vries 2012:6).

Today a number of generalisations and labels garland the study of public administration. Labels, including new state, good governance, network governance, developmental state, neo-Weberian state and so forth, are used to describe what a model state should look like (Nemec & De Vries 2012:3). Newman (2012:370) avers that the “present is comprised of multiple governance regimes and ideologies overlaid on each other, producing a field of tension”.

In some countries a phenomena labelled ‘modernisers’ occurs where the “elements of procedural governance, marketisation, NPM and network governance seem to be mixed without strong dominance of any of them”, whereas some countries might be focusing on either network governance or NPM (Berkel et al. 2012:269).

Most post-NPM reforms, according to Lodge and Gill (2011), recover some neo-Weberian elements with a mix of NPM features, and the focus of post-NPM is about surmounting the weaknesses of the NPM model, including “specialisation, fragmentation and marketisation” (Lodge & Gill 2011:143). In 2004, the term ‘neo-Weberian State’ (NWS) was suggested by the authors Pollitt and Bouckaert, which combines ‘Weberian’ elements, such as the reaffirmation of the role of the state, democracy, public service and administrative law, with the ‘neo’ elements, suggesting professionalisation of the public service, supplementation of representative democracy, and resource management (Drechsler 2005:8, see also Dunn & Miller 2007).

However, Lynn (2008:1) opposes this idea, explaining the differences between groups of countries labelled modernisers, marketisers and maintainers, as dubbed by Pollitt and Bouckaert in 2004. Lynn (2008:1) states: “but as I understand them, there are really only two groups of great interest in the context of reform: the core Anglo-American NPM marketisers and the continental European modernisers. The reform model of this group is what Pollitt and Bouckaert classify the neo-Weberian State”. According to Lynn (2008:3-4), the neo-Weberian concept is not a new concept and was used as early as the
1970s, including theories such as institutionalism, and the term is loaded with generalisations, which the author suggests be explored in the dialogue (Lynn 2008:1-9).

Whereas, Aucoin (2012:178) asserts that NPM had led to a phenomenon called “New Political Governance” in some Westminster regimes, for example Australia, Britain, Canada and New Zealand (Aucoin 2012:177- 178), the NPM principle of ministerial direction and control instead of centralised control over resources has amounted to a New Political Governance, which is a form of politicisation (Aucoin 2012:178). Nemec & De Vries (2012:1) point to a change towards “Public Value pragmatism and the new paradigm on Good Governance emphasising the increased need and recognition that the quality of the public sector should be improved instead of a sole focus on efficiency”.

Other authors point to the emergence of a paradigm called New Public Governance (NPG). Klijn and Koppenjan (2012:587) state that “the emergence of the New Public Governance opens up new challenges, however, and instead of governance networks and new network governance replacing the traditional public administration model and New Public Management, hybrid practices will emerge”.

NPG can be viewed as an opposite movement to NPM (Bao; Wang; Larsen & Morgan 2012:446). Bao et al. (2012:446) claim that “this movement emphasises three characteristics of public governance that are important for building trust and legitimacy and which are ignored and/or undervalued by NPM”. Firstly, “NPG is value-centred. It argues that the goal of government is to promote the larger common good” (Bao et al. 2012:446). Secondly, NPG focuses on “the importance of creating government processes that facilitate the generation of implementable agreements among wide-ranging stakeholders who may disagree on what course of action will produce maximum public value” (Bao et al. 2012:446).

Bao et al. (2012:446) contend that NPG’s predominant perspective is that “government performance needs to be viewed from the perspective of organic wholeness of a political system in which the public, private, and non-profit sectors work together to create uniqueness of a given political community”. NPG has been pushed by a number of political and technological pressures (Boston 2012:201), including campaigning and
using the media for political agendas. Network governance theory is presented under the NPG designation (Klijn & Koppenjan 2012:599). Network governance implies “horizontal interactions by which various public and private actors at various levels of government coordinate their interdependencies in order to realise public policies and deliver public services” (Klijn & Koppenjan 2012:594). Thus, the aim of network governance is the management of relationships between the public and private sectors and civil society.

NPG practice will result in hybrid institutional collections that combine NPM-like measures (Klijn and Koppenjan 2012:600).

The ability to reform according to the above approaches, for instance NPG, Public Value and so forth, imply a mature and developed society that has the ability to accomplish the required levels of transformation and performance. This might be problematic in a developing country, like SA, where there is a lack of mature institutions and a fragmented capacity across government. Throughout the post-apartheid era in the 1990s, SA followed the international trend in implementing elements of NPM reform (Cameron 2009:936). Thereafter, SA adopted assorted NPM, network and governance measures (Cloete & de Coning 2011:v). This study, thus, analysed risk management in PPPs in SA from the standpoint of NPM and governance mechanisms, in order to establish the current level of good governance in particular SA cases. Governance as a theoretical standpoint is summarised in the ensuing section.

2.5 Governance

The need for a paradigm shift from other models of public management to NPM was due to the benefits and pressures of globalisation. Governance theory emphasised the practical appearance of state adaptation to its external environment in the twenty-first century, and its capability to address key social issues (Pierre 2000). Globally, nation states were unable to address key social issues within traditional public management paradigms, because of the increasing complexity of policy issues and solutions, accompanied by dramatic increases in expectations as a result of successful
development outcomes and huge accompanying cost increases in service delivery and facilities of the desired quality for increasing citizenship.

The state’s resources became increasingly insufficient to deal with this scenario and many governments across the world became bankrupt in the seventies and eighties, until Thatcher and Reagan, out of desperation and ideological persuasion, started to reconceptualise government paradigms and governmental responsibilities according to public choice, in order to access the private sector and other community resources to supplement the meagre state resources government had, and to try to improve public services delivery outputs and outcomes. This brought about a sharing of responsibility for public services delivery between government, business and civil society and resulted in the even more refined advanced governance theory and network theory of governance, which are currently rapidly supplanting NPM as the dominant approach to the role of the public sector in society in the 21st century. This is the basic explanation of the initial development of NPM, and its mutation into the prevailing governance and network paradigms, which are more refined and comprehensive than the original version of NPM.

Today, there is a far greater need for the state to enhance capacity as a necessary condition to apply the benefits of globalisation and to play a critical role in alleviating poverty, protecting the environment, promoting human equity, gender and security rights and ensuring the improving of governance (Rondinelli & Cheema 2003:8).

The twentieth century has witnessed the benefits of globalisation, which include:

- raised productivity and employment;
- revolutionised communications;
- the fostering of competition;
- a boost in world-wide economic development and interdependencies through trade and foreign direct investment flows;
- scientific discoveries to facilitate healthier lives;
- improved instruction by allowing fast cross-country assessments;
- uncovered human rights violations in distant places of the world;
- advanced global collaboration;
• the interchange of technology;
• encouraged international migration and remittances flows; and
• reinforcement of global awareness through initiatives like the Millennium Development Goals (Gurria 2007).

Regardless of its positive force, globalisation has introduced a complexity of challenges within the international arena. Not all countries are reaping the benefits of globalisation, due to structural inefficiencies of the home nations, with the effect that marginalised sub-economies and underdeveloped states remain impoverished. Globalisation has contributed to the creation of wealth and, concurrently, to inequality. Challenges faced by the inequities of globalisation include, for instance:

• mounting uncertainty and insecurity in the work marketplace;
• dejected earnings;
• increasing inequality;
• thoughtless exploitation;
• destruction or depletion of irreplaceable natural resources;
• the handover of political power to large multi-national companies (MNCs) operating outside of the democratic processes; and
• the loss of cultural and other values to the dictates of the marketplace (Gurria 2007).

This does not negate globalisation as a negative phenomenon. Globalisation is an irreversible process of complex interdependencies between countries, which requires governing through the exercise of continuous adjustment. Administrations in countries that are excluded from the profits of globalisation have failed to produce policies to enhance structural competitiveness. Some administrations that approached globalisation with simplistic approaches have delayed effective solutions.

Hence, the exclusion of these countries is inherently systemic in nature. In addition, the 2006 to 2009 economic melt-down in long-term debt capital markets, which originated from the sub-prime mortgage bubble in the global north, resulted in a ripple effect and spill-over into other markets. This was because governments failed to explain
globalisation in concrete and understandable terms (Gurria 2007). Hence, as aforementioned, the emphasis for the structural adjustment of governance frameworks currently places the demand on governments to become more responsive to the process of globalisation.

Overall, the aim of public governance should establish and maintain mechanisms that would successfully address the abovementioned pressures of contemporary society. Fukuyama (2013: 4) describes governance as “the performance of agents in carrying out the wishes of principals, and not about the goals that principles set”.

Furthermore, governance increases conceptual and theoretical interrogations relating to the role of the state and the way in which it governs systems within a country (Flinders 2002). Not only does public governance aim to address key issues in contemporary society, it also aims to scrutinise the practice of government. There is no universal definition of what constitutes governance, due to its intuitive appeal (Lynn; Heinrich & Hill 2000:234), but it is used in both the public and private sectors. Consequently, according to Lynn et al. (2000:234–235), “authors identify governance as important to achieving policy or organisational objectives, it may be unclear whether the reference is to organisational structures, administrative processes, managerial judgement, systems of incentives and rules, administrative philosophies, or combinations of these elements”.

Lynn et al. (2000:235) emphasise that, in spite of the abstruseness of defining governance, governance largely denotes “the means for achieving direction, control, and coordination of wholly or partially autonomous individuals or organisations on behalf of interests to which they jointly contribute” (see also Hill & Lynn 2004:4). Public sector governance negates the mobilisation of public managers to produce advantages for stakeholders, and includes public management (Hill & Lynn 2004:4). Moreover, Hill and Lynn (2004:4) concede that “most scholars, however, recognise a need to include a broader range of concerns in a concept of public governance”. Public governance is a set of theories pertaining to how the government manages public tasks, for instance the allocation or delivery of goods and services; revenue maintenance, or the handling of transfers; and the instruction or the formation and monitoring of economic rules (Lane
Governance is not a substitute for government; it focuses more on the issues of implementation, control, accountability and consequences of governmental activities (Flinders 2002:53). Hence, governance is a framework related to how government conducts itself and its services and does not replace the function of government. It is broadly seen as the style of interaction between government and its society (World Bank 1994).

Inherently, governance as a process, emphasises the institutional design of government (Flinders 2002:53). Structures within a governance system are decentralised units. Institutional units typically include representative and impartial functions, such as judicial, legislative and executive functions. From a NPM and network perspective, governance includes other formal and informal private sector and civil society institutions and processes that link government to that society. Good and bad governance rest upon the foundations of democratic and legitimate institutional structures, and links the style of governmental interaction with society to a normative assessment of the outcomes of that interaction. The King Committee on Governance (2009:12) defines good governance as “essentially about effective leadership… Leaders need to define strategy, provide direction and establish the ethics and values that will influence and guide practices and behaviour towards sustainable performance”. Therefore, the outcomes of good governance include best management practices, relating to both the processes and consequences of the style of interaction between government and society. Good governance is an essential condition to achieve developmental goals (Rondinelli & Cheema 2003:9). This also includes the sustainability of development. Cloete (2006:24) asserts that “sustainability refers to the successful achievement of governments’ policy goals and durability of political outcomes over time”. Sustainability ensures that developmental goals are achieved and maintained. In addition, sustainable development in a country would be indicative of the degree of responsiveness of government to the developmental needs of civil society within a dynamic context.

Good governance goals also include “accountability, transparency, participation, relationship management, efficiency and equity” (Edwards 2002:52). The outcomes of good governance build upon the principles of NPM and aim to promote best practices in
Similarly, good governance aims to ensure a cooperative and participatory relationship within, and between, civil society, the public and private sectors, and to guide the interaction between and within these factions. The participation of all types of organisations in joint decision-making has led to the anticipation of cooperation (Teisman & Klijn 2002:197). Edwards (2002:59) lists the following primary goals that participants should endorse towards a successful governance framework:

- “a joint language and set of principles to guide how the relationship of participation is to work;”
- “mutual understanding and recognition of the value of frameworks of each sector;”
- “a clear statement of respective roles and responsibilities through the policy processes; and”
- “agreement on what outcomes are to be evaluated and early agreement on dispute-resolution processes.”

Teisman and Klijn (2002:197) state that “this search for cooperation can be seen in all domains of societal decision-making: between government organisations and private sector organisations”. Simultaneously, cooperation takes place due to the increased network society, and government has to ensure structures and arrangements to govern the interactions in a network society. Rondinelli and Cheema (2003:8) confirm that “the need to improve governance and public administration and to enhance the state’s capacity to carry out new functions and roles is now widely recognised”. Therefore, the role of public management is expected to extend beyond mere service delivery.

Within a network society, governance draws on the principal-agent approach and NPM provides such a framework, through the logic of contracting and cooperation. The principal-agent approach implies that government does not necessarily have to produce public services directly to society, but can and should rely on the best, suitable agent to do it in the most efficient, effective, affordable and sustainable way on their behalf. The principal-agent approach denotes a relationship of cooperation between three role players. Firstly, government as the principal, the private or voluntary sector agencies are the agents, with the market economy or civil society constituting the beneficiary (Lane 2000:5).
Furthermore, there is a clear distinction between traditional systems of government and modern governance. Take the example of the financing, production and arrangements of services within society. Traditional public administration focused more on the delivery of goods and services through in-house production by means of agencies and “public enterprises; budget financing by means of taxes and charges and public regulation by means of public sector agencies” (Lane 2000:4). Traditional public administration approaches, thus, fail to deliver on the complexities of a network society.

Alternatively, contemporary governance comprises numerous replacements for the above activities:

- “Financing, or the payment for the services could be done by government or by the user;
- production, or the supply of services could be done in-house or by contracting services to a private entity; and
- arrangement or the method of acquiring the services from a private entity, where there is a critical distinction of competition or not” (Lane 2000:4).

As a result the actors, arrangements and the management thereof in the public sector have changed and governments are adopting more integrative approaches to public management. Changes in the social, political and economic spheres have brought about the emergence of new markets on the public management agenda. For the purpose of this study, a market is an umbrella term, including an actor, product and service within the public and private sectors, economic markets and civil society itself. The increased sphere of demands from various markets has led to the development of a market-based governance approach in order to adapt to a network society. For instance, a PPP is an example of a horizontal governance network relationship, in contrast to the traditional vertical bureaucratic authority relationship. The characteristic of networks therefore necessitates different approaches to public management (Cloete 2009).

Berkel; Graaf and Sirovtka (2012:263) allege that “the main principles underlying governance reform… include decentralisation, marketisation, networking/ inter-agency cooperation and NPM”. Berkel et al. (2012:265) contend that “marketisation leads to a hybridisation of governance models rather than to the new governance model”. Grindle (2011:416) avers that “recent scholarship on governance and development has produced
a spate of analytic approaches and frameworks focused at arriving at localised and informed solutions to specific constraints and needs”. Andrews (2010:8) cautions against imposing a “one-best-way model on developing countries” and explains that “good government means different things in different countries”. Berkel et al. (2012:264) assert that “business-like methods of governance: management by objectives, transparency, accountability, bench-marking, monitoring and evaluation, incentivising by performance steering and by using incentive and disincentives as steering mechanisms”. The subsequent section briefly summarises the primary intention and objective of market-based governance.

2.6 Market-Based Governance

This study adopts the NPM approach to public services delivery as the framework for contemporary public management and governance, and applies principles of the market-based governance system. Lane (2005:8) argues that NPM “relies on the major ideas in economics, especially institutional economics and the economics of information, theorising the role of rules and incentives in organisations”. NPM recognises the usefulness of market mechanisms for the public sector and encourages interaction of the governments and markets, which form the basis of market-based governance.

Governments and markets are entangled entities and market-based governance aims to extend the advantages that markets display in the private sector into the public realm. Inherently, market-based governance proposes the utilisation of the market for the public interest (Donahue & Nye 2004:1-5).

In practice, the framework for governance in NPM typically relies on market-inspired mechanisms (Lane 2005:8). Lane (2005:8) argues that the “Agency-theory of NPM predicts that the use of the new market mechanisms in public management will enhance efficiency, as they mix the rules and incentives in a more correct manner than traditional public administration”. Efficiency is enhanced by, for instance, drawing on the professional expertise of the private sector, performance improvement, efficiency and improved quality and the benefits of competition. Nevertheless, the function of public management lies in
market-based governance; to retain public methods for oversight and accountability the state combines both the mechanisms of private and public spheres to improve the social good. NPM employs the following market-inspired mechanisms, through market-based governance:

- **Policy-Provision Split and Purchaser-Provider Split**: because governments have a wide range of responsibilities, the isolation of parts of governmental programmes through, for example, outsourcing, can assist and separate allocation from service delivery. A benefit of the separation of allocation is government is provided with the opportunity to focus on issues of higher priority. Therefore, governments should benchmark to determine whether the market could provide a better service or product (Lane 2005:8).

- **Contestability**: the separation of allocation from service delivery opens up the possibility of market testing and this would allow contestability of services through competitive tendering (Lane 2005:8).

- **Contracting**: using competitive tendering could permit government to employ its massive arm of public procurement policies and frameworks (Lane 2005:8).

- **Incorporation**: government may gain through incorporating private tools for commercial matters. In addition, sectoral or clustered public service can be incorporated into contractual arrangements. This may also assist intergovernmental implementation by the sourcing in and out of processes, through a large base of service providers (Lane 2005:8). Purchaser-provider split occurs where government differentiates and divides the function of paying for and delivering services, which takes place through contractual arrangements (Gingrich 2007).

Bertucci and Alberti (2003:27) note that:

“many new tasks of governance require public authorities to act as mediators, advocates or promoters, actively seeking partnerships with business … and engaging civil society in the pursuit of development objectives”.

Furthermore, market-based governance also requires the best practices of private entities and that the behaviour of private entities encourage good relations with the public sector.
In order for market-based governance to achieve successful outcomes, a teamwork connection between both the public and private spheres is required.

Furthermore, Teisman and Klijn (2002:198) argue that:

“such partnerships may be seen as a new form of governance, which fit into the imminent network society. However, the idea of partnerships is often introduced without much reflection on the need to reorganise policy-making processes and to adjust existing institutional structures”.

Thus, market-based governance combines two types of governance styles. Firstly, market-based governance encourages a style of cooperative engagement, typical of network governance. The latter involves encouraging a governance system that would ensure best practice in the private sector. This style of governance is typical of entrepreneurial regulation and is referred to as corporate governance.

There are a number of trade-offs in the implementation of market-based reforms that incorporate NPM elements; the contractual model may implicate a shift in the role of the public manager or the functioning of administration, for instance, Maravic and Reichard (2003:111) contend that “the pursuit of public policy usually means making difficult trade-offs between competing values such as equality and efficiency”. In the managerialist approach improved contract management is required and contracts replace hierarchy – by implication a disinvestment in governments’ own capacity (Maravic & Reichard 2003:111-112).

Brown and Potoski (2006:324) propose that “to some extent, contracting may require additional monitoring and management because contracting may be more risky than direct service delivery”. Contracting necessitates the disaggregation of service delivery into distinct tasks, and reduced management capacity need not occur, as governments may choose to mitigate capacity by transferring it, but not necessarily renouncing management responsibility and capacity (Brown & Potoski 2006:325). Brown and Potoski (2006:340) reveal that “our subsequent analysis shows that governments more than make up for this management deficit by contracting with vendors to perform management services”.

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According to Maravic and Reichard (2003:84), “the main criticism of NPM is that it focuses solely on the economy, efficiency and effectiveness of administrative systems and thereby neglects variables including probity, equality, process-orientation and accountability”. Another concern relative to NPM is that it does not differentiate between the public and the private interest (Drechsler 2005:2). There may be evidence that NPM could contribute to an isolation of public servants, an exaggerated market for contracts and a fragmented structure of purchaser-provider models, which undermines the administration’s control (Maravic & Reichard 2003:85). Drechsler (2005:3) cautions that NPM may contribute to the weakening of administrative capacity in civil service careers, which may lead to “depolitisisation” and “de-democratisation”.

The trade-offs of NPM, like reforms, such as contractualism, present a number of risks as highlighted above, therefore this study recommends combining of good governance in order to overcome the limitations presented by introducing market principles into the public sector agenda, and thus, this study approaches PPPs in a market-based governance paradigm.

In summary, partnership and cooperation between the private and public sector is the primary characteristic of market-based governance. Market-based governance encourages the use of market mechanisms, such as strategic management and risk management, to ensure the sustainable development of various markets. Because PPPs are a product of NPM and market-based reform, which may present a limitation as current practice is no longer self-contained by NPM, this study emphasises the importance of risk management in alternative service delivery, in order to ensure best practice, with the objective of achieving good governance.

2.7 Risk Management

Risk management is a central component of an organisation’s activities and its main objective is to assist all other management activities in reaching the organisation’s goals. Risk management is a “continuous process that depends on the changes in the internal and external environment of an organisation” (Tchankova 2002:290).
There is not a business or a government function that does not involve features of risk; similarly, there is not a business undertaking or government that can function without management (Borgsdorf & Pliszka 1999:1). Brown and Potoski (2006:324-325) emphasise that “though a notoriously difficult topic of study, effective management improves government service delivery”, and therefore strategic management. A range of: “managerial tasks and functions necessary for successful service delivery, including: planning and strategising; decision-making; budgeting and mobilising financial resources; managing human resources (e.g., motivation, communication, negotiation, bargaining); evaluating and tracking service quality (e.g., identifying performance measures, monitoring); and managing across organisational boundaries” (Brown and Potoski 2006:324-325).

Therefore, public managers’ tasks should include risk management in their strategic planning and day to day operations.

Borgsdorf and Pliszka (1999:1) define risk management as “planning, organising, leading, and controlling the resources of an organisation so as to minimise the potential effects of risk on the entity”. Risk management, as a process, includes the assessment of risk, entailing risk identification and the analysis thereof, and a response to risk in the event of occurrence. In order to understand this process, a clarification of risk, and the management thereof, is provided in the following sections.

Risk management involves the process of risk assessment, analysis and management. This chapter only provides an introduction to the relevance of risk theory in this study. Chapter Three provides an operationalisation of the characteristics and implementation of risk management in PPPs.

This section provides an outline of the basic elements of risk and the management thereof. Risk and the management thereof in PPPs are explored further in Chapter Three. As explained above, the NPM, governance and network paradigms of public services delivery all imply much more complex relationships between government and agencies outside government than is the case in the relatively straightforward Classic or Traditional model of Public Administration. These increasingly complex relationships also create much stronger dependency relationships among all parties concerned. Government, as
the initiator of PPPs, is especially vulnerable in these relationships because it is the principal in all instances, and it has to structure, monitor and manage the relationships effectively and correctly, to ensure the success of final services delivery outcomes. The management of PPPs is, therefore, different from that of other public policy or services delivery implementation programmes, which are largely controlled solely by the government. One of the most important issues in the control, supervision, implementation and handling of PPPs is risk management.

Risk arises from uncertainty surrounding everyday life. It involves considering whether or not to take a certain action. For individuals, risks of everyday life comprise issues of ill health, injury, death, accidents, and damage to or theft of possessions. These risks can be controlled by taking out insurance, medical aid coverage, exercising, and securing one’s property (Nel 2008).

Moreover, risk is a characteristic of both public life and business. Vigorous market associations increase the uncertainty of the environment wherein business and public organisations work (Tchankova 2002:290). According to Mills (2001:245), “risk management is not a new concept; traditionally it has been applied instinctively, with risks remaining implicit and managed by judgment and informed by experience”.

Risk is a nominal concept and is, therefore, difficult to operationalise. The concept of risk must be clarified in terms of the context and dimension – for example, country risk, political risk, contract risk, environmental risk and so forth.

There is diversity in the definition of risk. Certain risk analysis authors refer to risk as a loss, others refer to risk as unpredictability or uncertainty; some refer to risk arising from environmental factors and other authors refer to it as continuities or discontinuities of change in the environment. As risk is a phenomenon present in the environment, and not a characteristic of the environment, it, therefore, cannot exist without an organisational entity or project (Nel 2008).

Risk analysts must be wary of confusing the concepts of risk, instability and uncertainty. Risk is distinct and specific, although related to instability and uncertainty. Uncertainty is
a characteristic of all political, social and economic life, as it concerns social behaviour affecting people and how they are governed (Nel 2008).

The Netherlands Scientific Council for Government Policy (1995:36) explains that:
“uncertainty stems from a lack of precise knowledge concerning human intervention and its effects on the environment, while the fundamental uncertainty stems from partial knowledge of complex relationships that may lead to differences in insight concerning that relationship. In the circumstances the potential risks thought to be incurred become the determining factor in the choice”.

Thus, uncertainty equates to a lack of knowledge of an event. In contrast, instability is a critical property of the environment, in that it represents the environmental degree of change (Friedman & Kim 1988: 64). With regard to instability, there is an insight of the effects of an event.

In actuality, uncertainty and instability are components of risk. As previously stated, risk, uncertainty and instability are three distinct, but interrelated phenomena. A risk assessment cannot rely solely on uncertainty or instability as a reflection of the overall risk (Nel 2008).

To demonstrate, “scientific and normative problems may be traced back to perceptions of the risks at issue. Specific scientific research can help draw a distinction between facts, suppositions, probabilities and beliefs. Risks can also be reduced, for example by improved observations and some fundamental risks can be eliminated by unravelling causal links” (Netherlands Scientific Council for Government Policy 1995: 39–42).

In conclusion, the Netherlands Scientific Council for Government Policy (1995:39), contends that, “risk can be estimated and both the distinguishing capacity and the reliability of the statements can be calculated. In the case of theoretical risks, one is confined to making a normatively determined estimate of that risk. The concern is with the perception of risks, with respect to the environment and the socio-economic order – can society with its needs, wishes and institutions adapt to new activities without problems. These perceptions of risk come into play when choices have to be made in a specific instance about adapting economic activities, in order to reduce the burden imposed on the environment. This means that investments will be meant to be made. The estimation of risks therefore arises with a price-tag”.

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A standard definition of risk includes Mills’ (2001:246) concept that risk is “the chance of an adverse event”. Risk would constitute any harmful and negative event that could lead to a potential loss. Mills (2001 246) claims that “risk and opportunity usually go hand in hand”. High risk events or situations can pose opportunities if well managed.

In addition, Mills (2001:246) explains that:

“the impact of risk can be measured as the likelihood of a specific unwanted event and its unwanted consequences or loss:

\[ RI = L \times C, \]

Where:
- \( RI \) = risk impact;
- \( L \) = likelihood, and
- \( C \) = consequence”.

Overall, risk is understood as a potential problem. However, this adverse outlook was challenged in the preceding decade as being too limiting and partial, particularly when considering opportunities (Nel 2008). Risk, thus, involves an uncertain condition or event that has a negative or positive effect on achieving a specified objective. A risk may have a positive effect, for instance, if a decision has to be made whether to take a risk that may have high returns, should the risk be positively controlled or managed. Thus, risk involves a potentially harmful factor; however, the outcomes may be uncertain. Risk assessment involves the identification and analysis of risk. Risks are derived on the basis of the risk analysts’ expectations. A prediction is an observation, made at a specific time and place, to support a particular description. It is based on observed or unobserved past or present predictions (Nel 2008).

Justifiable predictions must be criticisable, testable with reference to the real world, and communicable. A justifiable expectation is generated by organising experience into a valid pattern, combining that pattern with a particular observation and making a calculation regarding the anticipated outcome of the expectation (Nel 2008). Meehan (1988:88) states that “control over the course of events depends on the availability of knowledge, obviously, which in turn requires an organisation of experience that will both formulate
and fulfil specific human purposes”. Control can only be achieved in a pattern of experience. Control is only possible in environments of structures or procedures, comprised of variables. These variables are linked through a set of rules and limiting conditions. Once a pattern is established, the rules are incorporated into the pattern make up the logic. The logic supplies predictability to the pattern. The logic in a set of rules allows manipulation of the values of associated variables. The logic can then provide control over real-world affairs, if it is systematic and of observational fit for the identified purpose. The structures and processes involved in forecasts permit manipulation and control over future events. Forecasts involve the systematic prediction of events from present trends and consist of an analysis of trends and events. This is accomplished through the use of technical methods; forecasts are limited by methods, and the availability of testing accommodates these limitations. The test of predictions strengthen the plausibility of predictions. This supplies a degree of reliability, which ensures that predictions are correct for their purpose and fit to be applied to empirical experience. The systematic and procedural nature of forecasts and prophecies allows control over future events. Thus, control over future events is possible, where experience is organised into patterns that link two or more variables, and this pattern of experience justifies the causal relationship assumed to connect them (Nel 2008).

Control is a nominal term and for the purpose of this study controls, forecasting and causalities are risk analysis methods, however, risk management does not rely solely on them. For instance, flexibility, change, and alpha risk impact on control. Because this study aims to extend beyond the assessment of purely technical and fiscal risk factors, the consideration of these concepts is explored in greater detail, later in this study. This study does not view control in isolation; to illustrate, empowering an employee can provide a strategic control for human resource management and productivity management. This is elaborated further in Chapter Six of this study.

The goal of risk analysis is to facilitate better planning and strategising, supplying influence, or even control over future events. As aforementioned, risk anticipates the control of future events through establishing causal relationships in order to predict the future, so that political risk factors or events can be neutralised, mitigated, absorbed,
avoided, isolated or managed. A significant supplementary issue in risk management is the practical application of causality. In order to present credible results, one has to be familiar with the logical sequence of events, interactions or mechanisms by which one variable changes another. This enables one to make predictions and ultimately changes in the future, through comprehending the reasons for a change having one effect rather than another, and the conditions under which the change is anticipated (Hage & Meeker 1988:1).

HM Treasury (2004:29) advocates that “in designing control, it is important that the control put in place is proportional to the risk”. A control should contain loss in the event that a risk occurs, which should offer value for money, the resolution of control is to restrain risk rather than to eradicate it (HM Treasury 2004:29). Customarily, an assurance gap is indicative of a lack of empirical evidence (HM Treasury 2004:45).

The various steps in a risk management strategy should comprise: the initial step of risk management strategy should be to identify the risks, where a profile of the risk is assessed. After the risks have been identified and assessed, the best response mechanism to address the potential issue is established, and during this phase the controls are identified. Thereafter, the effectiveness of the controls is assessed. Finally, the risk is communicated, reviewed and reported (HM Treasury 2004:45).

In summary, risks should not be considered in isolation, as a risk event can have multiple, diverse effects. In addition to risk assessment, the ownership of risk or response to risk forms part of risk management. Risks can be successfully addressed in numerous ways. Firstly, risk can be reduced by reducing its frequency and severity, and putting remedial activities into place. Secondly, risk can be transferred, where the risk is outsourced to other responsible parties. Additionally, the risk can be controlled, after a loss has transpired, risk regulatory tactics could reduce the subsequent detrimental effects to a minimum. Lastly, risk can be avoided, by avoiding any action or decision relating to the particular risk factor, option or situation (Cervone 2006:257). These methods for risk assessment are tools which may be implemented to anticipate risk, in order to formulate possible tolerances, responses or treatments.
2.8 Theoretical Synthesis

The theoretical framework of this study encompasses the concepts that the complex arrangements of globalisation suggest that governments can no longer function in isolation, and that, as the spread of complexities in governance arrangements increases, that government can no longer function on its own to address public needs. This study, thus, implies that government is required to cooperate outside its capacity and draw on market-based governance mechanisms through NPM.

This comprehension of public governance in the study has been operationalised through the NPM reform movement, and market-based governance, taking a broader view by proposing that governments use a range of private sector mechanisms in order to achieve public goals. In conclusion, the theoretical overview provided in this chapter indicates that government must avoid the mistakes of prior approaches to public governance.

However, in applying private sector initiatives through market-based governance, such as public-private partnerships, and private sector techniques, as in NPM, government is introduced to the management of complex arrangements or a range of diverse values, stakeholders and relations. This study proposes risk management as a framework to guide the network of actors, diversified values and objectives towards achieving public initiatives, through the process of analysing, assessing and responding to risks that prevent the optimal functioning towards accomplishing objectives.

The principal thesis of this study is that if NPM and risk management are present in PPPs, this provides strategic control for good governance in PPPs. Thus, a lack of the above would constitute the absence of best practice and good governance. This study explores the governance of PPPs in order to determine whether NPM and risk management are successfully adhered to in PPPs. The study aims to provide recommendations for best practice in risk management, based on this assessment of the effective application of NPM and risk management in PPPs.
2.9 Conclusion

The primary aim of this study is to determine whether the current best practices in risk management to mitigate risks in the contemporary PPP models in operation in SA are effective, and to determine how these PPP models may be improved to manage risks more successfully and efficaciously, in order to promote cost-effective service delivery. In pursuit of this it was necessary to underpin the rationale for implementing PPPs. In doing so, it was essential to determine the conceptual framework of PPPs. PPPs are grounded in NPM and apply market-based governance mechanisms.

This chapter examined the origins of NPM, as a theoretical framework for public management. In addition, the characteristics of NPM, within the context of the new governance and network approaches to public services delivery, were explored in this chapter. Essentially, NPM promotes best-value initiatives, managerialism, accountability, flexibility, good governance, performance measurement, government reforms towards centralisation, quality and efficiency, productivity gains, leadership and entrepreneurship, contracting and outsourcing, and professionalism.

This study is intended to bridge the gap between the appreciation of theory and application in practice, for the effective management of the relationship between risk management and best PPP practices, critical to the successful outcomes of PPPs. In addition, the modes of network governance in NPM practices were discussed. These include good governance in government and risk management, and the predominant focus of these modalities is to increase the application of best practice for the greater good of society. The following chapter provides a review of the characteristics, purposes and outcomes of PPPs.
CHAPTER 3

NATURE AND MANIFESTATIONS OF PUBLIC PRIVATE PARTNERSHIPS IN SOUTH AFRICA

3.1 Introduction

This chapter attempts to summarise and assess the theoretical base of government outsourcing through Public Private Partnerships (PPPs). It contributes insight, with the clarification of PPPs and the conceptualisation of associated terms. In addition, this chapter considers the purpose, characteristics, manifestations and challenges involved in implementing PPPs.

The chapter aims to underpin the theoretical functions of PPPs. Additionally, it is intended to identify the structuring considerations relevant to PPP options and to establish the social and ethical dimensions of PPP projects, including good governance, best practice, corporate governance and service delivery. The first objective involves determining the functions of both the public and private sectors in PPPs. The second objective proposes the standardisation of the strategies applied to PPPs. The tertiary objective of this chapter is to provide a comparison of international best practices in PPPs, in order to draw lessons from international practice.

Thereafter, this chapter aims to identify key risks in PPP projects. Furthermore, it endeavours to establish how risks are shared between the public and private sector, along with the current mechanisms of risk management. An overview of risk management in PPPs is thus provided. In conclusion, the chapter provides an overview of the legislative background pertaining to SA PPPs, in conjunction with the significant actors involved in local PPPs.
3.2 An Introduction to PPPs

The use of market-based reforms in the public sector entails a shift in the established paradigm of public management, with government moving from direct delivery of public services to providing, coordinating or managing the provision of those services by private sector organisations on behalf of government. This includes goods, services and infrastructure. These reforms aim to reduce the consequences of inefficient bureaucracy and to increase the legitimacy of the public sector, by improving its management techniques through the introduction of private sector management practices (Sands n.d: 334; Greve & Hodge 2007: 181–182).

In essence, PPPs are long-term agreements between the public and private sectors. PPPs are also a worthy vehicle for other social purposes, such as economic empowerment, through supporting the motivations of the private party with social goals (National Treasury n.d:4).

In addition, a PPP is a specific form of social-political governance, which has been the centre of interest for many years. It has been the subject of a great deal of specialist literature. Concurrently, this new form of cooperation is being examined and put into practice by managers within the public and private sectors (Kouwenhoven 1993:119).

In the broadest sense, PPPs include just about every type of interaction between public and private actors. These interactions include for instance cooperation and dialogue between parties, innovative processes in project management, sharing of risks associated with the delivery of services. PPPs are associated with high expectations about how actors in partnership can renew public service delivery. The greatest application of PPPs is generally seen in infrastructure development (Greve & Hodge 2007:180).

Vigoda-Gadot (2003:64) defines a PPP as “an arrangement of roles and relationships in which two or more public and private entities coordinate/combine complementary resources to achieve their separate objectives through joint pursuit of one or more common objectives”. Locally, a PPP is defined as:
“A contract between a government institution and private party where:
- the private party performs an institutional function and/or uses state property in terms of output specification;
- substantial project risk (financial, technical, and operational) is transferred to the private party; and
- the private party benefits through unitary payments from government budgets and/or user fees” (National Treasury, n.d: 5).

Delmon (2009) provides a practical guide to PPPs and an overview of what a PPP constitutes: the enablement of government, PPP financing, PPP risk allocation and the contractual structures in PPPs. Delmon (2009:7) defines a PPP as engaging in activities between public and private entities for the supply of infrastructure services. Across the globe the main purpose of PPPs is to safeguard the provision of “well maintained, cost-effective public infrastructure or services, by leveraging private sector expertise and transferring risk to the private sector” (National Treasury n.d:4).

Inherently, PPPs are an extension of the NPM agenda in public management reform. PPPs embody the procedures and tools that enable private sector activity in the delivery of public services (Greve & Hodge 2007:181–182). Moreover, outsourcing or contracting out for public services characterise NPM in almost every case mentioned in the literature (Christensen & Laegreid 2007; Pollitt & Bouckaert 2004; Greve & Hodge 2007:181–182). Greve and Hodge (2005:3) confirm this by stating that, “if privatisation is a story about private organisations delivering government services over the past few centuries, PPPs appear to be the latest chapter in the book”.

In theoretical terms, PPPs have also been inferred as a pause, with a more fundamental marketisation outline related to the NPM agenda, as they have focused on the shared-power potential found in the network society (Greve & Hodge 2007:183). In practical terms, a PPP entails a procurement contract. Procurement is the process of obtaining certain goods or services. However, PPPs are different from traditional procurement. Generally, with PPP procurement the public sector buys a complete set of services, including infrastructure and other services, from the private sector. It pays for these over the term of the PPP agreement, based on successful delivery. The private sector usually places its own capital at risk, funding its investment in the project with debt and
shareholder equity. Because of the financial risk the private sector takes, it is motivated to provide a high level of service, as good returns on equity will depend on the quality of services it delivers. With traditional procurement, government rewards the outsourcing partner for its capital and operating costs, and carries the risks associated with cost overruns and late delivery. While the proficiency of a private company may be acquired for the design and construction of infrastructure, once the asset is delivered, the private company is paid and then leaves. The public sector is then accountable for staffing, maintenance and operations (National Treasury n.d:4).

Where the private sector owns the asset (this is one model only), the risk allocation agreement between the parties can be complex, and the government’s performance-monitoring procedures are likely to be carried out in an altered way under a PPP agreement, compared with a more traditional procurement. The service provider must have satisfactory performance monitoring, quality management and management information systems, and the conceptual framework of a PPP is such that the private sector has inducements to commence downstream management of the project in a suitable way (Grimsey & Lewis 2004:22-23).

As mentioned earlier, PPPs are typically geared toward the formation of a social good, such as education or health. All such goods have a financing and a provision aspect, where financing focus on how to pay for the good, and provision concerns how the good will be produced or the service delivered. Obligation for either aspect may be assigned solely to public or private players (Epstein 2008:1370).

PPPs are characterised by both public and private sectors characteristics. The characteristics of PPPs include:

- **Participants**: a PPP involves two (or more) parties, and at least one of them has to be a public body. Each, however, needs to be a principal, capable of negotiating and contracting on its own behalf. All parties must make an organisational commitment to the partnership.

- **Relationship**: partnerships need to be enduring and relational. Governments buy goods and services, they give grants and they impose fines and taxes. None of these transactions implies any real continuity of behaviour. Even if a public sector body were to use the same supplier year after year, this pattern would not be regarded as a partnership.
• **Resourcing:** each of the participants must bring something of value to the partnership. PPPs seek to draw out the best available skills, knowledge and resources, whether they are public or private sector, and deliver value for money in the provision of the public infrastructure services. For this to happen, each partner must transfer resources (money, property, authority, reputation) to the arrangement.

• **Sharing:** PPPs involve a sharing of responsibility and risks for outcomes (whether financial, economic, environmental or social) in a collaborative framework. This mutual responsibility contrasts with relationships between the public and private sectors in which the public body retains control over policy decisions after getting the advice of the private sector entities. It also contrasts with relations between the public and private sectors that are primarily contractual in nature and involve essentially command relationships. In these cases, the private sector bodies are not partners in any real sense. There has to be a mutual interest and unified commitment.

• **Continuity:** underpinning the relationship will be a framework contract, which sets out the ‘rules of the game’ and provides the partners with some certainty. Its existence enables the partners involved to make decisions without having to start from scratch each time and develop from first principles, the rules that govern these interactions. While the PPP contract provides the basic architecture of the arrangement, it is necessarily ‘incomplete’ and does not (and cannot) specify all components and allow for all outcomes. There must be shared values, a common understanding of priorities and policy objectives, and a good measure of trust.

• **Type:** while some partnerships are created for the purpose of policy formulation, priority setting and coordinating organisations from the various sectors (e.g. crime prevention strategies, educational action), some are asset-based services and have long-term service provision contracts related to social and economic infrastructure. There are important differences between partnerships that are predominantly economic in their orientation.

• **Focus on Services:** the emphasis is on services received by government, not government procurement of economic and social infrastructure. Government pays for services provided by the private party, which are redelivered through privately owned or rented infrastructure as part of the service package.

• **Whole-of-Life-Cycle Costing:** with a PPP contract there is the opportunity for a complete integration – under one party – of upfront design and construction costs with ongoing service delivery, operational, maintenance and refurbishment costs.

• **Innovation:** a PPP approach focuses on output specifications, and provides enhanced opportunities and incentives for bidders to introduce innovative solutions to meet those requirements.

• **Risk Allocation:** risk retained by government in owning and operating infrastructure typically carries substantial, often unvalued, cost. Transferring some of the risk to a private party, which can manage it at less cost, can substantially lower the overall cost to government” (Grimsey & Lewis, 2004:13-14).
In all cases, governments and the private sector would cooperate to offer services and infrastructure over a diversity of mechanisms including contracts and concessions, build-operate-and-transfer arrangements, public-private joint ventures, and informal and voluntary cooperation. For instance, public financing of health services provided by the private sector; private financing of publicly provided health services; innovative health care delivery models and business models for health practices; use of public assets for the delivery of health services by private sectors; use of private assets for the delivery of health services by the public sector (Shuping & Kabane 2007:152). In addition, governments are also deregulating numerous industries and permitting the private sector to contend with public agencies and state enterprises (Rondinelli 2003:219).

These stages of thinking can fit into a structure that illustrates the societal development that the private and public sectors are facing, and the phenomena of complexity in a network society (Teisman & Klijn 2002:199-200). Thus, the role of government has changed, and it does not focus only on service delivery. The focus of public management within this context includes:

- “a focus on defining services, with the emphasis on delivery of infrastructure services using new or refurbished public infrastructure assets;
- planning and specification, so that governments desired outcomes and output specifications are clear to the market;
- creating a viable business case for the private party;
- certainty of process, ensuring that any conditions to be fulfilled are clearly understood before the project proceeds;
- project resourcing to enable governments to advance the project and address issues in line with published time frames;
- clear contractual requirements, centred on the key performance specifications, to promote performance and minimise disputes;
- formation of a partnership to encourage good faith and goodwill between government and the private party in all project dealings; and
- contract management to monitor and implement the contract” (Grimsey & Lewis 2004a:94-95).

A PPP is, therefore, not a simple outsourcing of tasks or an endowment by a private party for the public good. Neither is a PPP a privatisation or divestiture of state assets and/or liabilities. Nor is a PPP the commercialisation of a public task by the creation of a state-
owned enterprise. Lastly, it is also not a borrowing by the state (Whittaker 2006:32; National Treasury n.d: 6-7).

Furthermore, service delivery in PPPs takes place through a number of modalities. Firstly, the public sector delivery of core public services, with private bodies providing infrastructure-related services. Secondly, public sector delivery of core services with private parties providing infrastructure-related and auxiliary services. Also, public sector delivery of essential services with private parties providing infrastructure and related auxiliary services, together with some services to the community. Lastly, private sector delivers a complete assortment of services to the community, inclusive of infrastructure (Grimsey & Lewis 2004:102).

In brief, this could manifest in a number of ways, including:

- “the public sector entity transfers land, property or facilities controlled by it to the private entity sector (with or without payment in return) usually for the term of the arrangement;"
- “the private sector entity builds, extends or renovates a facility;"
- “the public sector entity specifies the operating services of the facility;"
- “services are provided by the private sector entity using the facility for a defined period of time (usually with restrictions on operations standards and pricing); and"
- “the private sector entity agrees to transfer the facility to the public sector (with or without payment) at the end of the arrangement” (Grimsey & Lewis 2004:2).

This could also have a number of implications on the measure of control government has over these projects. Grimsey and Lewis (2004:102) list the control implications as either:

- “an arrangement where demand is effectively controlled by government and the costs of service delivery are substantially or fully funded by government (for example, non-judicial court services); or"
- “an arrangement where government has little control over demand and shares the cost of service provisions with users (for example public transport services); or"
- “an arrangement where government has no control over demand, costs of service delivery are fully funded by users and government’s role is limited to providing some supporting infrastructure (for example, land) or project facilitation in areas such as planning. A port project may be an example of this model”.
To illustrate the private-public involvement, the table below depicts the role of the public and the private sector in infrastructure projects. As indicated in the table, the role of the private sector in public service delivery is increasing, and the involvement stretches beyond mere production.

**Table 3.1: The Role of the Private and Public Sectors in Infrastructure Projects**

<table>
<thead>
<tr>
<th>PRIVATE PARTY ROLE</th>
<th>INFRASTRUCTURE SERVICES ONLY</th>
<th>INFRASTRUCTURE AND ANCILLARY SERVICES ONLY</th>
<th>INFRASTRUCTURE AND PARTIAL PRIVATE-TO-PUBLIC SERVICE DELIVERY</th>
<th>INFRASTRUCTURE AND SERVICE DELIVERY TO USERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>GOVERNMENT ROLE</td>
<td>ALL PUBLIC-TO-PUBLIC SERVICES</td>
<td>DELIVERY OF CORE PUBLIC SERVICES</td>
<td>DELIVERY OF CORE PUBLIC SERVICES</td>
<td>NO OPERATIONAL ROLE</td>
</tr>
<tr>
<td>EXAMPLES</td>
<td>PUBLIC BUILDINGS</td>
<td>NON-CORE HOSPITAL SERVICES, NON-JUDICIAL COURT SERVICES</td>
<td>COMMUNITY FACILITIES LINKED TO EDUCATIONAL FACILITIES (E.G. AFTER-HOURS USAGE)</td>
<td>RAIL, ROAD, PORT FACILITIES, CAR PARKS</td>
</tr>
</tbody>
</table>

Source: (Partnerships Victoria 2001:103)

The responsibilities set out in the partnership consist of complex arrangements. The role of each party will depend on the context, industry and resources of the project. Table 3.2 sets out the different roles of each actor in the in spatial-development projects. Most infrastructure PPP arrangements include a certain degree of spatial development.
Table 3.2: Role of Public and Private Sectors in Spatial-Development Projects

<table>
<thead>
<tr>
<th>VARIABLE</th>
<th>CONTRACTING OUT</th>
<th>COMBINATION MODEL</th>
<th>PARTNERING MODEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROLE OF GOVERNMENT</td>
<td>Governments specify what is needed</td>
<td>Global definition of governmental aims</td>
<td>A joint private-public platform specifies the project needed</td>
</tr>
<tr>
<td>PROCESS CHARACTERISTICS</td>
<td>Tendering procedure leading to contracting out</td>
<td>Early tendering procedure choosing the best private proposal even though a definitive public decision-making is not available</td>
<td>Joint principle position in relation to parties who tender for parts of the projects</td>
</tr>
<tr>
<td>ROLE OF PRIVATE ACTOR</td>
<td>Private production of specified project</td>
<td>Private proposal in interaction with public decision-making</td>
<td>Joint development by private and public organisations</td>
</tr>
<tr>
<td>ACTION</td>
<td>Finished job handed over to government</td>
<td>Project realisation by private companies</td>
<td>Joint schemes for production and exploitation</td>
</tr>
</tbody>
</table>

Source: (Teisman & Klijn 2002:203)

In addition, PPPs as a continuation of NPM also embody certain factors of the principal-agent approach to public management. The roles of each actor in the partnership are not left unregulated. Commonly, there would be a function of oversight involved in these projects. Table 3.3 illustrates a simplified pipeline of oversight in PPPs.
Table 3.3: Oversight in PPPs

<table>
<thead>
<tr>
<th>PRINCIPALS</th>
<th>AGENTS</th>
<th>TENDERING/ BIDDING</th>
<th>PLAYERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government, state, ministers</td>
<td>Executive agencies, purchasing companies</td>
<td>Tournaments, auctions</td>
<td>Entrepreneurs, private or public corporations, public, private or third sector organisations</td>
</tr>
<tr>
<td>Accountable</td>
<td>Regulators</td>
<td>Levelling of the playing field</td>
<td>Third party access</td>
</tr>
</tbody>
</table>

Source: (Adapted from Lane 2000:9)

The main participants in PPPs are:

- "the public sector procurer (the government, local governments and agencies, state-owned entities);
- the sponsors who as equity investors normally create a special purpose vehicle (SPV or Project Company) through which they contract with the public procurer, and principal subcontractors. SPVs are used in PPPs for a number of reasons. Firstly, to allow lending to the project to be non-recourse to the sponsors by virtue of the limited liability nature of the SPV. Secondly, to enable the assets and liabilities of the project not to appear on the sponsors’ balance sheets, by virtue of no sponsor having more than 50 per cent of the shares in the SPV and the application of normal consolidation principles when preparing the group accounts. Lastly, for the benefit of the project lenders, to help to insulate the project from potential bankruptcy of any of the sponsors (‘bankruptcy remoteness’);
- financiers;
- subcontractors; and
- other involved parties such as advisers (legal, financial, technical), insurers, rating agencies, underwriters and so forth" (Grimsey & Lewis 2004:108-109).

All actors involved in the partnership should ensure strong but responsive leadership, a vision and clear view of success, broad agreement on the general need for a partner and
a specific agreement on the partner as chosen with strong commitment to a long-lasting effort. The private firm is expected to contribute three other essentials. Firstly, the private actor needs to have a full understanding of the various constraints involved in a government-based process. Secondly, the private actor is required to have strong organisational and financial stability. Lastly, the private actor must have a willingness to commit its best human resources to the project; to build a team of managerial experts that is best attached to the partnership theme and essence, and that is socially orientated toward working together with public officials (Vigoda-Gadot 2003:65).

Consequently, the role of public managers within the context of PPPs has changed significantly. The following table outlines the transformed roles of public managers. The complexities of PPPs demand public managers to act as entrepreneurs, facilitators, mentors and coaches, as partners in contracting and gatekeepers for oversight.
Table 3.4: The Roles of Public Managers in PPPs

<table>
<thead>
<tr>
<th>Role of Public Managers</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PUBLIC MANAGERS AS ENTREPRENEURS</strong></td>
<td>Managers are called on to explore new, innovative ways to address challenges and needs within their states and communities.</td>
</tr>
<tr>
<td><strong>PUBLIC MANAGERS AS FACILITATORS</strong></td>
<td>Managers engage government officials, private sector representatives, and citizens in the communities.</td>
</tr>
<tr>
<td><strong>PUBLIC MANAGERS AS TEACHERS AND COACHES</strong></td>
<td>Managers share their experiences by leading through example.</td>
</tr>
<tr>
<td><strong>PUBLIC MANAGERS AS PARTNERS</strong></td>
<td>Managers generate new processes and alliances in partnership.</td>
</tr>
<tr>
<td><strong>PUBLIC MANAGERS AS GATEKEEPERS</strong></td>
<td>Managers oversee the ethical standards of partnership prescribed in a code of ethics. In turn, the code of ethics oversees the ethical principles of its corporate partners.</td>
</tr>
</tbody>
</table>

Source: (Vigoda-Gadot 2003:68)

There are a number of considerations for public managers to address before contracting out. Firstly, the public managers need to determine which portion or portions of the suggested service is a service which government itself should deliver to its citizens. Secondly, for all further parts of the service and subsidiary physical infrastructure, they need to determine the project model that delivers the best value for money. Lastly, do the consequences of the value for money question satisfy the public interest criteria uttered
in the policy and, if not, can public interest be fulfilled either by building safeguards into the contract or through regulatory procedures (Grimsey & Lewis 2004:93).

Public and private managers should recognise the various stakeholder interests that a PPP must meet, including the importance attached in principle to creating public value for citizens and the community at large. Whittaker (2006:31-32) contends that:

“the criticism of formal partnerships is that they are too rigidly defined, they are stiflingly regulated, they are cumbersome to administer, they fail to take account of differences in size and circumstances, and they allow too much administrative discretion”.

As mentioned earlier, to prevent this PPPs are assessed from a number of different perspectives, including effectiveness, accountability, affected persons and communities, equity, public access, consumer rights, security and privacy (Christensen & Laegraed 2007:188).

PPPs take on different forms subject to the nature of the project. Projects would typically involve the private party combining certain responsibilities of design, finance, build, maintenance, ownership, operation, management and transferral; depending on the sector and requirements of the partnership. A project may also be a crossbreed and comprise more than one kind of PPP type. Each type of contract will apply a different preferred procurement method. To clarify, the different types of PPPs are defined below:

- **Design-Build (DB)**
  
  Under the DB contract the private party will design and build the asset under the specifications of the public party. After completion of the asset, the private party will transfer the asset to the government. The preferred method of procurement under this contract is referred to as Build-Transfer (BT) (Eggers & Startup 2006:5).

- **Build-Operate-Transfer (BOT)**
  
  These are long-term procurement programmes where the private sector takes principal responsibility for funding, designing, building and operating the project. Control and official tenure of the project is then usually reassigned back to the public sector after the completion of the contract (Grimsey & Lewis 2004:10; CBI 2007:6; Eggers & Startup 2006:5).
• **Build-Own-Operate (BOO)**
  In this procurement arrangement, the control and the tenure of the projects persist in private hands. With a BOO project, the private sector entity finances, builds, owns and operates an infrastructure facility successfully in permanence (Grimsey & Lewis 2004:10).

• **Build-Own-Operate-Transfer (BOOT)**
  The private party finances, designs, builds and operates the asset for an assured period and then transfers the asset back to the public partner on completion of the period (Eggers & Startup 2006:5).

• **Design-Build-Maintain (DBM)**
  DBM is similar to DB however the private partner takes on the responsibility of maintenance (Eggers & Startup 2006:5).

• **Design-Build-Operate-Maintain (DBOM)**
  The private sector designs and constructs the asset, and payment is received by the public partner after the transfer and completion of the project. The private party has the responsibility of operation and maintenance of the asset for a specified period. The preferred procurement methods for DBOM are BOT and BOO (CBI 2007:6; Eggers & Startup 2006:5).

• **Design-Build-Finance-Operate/Maintain (DBFO, DBFM or DBFOM)**
  The focus is on ‘hard services’ like infrastructure. The private sector is responsible for the design, build, finance and maintenance of the project. DBFO/M covers both BOO (CBI 2007:6; Eggers & Startup 2006:5).

• **Design-Build-Operate (DBO)**
  The private party designs and builds the asset and transfers the title of the new asset to the public partner after completion of the asset, while the private party operates the facility for a specified period. The preferred method for procurement is BOT.
• **Leasing**
The risk is transferred to the private sector. In France, most PPPs are performed under concession contracts (essentially BOT-type contracts) or affermage (lease) contracts (which cover design and building, or operation, but do not hold project financing) (Grimsey & Lewis 2004:10-11).

• **Joint Ventures (JV)**
These involve an agreement where the private and public sectors jointly finance, own and operate a facility (Grimsey & Lewis 2004:10-11).

• **Operations or Management Contracts**
In operations and management contracts, private sector is partly involved, for example it provides a service or manages the operation. Service or management contracts permit the private sector to provide infrastructure-related services for detailed periods of time (Grimsey & Lewis 2004:10-11).

• **Divestiture (Privatisation)**
The government transfers a part or the entire asset to the private party. The sale would include certain conditions to ensure improvements to public service delivery (Eggers & Startup 2006:5).

• **Concession**
The public partner provides the private body with the select right to operate and maintain an asset over a long period of time in agreement of specific performance conditions set by the public partner. The public partner preserves ownership of the original asset, while the private entity maintains ownership of any enhancements made throughout the concession period (Eggers & Startup 2006:5).

The nature of PPP projects also depends on whether 'hard' or 'soft' services and assets are required. For instance, a project that only requires 'hard' services will typically utilise design, finance and build contract functions, whereas a 'soft' service entails operational and managerial functions.

A comparison of existing services and assets (facilities) in the following table illustrates the types of PPP applications.
Table 3.5  Application of PPPs in Services and Assets

<table>
<thead>
<tr>
<th>PPP PROJECT</th>
<th>SERVICE AND ASSET</th>
</tr>
</thead>
<tbody>
<tr>
<td>DB</td>
<td>Works &amp; services contracts</td>
</tr>
<tr>
<td>DBM</td>
<td>Works &amp; services contracts</td>
</tr>
<tr>
<td>DBO</td>
<td>Management contracts</td>
</tr>
<tr>
<td>DBOM</td>
<td>Lease</td>
</tr>
<tr>
<td>BOOT</td>
<td>Concession</td>
</tr>
<tr>
<td>BOO</td>
<td>Divestiture</td>
</tr>
</tbody>
</table>

Source: (Adapted from Eggers and Startup 2006: 5)

In summary, there are three universally functional customary checks to determine whether a PPP is a suitable vehicle for acquiring a public asset or service:

- “can substantial risk be transferred to the private sector;
- is the project affordable to government; and
- does a PPP procurement option show value for money” (National Treasury n.d:5).

3.3  PPPs: An International Synopsis

PPPs are applied across the sector of government function. Examples of PPP projects are present in:

- “transport (road, rail, ports, airports);
- fixed links (bridges, tunnels);
- water resources (filtration plants, irrigation, sewerage treatment, pipelines);
- tourism (facility development);
- health (hospitals and specialised health services);
- specialised accommodation facilities (courts, police stations);
- educational facilities (schools, museums, libraries);
- correctional facilities (prisons, remand and detention centres);
- arts, sport and recreational facilities;
- convention centres;
- government office accommodation; and
- social housing and so forth” (Grimsey & Lewis 2004:92-93).
Diverse governments and sectors have had dissimilar experiences with PPPs (CBI 2007:6); it is important to recognise that there is no ‘one size fits all’ policy. Each sector carries with it diverse encounters across every period of the PPP life-cycle. For instance, in the education sector, budgeting is a challenge due to great procurement expenses for small projects and the uncertainty of substitute revenue streams (Eggers & Startup 2006:2).

3.3.1 International Best Practice in PPPs

Best practice is applied in both the public and private sectors as a means to learn from others’ successful practices. The concept of best practice is a performance management tool that developed in private sector managerial theory, and has been particularly applied in organisational development and change management practices (Hallencreutz & Turner 2011; Brannan et al. 2008). The notion of best practice has been adopted in recent years by governments for the reform of public management (Brannan et al. 2008:23).

There is a lack of a clear codification of a common definition and model for best practice (Hallencreutz & Turner 2011:61). However, there is a consensus in the literature that best practice entails that a certain practice is industry-accepted and widespread as the best (Hallencreutz & Turner 2011:61; Todaro 2002). Criticism against best practice cautions that best practice often tends to be absolute and prescriptive and can supplant strategy (Falconer 2011:172-173), since best practice is generic and relates to a successful implementation at a certain case and point in time. Thus, best practice in the context of this study is applied as a benchmark mechanism to provide guidelines to the success of PPPs. Furthermore, the literature on best practice in PPPs provides an outline of measures for successful PPP development, and there is a gap in the literature for specific recommendations on case- and sector-specific implementation. This is especially relevant to recommendations regarding capacity, and more specifically, resources. Hence, it should be noted that best practice guidelines should not supplement a systematic approach to PPP development and a ‘one size fits all policy’ alone is not sufficient for the strategic development and management of PPPs.
The following section aims to provide an outline of the best practice guidelines for the governance of PPPs. There have not been significant recommendations in the body of PPP literature regarding the monitoring and evaluation of PPPs and to date, few studies have explored the monitoring and evaluation of PPPs. Garvin and Bosso (2008) developed an equilibrium framework and project appraisal template in order to evaluate the effectiveness of PPPs. There is a gap in the measurement of outcomes in PPPs as most attempts to evaluate the performance of PPPs have focused mostly on the short-term impact and outputs, thus there is a gap in determining the long-term impact of PPPs (Garvin & Bosso 2008). In an attempt to assess the performance of PPPs, the equilibrium framework developed by Garvin and Bosso (2008:165) advocates that “the long term success of a PPP program depends heavily on establishing a balance between the interests of the state, society, industry and the market”. In addition, the project performance appraisal template is a scorecard to assess the scope of work of the project, financing considerations, user fee issues, procurement issues and contract management considerations. The framework merely provides a general overview and does not provide an in-depth evaluation of elements considered in the framework and it does not provide any tools necessary for measurement (Garvin & Bosso 2008:165). Similarly, the framework does not provide a system for monitoring and evaluation of PPPs or any recommendations for institutionalising monitoring and evaluation in PPPs.

The general literature on PPPs provides an overview of a wide range of key management areas as best practice guidelines that are critical to the success of PPPs, and they generally refer to the key areas of managerial success as Critical Success Factors (CSFs) (Hardcastle et al. 2005; Tiong 1996; Jefferies, Gameson & Rawlinson 2002; Qiao et al. 2001; Jooste, Levitt & Scott 2009).

A majority of scholarly work provides an array of CSFs for PPPs, providing similar recommendations regarding governance in PPPs (Hardcastle et al. 2005; Jooste et al. 2009). The work of Hardcastle et al. (2005) and Jooste et al. (2009) particularly, provide a synthesis of the various resources on CSFs for PPPs. Hardcastle et al. (2005) provide an outline of the CSF literature on PPPs, pinpointing 18 factors for PPP attainment. Hardcastle et al. (2005:6) suggests that the identified factors are nominal in nature and
through the application of factor analysis distinguish five principal groupings in order to establish the basic elements of relevant importance in PPPs. The first grouping factor, effective procurement, includes the following CSF components: transparency in the procurement process, competitive procurement, good governance, well-organised and devoted public entity, and social upkeep, shared authority between the public and private sectors, and comprehensive and accurate cost-benefit analysis. The second factor grouping, project implementability, includes a favourable legal framework, technical feasibility, appropriate risk allocation and sharing, accountability, and a resilient private partner. The remaining factor groupings include government involvement by providing guarantees, complementary economic conditions, and the availability of appropriate financial markets (Hardcastle et al. 2005:4-6).

Jooste et al. (2009) provide a useful synthesis of the literature on CSFs, and by collating the various resources on CFSs, develop a framework of CSFs for PPP success. Jooste et al. (2009:8) identify 19 general measures for PPP success, and include specific tasks and actions that are necessary to develop and sustain a PPP programme.

The framework proposed by Jooste et al. (2009) constitutes the most recent and complete synthesis of the literature, therefore the framework is discussed for the purpose of this study. The identified measures and development tasks are outlined below.
<table>
<thead>
<tr>
<th>NO</th>
<th>MEASURE</th>
<th>PROJECT DEVELOPMENT TASKS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Develop legal framework and implement consistently</td>
<td>• Institute a clear legal and regulatory framework &lt;br&gt;• Implement framework and policies consistently &lt;br&gt;• Ensure that policies are able to accommodate change &lt;br&gt;• Consult the public during policy development &lt;br&gt;• Develop legal capacity</td>
</tr>
<tr>
<td>2</td>
<td>Ensure political commitment</td>
<td>• Provide high level commitment &lt;br&gt;• Warrant political risk management by means of advocacy within the government</td>
</tr>
<tr>
<td>3</td>
<td>Encourage public awareness and understanding of PPPs</td>
<td>• Grow public awareness and understanding of PPPs &lt;br&gt;• Inform the public of their right to participate in PPPs project development</td>
</tr>
<tr>
<td>4</td>
<td>Obtain buy-ins from key constituents</td>
<td>• Ensure that buy-ins are gained for the PPP concept</td>
</tr>
<tr>
<td>5</td>
<td>Advance public sector knowledge of PPPs</td>
<td>• Provide training to public sector staff &lt;br&gt;• Communicate the lessons learnt to civic and public sector &lt;br&gt;• Publish guidance materials for public sector &lt;br&gt;• Develop pilot projects</td>
</tr>
<tr>
<td>6</td>
<td>Establish a market of private providers</td>
<td>• Encourage private investment and develop domestic capital markets &lt;br&gt;• Sustain state credibility &lt;br&gt;• Sustain a stable political environment &lt;br&gt;• Publish guidance materials to aid private sector organisations &lt;br&gt;• Ensure early involvement of market in order to influence project scope, size and structure</td>
</tr>
<tr>
<td></td>
<td>Establish a PPP unit</td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>----------------------</td>
<td>---</td>
</tr>
<tr>
<td>7</td>
<td>PPP unit should facilitate the process, provide leadership to programmes and develop policy</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Coordinate deal flow</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Direct deal flow to avoid ‘bunching’ of projects</td>
<td>Communicate forthcoming projects to the market</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Improve transparency</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>Improve transparency in project development and the options analysis</td>
<td>Improve transparency in the procurement process, principally sharing information during and after the bid</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Ensure quality of projects</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Identify best projects taking local content into account</td>
<td>Appoint strong private partner</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Implement independent oversight</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>Institute independent oversight over the procurement process through a monitoring or auditing body</td>
<td>Provide independent oversight for performance monitoring and publish results</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Provide government support for private providers</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td>Provide support through example guarantees and loans, but provide support with care</td>
<td>Ensure even-handed regulation and avoid over regulation</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Keep line agency discretion in check</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>Prevent line agencies from making unrealistic commitments on behalf of government</td>
<td>Safeguard quality of project development of line agencies</td>
</tr>
<tr>
<td></td>
<td>Monitoring of private partner</td>
<td>• Prevent unfair competition, bribes, political influence and corruption</td>
</tr>
<tr>
<td>---</td>
<td>-------------------------------</td>
<td>---------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| 15 | Provide management support to public sector agencies on specific projects | • Provide technical advice and support on specific projects  
• Appoint external advisors where necessary to bridge the skills gap |
| 16 | Increase programme accountability | • Keep the PPP programme accountable for performance  
• Incorporate user feedback in performance measures |
| 17 | Ensure the PPP projects promote the interest of the public | • Define how PPP projects promote the interest of the public  
• PPP policies should provide clear economic and social objectives  
• Government should ensure equity in access to all citizens  
• Ensure adequate stakeholder consultation  
• Warrant that the private partner complies with health and safety requirements |
| 18 | Enable fairness in procurement | • Apply recognised procurement practices to avoid corruption  
• Ensure that the PPP unit retains neutrality and independence from the private sector  
• Establish an avenue for complaints through an independent tribunal  
• Improve competition by including non-discriminatory rules |
| 19 | Improve environmental performance of projects | • Incorporate ‘green’ technologies to ensure that PPPs deliver public services in an environmentally friendly way  
• Include specific and realistic ‘green’ objectives in bid  
• Include environmental champions in the process  
• Carefully review green claims made by bidders |
The above measures and performance tasks provide a useful outline of factors to consider in developing and implementing PPPs. However, many of these measures and development tasks are nominal conceptualisations and greater clarification of each task is necessary. Simultaneously, no evidence exists of how each task will be implemented, thus clarification on the required process in implementing each task is needed. Take the case, for instance, of the measure ‘providing government support’ that proposes a development task for ‘ensuring even handed regulation’. Clarification and further study is required on what precisely constitutes even-handed regulation, and a methodology for measuring even-handed regulation should offer recommendations on the optimum level of regulation. The same applies to most of the remaining components listed in the framework.

Furthermore, in order to operationalise the above tasks, a standardisation is required of the relative importance of each task and how these tasks would be applied in differing contexts. For instance, the measure and development tasks relating to providing advice and management support on certain projects. This recommendation is vague and no reference is made by the authors as to which projects, or the context or what constitutes special projects. Jooste et al. (2009:11) take cognisance of the last-mentioned fact regarding the priority of each task, and the context of implementing tasks. In addition, the above framework does not elaborate on the responsible actors in undertaking these tasks; nonetheless, Jooste et al. (2009:11) aim to explore this in a forthcoming study.

Lastly, the framework does not take into account the impact of the interrelated nature of the various components in the framework. Hence, attention should be afforded to the overlapping nature of the measures and development tasks.

On the whole, the aforementioned resources and references to best practice and CSFs summarise pertinent components for successful PPP delivery. However, the above studies simply list the components and do not provide an assessment of components. Moreover, the literature provides a generic perspective of best practice and CSFs in
PPPs. Thus there is a gap in the above studies in providing explicit recommendations for best practice.

Nevertheless, partial attempts have been made by a few authors to assess international best practice on PPPs in detail (Delmon 2009; UNECE 2008; Iossa et al. 2007; Snelson & Chahbani, 2006; CBI 2007; EC, 2004; IMF, 2004). Delmon (2009) proposes that best practice in PPPs can be encouraged by a number of tasks including:

- coordinating public, investor and political buy-in;
- capacity-building and training;
- managing advisers;
- providing a single point of contact;
- project development funding; and
- efficient risk allocation (Delmon 2009:21-29).

Delmon (2009) succeeds in progressing from a mere inventory by describing the above tasks. Snelson and Chahbani (2006) also describe a few international PPP best practices, including the required legislative environment, the structure of government and how it affects PPPs, municipal debt control, and experience of the use of PPPs in the sub-national level of a country.

A noteworthy resource, the United Nations Economic Commission for Europe (UNECE: 2008) guidebook for promoting good governance in PPPs, provides universal and distinct references for best practice in PPPs, including suggestions for PPP features for the following:

- PPP policy development;
- capacity-building;
- supporting legal framework;
- risk-sharing;
- procurement;
- customer and service orientation; and
- considering the environment (UNECE 2008:16).
The aforementioned measures for PPPs were developed in the context of several governance principles, including:

- **participation**: the degree of involvement of all stakeholders;
- **decency**: the degree to which the formation and stewardship of the rules is undertaken without harming or causing grievance to people;
- **transparency**: the degree of clarity and openness with which decisions are made;
- **accountability**: the extent to which political actors are responsible to society for what they say and do;
- **fairness**: the degree to which rules apply equally to everyone in society; and
- **efficiency**: the extent to which limited human and financial resources are applied without waste, delay or corruption or without prejudicing future generations” (UNECE 2008:13-14).

Taking the above governance principles into consideration, the UNECE proposes specific recommendations for best practice in governance in PPPs. In brief these include:

- fairness and transparency in the selection process for partnerships;
- assurance that value for money is achieved;
- an improvement of essential public services especially for the socially disadvantaged, and adequate capacity-building for entities to be involved in the new partnerships;
- reasonable inducements to all parties and fair returns for risk takers;
- efficacy and practical negotiation of disputes that assures prolongation of services and prevents the failure of projects and resultant public waste; and
- improved security in the face of the new threats and for an overall advance in the safety of services provided under PPP arrangements (UNECE 2008:14-15).

UNECE (2008) also accomplishes bridging mere inventory and provides specific recommendations for the above factors. For the purpose of this study an assessment of international best practice is provided for risk and the management thereof, in line with the objectives of the study, to assess systematic risk management in PPPs. Risks originate from risk factors and events, which include any factors or events that may lead to a potential risk. These factors include variables that are political, economic, social, technological and environmental, and all management functions. Risk management is a management function; all factors in the PPP process are relevant to the management
function, where relevant best practice guidelines for factors other than risk are incorporated in related sections in this study. Hence, the following section aims to provide an overview of international best practice in risk and the management thereof in PPPs.

### 3.3.2 International Best Practice in Risk and Risk Management in PPPs

In order to benchmark international best practice, governments and private providers should consider the successes of leading international practitioners.

Delmon (2009:21) contends that best practice in PPPs can be encouraged by ensuring that PPPs are properly developed, as a means to reduce risk for both the public and private sectors. One of the utmost imperative concerns in designing a PPP contract is the appropriate allocation of risks (Iossa et al. 2007:3). As mentioned earlier in this study, one of the proponents of PPPs is the optimal sharing of risk. The process of allocating risk to the party most capable of bearing the risk is determined by whether a particular partner is risk-averse. A partner’s aversion to risk depends on the retention of possibilities to diversify control over risk. The control over diversifying the risk relates to the occurrence of the risk, the likelihood of the occurrence, and the impact.

To demonstrate, Iossa et al. (2007:4) explains the principles of risk allocation as follows:

- The public sector should stand the risk that the private sector cannot control, or cannot control as well the public sector and vice versa.
- In the instance that parties possess comparable risk-aversion, the risk should be allocated to the party who has more control over the risk.
- In the case that parties possess similar control over the risk factor, the risk should be “allocated to the party that is more able to bear it, i.e. the less risk-averse party” (Iossa et al. 2007:4).

As mentioned earlier, control is based on the control over the likelihood of the occurrence and the impact in the case of occurrence. Risk-sharing between the public and the private party is appropriate under certain circumstances.
Firstly, when the private sector can control the risk in terms of impact, and the private sector has less control over the likelihood of occurrence, the risk should be shared between the two parties. Secondly, in the case where risk is difficult to forecast and transferring the risk to the private partner could create an extreme risk premium, the risk should be shared (Iossa et al. 2007:4).

Based on the recommendations for risk allocation provided by Iossa et al. (2007:4-15), a classification can be constructed for risk allocation.

The following table attempts to provide a summary of the suggested risk allocation for some risks relevant to PPPs.

**Table 3.7: International Best Practice in Risk Allocation for PPPs**

<table>
<thead>
<tr>
<th>RISK</th>
<th>APPROPRIATE PARTY</th>
<th>DETERMINANTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning or Statutory</td>
<td>Public</td>
<td>Planning and statutory process undertaken in advance of tender</td>
</tr>
<tr>
<td>Misspecification of Output Requirements</td>
<td>Public</td>
<td>Information and resources relevant for output requirements</td>
</tr>
<tr>
<td>Performance</td>
<td>Private</td>
<td>Works adhere to contract specifications regarding performance</td>
</tr>
<tr>
<td>Financial</td>
<td>Private</td>
<td>The private party undertakes the investment and is responsible for the financing of capital expenditure</td>
</tr>
<tr>
<td>Design</td>
<td>Private</td>
<td>A degree of risk-sharing can take place where public partner has an informational advantage</td>
</tr>
<tr>
<td>Construction</td>
<td>Private</td>
<td>Private sector performance is contractually binding. A degree of risk-sharing can take place where public partner has an informational advantage</td>
</tr>
<tr>
<td>Operation</td>
<td>Private</td>
<td>Private sector performance is contractually binding. A degree of risk-sharing can take place where public partner has an informational advantage</td>
</tr>
<tr>
<td>Utilities</td>
<td>Private</td>
<td>Utilise due diligence and contingency plans as mitigation</td>
</tr>
<tr>
<td>Demand</td>
<td>Public</td>
<td>Government provides guarantees</td>
</tr>
<tr>
<td>------------------------</td>
<td>--------</td>
<td>-----------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Subcontractor</td>
<td>Private</td>
<td>As mitigation measure utilise professional indemnity insurance</td>
</tr>
<tr>
<td>Time-Schedule</td>
<td>Private</td>
<td>Private sector performance is contractually binding</td>
</tr>
<tr>
<td>Latent Defects</td>
<td>Private</td>
<td>Likelihood or impact can be mitigated through efficient environmental assessment and due diligence</td>
</tr>
<tr>
<td>Maintenance</td>
<td>Private</td>
<td>Efficient facilities management, sub-contractor agreements and contingency funds can aid risk mitigation</td>
</tr>
<tr>
<td>Exchange Rate</td>
<td>Public</td>
<td>Government provides guarantees for fixed real exchange rate, hedging of costs and by indexing tariffs</td>
</tr>
<tr>
<td>Changes in the Needs of the Wider Public</td>
<td>Public</td>
<td>Government has informational advantage and needs of the public are often affected by policy</td>
</tr>
<tr>
<td>Cost Overrun</td>
<td>Shared</td>
<td>Significant percentage should be carried by the private partner, taking into account economy, efficiency, financial management and subcontracting arrangements</td>
</tr>
<tr>
<td>Legislative or Regulatory</td>
<td>Shared</td>
<td>Neither the public nor private partner have influence over change in national legislation</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>Private</td>
<td>Apply denomination tools for bargaining</td>
</tr>
<tr>
<td>Residual Value</td>
<td>Private</td>
<td>Ultimate reimbursement to private partner based on the condition of the facility</td>
</tr>
<tr>
<td>Availability</td>
<td>Private</td>
<td>Penalties applied as risk mitigation if private partner does not meet output specifications</td>
</tr>
</tbody>
</table>

Source: (Author’s Own Ideas, adapted from Iossa et al. 2007:4-15 and IMF 2004:18, 31).

The determinants in the above table suggest issues that affect the risk allocation, and risk allocation should consider the issues listed under determinants. However, risks are treated on a case-by-case reference because circumstances, context and resources differ from case to case, and the above risk allocation provides a yardstick.
The UNECE (2008:36-38) postulates a number of factors to ensure best practice in risk management, including:

- risk transfer should be balanced; and governed by cooperative sharing and mutual support;
- government should be prepared to mitigate risks;
- governments should identify risks at the beginning of projects; and
- a risk matrix should be utilised as a tool for risk management.

In the case of a national project, it is not feasible to transfer all risks of the project to the private partner (EU 2004:119). It is challenging transferring risks in major high-capital intensive projects to the private sector, because if such projects or the project team experience difficulties, governments have few options other than to provide surety and support the existing project team (EU 2004:123). Risk-transfer should not affect the cost of financing a PPP project (IMF 2004:12). Specifically, in unitary cost projects, the risk pricing should avoid excessive premiums. Risk-transfer may affect the pricing of risks in terms of premiums.

Assessing risk is a challenging task and the legal complexity of PPP contracts means that terms relating to risk are hard to interpret (IMF 2004:22). Contract design and contract management is fundamental to successful risk-transfer, and management and diligence should be taken into consideration in the careful design of contracts, ensuring that contracts provide sufficient specifications, but are also flexible enough to accommodate changes. Iossa et al. (2007:16) assert that “contract design should exhibit a consistent link between output specifications, allocation of risks and incentives, and the payment mechanism”.

The imbursement method should be based on a pay-for-performance principle and certifiable outcomes of the service standards related to the output specifications. Standards should be interpreted into measurable output indicators, verifiable by an independent third party (Iossa et al. 2007:16).
3.3.3 Reflections on International Lessons Learnt

International best practice is based on lessons learnt by leading practitioners. The following section provides an overview of lessons learnt regarding risk and the management thereof, which laid the foundation for best practice in PPPs.

3.3.3.1 The London Underground, United Kingdom

Private sector companies (Infracos) was awarded contracts for the upgrade and rehabilitation of the London tube underground networks, and the public sector (London Underground Ltd.) was responsible for the final service delivery of the transportation to users. The issues experienced by the PPP project included incompleteness of the contract and unclear VFM, which led to legal and political challenges to the PPP agreement and excessive costs. The demand risk was borne by London Underground Ltd. (LUL). The risk of cost overruns was shared between the private party Infracos and the public party LUL. The private party was criticised for not undertaking works in an efficient and economic manner, and LUL was blamed by the private party for ‘specified rights’ to demand supplementary works for cost overruns incurred, and thus had no argument to support compensation claims. Conflict arose surrounding the compensation claims which had a significantly adverse effect on the project (Iossa et al. 2007:10-14).

Controversy surrounding cost overrun, considering the economy and efficiency, could have been avoided if the contract had been designed properly and circumstances for the sharing of the cost overrun risk had been stipulated.

3.3.3.2 Channel Tunnel Rail Link, United Kingdom

The Channel Tunnel Rail Link (CTRL) was developed to establish a high-speed rail link between the Channel Tunnel and London. The design, construction and infrastructure risks were allocated to the private partner, and revenue risks were also allocated to the private partner, but with safeguards. The project was delivered on time and within budget and there was effective control over the design and construction. However, there was little progress in developing feeder train services and the commuter numbers were lower.
than forecasted. Nonetheless, the PPP showed remarkable commitment from government (EU 2004:119-123).

Lessons learnt include:

- PPPs can deliver on time and within budget.
- Risks should be sufficiently conceptualised and managed. The patronage risk was not sufficiently conceptualised. A reason for the occurrence of the patronage risk, could be that the supporting networks were not integrated and there was not sufficient marketing and public awareness, thus, there was not enough incentive for the use of the rail link.

3.3.3.3 The Centre Hospitalier Sud Francilien, France

The Centre Hospitalier Sud Francilien (CHSF) provides an example of how the private sector can retain risk. CHSF was awarded to a special purpose company originally created by Eiffage Construction for a prison deal. The private sector added value and construction risk guarantees. The private sector retained financial risk by taking on a corporate guarantee. The risk-oriented approach taken by Eiffage, permitted some of the lowest financing conditions accessible for this type of deal to date (UNECE 2008:75-77).

3.3.3.4 The Vancouver Landfill Project, Canada

The Vancouver landfill project provides an example of how the public sector can retain risk. The City of Vancouver, British Columbia, contracted a private party to transform a landfill site producing gases into beneficial commercial uses. The private partner was responsible for the design, finance and construction of a cogeneration plant, which uses the landfill gas as fuel to produce electricity that is sold by the private partner to a resident utility. The private partner and the public partner share the proceeds from the sale of electricity and thermal energy. The private partner receives no payment from the public partner, but the public provides guarantees of providing landfill gases for the twenty-year duration of the contract. The supply risk is allocated to the public party, but it decreases the risk by retaining responsibility for the management and operation of the gas collection system (UNECE 2008:72-73).
3.3.3.5 Pamir Private Power Project, Tajikistan

The Pamir Power Project is an example that even in a high political risk country, PPPs can work. The Pamir Project contracted a private party for the implementation of a power project. The Pamir Power Project is exemplary of how, through careful planning and development, the project was a success because risks were originally assessed and moderated before the project was implemented (UNECE 2008:81-83).

3.3.3.6 Toll Roads, Spain

The Spanish toll road project is an example of how, through careful planning and risk forecasting, risks can mitigate. Over thirty years ago the government, in an effort to renovate its roads around its coastal seaside resorts in an effort to increase tourism, decided to assume the exchange rate risk on the project. Despite the fact that the exchange rate protection continues up to the present day, based on the cost calculations of assuming such a risk, it seems as if over this period, the public sector lost nothing in undertaking this risk (UNECE 2008:39).

Reflections on international lessons learnt indicate that risks should be sufficiently conceptualised and managed. The contract should be designed properly and circumstances for the sharing of the risk should be stipulated and linked to output specifications. The contract should provide specifications but should also be flexible for changes.

In conclusion, most reference to risk and risk management in the body of knowledge generally focuses on beta risk, and there is a lack of comprehensive guidelines that are inclusive of both beta and alpha risk. In summary, lessons learnt indicate that careful planning is required in structuring risk ownership and risk management.

3.4 The PPP Development Curve

The development of a mature PPP market, takes place through three stages. The maturity of the market depends on the countries’ developmental needs and capacity. For instance, developing countries lack more sufficient infrastructure to develop, hence their focus is
on construction, and is usually an isolated sector. Developed countries would invest more in services such as health, education, capital markets, information and communication technology (ICT), and so forth. Countries that have achieved the second and third stages of maturity typically engage in partnerships in more than two sectoral areas (Eggers & Startup 2006:2). Hence, the PPP market in a country depends on the demand for growth in the country. Thus, the importance of PPPs for rapid economic development in countries cannot be understated, because government alone does not possess the necessary supply for the demand.

The three steps in PPP development range from low, to sophistication, to high. The following figure indicates the market development curve.

![Figure 3.1: PPP Market Development Curve](image)

**Figure 3.1: PPP Market Development Curve**

The development in the curve upwards depends on the activity on the left axis of the curve. Most countries are still at the first stage of development. The more activity that takes place in the right quadrant, the more the PPP market develops. The UK, Japan and Australia are examples of countries in the third stage of PPP development. In order to move up the development curve, countries should gain experience from lessons learnt in other countries. Countries in the lower areas of the PPP development curve should introduce ‘soft’ services to improve capacity in the public sector.
Eggers and Startup (2006:6) provide an outline of the characteristics of each stage:

**Stage One**
- create policy and legislative framework;
- establish central PPP policy unit to guide implementation;
- cultivate deal structures;
- accomplish transactions and develop public sector comparator model;
- start building marketplace; and
- apply early lessons from transport to other sectors (Eggers & Startup 2006:6).

**Stage Two**
- create dedicated PPP units in agencies;
- begin developing innovative hybrid delivery models;
- enlarge and assist the shaping PPP marketplace;
- influence towards new sources of funds from capital markets;
- use PPPs to motivate service innovation; and
- PPP market gains depth and the use is expanded to multiple projects and sectors (Eggers & Startup 2006:6).

**Stage Three**
- enhance new innovative models;
- more creative, flexible methods applied to roles of public and private sectors use of more sophisticated risk models;
- more focus on total lifecycle of project;
- sophisticated infrastructure market with pension funds and private equity funds;
- public sector learns from private partner methods as competition changes the way government operations function;
- underutilised assets leveraged into financial assets; and
- organisational and skill set changes in government implemented to sustain a greater role of PPPs (Eggers & Startup 2006:6).

In order for countries to become more competitive, they should focus on gaining capacity in the development of their PPP marketplace, and should strive towards the processes and steps outlined by Eggers and Startup (2006:6). The aim of this study is to make recommendations for SA to move up the development curve and to develop their PPP market. Hence this study will identify the challenges in PPP development, and aims to provide solutions to overcome these impediments to growth.
As mentioned earlier, governments use PPPs in different sectors depending on their developmental needs. In developing countries, Jooste et. al. (2009:4) explains that PPPs “have specifically been aimed at overcoming two broad public sector constraints: i) lack of public capital and ii) lack of institutional capacity (the resources and specialised expertise to develop, manage, and operate infrastructure assets)

PPPs have successfully been applied internationally in the major infrastructure sectors in transport (including road, rail and ports), water, waste, hospitals, schools, public housing, prisons and defence (Eggers & Startup 2006:2). However, there is still a great demand for improvement on infrastructure internationally. A projection of infrastructure needs internationally by 2010 (Eggers & Startup 2006:2), shows the need for stimulation of new infrastructure.

The projections indicate a great demand internationally; this is of great concern, considering that there is a lack of capacity and resources to increase the current rate of infrastructure development. The European Union ran into trillions of dollars for infrastructure demands. The energy sector alone in Europe necessitates $1.2 trillion (Eggers & Startup 2006:3). Another example of the importance of infrastructure development through PPPs is the Southern African Development Community (SADC). The SADC countries are dependent on corridor PPPs for the transport of goods to and from sea ports.

Hence, the development of alternate delivery to landlocked countries is of great importance. These countries are dependent on the corridors for the necessary import and export of goods and services. For instance, it can have an economic effect on the respective countries if the transport pipeline is disturbed.
The projections for the envisaged infrastructure demand internationally are illustrated below.

**Table 3.8: International Infrastructure Demands**

<table>
<thead>
<tr>
<th>REGION/COUNTRY</th>
<th>PROJECTED INFRASTRUCTURE NEED BY 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>$125B</td>
</tr>
<tr>
<td>United States</td>
<td>$1.6T</td>
</tr>
<tr>
<td>Latin America &amp; the Caribbean</td>
<td>$71B</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>$28B</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>$26B</td>
</tr>
<tr>
<td>India</td>
<td>$250B</td>
</tr>
<tr>
<td>China</td>
<td>$132B</td>
</tr>
<tr>
<td>East Asia &amp; Pacific</td>
<td>$178B</td>
</tr>
<tr>
<td>Australia</td>
<td>$18B</td>
</tr>
<tr>
<td>New Zealand</td>
<td>$3.6B</td>
</tr>
<tr>
<td>Germany</td>
<td>$843B</td>
</tr>
<tr>
<td>Ireland</td>
<td>$127B</td>
</tr>
</tbody>
</table>

Source: (Eggers and Startup 2006:3)

The above projections are alarming because the infrastructure output is vital to support and/or maintain targeted GDP growth rates in individual countries.

Countries across the globe are introducing Hybrid PPP models to stimulate PPP development. Hybrid PPP models are innovative alternatives to address various challenges posed to PPPs in specific sectors in infrastructure (Eggers & Startup 2006:17). These models include:

- **Alliancing**
  This entails that the public and private sectors conjointly design, develop, finance and in some cases, build, maintain and operate a project.
• **Bundling**  
Under this model, the public partner will contract with one private partner to provide numerous small-scale PPP projects in order to reduce the length of the procurement process as well as the transaction costs.

• **Competitive Partnership**  
Several partners are selected to deliver a different aspect of a project in competition with each other. The public partner can reallocate projects among partners in competition with each other. An outcome of this process is that the public partner can use the cost and quality of other partners’ outputs as a benchmark for partners.

• **Incremental Partnerships**  
When contracting with a private partner, the public partner reserves the right to call off or stop elements of the work if considered fruitless. The public partner can commission work incrementally. In addition, the public partner can use alternative partners if suitable.

• **Integrator**  
A private partner is commissioned as an integrator to manage project development. The private partner has a less direct role in service provision and in some cases is forbidden to be involved in direct delivery. In other cases, the integrator is commissioned in the first phase and prevented to carry out the subsequent phases of the project. In sum, the integrator is tasked with arranging the required delivery functions and is compensated according to the overall project outcomes where possible, with necessary penalties for poor quality, cost and time overrun and so forth.

• **Joint Venture**  
A company made up with a number of private partners is commissioned. One strategic partner is selected on the basis of a competitive process, to carry the first phase as a benchmark for the remainder of the project (Eggers & Startup 2005).

Various countries are leading the way with various PPP technologies. For instance, the UK focus is on developing new models for alliancing and incremental partnering (CBI
Furthermore, recent literature suggests that the type of PPP is also dependent on the size and nature of the project. For instance, this study focuses on both Greenfields and Brownfields projects. Brownfields entail sites or infrastructure with prior development (Adams & Watkins 2008:18), whereas Greenfields entail new developments. Some PPPs may be more complex than others, as can be noted in megaprojects. Megaprojects have received little attention in the literature and are typical of complex large-scale projects with noticeable expansion of global networks and increasing collaboration, these projects are risky as they are highly capital-intensive, they entail a high-level impact, and extreme complexity exists with the multiple stakeholders. An example of such a project is the Gautrain in SA (Kardes, Ozturk, Cavusgil & Cavusgil 2011:1-3).

PPPs have been developing very rapidly in Europe. The largest contracts in Europe in infrastructure PPPs, over the period 2001–2006, were contracts in Belgium, Holland and Italy (CBI 2007:10). France has engaged PPPs in hospitals, public safety and protection, specifically in prisons, the police and justice services, and national road works (CBI 2007:13). The Netherlands introduced a competitive market for the welfare sector (CBI 2007:22). Norway applies PPP contracts in road works construction (CBI 2007:15), whereas Australia focuses on toll roads and the UK focuses on health and education (CBI 2007:6).

Spain applies PPPs in healthcare, education, prisons, government buildings and accommodation, and is noted as an exemplar on PPP usage (CBI 2007:13). Spain and Singapore apply the UK model of building and refurbishment programmes for schools (CBI 2007:8).

Canada and Spain have applied the UK model for establishing operational PPP hospitals (CBI 2007:8). Canada has outsourced public safety to the private sector by applying the use of technology for public transport services. This has allowed numerous service delivery improvements of rapid, transparent and efficient services. An example is licence applicants booking tests online (CBI 2007).

PPP models should focus on managing procurement through early contract involvement. For instance, in Japan the Project Delivery Organisation (PDO) manages delivery of a
project through procurement, construction and operation. The PDO delivers the service to the public sector client on the completion of the procurement phase. This allows for reduced procurement time, enhanced procurement proficiency, and early private sector involvement in projects (CBI 2007:10-11).

Lessons can be learnt from Japan and the Netherlands. Japan is moving frontward in market testing policy development aimed at transparency, and is opening up the public service to competition. The Netherlands has made significant progress towards competitive neutrality (CBI 2007:22).

Prior to 2001, Japanese state law did not permit government to enter into contracts of longer than five years duration. After the introduction of the PFI in 2001, Japan now allows a contract period of more than 30 years, and more than 94 projects are currently running in Japan. Japan’s progress in PPP development has been more rapid than that of the UK over an extended period. Japan focuses on engaging the private sector in providing 'hard' services on a principle of trust rather than in explicit contracts (CBI 2007:14).

Overall, the major countries leading the way in PPPs development and implementation include:

- The UK, especially in health and education;
- Australia is leading the way on PPP toll roads;
- Canada is testing non-asset based Public Finance Initiatives (PFI); and
- Japan is strongly developing PFI models (CBI 2007).

On a macro level, countries engaged in PPPs should focus on a number of key elements; these include:

- develop governance structures fit for specific purpose (CBI 2007:5);
- develop project capacity through implementing programmes and processes;
- use innovation as a means of delivering competitive services (CBI 2007:5);
- guarantee maintainable deal flows through managed markets to inspire new providers (CBI 2007:5);
• develop a competitive neutral model that levels the playing field for all providers (CBI 2007:5);
• apply and build on models and strategies that other countries have tried and tested (CBI 2007:5);
• develop great quality and professional public procurement (CBI 2007:5); and
• understand and respond to the needs and capacity of the market (CBI 2007:5);

PPP policies, approaches and political strategies must be tailored to the unique characteristics of each individual sector. For instance, in the education sector, less rigid and shorter term policies must be developed (Eggers & Startup 2006:2).

The following table outlines some of the major sector-specific highlights across the globe.

Table 3.9  PPP Sector Highlights around the Globe

<table>
<thead>
<tr>
<th>LOCATION</th>
<th>PROJECT HIGHLIGHTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ontario</td>
<td>30 hospital infrastructure PPPs</td>
</tr>
<tr>
<td>Ireland</td>
<td>Over 100 PPP projects in wastewater</td>
</tr>
<tr>
<td>UK</td>
<td>Largest schooling PPP programme with over 98 PFI deals with the value of £3.5B</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Global leader in PPPs for social housing or urban regeneration</td>
</tr>
<tr>
<td>India</td>
<td>$35.5B in highway PPP projects</td>
</tr>
<tr>
<td>Australia</td>
<td>Global leader in transport sector. First to use PPP in transport. 25% of all PPPs in transportation</td>
</tr>
<tr>
<td>Africa</td>
<td>14% of energy, transport and water projects, through private infrastructure firms during 1990–2004, higher than rest of the developing world</td>
</tr>
<tr>
<td>Italy</td>
<td>75% of PPPs undertaken in transportation sector</td>
</tr>
<tr>
<td>Country</td>
<td>Description</td>
</tr>
<tr>
<td>-------------</td>
<td>--------------------------------------------------</td>
</tr>
<tr>
<td>Brazil</td>
<td>PPP investment in transport, waste and water, prisons</td>
</tr>
<tr>
<td>France</td>
<td>$1.25B in prison projects</td>
</tr>
<tr>
<td>Spain</td>
<td>$113B or 1/3 of investment in roads and rail to be done through PPPs by 2020</td>
</tr>
<tr>
<td>Portugal</td>
<td>31 Hospitals to be privatised</td>
</tr>
<tr>
<td>Texas</td>
<td>One of the world’s largest transportation PPP programs</td>
</tr>
<tr>
<td>United States</td>
<td>More than 7% of prison population in private prisons</td>
</tr>
<tr>
<td>British Columbia</td>
<td>20% of infrastructure done through PPPs</td>
</tr>
</tbody>
</table>

Source: (Eggers & Startup 2006:23)

3.5 Challenges and Issues for Consideration in the Development and Implementation of PPPs

PPPs can generate glitches for both the public and private sectors if they are not appropriately designed and administered. They frequently displace public workers, thereby creating political opposition between displaced public officials, labour unions, and public employee associations. Therefore, it is vital to generate inducements and reassurances to defend current state employees after PPPs take over service provision. If PPPs are not well designed and supervised, their services can become more costly than those provided by government. Government should allow for liquidation or bankruptcy of existing state enterprises that cannot be commercialised or privatised. In addition, corruption can weaken public trust in PPPs if their contracting process is not transparent and prudently supervised. Therefore, government should enact acceptable legal reforms to allow the private sector to operate efficiently and effectively. Also, lack of sufficient competition can turn PPPs into private monopolies that operate no more efficiently than SOEs. Hence, government should remove unnecessary restrictions on the ability of private enterprises to compete in the market. Furthermore, overly restricting
concessions or creating too many limitations can divest PPP economies of scale, and government should increase opportunities for local private enterprises to cultivate management capabilities. On the contrary, too-stringent government regulation can lead to deficiencies in service provision. Emphasis should be placed on redefining the role of government from directly producing and delivering services to facilitate and regulate private sector service provision. PPPs may be too lax at times and it may not hold private services providers sufficiently accountable, thus government should cultivate and apply regulations that are clear and transparent to private investors (Rondinelli 2003:233-234).

Yet, many governments seem afraid to enter into PPP arrangements because of the bad reputation that PPP policies have because of private sector involvement (Greve & Hodge 2007:197). The rules and regulations of PPPs differ in context and type, hence, the rules are not codified, and the success of PPPs ultimately rests on management capacity to develop feasible mechanisms to ensure the success of projects.

There are a number of governance issues in PPPs that require consideration. Vigoda-Gadot (2003:76) contends that public agencies may use the rhetoric of the partnership to delegate contentious or problematic tasks to the private sector. Shifting responsibilities that produce revenue for the private sector, while leaving tasks that require subsidies to the public sector, can unfairly reinforce stereotypes of private efficiency and public waste.

At times, the public sector has been the net loser in some partnerships because private benefits, such as community goodwill, and public costs such as foregone revenues, are not measured with equal care. While, public participants sometimes hope to gain resources from private partners without sharing their private resources or authority. Such partnerships may yield mostly verbal cooperation at meetings, rather than tangible collaboration (Vigoda-Gadot 2003:76). On the contrary, Grimsey and Lewis (2004:91) argue that,

“PPP offer one way of resolving the large cost overruns and delays in traditional public procurement methods for infrastructure, by creating appropriate incentives among contracting partners. However, with the growth of PPPs, the role of government is changing, and the public sector must restructure itself for the new governance and administrative requirements involved, as managers of contractual relationships. Hence, a contractual management and reporting regime must be developed to address a number of these governance issues”.

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PPPs may be more effective but less accountable and representative than other kinds of public organisations, such as legislatures. At the heart of public-private partnerships and collaboration is the need to hold managers of both sectors accountable for their actions, performance, efficiency, and cost savings (Vigoda-Gadot 2003:76). Special emphasis should also be agreed on to instituting, first, key reporting requirements for the meeting of performance quality standards, and second, a performance-monitoring system for assessing. Special emphasis should be placed on contract management, monitoring information and reporting on contractual obligations. This is a continuing action that has to feed into a review and assessment process (Grimsey & Lewis 2004:91).

Criticism against PPPs includes that the term PPP is basically one of insincere political rhetoric, because it is applied to such a wide range of arrangements. However, partnerships fundamentally change the relationship between the government and the private sector for the better, promoting collaboration rather than conflict. Some critics who believe that partnerships encourage change, think that change is for the worse, that it shifts away from representative government based on “one person, one vote” to decisions based on “one interest, one vote”, regardless of how many people share each interest (Vigoda-Gadot 2003:76-78). However, PPPs encourage greater participation in the public sector and the involvement of civil society. The basic premise of PPPs is that a process of consultation and stakeholder inclusion should be adhered to. In addition, Bloomfield (2006:1) warns against the complex nature of PPPs. Bloomfield (2006:1) claims that;

“in theory, these innovative contracts offer substantial public benefits, including improved service quality, risk-sharing with the private sector, and cost savings. In practice, however, the challenge that long-term contracts pose can undermine their successful implementation at the local level”.

Because PPPs often take a long time to completion, robust public sector leadership and political commitment are indispensable to their success. Government engages a private party to take responsibility for a function under established policy and within a stable institutional arrangement (Whittaker 2006:34). In any case, Whittaker (2006:34) avers:

“openness to ‘cooperative governance’ should not be allowed to blur these lines. An important lesson learnt was that when partnerships get to the point where the only action that can be taken must be taken by one of the partners, it will slow down the process if the parties to the partnership behave as if they might act together when only one has the authority to act”.

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Stated differently, the development of a PPP is a complex task, requiring the surmounting of significant political, fiscal, institutional, legislative and regulatory barriers and obstacles (CBI 2007:4).

Engagement and involvement is an important factor for PPPs, it should not be limited only to the counterparts in a PPP, but it should encourage wider community participation and engagement as May and Koski (2012:151) explain: “the engagement of different private sector entities and of key industry and professional associations means little unless their involvement helps to foster broader communities of interest for addressing risks to critical infrastructures”. Simultaneously, achieving accountability, confidentiality, and fairness are primary practical challenges of PPPs. For example, procedures to safeguard broad accountability make the public sector somewhat slow-moving and inflexible. In contrast, private organisations can be flexible and efficient because their decision-making processes are not subject to public comment (Vigoda-Gadot 2003:77).

As mentioned previously, in order to preserve a functioning relationship, each side must amend its expectations and agree to compromise. For example, private partners must submit plans for public review, and public partners risk losing some political support when they are responsive to their private partners. The authentic partnership agreements should balance the distribution of risks and rewards prudently, and in advance (Vigoda-Gadot 2003:77).

On the whole, there is a definite need for PPP contracting schemes. Despite the problems they entail, public-private partnerships are pointed out as meaningful arrangements over and over again. Vigoda-Gadot (2003:65) confirms this, by stating that:

“the value of public-private partnership and a wider collaboration doctrine has been recognised and developed enormously in recent years. These relationships are frequently an effective means of improving public outcomes, outputs, and general performances by implementing technologies, methods, and experiences previously tested and evaluated in business firms”.

The concept of PPPs emphasise that no one organisation can solve complications alone and that, to find resolution to complex public policy tasks, public and private sectors actors must form new institutional arrangements that allow for participation from both sectors.
Partnerships are understood as the best way, in the end, to govern the complex relations and interactions in a modern network society. Partnership provides the government with an original lawfulness through the efficiency of the private sector and the participation of civil society. As an argument in favour of public-private partnerships, it is supposed that the linking of the public and private sectors calls for new forms of governance, personified in NPM and market-based governance (Teisman & Klijn 2002:197-198).

In summary, the vast literature on PPPs confirms the potential advantages of public-private cooperation. These advantages are:

- PPPs can escalate competition and efficiency in service provision, increase coverage and decrease delivery costs (Rondinelli 2003:221).
- The private sector can more efficiently manage the whole supply chain required to provide and dispense goods and services than can government agencies (Rondinelli 2003:221).
- Public-private partnerships can present novel ideas for designing programs and projects and provide more interaction between design and operation of facilities. Governments can circumvent costly over-specification and design of public assets and focus on the life-of-project costs of introducing innovative activities (Rondinelli 2003:221). PPPs also leverage private sector skills and PPPs can be good for project planning (National Treasury n. d: 10-12).
- Partnering with the private sector allows local government to take advantage of economies of scale. PPPs allow government to prolong services without increasing the number of public employees and without making large capital investments in facilities and equipment. This saves time and reduces short-term public finance expenditure. Private firms can often obtain an advanced level of productivity from their work forces than can civil service systems, they can use part-time labour where suitable, and they can use fewer labour-intensive methods of service delivery (Rondinelli 2003:221).
- PPPs are cost-effective and implicate financial benefits. PPPs leverage private party capital to fund PPPs. In addition, the private sector takes financial risks over
a project’s lifetime. This delivers budgetary certainty. The public sector pays only when services are delivered (National Treasury n. d: 10-12).

- Risks are allocated to the party best able to manage them. Private sector risk management techniques are often more advanced and include strategic planning and control (National Treasury n. d: 10-12).
- Because a feasibility study is required at the inception of a PPP, PPPs force the public sector to concentrate on outputs and benefits from the start. The quality of service has to be maintained for the duration of the PPP (National Treasury n. d:10-12).
- Specialist skills from the private sector are developed and transferred to the public sector (National Treasury n. d:10-12).

Furthermore, Bloomfield (2006:1-2) identifies a number of potential barriers in PPPs: “the inapplicability of the partnership model to most commercial transactions between government and business, the risks of uncontrollable circumstances, the impact of local resource constraints, barriers to transparency in long-term contracts”.

There are a number of elements crucial to the success of PPPs. Firstly, each partner must have a real desire to compromise, cooperate, and add value to the relationship. These orientations require that responsibility and accountability be clarified at the PPP inception (Vigoda-Gadot 2003:66). Secondly, the process of conditioning at the inception of the PPP will determine its success, and public managers should take great care in ensuring feasibility. For a PPP to function successfully, the following conditions, which are considered to be process conditions, have to be met:

- “mutual trust;
- unambiguity – and recording – of objectives and strategy;
- unambiguity – and recording – of division of costs, risks and returns;
- unambiguity – and recording – of the division of responsibilities and authorities;
- phasing of the project;
- conflict regulation laid down beforehand;
- legality;
- protection of third parties’ interests and rights;
- adequate support and control facilities;
- business and market orientated thinking and acting;
• ‘internal’ coordination; and
• adequate project organisation” (Kooiman 1993:125-126).

In addition, Hardcastle, Edwards, Akintoye, and Li (2005:6) identified some critical success factors for PPPs to thrive, based on the UK PPP/PFI model, these include; “effective procurement, project implementability, government guarantee, favourable economic conditions, and available financial markets”.

Bloomfield (2006:1-2) warns that there are a number of applied impairments to achieving PPP goals of market-driven competition, equitable risk-sharing, effective performance guarantees, and appropriate transparency in novel long-term contracts. Moreover, PPP contracts are usually for 20 to 30 years, or longer. If the PPPs are to be sustained, there must be a dynamic and continuing management of the contractual obligations (Grimsey & Lewis 2004:6-7). There are a number of key stages involved in developing a PPP project and the roles of the government are at each phase. Among the main elements is firstly, a focus on defining services. Secondly, planning and specification, so that the governments’ anticipated outcomes and output specifications are clear to the market. There should be a focus on certainty of process, ensuring that any conditions to be satisfied are clearly understood before the project proceeds. Lastly, project resourcing to enable government to improve the project and address issues in line with published time-frames (Grimsey & Lewis 2004:6). Bloomfield (2006:1-2) concludes that “local governments embarking on long-term contracts must invest in specialised expertise, effective contract management and strong governance structures”. Therefore, a foundation of cooperation and strong management capacity is vital to the success of PPPs.

3.6 Risks in PPPs

Risk in PPPs can affect the productivity, performance, budget, quality and overall success of a PPP project (Mills 2001:245). Risk management in PPPs is a complex process, with a number of factors coming into play, including:
• legal/ contractual obligations;
• the different types of PPPs;
• the interdependencies of risk; and
• different stages of projects.

Due to a growing interdependence between individuals, firms and public organisations, each agent may not have adequate economic incentive to invest in protection against specific risks because they are vulnerable to losses from those who have not embraced protective measures, and private insurance alone may not be enough coverage against losses (Kunreuther 2004:1124). Thus, the public partner is accountable for managing the partnership in an effective and efficient manner to ensure that the objectives are reached to achieve value for money.

Some methods of risk mitigation in a PPP, depending on the type of risk, include: insurance and performance bonds, specialist advisors, business interruption insurance, construction subcontractor entities, cost overruns, quality specifications, due diligence, unitary payments, contingency plans and funds, bank guarantees, regulatory bodies, penalty clauses, denomination tools for bargaining, environmental assessment, indemnification clauses, defined terms and conditions, vendor quality control procedures and owner oversight.

This study aims to provide a systematic assessment of risk management and strategic control in PPPs. In order to fully grasp the process of risk management an introduction to management is required in order to understand the process of strategic control.

Risk management is a function of management. Management is defined as planning, organising, leading and controlling the resources of an organisation in order to achieve effectively the objectives of the organisation. An absence of good management can create risk, while the function of management is to set the limits of performance and facilitate the success of an organisation (Borgsdorf & Pliszka 1999:1).

In addition, Cervone (2006:258) lists the risks related to management as:
• inadequate overall planning and task identification;
• unclear project ownership and decision-making processes;
lack of visibility into actual status of projects;
unrealistic commitments which leads to unrealistic expectations; and
staff conflicts and poor communication processes, for example the strike of contract workers would lead to the risk of project time overrun.

Inherently, systematic risk management is the process of expecting the unexpected and it serves as a tool to help control risks. Systematic risk management identifies opportunities to enhance performance (Mills 2001:245). Mills (2001:245) concedes that systematic risk management “provides guidance for implementing a risk control strategy for projects at all levels”. Moreover, systematic risk management is to entail a structured process of identifying, assessing, monitoring and managing risk.

In addition, systematic risk management presents a number of benefits, making it an essential process. The benefits generally include:

- “questioning of the assumptions that most affect the success of a project/ organisation;
- concentrates attention on actions to best control risks;
- assessing the cost benefits of such actions;
- enabling decision-making to be less subjective;
- allowing the robustness of projects to specific uncertainties to be compared;
- making the relative importance of each risk immediately apparent;
- providing an improved understanding of the project through response scenarios; and
- having a powerful impact on management by forcing a realisation that there is a range of possible outcomes for a project” (Mills 2001:248-249).

Furthermore, risk management is integrated into the strategic control process in an organisation. Strategic control is directly linked to organisational strategic planning and attempts to provide a mechanism for oversight.

On the whole, strategic control consist of five distinct steps, these include,

1. Consensus or agreement relative to the strategic goals of an organisation;
2. identifying actions required and likely effects;
3. monitoring implementation of actions; it is vital to ensure continual risk management by means of a monitoring process;
4. monitoring internal and external changes; and
5. updating assumptions and goals.

In fact, strategic control is an automated process that measures the performance (outputs), competence and the efficiency of an organisation. Moreover, strategic control processes are aligned to the governance framework of an organisation. Inherently, strategic control places the organisation’s vision and strategy at the core of the management process.

Also, risk managers in both the public and private sector can also minimise exposure to risk by ensuring best practice, strong corporate governance and ultimately, good governance.

In conclusion, the general aim of PPPs is to deliver affordable public infrastructure and services by leveraging private sector capacity. PPPs as a continuation of the NPM agenda, is characterised by both public and private sectors characteristics as outlined in this chapter. One of the most essential determinants of successful PPP delivery is cooperative governance. Government should emphasise good governance in PPPs to ensure accountability and in order to address challenges in PPP implementation. Internationally, PPPs take on different forms and project structures. With regard to risk management, it should be embedded as a higher order management function and strategic planning should be inclusive of risk management decision-making.

3.7 PPPs in South Africa: Legislative Background and Regulatory Environment

In April 1997 the SA cabinet ratified the formation of the Inter-Departmental Task Team (IDTT), chaired by the Department of Finance, to initiate the development of a regulatory framework for PPPs in SA. The IDTT was commissioned to create a national PPP programme, to identify constraints in successful PPP implementation and to develop a package of cross-sectoral and intergovernmental policy, and legislative and regulatory reform. In 2000, the government endorsed the resulting strategic framework and thereafter the Treasury Regulations and the Treasury Manual on PPPs, in 2001 (Schönteich n.d: 26).
The National Treasury established the PPP unit in 2001 to assist government departments wishing to enter into PPPs. The PPP unit has a regulatory role and provides technical assistance to government departments and provinces. Once a PPP agreement has been signed off, the management of the agreement rests with the individual department or province, and is not the responsibility of the PPP unit (Burger n. d: 17). Burger (n. d: 18) states that one of the future challenges that the PPP unit faces is to establish dedicated provincial PPP units.

The National Treasury issued the PPP Manual and Standardised PPP Provisions (National Treasury PPP Practice Note Number 01 of 2004) as a guide for best practice for PPP practitioners (National Treasury 2004: v). The Manual contains Practice Notes in terms of the Public Finance Management Act (PFMA). The Manual is divided according to the PPP project life cycle, into nine (9) modules. Each module is issued as a National Treasury Practice Note. The Standardised PPP Provisions are currently under review and open for stakeholder consultation.

Due to the length of this study, only the SA PPP operational documents were introduced. For the purpose of a comprehensive clarification of each document, please consult the bibliographic details as a reference for further study of the documents.

The PPP project cycle covers two main periods of a PPP, the Preparation Period and the Project Term (National Treasury 2004:v). Modules are divided according the particular phase in the project cycle. To illustrate, an outline (National Treasury 2004:v-viii) is provided below.

**PPP Manual**

**Module 1: SA Regulations for PPPs**: issued as National Treasury PPP Practice Note Number 02 of 2004. Module one (1) provides the legal foundation for PPPs and presents Treasury Regulation 16. In addition, Treasury Regulation 16 provides specific instructions for treasury approvals (National Treasury 2004:v).
Module 2: Code of Good Practice for Black Economic Empowerment (BEE) in PPPs: issued as National Treasury PPP Practice Note Number 03 of 2004. Module two (2) is an exact replication of the SA official Broad-based Black Economic Empowerment Act, 2003 (BBBEE). The BEE Code is relevant to all phases of the PPP project cycle and includes the PPP BEE Balanced Scorecard (National Treasury 2004:v-vi)

**Project preparation period**

Phase I

**Module 3: PPP Inception:** issued as National Treasury PPP Practice Note Number 04 of 2004. Inception is the first phase of the PPP project cycle. This module and stage include all activities pertaining to the initial inception of the project including the institution registering the project with the relevant treasury, appointing a Project Officer (PO), inviting a transaction advisor, receiving and evaluating transaction advisor bids, and finalising and signing the contract with the transaction advisor. In addition this module outlines the procurement steps and clarifies how to apply the *Code of Good Practice for BEE in PPPs* (National Treasury 2004:v-vi). The PO is the public partner’s representative who manages the PPP.

Phase II

**Module 4: PPP Feasibility Study:** issued as National Treasury PPP Practice Note Number 05 of 2004. The feasibility study is conducted to determine whether the PPP option is more feasible than conventional procurement. The module presents and clarifies the three tests of feasibility including affordability, risk and value for money. A number of stages within the feasibility study are covered under this module. These stages include needs analysis, options analysis, project due diligence, value assessment, economic valuation, procurement plan, feasibility study report for Transaction Advisor (Treasury Approval (TA): I) and revisiting the feasibility study (for TA: III) (National Treasury 2004:vi). The feasibility study is a very vital phase in the PPP cycle.
Phase III

Module 5: PPP Procurement: issued as National Treasury PPP Practice Note Number 06 of 2004. This module provides a comprehensive outline of the procurement processes. The procurement process covers the following stages; pre-qualification, request for proposals, best and final offer where appropriate, negotiations, financial closure. This module provides guidelines for preparing documents for Treasury approvals IIA, IIB and III (TA: IIA, TA: IIB and TA: III) (National Treasury 2004:vii).

Project term

Phase IV

Module 6: Managing the PPP Agreement: issued as National Treasury PPP Practice Note Number 07 of 2004. This module is mainly intended for the project officer. The module details key aspects of PPP agreement management, which include:

- "the institution’s roles and responsibilities"
- the approach to PPP agreement management
- partnership management
- service delivery management
- PPP agreement administration
- key challenges and tasks of PPP agreement management
- the PPP agreement management plan and the PPP agreement management” (National Treasury 2004:vii)

In order to ensure certainty and to reduce transaction time and cost in the management of projects, standard contract terms should be adopted, hence the drafting and management of the PPP agreement is a technical task that requires careful consideration (Lund 2004:54).

Module 7: Auditing PPPs: issued as National Treasury PPP Practice Note Number 08 of 2004. This module covers the powers and functions of the Auditor-General; and the scope of financial, performance and forensic audits and the role of the institution’s internal audit in PPP projects (National Treasury 2004:viii).
Module 8: Accounting Treatment for PPPs: issued as National Treasury PPP Practice Note Number 09 of 2004. This module provides principles and guidelines for accounting practice and treatment.

Module 9: An Introduction to Project Finance: issued as National Treasury PPP Practice Note Number 10 of 2004. This module provides guidelines for project financing and guidelines for sourcing project finance.

The feasibility study is a vital phase in the cycle and determines the market for the project. Lund (2004:54) explains SA’s PPP treasury system, by asserting:

“Treasury must approve the feasibility study, all bid documents (Request For pre-qualifications (RFQ), request for proposals (RFP) and draft PPP agreement) before they are issued to the market, bidding must be transparent, fair, equitable, competitive and cost-effective, engagement with bidders must be structured to establish optimal project parameters, and bids must be evaluated for value for money, benchmarked against the feasibility study Public Sector Comparator (PSC) and compared with each other.”

The feasibility study clearly determines the affordability of the limits set by value-benchmarks, and determines the market value (Lund 2004:54). Furthermore, the pre-contract stage of a PPP is more or less 8 to 18 months (Burger n. d: 17).

3.7.1 Standardised PPP Provisions

The Standardised PPP Provisions are a standardisation of the key issues in SA that are likely to arise in PPPs, and prescribe how these issues should be dealt with. The provisions standardise, define and interpret aspects of PPPs. The provisions provide recommendations in a manner that would achieve substantial risk transfer, value for money and affordability. Key issues, such as sector-specific issues, that are not capable of standardisation are noted in the provisions; however, these issues are not elaborated upon. Such issues should be dealt with in the feasibility study of each PPP. Moreover, sector-specific issues are not dealt with in the Standardised Provisions and should be handled on a case by case basis. The purpose of the standardisation is to clarify and to provide a common understanding of technical, fiscal and operational risks in PPPs. In
addition, the standardisation includes assumptions about various aspects in PPP development and implementation. The Standardised PPP Provisions were inspired by the UK based PFI model, and significant support was obtained from the document “Standardisation of PFI Contracts (SoPC)”, published by Her Majesty’s Treasury in the UK (National Treasury 2004:1-15).

The Standardised Provisions cover the following categories in PPPs:

- *Project Documents, Schedules and Deliverables*
- *General Obligations*, including the roles and responsibilities of the private party, warranties, indemnities and claims for damages and recovery and mitigation
- *Project Site*, including nature of land interest, conditions of the site, consents and risks, utilities and resources
- *Duration and Service Commencement*, including design risk, independent certifier and quality assessment
- *Services*, including availability and unavailability of services, restoration and maintenance, and performance monitoring
- *Project Assets*, including security over project assets, equipment and materials, and replacement and upgrading
- *Payment and Financial Matters*, including unitary payments and reporting requirements
- *Insurance*, including insurance requirements, increase in rates, and application of insurance proceeds, uninsurable risks and litigation on insured events
- *Relief Events, compensation events and force majeure*
- *Unforeseeable Discriminatory government conduct and variations*
- *Employment*, including pension benefits, training and site safety and security
- *Black Economic Empowerment*, including black equity, management and employment equity, subcontracting and local socio-economic impact
- *Termination*, including causes, effects, compensation, payments of termination, termination calculation expert and other rights and remedies
- *Step-In by Lenders* and institutions and standard direct agreement
- *Information and Audit Access*
• *Refinancing*, including methods of calculating, sharing, and paying refinancing gains, institution approval, exemptions, audit rights, transaction costs and termination

• *Intellectual Property*

• *Miscellaneous*. This broad category covers a number of issues, including assignment, subcontracting and changes in shareholding and control; third parties, taxation, dispute resolution, governing law and jurisdiction, amendments, waivers, conflicting contracts, severability, counterparts, notices and legal service, confidentiality and signature for institutions (National Treasury 2004:i-iv)

It should be noted that the PPP guidelines should be read in conjunction with the relevant legislation and documentation thereof, related to certain projects. For instance, where relevant sector-specific legislation and the application thereof applies. For example, PPPs that apply public funding for research outputs into technology transfer and innovation, would apply Intellectual Property Rights legislation.

### 3.7.2 Municipal Service Delivery and PPP Guidelines

In addition to the PPP Manual, the National Treasury and Department of Local Government (DPLG), Municipal Service Delivery and PPP Guidelines, provide local government municipalities with instructions and guidelines for PPP projects. The municipal PPP guidelines follow the same project cycle as the national PPP cycle. The Municipal PPP guidelines reflect the Municipal Financing Management Act (MFMA), Act 56 of 2003; Municipal Public Private Partnership Regulations, and the Municipal Systems Act (MSA), Act 32 of 2000. Municipalities and private parties should be familiar with the relevant provisions of the MFMA, the MSA and the Local Government Municipal Finance Management Act, Municipal Supply Chain Management Regulations and with Municipal Service Partnerships (MSPs).

### 3.7.3 PPP Sectoral Toolkits

In addition to PPP regulations, the PPP unit has developed a number of sectoral PPP toolkits as guidelines for sector-specific projects. There is a great demand for such tailor-
made toolkits as no one project can apply a ‘one size fits all’ framework. Under the Municipal PPP framework a number of toolkits are being developed, a toolkit for the feasibility study for solid waste management and Municipal PPPs for private sector commercial use of municipal property is already in place. At national level, the Toolkit for Tourism has been developed and a number of studies are currently underway in the development of other toolkits.

3.7.4 Intergovernmental Relations

Both public and private spheres should familiarise themselves with the intergovernmental system in SA. The SA government applies an intergovernmental cluster system which is governed by the Intergovernmental Relations Framework Act, 2005 (Act 13 of 2005), the so-called ‘IGR Act’. The IGR Act establishes a framework for the national government, provincial governments and local governments to promote and facilitate intergovernmental relations. The Act outlines the various governance structures, the spheres of government, intergovernmental coordination and management, intergovernmental planning systems, integrated development planning, the various roles and responsibilities of each sphere and the intergovernmental fiscal systems. Other legislation relevant to the intergovernmental fiscal systems, as outlined in the IGR Act, includes the PFMA, MFMA, Mid-Term Expenditure Framework (MTEF), Division of Revenue Act (No. 7 of 2003 the so-called ‘DORA’) and the budget cycle.

The intergovernmental government system and the cluster system in SA present a number of challenges to the successful implementation of PPPs. Challenges are experienced with the PFMA, preferential procurement, supply-chain management (SCM) and with the accountability and autonomy within each sphere of government. In addition, the procurement of goods and services within the cluster system, present sector-specific challenges with regard to pressures of streamlining the delivery of services inter and intra sectorally. This study considered these challenges in the analysis of PPPs in SA and makes recommendations accordingly.
3.7.5 **Black Economic Empowerment**

As mentioned earlier, Module three (3) of the PPP Manual outlines the Code of Good Practice for BEE. The Code was adapted from the BBBEE Act of 2003. Relevant legislation to the Act that should be applied includes the Preferential Procurement Policy Framework Act (PPPFA) of 2000, and the Employment Equity Act (EEA) of 1998. The PPPFA outlines the conditions under which public entities establish and follow a tender process in the procurement of goods and services. The Promotion of Administrative Justice Act 3 of 2000 provides stipulations for the tender process. The Prevention and Combating of Corrupt Activities Act 12 of 2004 prevents the engagement with corrupt entities. The above-noted legislation explains and outlines preferred procurement in SA. Procurement is scored on a points system based on BBBEE. The above legislation stipulates the terms, conditions and process for selecting and implementing preferred procurement on a competitive basis.

3.7.6 **Corporate Governance: KING III**

On 1 September 2009, the King Committee on governance issued the King Report on Governance for SA, 2009 (the ‘Report’) and the King Code of Governance Principles, 2009 (the ‘Code’). The two publications together are referred to as ‘King III’. King III is an update on the King Report on Corporate Governance for SA (King II), 2002. King III incorporates the new Companies Act of SA, 2008, which constitutes a redraft of the Companies Act, 2008 and changes in international governance trends since the release of the King II (Corporate Governance 2009:1).

The King III provides guidelines and regulations for companies with regard to all governance related issues such as auditing, reviews, risk management and internal controls of the enterprise. The King III applies to all entities and incorporates the Companies Act and the PFMA. As explained earlier in this study, SA adopts a ‘comply/apply or explain’ governance code of conduct. The King III follows an ‘apply or explain’ framework (Corporate Governance 2009:2).
The section on integrated sustainability reporting is inherently important to the application of PPPs. King III requires that statutory financial and sustainability information be integrated into a report. Thus, the enterprise must report on the ‘triple bottom line’ practice, of economic, social and environmental performance of the firm. Both public and private entities should familiarise themselves with the requirements of integrated reporting and should accordingly apply it to all governance structures in PPPs (Corporate Governance 2009:2).

3.7.7 Intelligent Property Management

When entering into PPPs where a certain component of the partnership involves some type of research and development (R&D), innovation, or a technology transfer and so forth, each partner should familiarise themselves with the particular Intellectual Property Rights (IPR). The PPP Standardisation Provisions (D2.1) stipulate that intellectual property falls under ‘state owned property’ (National Treasury 2004:11). Some relevant legislation that governs Intellectual Property Management (IPRM) includes:

- Intellectual Property Laws Amendment Act of 1997;
- Patents Amendment Act;
- Copyrights Act;
- Trademarks Act;
- Business Names Act;
- Technology Innovation Agency Act 26 of 2008; and

IP legislation provides a cross reference to the relevant legislation to be consulted in IPRM. Again, it should be noted that the IPR Act should be read in conjunction with sector-specific documentation and legislation. For instance, sector legislation specifically stipulates certain terms and conditions unique to that sector, as an example, the energy sector will have different demands than that of the biodiversity sector.
3.7.8  Funding Structures for PPPs in SA

The private party typically funds high capital intensive projects by limited resource debt on a project finance basis made available by lenders. These projects typically require low cost funding sources, whereas low capital projects typically seek pure equity funding, corporate finance or capital contributions by the institution (National Treasury 2004a:4-6).

3.7.9  Risk Management of PPPs in SA

As explained previously, this study considered both alpha and beta risk, hence this study aimed to go beyond the assessment of only technical and business risks, thus the study considers all risks including safety, health, environmental, quality (SHEQ), business, financial, commercial and human resources. In other words, this study considers both the qualitative and quantitative elements of risks.

Risk management in the public sector in SA is directed through the Public Sector Risk Management Framework (National Treasury 2010). According to the Public Sector Risk Management Framework (National Treasury 2010: 6) “legislating risk management in public sector institutions is in itself a macro risk management strategy of Government towards ensuring the achievement of national goals and objectives”. This is done through the Public Finance Management Act (Act 1 of 1999 as amended by Act 29 of 1999) (PFMA). Institutions are encouraged to obey the principles advocated in the King II Report on Corporate Governance (King II), given its promotion of an advanced level of institutional conduct (National Treasury 2010:6). The principles of Batho Pele clearly express the necessity for sensible risk management to reinforce government objectives. Batho Pele attempts to encourage a culture of accountability and caring by public servants (National Treasury 2010:7). Risk management as a service delivery imperative benefits the institution by underpinning and bolstering institutional performance through:

- “more efficient, reliable and cost effective delivery of services;
- more reliable decisions;
- innovation;
- minimised waste and fraud;
• better value for money through more efficient use of resources; and
• improved project and programme management, which provide better outputs and outcomes”.
(National Treasury 2010:5-6).

Thus the general risk management methodology that is to be implemented in SA requires a process of risk assessment methodology that determines the impact, likelihood and necessary responses to risk through an Enterprise Risk Management (ERM) process. The ERM approach entails that “any successful ERM implementation is reliant and dependent on an architecture that considers various interrelated and inter-dependent components” (National Treasury 2010:5). The architecture, process and methodology are illustrated in the following diagram.

Figure 3.2: Public Sector Risk Management ERM Architecture
Listed below are several obstacles to the successful implementation of ERM as outlined in the Public Sector Risk Management Framework:

- “lack of buy-in from management;
- risk management is positioned as compliance;
- risk management is seen as a backroom exercise;
- risk is being managed in silos;
- risk management is not considered to the strategic direction of the institution;
- past mistakes are overlooked;
- there is no clear road map for improvement” (National Treasury 2010:17).

According to the Public Sector Risk Management Framework each government institution is essential to establish a risk management policy which determines the institution’s stance on ERM, and a risk management strategy which guides the implementation of the risk management policy (National Treasury 2010:7).

In addition to the Public Sector Risk Management Framework, the PPP Manual provides a generic reference to risk management in PPPs. Risk management procedures are essential after the signing of the PPP agreement (National Treasury 2004b:20).

The risk management procedure steps outlined in Module 6 of the PPP Manual require the following:

- “develop a risk matrix;
- include a risk management plan in the PPP agreement management plan;
- structure and consolidate risk ownership;
- establish risk mitigation procedures;
- gain assurance about the effectiveness of mitigation measures; and
- embed and review” (National Treasury 2004b:21-24).

The PPP Manual further requires that “risk management needs to be embedded in the institution by ensuring that there is an appropriate awareness of, and responsibility for, risk at all levels of the PPP agreement management team. Risk management should become an intrinsic part of the way the institution relates to the private party, and form the core of the PPP agreement management approach” (National Treasury 2004:24). Furthermore, during the PPP project cycle the risk profile and environment is likely to
change, “and thus the institution’s priorities and the relative importance of risks will shift and change” (National Treasury 2004:24). The PPP Manual further requires that “the summary risk profile and the risk matrix itself will have to be revisited on a regular basis and reconsidered in order to ensure that the risk profile contained in the PPP agreement remains valid. If necessary, amendments will need to be made to the PPP agreement through the variation procedures to ensure that there continues to be appropriate risk transfer to the private party” (National Treasury 2004:24).

The PPP Manual lists the various factors of what can go wrong in a PPP and why these issues could arise. If the PPP agreement is not well administered by the institution, any or all of the subsequent may transpire: “the institution loses control, causing unbalanced decisions that do not serve the institution’s interests; decisions are not taken at the right time or are not taken at all; new business processes do not integrate successfully with existing processes, and therefore fail; people (from both public and private sector) fail to comprehend their obligations and responsibilities, leading to unnecessary disputes; too many issues are intensified inappropriately, which can slow down decision-making; the intended benefits are not actualised; opportunities to improve value for money (VFM) and performance are neglected” (National Treasury 2004:24).

Consequently, the PPP agreement becomes impracticable. If PPP agreement management is failing, it is likely to be due to any one or more of these factors:

- a poorly conscripted PPP agreement;
- the people concerned in negotiating the PPP agreement are not the same as those given responsibility for managing it;
- inadequate resources are allocated to the PPP agreement management;
- weak institutional leadership and/or misunderstanding of the PPP agreement;
- the institution team does not complement the private party team in terms of skills or experience;
- the inappropriate people are put in place, leading to personality clashes or ineffective management;
- the context, complexities and dependencies of the PPP agreement are not comprehended;
- there is a failure to adequately assess private party or institutional assumptions;
• authorities or responsibilities relating to commercial decisions are unclear;
• a lack of independent evaluations of the PPP agreement management arrangements;
• an emphasis on current arrangements rather than on what is possible, or the potential for improvement; and
• a failure to monitor, review and manage institution risks (National Treasury 2004b:20).

Risks in the standardised PPP risk matrix in SA PPPs include the following:
• Availability risk
• Completion risk
• Cost overrun risk
• Design risk
• Environmental risk
• Exchange rate risk
• Force majeure risk
• Inflation risk
• Insolvency risk
• Insurance risk
• Interest rate risk
• Latent defect risk
• Maintenance risk
• Market risk
• Operating risk
• Planning risk
• Political risk
• Regulatory risk
• Residual value risk
• Resource or input
• Subcontractor risk
• Tax rate change risk
• Technology risk
• Utilities risk (National Treasury 2004:71-74).

3.7.10 Service Delivery in Context in South Africa

As previously mentioned, governments engage in PPPs to develop good service delivery to the general public. The SA context has experienced unique changes over the past two decades. A number of initiatives have been launched over this time to improve service delivery. The abovementioned government systems (IGR system), legislative and regulatory reforms, is only an indication of the significant public sector transformation SA has been involved with. For instance, with regard to government systems reform, there have been central agency reforms such as reform of the Public Service Commission (PSC), and management reform such as the Senior Management System (SMS) in government departments. Moreover, three key service delivery improvement initiatives were launched over this period. These initiatives include the Batho Pele, PPPs and Alternate Service Delivery (ASD). The White Paper on Transforming Public Service Delivery of 1997, known as 'Batho Pele', aims to promote service quality awareness across all sectors of government delivery. Batho Pele promotes eight (8) principles of good service delivery. These principles include:

- "regular consultation with customers;
- to set quality service standards;
- increased access to service;
- higher levels of courtesy;
- information sharing;
- openness and transparency;
- to remedy failures and mistakes; and
- to provide best possible value for money" (Russell & Bvuma 2001:244-245)

In addition, PPPs were launched as a substitute to traditional bureaucracy in the concern of better service delivery. ASD is an initiative to complement PPPs and to stimulate socio-economic development (Russell & Bvuma 2001:248-249). Russell and Bvuma (2001:249) explain ASD as:
“a wide range of further measures including systemic IT modernisation, significant management improvements, accelerated training and development of staff at all levels, redeployment of resources in the budget to higher priority areas, and a many pronged focus on efficiency through effective levers including market testing, benchmarking and effective review and accountability mechanisms”.

Examples of such measures include the Senior Management System performance management system and the integrated performance management system applied in service of government, that include Key Performance Indicators and Areas (KPIs and KPAs) aligned to the national mandate and principles of service delivery.

All of the above measures and regulatory initiatives form part of SA’s governance structures. As there is no ‘one size fits all’ policy for PPPs, it must be noted that governance in PPPs should take place on a bottom-up structure, incorporating and aligning processes according to the regulatory and governance structures mentioned in this section. These governance structures promote good governance in both public and private entities, and it is important for all relevant stakeholders to comprehend that PPP development does not take place in isolation. PPP development can be influenced by the immediate environment and in order to promote best practice, all relevant stakeholders should align their interests to the interest of promoting better service delivery in SA.

3.7.11 SA PPPs in Context

SA currently has 74 PPPs in the pipeline (PPP Quarterly 2009:5-8). The PPP pipeline currently employs a variety of PPP modalities and types of PPPs across sectors. For instance, one of the largest PPPs in SA is currently in the transport sector, a high-speed train called the Gautrain. In addition, SAs’ first IT PPP in the Department of Labour is currently under review to determine the performance of the contract.

A Member of the Executive Council (MEC) at the time, Sa’ad Cachalia, commented on the SA PPP context in an abbreviated address at the Limpopo Infrastructure Indaba, December 2008, stating that SA “should learn from ... international experiences and consider our unique scenario closely”. Cachalia further contended that “we cannot escape
the reality that our historical patterns of development, as a country, are based on poor and racially biased planning”. Cachalia concluded that “these backlogs manifest themselves in many sectors including roads, energy, water, transport systems, telecommunications and social infrastructure such as schools, clinics and libraries” (PPP Quarterly 2009:4).

As SA faces unique development challenges, PPPs could offer one way of providing remedies to development challenges. However, there are a number of impediments experienced in a developing context such as SA. The aim of this study is to highlight the challenges faced. This section aims to provide a brief introduction of the SA context as a prelude to an outline of challenges faced in developing PPPs.

There are a number of significant unique characteristics in comparing SA to the international arena. As mentioned previously, some highlighted differences include IGR; the clustering system; preferential procurement; BEE and even the mere perception and awareness of PPPs locally.

The awareness of PPPs presents a systemic governance issue (Wits Business School 2007:4-5). Internationally, PPPs are conceptualised as a development initiative. The relevant legislation clearly defines PPPs in the same manner, in a developmental context; however, there is a lack of consensus in the public sector of what constitutes a PPP. This challenge is partly due to the procurement strategies applied in SA. Internationally, procurement that is rendered within the private sector for goods and services that do not have a developmental purpose is conceived as contracting (Weihe 2008). There is a lack of awareness in civil society in SA of what constitutes a PPP (Wits Business School 2007:4-5). In SA the term PPPs is widely used in civil society as an umbrella term for contracting and procurement, suggesting that the purpose of PPPs – that of a developmental initiative – is not widely recognised. Contracting and procurement constitute a ‘transaction’ between entity A and B. This could have negative aspects, because PPPs are not a mere procurement transaction, they require cooperation between partners and relationship-building. In effect, problems in accountability and role
clarification could arise due to a lack of clarification of the concept. Hence, this could
hamper the operationalisation of PPPs.

### 3.7.12 Significant Actors in the SA PPP Context

The Development Bank of Southern Africa (DBSA) offers and assesses inventive financing mechanisms that empower partnerships to deliver on the SA infrastructure and service delivery demands and objectives. The DBSA plays a prominent role as a partner, advisor and financier in PPP projects. In addition, the DBSA provides accessible and suitably arranged capital for BEE parties, with due regard to project risk profiles (PPP Quarterly 2005). The DBSA has therefore created an innovative funding package to assist PPPs, which contains equity financing, loan assistance, technical assistance, performance bond assistance and project debt finance.

Standard Bank, Nedbank Capital, the SADC Banking Association, Tata Africa, Chevron, the PPP unit and the African Development Bank were all honoured for their contribution to infrastructure PPP take-up, at the first annual infrastructure awards sponsored by the African investor magazine PPP Quarterly, at a gala event in Sandton on 10 November 2008 (PPP Quarterly 2009:1). The other key actors introduced in the 2009 infrastructure awards include Rand Merchant Bank (RMB), Exxaro and the Lesotho Highlands Water Project.

The Support Programme for Accelerated Infrastructure Development (SPAID) is a partnership between the SA government and the Business Trust in support of achieving infrastructure development targets in the Accelerated and Shared Growth Initiative. The Business Trust is an initiative of businesses and government to stimulate job creation and human capacity development (SPAID 2007:1).

The Industrial Development Corporation (IDC) is a state-owned development finance initiative (DFI) that provides funding for the development of infrastructure PPPs. The IDC provides assistance in the financing of all PPP transactions in procurement. The IDC’s assistance includes the following:

- *loan and equity based financial assistance*;
bid bonds and performance bonds or guarantees;
innovative BEE finance in PPPs;
bridging finance; and
co-participating in PPPs-based project finance initiatives (PPP Quarterly 2009:2).

The International Finance Corporation (IFC) played a key role in the structuring and implementing of one of SAs successful PPPs. The highly successful SANParks ecotourism PPPs set up nine ecotourism concessions. SANParks have generated more than US$20 million and have developed infrastructure and assets of US$36 million.

3.7.13 Issues in the SA PPP Environment

There are a number of institutional impediments in the successful implementation of PPPs in SA.

Jooste et. al. (2009:15) contends that the PPP unit is a forerunner of the previous Municipal Infrastructure Investment Unit (MIIU). The MIIIU was developed and operated under a grant from USAID. The purpose of the unit was to stimulate and control the development of PPPs in SA. The unit was internationally staffed and the aim was to transform the unit to a local PPP unit. Parliament denied extension of the contract after five years (Jooste et. al. 2009:16).

Jooste et. al. (2009:16) argues that the National Treasury denied extension of the project, “to bring the function in-house to retain greater control of financial commitments made by central governments”. The new PPP unit has reserved many of the practices of the MIIU (specifically contracts standards), but has concentrated much less on stimulating and developing PPP projects, and more on severely controlling the projects developed by line-agencies. Moreover, the PPP unit is regarded by some agencies as a regulator (SPAID 2007).

There is criticism of the functionality of the PPP unit. Some implementing agencies are hesitant to approach the PPP unit for technical assistance. The PPP unit plays an important role to promote good PPP processes; however, it is restricted in its capability to act as PPP champion in the transformational infrastructure sector. The PPP unit
markets the notion and rationality of PPPs, but it does not develop and market individual projects. In addition, the PPP unit is limited in its resources to advance PPPs. Moreover, the PPP unit is unable to develop sector-specific plans (SPAID 2007).

The governance of PPPs, specifically the PPP unit and the SA regulatory and legislative PPP environment, follow a top-down approach to PPPs. Schönteich (n. d:36, 37) argues that “the government – the National Treasury in particular – has adopted a regulated and top-down approach in the implementation of PPPs … the Treasury appears committed to retaining strong control over the PPP process”. This top-down approach defines output and quality in a narrow cost-based approach. A top-down governance approach can lead to an absence of accountability in partnerships and a lack of competition. However, governance should be a bottom-up process defining quality, not simply in technical terms but in terms of sustainability, and encouraging participation and consultation in the development of governance structures.

The SA PPP context is a unique case. BEE is unique to SA and the impact on PPP development has not to date been quantified. Criticism can be raised whether the establishment of the PPP unit and that the PPP regulatory environment is merely a BEE procurement initiative, and whether the intended country development goals are being achieved. In addition, the successful implementation of PPPs in SA may be affected by challenges presented within the effective roll-out of the economic empowerment initiative. Issues of consideration would include corruption within BEE, competitiveness of the selection of partners, capacity, socio-economic impact of BEE and the legislative pressures of BEE.

The challenges for BEE, as outlined by the PPP Manual (National Treasury 2004:8), include:

- there is a small pool of black equity;
- sources of BEE funding are generally expensive;
- costs of independent financial and legal advice to black enterprises are costly, frequently leaving black partners in a consortium susceptible to concluding disadvantageous arrangements;
• recognised companies in the consortia often become obliged to provide sponsor security for the committed BEE capital and to guarantee performance of black partners, which further contribute to the uneven playing field;
• there is restricted black experience and skills in PPPs;
• black enterprises contributing as shareholders in the Private Party experience difficulties because dividend distribution usually does not occur in the first few years of a PPP; and
• there are only a few black SA PPP transaction advisors.

This study aims to determine the validity of the abovementioned claims, and will examine whether the SA governance structures are indeed achieving their development objectives. This study further determines the impact of BEE on the successful implementation of PPPs and the development of the country, and provides recommendations accordingly. Moreover, this study considers alternative forms of BEE delivery, such as expansionary BEE in PPPs.

Levinsohn and Reardon (2007:2) claim that “one of the biggest challenges facing municipal PPPs is the legacy of complex and interlinked legislation that often involves inherent confusion and duplication”. Municipal PPPs face the difficult task of having to satisfy the requirements of multiple legislation in the MSA and the MFMA. Also, there is a lack of capacity and resources in procurement in the municipal sphere. Municipal PPPs require a more streamlined process for procurement. This adds to a distrust of PPPs in the municipal community and acts as an indictment on their task of providing basic services (Levinsohn & Reardon 2007:2).

James Aiello, a Transaction Advisor from the PPP unit, states that: “the PPP assessment mechanisms at municipal level are not as robust as they are at national level and provincial ... the MSA is unfortunately unconducive to long term PPPs – due primarily to the fact that the law allows ministers to veto increases, making it difficult to finance PPPs” (Lund 2004:57).

The MSA has not been reviewed since 2004 and this presents serious concerns for the implementation of PPPs at local level, due to administrative ineffectiveness, for instance
in the manner in which municipalities raise funds to pay for goods and services. Hence, there is an urgency to align municipal requirements with the provincial and national sphere (Lund 2004:57).

Furthermore, labour unions have an ideological mistrust of PPPs, contending that PPPs pose a threat to job creation. Municipal PPPs do not have a sufficient scoring system for skills transfer and job creation. Moreover, the municipal PPP project cycle and the complexity of the standardised PPP provisions are experienced as time consuming and onerous at municipal level (Levinsohn & Reardon 2007:2-3).

Levinsohn and Reardon (2007:6) assert that, “various players in the SA PPP market have voiced concerns that the Government is not implementing the amount of PPP projects that is required in order to provide the country with the infrastructure that is desperately required by the community and in order to comply with substantial obligations attendant with the 2010 World Cup.”

3.7.14 Previous Research on PPPs in SA

Nyagwachi and Smallwood (2006:1) contend that “SA has developed a robust policy and regulatory framework for PPPs; has an inadequate level of PPP awareness and training, and lacks project management capacity to facilitate deal flow”. Based on their findings, they constructed a systemic model for PPP planning, implementation and monitoring. The systemic model applies Project Management Body of Knowledge principles (PMBOK). The model proposes a project management system and maps ‘if-then’ causal relationships on the inputs, processes, outputs and impacts of the PPP cycle (Nyagwachi & Smallwood 2006:1).

The model is isolated to the infrastructure sectors and does not provide specific recommendations for multiple sectors. Moreover, the model does not provide performance indicators or criteria (Nyagwachi & Smallwood 2006:1). Based on the systems model and the generic systems engineering flow chart; the systemic model maps out an integrated management process for the project manager. Nonetheless, the model does not provide for strategic risk management processes and internal controls. This study aims to build on the success of the abovementioned model. In addition, this study
aims to improve the model and provide recommendations on risk complexities and the management thereof.

Jooste et. al. (2009:4) explores the “problem of institutional capacity shortfalls that governments face when they employ PPPs”. By applying organisational field analysis, Jooste et al. (2009:4) explores a diversity of organisational forms (which the author refers to as ‘governance bridges’), and also identifies the institutional forces that these organisations are subjected to. Jooste et. al. (2009:5) concludes that there is a need for ‘new types of capacities’ in order for PPPs to be successfully implemented (referred to by the author as capacity gaps).

Jooste et. al. (2009:5-6) identifies three types of capacity gaps. These include development capacity, internal sustainability and external sustainability. Jooste et. al. (2009:5-6) explains that development capacity entails the “resources and specialised expertise to develop and set-up the PPP arrangement”. This would include choosing the assets, services, resources, transactions, modality type, formulation, bidding process and the contract award process (Jooste et. al. 2009:5-6).

Internal sustainability entails the ability to manage and maintain the contractual agreement between the partners internally. This would entail performance management and monitoring, negotiations and so forth (Jooste et. al. 2009:6).

External sustainability would encompass the capacity to manage challenges posed by the external environmental, and would include for example public-opposition, non-payment, political interference, corruption and so forth (Jooste et.al. 2009:6). Jooste et. al. (2009:6-14) identifies a number of organisations that play a significant role in overcoming the abovementioned capacity bridges. The organisations include private consultants, private individuals, government bodies and multilateral bodies. These organisations typically range from both local and global organisations and include the following:

- Public Regulators which typically include government agencies that regulate the private providers;
• Non-public Regulators is an outsourced function of government that regulates the performance of private providers;
• Transaction Advisors who provide advisory assistance to public actors;
• PPP Coordination Agencies (or referred to as PPP units) are established by government as agencies to coordinate and develop PPP arrangements nationally; and
• Local, Regional and Multinational Development Agencies assist both public and private sectors to develop PPPs (Jooste et. al. 2009:6-14).

The primary aim of this study is to provide recommendations for best practice and good governance of PPPs. Capacity to govern determines the quality and efficiency of governance in PPPs. Therefore this study applies the above capacity gaps in the SA context in order to determine the capacity shortcomings in the SA PPP environments and suggests recommendations accordingly.

Overall, Levinsohn and Reardon (2007:5-6) identify the following factors that are required to improve the SA PPP environment:
• The additional capable utilisation of resources by government to source the necessary skills lacking at municipal level (SPAID 2007; Levinsohn & Reardon 2007);
• encouragement of real political championship (SPAID 2007; Levinsohn & Reardon 2007);
• ensured bankability of municipal PPPs through the correct credit enhancement (SPAID 2007; Levinsohn & Reardon 2007);
• formation and funding of specialist teams to work with municipal agencies or bodies to drive PPPs to financial closure (Levinsohn & Reardon 2007:5-6).

SPAID (2007) endorses the above claims and identifies the ensuing challenges for the successful implementation of PPPs in SA:
• there is a lack of PPPs in the transformational infrastructure sector;
• many of the greatest infrastructure needs are within sectors controlled by local government;
implementing agencies experience difficulties due to a lack of resources, “knowledge, skills, time and confidence”; municipalities also lack monies (more specifically, for municipalities, certainty of cash flows to pay for long-term PPPs over the term of the contract), and “municipalities also face: conflicts between laws affecting municipal governments (MSA, MFMA and WSA), and ambiguity in the MSA, where no regulations or guidelines have been written for the law” (SPAID 2007).

SPAID (2007) puts forth a number of recommendations in order to improve on the delivery of PPPs in SA. These recommendations include:

- “establish a sector-specific project planning pipeline for transformational infrastructure;”
- apply even-handedness in considering service delivery modes for transformational infrastructure;
- clarify an operational definition of PPPs in transformational infrastructure;
- create transaction champions for PPPs in transformational infrastructure; and
- simplify oversight”.

In addition, the findings of a case study on the PPP at Humansdorp District Hospital, Universitas and Pelonomi Hospitals, and Inkosi Albert Luthuli Central Hospital present a number of recommendations for the successful delivery of PPPs in SA (Wits Business School 2007). These recommendations include:

- “a thorough understanding of the contract;
- an understanding of the nature and demands of the private sector;
- sufficient status and credibility in the public sector and with the private sector to have de facto and designed authority;
- strong interpersonal skills;
- strong analytical skills;
- a commitment to ensuring that the PPP is sustainable and that it continues to deliver value for money to both the public sector and the private sector; and
- a willingness to advocate for the PPP to ensure that it does not garner a poor reputation amongst stakeholders and to rectify problems that might be causing a poor reputation” (Wits Business School 2007:7).
SA should align its governance structures to overcome the aforementioned practical and institutional difficulties. In order to so, SA should implement strategic controls and systematic best practice to develop the current PPP market.

3.8 Conclusion

With the increasing development of a network society as a result of globalisation, there is a great need to build strength in both the public and the private sector and to foster PPPs for development. Current public management practice is characterised by an increase in partnership and cooperation between the public and private sectors. However, sometimes the dichotomy between different modes of PPPs presents a challenge. This is because at times the extension between the public and private sectors is not understood. Therefore, there is a need for both the private sector to cooperate on sharing roles and responsibilities. Nonetheless, there is no 'one size fits all' modality for the design and operation of PPPs. Therefore, public managers should be responsible for developing their own technologies to compete at the global level. The benefits of competition are innovation and sharing of resources through cooperation. The rationale of PPPs is that it enhances sustainable development through leveraging the private sector to achieve social objectives. This is because efforts are placed on the resources and capacities that already exist in the private sector.

The problems of society are too extensive to be addressed by the public sector alone, and thus government requires cooperation with other actors in order to enhance its own capacity.

This study aims to bridge the gap between the appreciation of theory and practice for the effective management of the relationship between risk management and best PPP practices which is critical to the successful outcomes of PPPs. Moreover, this study aims to determine whether risks can be effectively mitigated through a combination of best practices in risk management and performance management approaches.
Effective strategic control of PPP projects necessitates systematic integration of strategic planning, risk management and internal control of such projects. Risk management is a main part of an organisation’s activities and its main aim is to assist all other management activities to reach the organisation’s goals. Therefore, public managers’ tasks should include risk management in their strategic planning and day to day operations. Risk management is the planning, organising, leading, and controlling the resources of an organisation so as to reduce the possible effects of risk on the entity. Risk management as a process includes the assessment of risk, entailing risk identification and the analysis thereof, and a response to risk in the event of occurrence.

This chapter has supplied an overview of the theoretical and practical structuring of PPPs. The chapter also provided an overview of international best practice as guidelines for successful PPP implementation. In addition, this chapter identified the important determinants for effective PPP development and the general challenges and impediments to PPPs. The key factors in successful PPP delivery include cooperative governance, comprehensive risk conceptualisation, planning management and evaluation. An introduction was provided to the legislative background and regulatory environment of PPPs in SA. The following chapter outlines the research methodology and design followed in the preparation, execution and finalisation of this study.
CHAPTER 4

RESEARCH DESIGN AND METHODOLOGY

4.1 Introduction and Background

The previous chapters of this study contributed a theoretical conceptualisation of the research and also contextualise the theoretical underpinnings for assessing risk management in PPPs. This chapter provides an overview of the research approach, design and methodological conduct. A systematic approach to the research design and methodological execution was followed in this study. The main purpose of this chapter is to illustrate the systematic approach to the research process utilised in this study. In addition, the chapter concludes with an outline of the preliminary findings obtained through quantitative methods, data and analysis.

The scope of this study focuses on risk management as a governance function in PPPs. Risk management is a higher-level management function and is an integral part of other management functions including strategic management, procurement and supply chain management, human resources management, financial management and project management. Inherently, risk management encompasses a range of governance activities including strategic controls embedded in business process compliance management. However, this study proceeds beyond technical and fiscal aspects of the risk management process.

This study combines a mixed level approach of analysis to risk management in PPPs. The multi-level analysis includes macro-analysis at the provincial level and the micro and macro organisational level, including the public and private sector. This study focuses on a number of disciplinary perspectives and is interdisciplinary in nature. The specific focus is governance through risk management, encompassing all governance functions including management functions like human resources, legal, financial, business process compliance management, performance management, legal and contract management.
The focus is generic and the purpose is to determine the risk management and governance gaps in PPPs and suggest recommendations on how to bridge the gaps.

4.2 Research Approach

The focus of this study is to shape practice and to improve governance, hence this study has a practical focus and applied research was anticipated. Thus, the study is pragmatic in nature and strives towards applied research results in order to bridge the gap between theory and practice, for use by industry and practitioners’ involved in PPPs, and the research method and design focus on methodological pluralism. Applied research has an immediate practical application and focus on problem solving (Terre Blanche et al. 2006:45). The distinction between applied and basic research refers to the uses of the outcomes of the research (Terre Blanche et al. 2006:45). In accordance, the outcome of this study intends to supply decision-makers with information to facilitate and guide strategic decision-making, as this study aims to bridge the gap between theory and practice. Therefore, this study is an applied study with a practical approach. In addition, this study combines multiple approaches, techniques and methods in arriving at conclusions regarding the research questions and hypotheses.

The research departs from a number of philosophical standpoints; the nature of the enquiry in this study considers the research approach according to the philosophical standpoints presented below.

The ontological standpoint involves the nature of reality and what can be known about it (Terre Blanche & Durrheim 2006:6). The ontological standpoint in this study views reality as interpretative and subjective and the research includes different experiences and first order constructs in the presentation of results and findings.

Epistemology involves the nature of the relationship between the researcher and what can be known (Terre Blanche & Durrheim 2006:6). The nature of the researcher of this study aims to distance the researcher from the researched, and views epistemology as positivist and neutral.
The axiological standpoint considers values, ethics and norms (Morgan 2007:69). This study considers the importance of values, ethics and norms, which the researcher acknowledges, and includes values throughout the research. In addition, the researcher also considers the various value standpoints and how they differ between the public and the private sector in PPPs, and the effect that normative values have on relationships.

Methodology, relates to how the researcher may go about practically studying the research process and methods (Morgan 2007:69). The researcher views the research process as a systematic process and structures the research inquiry according to a sequential mixed-methodology approach, applying dialects that move from inductive to deductive. The research design of this study applies inductive reasoning during the qualitative stages and deductive reasoning during the quantitative stages. Furthermore, the research paradigmatic departure is of a pragmatist approach, and in consideration of a pragmatic approach, the research includes the relevance of all philosophical standpoints. A pragmatic, paradigmatic approach is linked to the relevance of including qualitative and quantitative methods as an emphasis on experiences or practical consequences towards the effects or outcomes orientation (Johnson & Onwuegbuzie 2004:16).

The research in this study proposes an integration of philosophical standpoints and research approach, as illustrated in the following figure.

The following figure depicts the integration of philosophical standpoints and research approach.
Figure 4.1: Research Philosophy Integration

Risk does not take place in isolation. Previous attempts have been made to assess financial and technical performance however no assessment of non-technical or non-financial risk, also referred to alpha or soft risk, has been made. This study provides an assessment of both hard and soft risk, and an approach that considers both qualitative and quantitative aspects of risks is required. Hence an approach that is holistic is required to assess risk management in PPPs.

Also, considering the complex nature of PPPs an interdisciplinary approach is required to include all aspects of PPPs, including human resources, legal, financial, social, governance, and business. Interdisciplinary research bridges fundamental disciplinary questions (Tredoux & Smith 2006:217). This study bridges economics, politics, political science, sociology and public management in order to improve governance in PPPs.
The following table illustrates the questions considered in the various disciplines in this study:

Table 4.1: The Fundamental Questions of Different Disciplines

<table>
<thead>
<tr>
<th>PUBLIC MANAGEMENT</th>
<th>THE STUDY OF GOVERNANCE AND STATE MANAGEMENT</th>
</tr>
</thead>
</table>
| ECONOMICS         | How do societies and groups generate and distribute scarce resources?  
                    | How are goods and services produced and distributed?  
                    | What is the nature of wealth? |
| POLITICS          | What is the nature of power?  
                    | How is power organised, created and distributed? |
| SOCIОLOGY         | How do various forms of social organisation emerge and what are their functions?  
                    | What holds groups and societies together?  
                    | What are the structures and processes of human social organisation? |

Source: (Adapted from Patton 2002:216)

4.3 Introduction to the Inquiry

The goals of the research are exploratory. Exploratory research employs an open and flexible approach to look for new insights into phenomena (Terre Blanche et al. 2006:45). Exploratory studies are intended to provide new insights and ground-breaking research because it typically examines new interests and subject fields (Babbie 2010:92-93). Neuman (2003:534) defines exploratory research as “research into an area that has not been studied and in which a researcher wants to develop initial ideas and a more focused research question”. As mentioned in Chapter Three, PPPs were only endorsed in SA in 2000. Furthermore, there is little evidence of previous research on risk management in PPPs in SA. Thus, this study aims to contribute original research to the current body of knowledge.

Neuman (2003:29) lists the investigative goals of exploratory research, as follows:

- become familiar with the basic facts, settings and concerns;
- create a general mental picture of conditions;
• formulate and focus questions for future research;
• generate new ideas, conjectures or hypotheses; and
• develop techniques for measuring and locating future data.

In accordance, the researcher familiarised herself with the basic setting and concerns in PPPs. The researcher also created a general picture of the conditions in SA PPPs by providing background on PPPs in SA throughout the study. Based on the research results, the researcher formulated research questions for further study and generated new ideas in the findings of this study. Lastly, the researcher suggests techniques for measuring future data on risk management in PPPs in the findings of this study.

4.4 Structuring of the Research

As mentioned earlier, this study applies a mixed-method approach to methodology. Mixed-method research design uses both qualitative and quantitative approaches (Cameron 2009a:143). Johnson and Onwueguzie (2004:17) explain the formal definition of mixed-method research as “the class of research where the researcher mixes or combines quantitative and qualitative research techniques, methods, approaches, concepts or language into a single study”. This study combines both qualitative and quantitative data, data-collection, data analysis techniques, multiple approaches and concepts and language.

The approaches were described in the preceding section and additional approaches are elaborated later in this study. Also, the researcher combines the language of the two research designs; the writing style is passive and includes technical concepts, but also integrates direct first order constructs; in addition, the researcher combines rich text and diagrams, illustrations, mind maps and organograms to illustrate the interpretations in this study. Moreover, the researcher combines the use of multiple respondents and experts to enrich the representativeness of the data. The reason for selecting a mixed-method research approach is due to the offering of a logical and practical alternative (Johnson & Onwueguzie 2004:17).
Mixed-methods offer an inclusive, pluralist (Johnson & Onwuegbuzie 2004:17) and holistic approach, attempting to improve on the weaknesses and strengths of the two research designs. This study takes a pluralist view and includes both induction, the discovery of patterns, deduction, the testing of theories and hypotheses, in order to achieve abduction: the uncovering of the best sets of explanations for understanding one’s results (Johnson & Onwuegbuzie 2004:17). The paradigm emphasis decision for this study applies a dominant status of qualitative research design (Johnson & Onwuegbuzie 2004:18), applying a concurrent ordering of the qualitative and quantitative. A concurrent mixed-method design implies the ordering of the two types of data at the same time (Cameron 2009a:144-145).

This study approaches the design type for exploratory and triangulation reasons. The purpose of ordering the data for exploratory reasons is to connect the two data phases, and the purpose of triangulating the data is to merge the data during the interpretation and analysis (Cameron 2009a:145). The qualitative data has a higher weight in this study, as the quantitative data is presented as a preliminary assessment for triangulation and exploratory purposes.

The following diagram depicts the mixed-method design applied in this study.

![Mixed-Method Design Diagram]

Figure 4.2: Mixed-Method Design
The qualitative research question of this study is to determine how the principal PPP model can be improved to more effectively manage risks that prohibit the successful delivery of public service and best practice in PPP. The research hypothesis aims firstly to determine if current best practices in risk management, combined with performance management approaches, can effectively mitigate risks. Consequently, effective strategic control of PPP projects necessitates systematic integration of strategic planning, risk management and the internal control of such projects.

The mode of observation utilised in this study focuses on case study research. Yin (1994:xi) indicated that "case study is the study of the complexity of a single case, coming to understand its activity within important circumstances". In addition, this study is interested in cross-case analysis to examine more than one case (Babbie 2010:395), in order to draw conclusions from inter-organisational relationships and dominant practice in PPPs in order to determine whether there is good governance in PPPs. Best practice lessons can be drawn through case studies and is an effective strategy for empirical research on comparative governance. Conclusions can be applied to the real world and this would improve decision-making as practitioners would understand the translated results (Hill & Lynn 2004:5). This study focuses on various levels of analysis for within, and cross-case analysis including organisational, project level, programmes and organisations. The scope of this study focuses on risk management as a governance function. Risk management is a management function and is an integrated part of other management functions including strategic management, procurement and supply chain management, human resources management, financial management and project management. Inherently, risk management encompasses a range of governance activities including strategic controls embedded in business process compliance management. However, this study proceeds beyond the technical and fiscal aspects of the risk management process. The unit of the analysis is PPPs. The scope of this study includes the assessment of risk management in PPPs, specifically the Gautrain, the Department of Rural Development and Land Reform (DRDLR), the Department of Basic Education (DBE) Service Head Office Accommodation (HOA) and SANParks. The range of the study includes intra, inter and cross-sectoral analysis. The sample includes a
megaproject, specifically the Gautrain, which is also a Greenfields project, the DRDRLR and DBE HOA and SANParks are Brownfields developments.

As previously mentioned, this study combines a mixed-level approach of analysis to risk management in PPPs. The multi-level analysis includes macro-analysis at the provincial level and the organisational level, including the public and private sectors. The micro-level of analysis includes the PPP project level and the individual level. The project level of analysis includes the four case studies. The individual level of analysis includes experiences of individuals within PPPs.

In summary, the following figure delineates a schematic diagram of the structure of the research process followed in this study. The abbreviation QN illustrates the quantitative phases in the research process, and the abbreviation QL illustrates the qualitative phases in the study.
Figure 4.3: Research Process Structuring

Research planning
- Formulate the research approach and design
- Identify the research methodology and finalise sample

Data-collection and analysis
- Background information on each case is obtained through unsolicited documents, by means of a desktop study
- Schedule interviews- QL
- Conduct first phase of qualitative interviews- QL
- Researcher receives the completed surveys, and the analysis of the surveys is carried out while the researcher proceeds to the next interviewing stage- QN
- Conduct phase two of the qualitative interviewing- QL
- Quantitative analysis of surveys are finalised-QT
- Qualitative analysis of data commences-QL
- Sound boarding inputs are obtained from experts in the field- QL
- Background information on each case is updated and finalised- QL
- Preliminary results presented that were obtained through the quantitative phase- QN

Data interpretation, findings and recommendations
- Qualitative data are interpreted- QL
- International best practice review- QL
- Presentation of qualitative data- QL
- Comparison of quantitative and qualitative interpretations are presented- QL and QN
- Integrated systems management assessment and presentation of findings
4.5 Research Methods and Execution of the Study

The primary research for this study was conducted locally by means of interviews and surveys. The research was conducted at a provincial level, in Gauteng. As mentioned previously, the primary research focused on qualitative data. The time dimension for this study is longitudinal as observations of the same phenomena are made over an extended period and data-collection took place at different points in time (Babbie 2010:107). The case study observation stretches over different project life cycles of PPPs. Secondary data includes government reports and project contracts.

The representative cases in this study include four PPP projects. The sample for the case studies are presented below.

Table 4.2: Sample for Case Studies

<table>
<thead>
<tr>
<th>PPP PROJECT</th>
<th>GOVERNMENT DEPARTMENT</th>
<th>GOVERNMENT SPHERE</th>
</tr>
</thead>
<tbody>
<tr>
<td>DRDLR HOA</td>
<td>DRDLR</td>
<td>National</td>
</tr>
<tr>
<td>Gautrain Rapid Rail Project</td>
<td>Gauteng Department Roads and Transport</td>
<td>Provincial</td>
</tr>
<tr>
<td>SANParks</td>
<td>Department of Environmental Affairs and Tourism</td>
<td>Municipal</td>
</tr>
<tr>
<td>DBE HOA</td>
<td>DBE</td>
<td>National</td>
</tr>
</tbody>
</table>

Although SANParks PPP projects are not based in Gauteng, the representative head office is based in Pretoria, therefore data was collected in Gauteng.

Both public and private sector respondents were included in the sample, including advisors, subcontractors and the independent certifiers. Representatives from the private parties and the government client were approached. The researcher constructed bio-profiles of the respondents with the inputs from the respondents, to assist the researcher in order to derive a skill and experience profile of respondents to assist in the analysis. Note that a limited number of respondents did not agree to share their bio-profiles in order
to protect their identity. The bio-profiles are available upon request. Biographical profile information include the following: current organisation, designation, qualifications, professional background, experience in PPPs, number of years, current and past PPP project involvement, capacity of involvement in PPPs.

The private parties for DBE HOA include Sethekgo Private Party (Pty) Ltd. A breakdown of the various stakeholders in the DBE HOA is supplied below.

Table 4.3: Breakdown of Stakeholders in the DBE HOA

<table>
<thead>
<tr>
<th>CLIENT</th>
<th>DBE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Party</td>
<td>Sethekgo</td>
</tr>
<tr>
<td>Sethekgo Development Manager</td>
<td>Old Mutual Investment Group Property Investments (OMIGPI)</td>
</tr>
<tr>
<td>Facility Managers – Operations Subcontractor</td>
<td>Tirasano Facilities Management (OMIGPI and Drake &amp; Skull Facilities Management)</td>
</tr>
<tr>
<td>DBE Technical Advisor</td>
<td>Turner and Townsend</td>
</tr>
<tr>
<td>Advisor</td>
<td>KPMG</td>
</tr>
<tr>
<td>Lender</td>
<td>Standard Bank and Old Mutual Specialised Finance</td>
</tr>
<tr>
<td>Lender Technical Advisor</td>
<td>Stewart Scott International</td>
</tr>
<tr>
<td>Independent Certifier</td>
<td>BKS (Pty) Ltd Engineering and Management</td>
</tr>
<tr>
<td>Design &amp; Construct Sub-Contractor (Joint venture)</td>
<td>Fikile Construction, Group Five Building, Makhosi Infrastructure</td>
</tr>
</tbody>
</table>

The Gautrain stakeholders consist of private sector entities namely Bombela Consortium, Boygues TP, Murray & Roberts. The transaction advisors include: Khuthele, Arcus Gibb, Kagiso Financial Services, Ledwaba Mazwai and Pinsent Masons. The independent certifier for the Gautrain is Arup.
The stakeholders approached for SANParks include a private party (Singita) and Savage and Jooste, the advisors. Noteworthy, is that SANParks consist of a number of private party concessionaires, however, because there has been previous research on SANParks, this study included recommendations by previous studies in the field and for feasibility purpose due to access, only the public partner and a selected private party concessionaire were included. This study incorporated previous research on SANParks in the case study background of the study.

During the period of this study DRDLR HOA was still undergoing the procurement phase, however this case was included to draw conclusions from the procurement phase of the PPP project lifecycle. Therefore, the private party was not yet appointed during the period of this study. However, the transaction advisors include Vela VKE, the Resolve Group, Hofmeyr, Herbstein & Ginwala, Makhabela, Huntley, Adekeya Attorneys Inc., Mashabane Rose Architects, AON, Thokomelo, Exigent and R&M Quantity Surveyors.

In the case of SANParks, conclusions were drawn from the operational phase, and in the case of the Gautrain, conclusions were drawn from the development and operational phase; DBE HOA conclusions were drawn from the development, close-out and operational phase. This study does not focus on particular phases of the PPP lifecycle; however, the intention was to supply an inclusive approach to the entire lifecycle.

The background and information provided for each case study in Chapter Five was derived from solicited and unsolicited documents. Solicited and unsolicited documents included in this study were:

- The National Treasury regulations;
- The PPP Unit publications;
- The PPP Quarterly;
- Government Gazette;
- Departmental reports;
- Mission and policy statements of PPP’s;
- PPP administrative documents;
- PPP financial exposure data;
• Budgets of PPP’s;
• Consolidated annual financial reports of PPP’s;
• PPP revenue reports;
• Annual inspection, incident, loss and claim reports of PPP’s;
• Official proceedings of PPP’s (meeting agendas and minutes, ordinances and citizen complaints);
• PPP reports related to property (fixed asset inventories, description of facilities, premises and operations, public access and security, and special hazardous uses);
• News articles; and
• PPP plans for crises and recovery (emergency procedures, communications, contingency planning and business interruption).

4.5.1 Sample and Population

Qualitative sampling implies non-probability sampling. The nature of the sample in this study is purposive sampling. Non-probability sampling implies any technique used that is not implied by probability sampling (Babbie 2010:192). Quantitative probability sampling involves that “the logic and power of probability sampling derive from its purpose: generalisability” (Patton 2002:46). Purposive sampling is a qualitative-based sampling strategy. Babbie (2010:193) confirms that “purposive sampling is a type of nonprobability sampling in which the units to be observed are selected on the basis of the researcher’s judgment about which ones will be most useful or representative”. In this study purposive sampling emphasises in-depth understanding which leads to selecting information-rich cases (Patton 2002:46). Patton (2002:46) explains that “information-rich cases are those in which one can learn a great deal about issues of central importance to the purpose of the research, thus the term purposeful”. In the case of the qualitative data in this study, a non-probability sample was selected, whereas, as with the quantitative data in this study, a probability sample was selected.

This study applies multistage sampling - in that it selected different samples at various, diverse stages, including the case study observation, the interview and the survey
samples. Multistage sampling is applied when the sample design is complex and involves the initial sampling of groups of elements, followed by the selection of elements within each of the groups (Babbie 2010:218). Babbie (2010:218) suggests that in a “multistage sampling, the natural groups are sampled initially, with the members of each selected group being sampled afterwards”. Babbie (2010:218) explains further that “the list of primary sampling units is compiled and, perhaps, stratified for sampling”. The author continues, stating that multistage sampling involves a process of the “repetition of two basic steps: listing and sampling”. In the first instance, four cases were sampled, thereafter various respondents for interviews and surveys were listed.

The case study observation applies disproportionate sampling and weighting “assigning different weights to cases that were selected into a sample with different probabilities of selection” (Babbie 2010:223). Babbie (2010:223) explains that each case is given a weight equal to the inverse of its probability of selection, when all cases have the same chance of selection, no weighting is assigned. Some cases may have more weight than others. In the case of the qualitative interviews and the quantitative surveys, maximum variation sampling is a purposive sampling technique (Patton 2002:234). Cases in the sample of this study were selected on the basis of their heterogeneity. Maximum variation sampling aims at examining central themes that spread across a great degree of variation (Patton 2002:234). Thus, the sample would have a degree of great diversity; the purpose of this is to include the various disciplines of various stakeholders, and the diversity within the PPP arrangement.

The sample focuses on criterion specification. Criterion sampling involves the reviewing of all cases that meet some predetermined criterion of importance (Patton 2010:238), in the case of this study, involvement in PPPs in SA and their disciplinary relevance and diversity.

The criterion specification for selecting the cases, namely Head Office Accommodation for the Department of Education and the Department of Rural Development and Land Reform, the South African National Parks concessionaire and the Gauteng Rapid Rail Link, was based on heterogeneity. Heterogeneity bestows a basis of comparing the
differences, if any, of PPP experiences in diverse sectors in order draw inferences on cross-case analysis and thus provide sector specific recommendations. The different sectors selected in this study were transport, tourism and conservation and head office accommodation for basic education and rural development and land reform. In addition, these PPP projects were selected due to the different nature of the PPPs in the above mentioned sectors, comparing a megaproject and Greenfields like the Gautrain to a Brownfields concessionaire, lease type PPP such as SANParks and the Design, Build, Finance, Operate and Maintain (DBFOM) PPP head office accommodation. Furthermore, the sample was selected based on feasibility, as the researcher was granted access to key individuals working on these projects and access to information, access to information and availability of information was a results of networking prior and during the research. All the projects are also located in Gauteng area, and it was therefore relatively easily accessible to the researcher.

In the case of the qualitative interview sample of 66, a snowball method was used in the first stage of data collection to identify individuals who can identify other individuals most suitable for the interviews. The second stage of qualitative data collection was based on the results of the snowball sampling method and was supplemented with criterion sampling to identify respondents from both the public and private partners in the PPP. The selection of the qualitative interview respondents was based on the principle of maximum variation, using heterogeneity to compare respondents’ outlook, perspectives, skills and experience, from both the public and private sectors. In addition, the selection was based on the availability and accessibility of respondents, thus a realistic selection, and based on representation. Representation refers to a particular position, expertise, role and responsibility or a designation in both the public and private counterpart of the selected PPP case studies. The selection was based on the following designations or representations: strategic decision makers, for instance chief executive officers, managing directors, chief financial officers, risk managers or the designated risk officers, legal advisors, technical advisors, project managers, financing specialists, investment advisors, technical and marketing executives, engineers, independent certifiers, business development directors, health and safety managers, transport directors, project officers.
Representatives of the above designations from both the public and the private sector were included. A PPP structure typically include the above strategic, operational and commercial designations in both the public and the private sector capacity.

The quantitative survey is a non-random sample, consisting of representatives from the following local government municipalities: Aganang, Albert Luthuli, Alfred Nzo, Blouberg, Bojanala Platinum, Bushbuckridge, Capricorn, City of Tswane, Dipaleseng, Ditsobotla, Dr JS Moroka, Ehlanzeni District, Ekhuruleni, Elias Motsoaiedi, Emakhazeni, Emalahleni, Emfuleni, Fetakyomo, Fezile Dabi, Govan Mbeki, Greater Marble, Johannesburg, Kgethleng River, Kokstad, Kungwini, Lekwa, Lepelle Nkumpi, Mafikeng, Mafube, Makhadu, Makhuduthamaga, Maquassie Hills, Marble Hall, Maruleng, Matjhabeng, Mbombela, Merafong, Metsweding, Mkondolo, Modimolle, Mogalakwena, Mogale City, Mookgopong, Msukaligwa, Musina, Mutale, Ngaka Modiri Molema, Nkomazi, O.R. Thambo, Pixley Kaseme, Polokwane, Ramontshe Moloa, Randfontein, Sekhukhune, Sibande, Sisonke, Steve Tshwete, Thembisile Hani, Tswaing, Victor Khanye, Waterberg and West Rand.

The purpose of employing a second set of data was for triangulation purposes, and to supply a preliminary assessment. The study triangulated two methods of data-collection, qualitative and quantitative. The purpose of using quantitative data was for generalisation purposes. After the sample was deduced the researcher realised that the sample for the first qualitative data set consisted mostly of private sector respondents. These included the individuals involved in developing and delivering the PPP, and a limited number of respondents from the public sector. The limited number of public sector respondents was because only a few individuals from the institution are involved in the PPP. This discovery was made while the researcher was outlining the sample prior to data-collection, and evidence of this was obtained from solicited and unsolicited documents and confirmed by the initial first phase of qualitative data-collection during the finalisation of the sample. Therefore, the researcher decided to include more public sector respondents from a wider population in the quantitative sample. Although not all these public sector respondents are directly involved in the case studies relevant to this study, they do have an indirect
involvement. This includes administrative processes such as the PFMA procurement and supply chain, government approvals, site and land handovers.

4.5.2 Qualitative Data-Collection

The primary research focused on qualitative face to face interviews with in-depth questions to enhance qualitative rich-text. An open-ended interview schedule was used. Interviews were conducted in two stages. The first phase was to refine the interview sample, as the respondents of the first stage of interviews assisted in determining the most significant respondents to include, and also assisted in determining interview themes. The first interview stage included 19 unstructured interviews.

The second stage involved in-depth interviewing to obtain qualitative responses. This stage included 40 semi-structured interviews. In some cases, when respondents were not able to participate in a face to face interview, the researcher would obtain inputs through a teleconference or email questionnaire inputs. A total of 66 interviews were conducted of which four respondents were not able to respond through face to face interviews, two of these individuals contributed inputs by means of email and the other through telephonic interviews. A third stage was to obtain inputs from the operational phase from 7 respondents.

To reinforce the qualitative reflections in this study, secondary data, including media reports on industry news relevant to the research, was also integrated into the study after the results were derived. In support of the research aims, this contributed to the internal validity of the research results.

The situation of the interview was selected at the convenience of the respondent, but the majority of respondents preferred the use their official work premises; however, there were a limited number of respondents who requested a public meeting place, and this was because these particular respondents are consultants and are not office-based.

At the start of an interview the researcher would clarify the research process and the purpose of the interview, and although the researcher was familiar with the background
of the respondent, the researcher would probe the respondent in order to obtain more detail on the respondent’s background and experience before commencing the interview. The interviews lasted approximately an hour to an hour and a half.

The interviews were recorded through two methods. During the interview the researcher took field notes based on the responses, capturing the inputs of the respondents. The researcher attempted to record the interviews, in most cases, using an electronic recording device. However, the researcher would first build a rapport with the respondent and first establish whether the respondent would be comfortable if the interview was recorded. If the researcher felt that the respondent would not be comfortable, the researcher would refrain from recording the interview and would capture the respondent’s inputs by making use of field notes. The researcher recorded 25 interviews in total through an electronic recording device. In the event that an interview was recorded, the researcher would first obtain permission from the respondent. The researcher would also explain that the data would be treated with sensitivity and the recordings would not be reproduced, as the researcher would use the research findings anonymously to protect the respondents. In addition to the interview recordings and field notes, the researcher kept a journal where reflections on the responses of the respondents post the interviews were annotated. Also, cryptic post interview notes were made, as the researcher elaborated and reflected on the experiences and responses of the respondents.

The first interviewing phase was conducted in an inductive manner to identify suitable interview questions and respondents (see annexure A for the interview questions used in this phase). The second stage contained deductive themes that were derived through interview stage one. The third phase of interviewing included unstructured interviews with respondents in order to obtain inputs regarding the operational phase in PPP cases.

Terre Blanche, Durrheim and Painter (1999:322) assert that “themes should ideally arise naturally from the data, but at the same time they should also have a bearing on your research question”. The themes identified to structure the analysis, assessment and presentation of the data in this chapter, emanated from the data collected in order to answer the aforementioned research questions. They include risk management, business
process compliance management, service delivery tasks and general governance issues. Post analysis revealed that the themes are reinforced in the literature, based on the SA PPP model theory, as set out in the key PPP agreement management functions in the ensuing table.

Table 4.4: Key PPP Agreement Management Functions

<table>
<thead>
<tr>
<th>PARTNERSHIP MANAGEMENT</th>
<th>PERFORMANCE MANAGEMENT</th>
<th>CONTRACT ADMINISTRATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate governance</td>
<td>Risk management</td>
<td>Variation management</td>
</tr>
<tr>
<td>Trust and attitude</td>
<td>Performance management</td>
<td>Contract maintenance</td>
</tr>
<tr>
<td>Communication and</td>
<td>Service delivery</td>
<td>Financial administration</td>
</tr>
<tr>
<td>information sharing</td>
<td>Quality</td>
<td></td>
</tr>
<tr>
<td>Relationship assessment</td>
<td>Value for money</td>
<td></td>
</tr>
<tr>
<td>Dispute resolution</td>
<td>Performance improvement</td>
<td></td>
</tr>
</tbody>
</table>

Source: (National Treasury PPP Practice Note Number 07 of 2004:2)

Data was collected in an inductive manner, through the systematic collection and analysis of extensive amounts of data and thereafter, hypotheses were formed, and during the analysis stage themes were derived for coding. The data was coded in four stages. The first stage of open coding derived the following categories:

- Risk management
- Business process compliance management
- Service delivery tasks
- General governance issues

The second stage of coding involves an axial phase, from where sub-themes were derived. The themes derived in this phase include:

- Business management
- Risk management
- NPM
- Governance
- Financial

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- Legal
- Political

The third phase of coding allowed for further breakdown of responses into sub-themes. These themes include, in no particular order of importance:

Table 4.5: Third Phase Sub-Themes

<table>
<thead>
<tr>
<th>FINANCIAL CODE</th>
<th>SUB-THEME</th>
</tr>
</thead>
<tbody>
<tr>
<td>FM</td>
<td>Financial management</td>
</tr>
<tr>
<td>IF</td>
<td>International finance</td>
</tr>
<tr>
<td>PS</td>
<td>Price speculation</td>
</tr>
<tr>
<td>PF</td>
<td>Project finance</td>
</tr>
<tr>
<td>FP</td>
<td>Financial project protocols</td>
</tr>
<tr>
<td>CA</td>
<td>Capital</td>
</tr>
<tr>
<td>FA</td>
<td>Financial autonomy</td>
</tr>
<tr>
<td>GA</td>
<td>Guarantees</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>RISK MANAGEMENT CODE</th>
<th>SUB-THEME</th>
</tr>
</thead>
<tbody>
<tr>
<td>RM</td>
<td>Risk management</td>
</tr>
<tr>
<td>RT</td>
<td>Risk transfer</td>
</tr>
<tr>
<td>OR</td>
<td>Operational risk</td>
</tr>
<tr>
<td>RX</td>
<td>Risk matrix</td>
</tr>
<tr>
<td>RS</td>
<td>Risk schedule</td>
</tr>
<tr>
<td>CR</td>
<td>Construction risk</td>
</tr>
<tr>
<td>HZ</td>
<td>Hazard</td>
</tr>
<tr>
<td>RF</td>
<td>Risk profile</td>
</tr>
<tr>
<td>ER</td>
<td>Employee risk</td>
</tr>
<tr>
<td>SHEQ</td>
<td>Safety health and quality</td>
</tr>
<tr>
<td>R</td>
<td>Risks</td>
</tr>
<tr>
<td>LSS</td>
<td>Losses</td>
</tr>
<tr>
<td>Code</td>
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<td>ST</td>
<td>Strategic controls</td>
</tr>
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<td>RD</td>
<td>Risk modelling</td>
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<td>INS</td>
<td>Insurance</td>
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**Legal**

<table>
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<tr>
<th>Code</th>
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<tbody>
<tr>
<td>DM</td>
<td>Disputes and claims</td>
</tr>
<tr>
<td>L</td>
<td>Legislation</td>
</tr>
<tr>
<td>PA</td>
<td>PFMA</td>
</tr>
<tr>
<td>AC</td>
<td>Achievement criteria</td>
</tr>
<tr>
<td>DRB</td>
<td>Dispute resolution board</td>
</tr>
<tr>
<td>CS</td>
<td>Contract management, contracts, agreements, contractor</td>
</tr>
<tr>
<td>VA</td>
<td>Variations and penalties</td>
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<tr>
<td>VE</td>
<td>Verification</td>
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**Business Management**

<table>
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<td>MA</td>
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<td>CT</td>
<td>Commuters</td>
</tr>
<tr>
<td>BOA</td>
<td>Board level representation</td>
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<tr>
<td>PCP</td>
<td>Pre-contract phase</td>
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<td>Procurement</td>
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<td>Sensitivity analysis</td>
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<td>PRM</td>
<td>Project management</td>
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<td>Process</td>
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<td>SP</td>
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<td>MD</td>
<td>Market development</td>
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<td>AB</td>
<td>Advisory board</td>
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<td>ED</td>
<td>Entrepreneurial development</td>
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<td>SW</td>
<td>Software</td>
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<td>-----</td>
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<td>BC</td>
<td>Benchmarking</td>
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**POLITICAL**

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<tr>
<td>DPW</td>
<td>Department of Public Works</td>
</tr>
<tr>
<td>DLA</td>
<td>Department of Rural Development and Land Reform</td>
</tr>
<tr>
<td>PB</td>
<td>Political buy-in</td>
</tr>
<tr>
<td>BU</td>
<td>Bureaucracy</td>
</tr>
<tr>
<td>GS</td>
<td>Government slowness</td>
</tr>
<tr>
<td>DA</td>
<td>Delegation of authority</td>
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**PPP**

<table>
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<td>LU</td>
<td>Local units</td>
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<tr>
<td>PU</td>
<td>PPP Unit</td>
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<tr>
<td>PUB</td>
<td>Public partner</td>
</tr>
<tr>
<td>PSC</td>
<td>Public Sector Comparator</td>
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<td>FT</td>
<td>Future of PPPs</td>
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<tr>
<td>LF</td>
<td>Life cycle</td>
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<tr>
<td>UN</td>
<td>Understanding</td>
</tr>
<tr>
<td>F</td>
<td>Feasibility</td>
</tr>
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<td>VFM</td>
<td>Value for Money</td>
</tr>
<tr>
<td>BG</td>
<td>Background</td>
</tr>
<tr>
<td>OS</td>
<td>Output specifications</td>
</tr>
<tr>
<td>RC</td>
<td>Recommendations to improve PPPs</td>
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<tr>
<td>CI</td>
<td>Committee, commission, association or forum for PPPs</td>
</tr>
<tr>
<td>PRE</td>
<td>PPPs as a recommended procurement route</td>
</tr>
<tr>
<td>EIA</td>
<td>Environmental Impact Assessment</td>
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<td>HS</td>
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## GOVERNANCE

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<td>CR</td>
<td>Corruption</td>
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<tr>
<td>SD</td>
<td>Service delivery</td>
</tr>
<tr>
<td>I</td>
<td>Institutionalism</td>
</tr>
<tr>
<td>T</td>
<td>Transparency</td>
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<tr>
<td>O</td>
<td>Organisation</td>
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<td>RE</td>
<td>Review</td>
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<td>Q</td>
<td>Quality</td>
</tr>
<tr>
<td>LS</td>
<td>Leadership</td>
</tr>
<tr>
<td>GV</td>
<td>Governance</td>
</tr>
<tr>
<td>DIM</td>
<td>Document and information management systems</td>
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<tr>
<td>RN</td>
<td>Reporting</td>
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<td>DK</td>
<td>Decision-making</td>
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## HUMAN RESOURCES

<table>
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<td>CN</td>
<td>Communication</td>
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<tr>
<td>TA</td>
<td>Transaction advisor</td>
</tr>
<tr>
<td>EC</td>
<td>Education campaigning</td>
</tr>
<tr>
<td>CO</td>
<td>Consultants</td>
</tr>
<tr>
<td>CH</td>
<td>Change and change management</td>
</tr>
<tr>
<td>HR</td>
<td>Human resources</td>
</tr>
<tr>
<td>SK</td>
<td>Skills</td>
</tr>
<tr>
<td>TR</td>
<td>Training</td>
</tr>
<tr>
<td>IN</td>
<td>Innovation</td>
</tr>
<tr>
<td>RG</td>
<td>Research gaps</td>
</tr>
<tr>
<td>IC</td>
<td>Institutional champion</td>
</tr>
<tr>
<td>CC</td>
<td>Cultural challenges and cultural change</td>
</tr>
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</table>
Finally, in the last coding phase, which involves a selective coding method, the above themes were contrasted and compared; this coding phase revealed that the themes were overlapping in nature. They also presented a similar pattern to the themes developed from the theoretical assessment of the literature presented above. The themes developed through the third axial coding phase were therefore not elaborated further, due to their overlapping nature. Only the themes derived from the selective coding were assessed. These themes were selected based on their frequency and overlapping nature. The selected themes include the following:

- Risk management
- Variations, claims and disputes
- Contract management
- Management function
- Commercial
- Competition
- Procurement
- Black economic empowerment
- Performance management
- Stakeholder management
- Understanding
- Capacity
- Training
- Governance
- Intergovernmental relations
- Government slowness and ineffectiveness
• Political willingness
• PPP Unit
• Committee
• Legislation
• Transparency, auditing and reporting
• Service delivery
• Sectoral

The qualitative phase in this study contributes the primary data set, analysis and findings. A preliminary assessment of quantitative data was conducted prior the qualitative phase. The preliminary quantitative phase will now be outlined.

4.5.3 Quantitative Data-Collection

The preliminary assessment of quantitative data was derived through self-administered surveys. Because there are more private sector stakeholders involved on a PPP project, and a limited number of public sector representatives are appointed on the PPP, the interview sample included more private sector respondents, while the quantitative sample consisted of more public sector respondents.

The quantitative data was collected and analysed concurrent with the second phase of qualitative interviewing. By the time that the interviewing phase was completed, the results from the analysis of the quantitative data-collection were derived, which served as preliminary findings. A self-administered survey was distributed to respondents in order to collect data.
4.5.4 Quantitative Data Analysis and Protection

The researcher safeguarded all data captured by storing electronic copies on a personal computer which is password protected, and all hard copies of data was safeguarded at the researchers residence, ensuring that only the researcher had access to any collected data. The surveys were completed by the respondents on hard copy; responses obtained from the surveys, were captured electronically through codes in a spread sheet, and responses were stored electronically to facilitate electronic use for assessment, using electronic statistical software.

Statistical consultation was provided by Statkon, University of Johannesburg, in a service that included assistance with capturing, coding and analysis. The service afforded by Statkon treats data with sensitivity; as Statkon contributes consultation to doctoral researchers at the University of Johannesburg, Statkon ensures safeguarding and data protection. The survey responses were coded and captured electronically, thereafter the responses were analysed using the statistical package PASW 18.0.

4.5.5 Qualitative Data Analysis and Protection

The same process was followed with the capturing of interviews. The researcher transcribed recorded interviews and saved them on the personal computer, and kept the field notes in a safe place at the researcher’s residence. The data analysis approach for the qualitative data followed, and included a systematic process. The researcher transcribed the recordings. The researcher reviewed the responses on a number of occasions to familiarise herself with the data and reflect and engage with the data. After reading and engaging with the data a number of times, the researcher sorted and classified the data to derive research results. First, the researcher would engage with the responses by making conceptual and reflective notes for each response. Thereafter, the transcriptions, field notes, cryptic notes and reflections were coded through an open-coding process in an electronic spread sheet. The researcher colour-coded the various codes in order to identify patterns. The researcher used axial coding in the next data analysis phase to categorise data, make connections, identify relationships between variables and derive sub-themes. In this phase the researcher grouped overlapping
variables and also identified the frequency of results. In the final analysis stage, the researcher applied selective coding where the researcher scanned, compared and contrasted the coded results. The data analysis thus identified themes based on an initial assessment, an inductive assessment to identify sub-themes as a product of the codes, and thereafter the co-occurring variables were assessed, the face sheet variables were assessed, and then enumeration was applied. Lastly, the researcher considered the results in their entirety to form a logical depiction of them.

4.6 Results, Interpretation, Findings and Recommendations

A preliminary quantitative assessment is supplied in this chapter. The results of the qualitative data are provided in Chapter Six. Chapter Six presents the results according to themes identified during the qualitative data analysis stage, which are further elaborated in Chapter Six. The researcher implemented an integrated systems management approach in analysing and presenting the results in Chapter Seven. Chapter Seven contributes an integration of the qualitative and quantitative results. Chapter Seven supplies an integration of the findings and recommendations of this study.

4.6.1 Presentation

The researcher has made reference to the literature at a number of stages during the study. Firstly, reference to the literature was made to reinforce the results of the study and to identify gaps in the literature and in the research results, and to determine whether there were gaps in the research that demand further study. In addition, the researcher included industry news in Chapter Five that was derived after the results were presented, that supports the results, with the aim to refute or concede the results. In the case of this study, the industry news acknowledged the results. The inclusion of industry news further strengthens the reliability of the research results.

The researcher utilised a passive and positivist writing style in presenting the results and findings, however, first-order constructs were used where relevant, by quoting responses verbatim in order to capture the experience of respondents. The researcher attempted,
where relevant, to use the same ‘language’ as used in practice, by making use of commonly used industry metaphors.

4.7 Ethical Considerations

The researcher obtained permission from respondents to publish research results anonymously. The researcher took care in treating the information with sensitivity and not revealing the identity of respondents. The researcher would make reference to case-specific information but would not imply the identity of the respondents. The researcher also obtained consent from the representative of each case to conduct the research.

The researcher ensured data quality by conducting the transcribing of interviews manually in the researcher’s own capacity, thus ensuring that information-rich responses were included. The researcher would also verify the consistency of results by triangulating data and the triangulation of multiple respondents. The researcher also ensured validity of responses by verifying any uncertainties surrounding the data through following up with the particular respondent telephonically or through electronic message.

In order to ensure validity of the data the researcher followed a process of ‘sound-boarding’, where the researcher would further consult experts in industry, such as the researcher’s mentor and peers, who have a scholarly understanding of the research problem.
4.8 Limitations of the Study

Qualitative research usually applies only a few questions and a few interviews because it is concerned with interpretation, but in the case of this study, due to the complexity of stakeholders in PPPs, a large number of questions and interviews were used because this presented a challenge in terms of feasibility in order to capture the richness of responses. However, in order to overcome the limitation, the researcher made a concerted effort to include the most significant responses and interpretations. The same applies to the large sample size; the large sample size and cross-case analysis presented a challenge in terms of workload. However, in order to ensure efficiency, the researcher decomposed the results in thematic sections in order to improve manageability of the results.

The use of self-administered surveys also presented a challenge in this study however this is further elaborated upon under the quantitative preliminary results section.

4.9 Preliminary Assessment: Quantitative Data and Analysis

The focus of this section is to contribute a descriptive summary and provisional assessment of the quantitative data in this study. In devising a framework for communicating the overall results of the study a number of conceptual, analytical themes were further identified according to the scope of the study. The themes are also identified for analysis and assessment of the results. This section focuses on providing preliminary results to address two research hypotheses. Firstly, hypothesis one aimed to determine whether current best practices in risk management, combined with performance management approaches, can effectively mitigate risks. Secondly, hypothesis two aimed to determine whether effective strategic control of PPP projects necessitates the systematic integration of strategic planning, risk management and internal control of such projects. This section presents preliminary results which are integrated with the qualitative results in Chapter Six, in order to draw conclusions regarding the research hypotheses.
In concluding the data-collection and analysis, the researcher extrapolated that the qualitative data-collection and analysis consisted mostly of high-level decision-makers in the private sector. The quantitative set consisted mostly of individuals from the implementation level. This presented a limitation to the study because the skills, experience and knowledge gap affects the usefulness of the quantitative data because the respondents for the quantitative data set have a lower understanding and grasp of the themes applied in the survey. This and other factors explained in this section, indicate research bias. Therefore the researcher isolated the quantitative results that were not rich in interpretation, and integrated only the results that supplied conclusions about the research questions, and that illustrated and identified meaningful trends.

The quantitative stage of data-collection analysis was deductive. Themes employed in the self-administered survey were derived from the various conceptual frameworks that were applied in this study, including market-based governance, good governance, risk management theory and strategic management concepts. See annexure B for a full outline of the survey.

The survey utilised a nominal scale using closed-ended questions. Variables assessed on the nominal scale included categorical variables or categorical data that had only two possible outcomes: "yes" or "no". The purpose of employing a nominal scale with categorical data was to simplify the survey and take into consideration the respondent, firstly in order to take limited time to complete the survey, and secondly, considering that the respondents in the second stage might be indirectly involved in PPPs, it was not their main occupation and they were not experts on risk management or PPPs. However, post data analysis revealed that the use of a nominal scale presented a limitation to the study; that because of the presence of research bias, the categorical variables limited measurement. Conversely, if the study applied for instance multiple choice, rank ordering, or a rating scale such as the Likert scale to measure the continuum of variables, the study would be able to measure relationships, correlation and variance by utilising regression or multiple regression analysis (such as Persons R), analysis of variance (anova) or analysis of covariance. This was not the onset purpose of the survey; because the study was interested in frequency values, a nominal scale and categorical data were
appropriate. However, due to missing data, contradicting values, duplication of responses, incomplete fields and the lack of expertise of respondents, the aforementioned measurements could have proven useful to analyse variance and relationships. Consequently, as mentioned earlier, in response to this limitation the researcher isolated the results. The results and limitations are outlined in this section.

Bad practice contributes to potential risk factors on a strategic, business and operational level. A number of practices that are indicative of the effectiveness of governance are listed below. The practice factors indicated in the survey included beta (business) and alpha (non-business) risks. In addition, the indicators are representative of legal, financial, managerial, regulatory, human resource, institutional, business compliance and contractual practice.

Respondents were required to select the relevant box to indicate whether current practice is reflecting negatively on the governance of PPPs. A negative (no) response is indicative of bad practice and is a potential risk. A positive (yes) response is indicative of good practice and does not present a potential risk to the governance of PPPs. In addition, respondents were required to indicate whether his or her response was applicable to the public or the private partner.

The questions included in the survey that respondents were required to respond, included:

1. Implementation of BBBEE (black economic empowerment)
2. Intellectual Property Management (IPM)
3. Effectiveness of PPP legislation (legal)
4. Business Process Compliance (BPC)
   4.1 Internal auditing (IA)
   4.2 Monitoring and evaluation (M&E)
5. Document and Information Management (DIM)
   5.1 Record keeping (RC)
   5.2 Information sharing (Info)
   5.3 Information communication technology (ICT)
6. Competitiveness of PPP process (CT)
7. Contract management (CM)
8. Project management capacity (PRM)
9. Consultation, stakeholder management, partnership cooperation and collaboration (SM)
10. Human resources (HR)
10.1 Capacity and skills (CS)
10.2 Training availability (TR)
11. Corporate governance (GV)
11.1 Professionalism (PR)
11.2 Efficiency (EF)
11.3 Quality (QL)
11.4 Leadership (LS)
11.5 Accountability (AC)
11.6 Innovation (IN)
11.7 Dispute resolution (DR)
11.8 Transparency (TR)
11.9 Corruption (CR)
12. Political commitment (PC)
13. Late payments (LP)
14. Risk management (RM)
14.1 Risk assessment (RM)
14.2 Risk mitigation (RI)
14.3 Risk controls (RC)
14.4 Risk controls verification (RCV)
14.5 Risk communication (RN)

The corresponding codes are utilised to illustrate the primary theme of the question portrayed in the graphs presented below.

Originally Question 9 was split into two questions, firstly, consultation and stakeholder management, secondly, partnership cooperation and collaboration. However, when
composing the summary of amounts and graphs as presented below, the two questions were combined due to the overlapping nature of their themes, as the themes are all part of the stakeholder management function in a partnership.

The sample consisted of 168 surveys, thus n=168. However, when assessing the data the sample for each question was adjusted according to the number of responses for the particular question under assessment. This was performed in order to overcome the limitations presented by missing values or zero values, and duplication. In certain cases, the respondents did not complete each question. The incomplete questions were treated as missing data. The missing data can be explained in terms of the respondents’ understanding of the questions and the respondents’ experience related to the questions. The respondents either did not understand the question or had no experience related to the question. This did not affect the application of results, because respondents may only have had experience in dealing directly or indirectly with certain processes or sections related to the themes employed in this study. Thus, the respondents’ experience did not necessarily relate to the entire PPP process. In some cases, duplication of results occurred, where respondents responded ‘yes’ and ‘no’ for a question. This can be explained by a number of possible reasons. Either respondent’s made a mistake and accidently duplicated responses, or respondents intentionally responded ‘yes’ and ‘no’. This could either represent that the respondent meant that the response was a ‘maybe’ or it could signify that in some cases it was a ‘yes’ or a ‘no’. Thus, closed-ended responses and the use of a nominal scale presented a limitation. This limitation was not foreseen. A continuum scale would have been useful in order to prevent duplication, nonetheless, in order to overcome this limitation the duplicate results were omitted in the analysis, because the duplicate analysis skews the sample, the analysis and the results. Thus, the sample size was adjusted for each question and the sample size decreased in some cases due to missing values and duplicate (contradicting) values. However, this was acceptable, as the intention of the survey was to measure the frequency of ‘yes’ and ‘no’ responses.

As mentioned above, the use of a self-administered survey presented a limitation to the study. Reja et al. (2003) confirm this and explains that there is no interviewer to intervene
in the case of any misunderstanding. Also, selection bias may be present where respondents may not be motivated enough to complete the survey. Probing is also not possible (Reja et al. 2003:160-161).

In using closed-ended questions respondents have no choice other than to select one of the offered alternatives, and they do not have the opportunity to justify their responses (Reja et al. 2003:168). This can explain the presence of the missing data and duplicate data. Respondents either did not complete all fields because they could not choose from the two options provided as they could not justify their response, or it could be due to misunderstanding or lastly, lack of motivation for completing all fields. In effect, these values were treated as invalid responses and were excluded from the analysis.

Only descriptive data is presented because the nominal scale allows measurement for frequencies and Chi-square analysis. As mentioned earlier, this is acceptable for the purpose of this study, because this study is interested in comparing the frequencies firstly, of negative (no) responses that are indicative of bad practice and are a potential risk, and secondly, of positive (yes) responses that are indicative of good practice and do not present a potential risk to the governance of PPPs. The descriptive data for the binomial tests and further analysis is available in annexure C to this study. The descriptive quantitative data and results are available on request.

Marked data are presented in the following graphs. The data includes only the marked data, thus excluding any duplicate or missing responses. The table outlined in annexure C of this study represents the results for both public and private data, and arrives at a total for each question. The public data on the next page represents responses indicating whether there is currently good governance and best practice in the public sector involved in PPPs. Similarly, the private data indicates whether there is good governance and best practice in the private sector.

When presenting the data on a bar graph, the graph illustrated that the majority response is ‘yes’, which is indicative of a positive response which suggests good practice in the public sector. The label Q represents the question number, as outlined above. However,
questions 14.2 to 14.5 show more of an average response. This could be indicative of the respondents not having experience in risk management.
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<td>Risk mitigation</td>
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<td>Risk communication</td>
<td>63</td>
<td>37</td>
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<td>Late payments</td>
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<td>Efficiency</td>
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<td>Competitiveness</td>
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<td>Innovation</td>
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<td>Information communication technology</td>
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<td>Transparency</td>
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Figure 4.4: Public Marked Data
### Figure 4.5: Private Marked Data

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<td>Political commitment</td>
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<tr>
<td>Corruption</td>
<td>49.21</td>
<td>50.79</td>
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<tr>
<td>Transparency</td>
<td>55.56</td>
<td>44.44</td>
</tr>
<tr>
<td>Late payments</td>
<td>57.81</td>
<td>42.19</td>
</tr>
<tr>
<td>Black Economic Empowerment</td>
<td>60.00</td>
<td>40.00</td>
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<tr>
<td>Information sharing</td>
<td>72.41</td>
<td>27.59</td>
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<td>Risk communication</td>
<td>72.60</td>
<td>27.40</td>
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<td>Risk controls</td>
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<tr>
<td>Risk management</td>
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<td>Competitiveness</td>
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<td>Dispute resolution</td>
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<tr>
<td>Monitoring and evaluation</td>
<td>76.92</td>
<td>23.08</td>
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<tr>
<td>Stakeholder management, cooperation,…</td>
<td>77.19</td>
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<td>Quality</td>
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<td>88.06</td>
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<td>Record keeping</td>
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<td>Professionalism</td>
<td>90.91</td>
<td>9.09</td>
</tr>
<tr>
<td>Efficiency</td>
<td>92.42</td>
<td>7.58</td>
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The software PSW 18.0 statistical package was utilised for the capturing and assessment of data. A Chi-square test was utilised as a “test of significance of the observed differences” (Bless & Kathuria 1993:187). The Chi-square test assesses the correspondence between facts and theory, but does not contribute information about the degree of relationship between the variables (Bless & Kathuria 1993:187). Because 2x2 tables were used in the Chi-square statistic, continuity correction was used. The assumption of validity for the continuity correction implies that \( \pi_g = \pi_b = 0,5 \). The theorem implies that \( \pi_g \) indicates good governance and \( \pi_b \) indicates bad governance; based on the binomial test of equality between responses, the difference between responses for good governance and bad governance was assessed. The \( H_0 \) : the proportion of good governance is equal to the proportion of bad governance. \( H_1 \) : implies that the proportions differ significantly. \( H_0 \) is rejected when \( p < 0,01 \). Thus, all the values that are larger than 0,01 assume that the proportion of good governance responses is not equal to the proportion of bad governance responses. In other words, if there is not a significant difference, then the results cannot be generalised.

The private marked data illustrated on the above chart also presents a majority of positive (yes) responses. However, a more averaged response is provided for questions 1, and 11.8 to 13. Conversely, 11.9 and 12 indicate a negative response. The questions include:

1. Implementation of BBBEE (black economic empowerment)
2. Transparency
3. Corruption
4. Political commitment
5. Late payments

Based on the negative response for questions 11.9 and 12, the data thus suggest that there is extant bad practice, through corruption and lack of political commitment. In sum, the above represented variables (questions 1, 11.8, 11.9, 12 and 13) present a significant difference, which leads the researcher to generalise these results.

The total amount of all frequencies presented above displays an overwhelming confidence of the respondents in the good practice and good governance of the public
sector. This could be suggestive of a bias towards the private sector. The study overcame this limitation by triangulating the quantitative results with the qualitative results.

There is an overwhelming amount of positive responses which indicates that current best practices in risk management combined with performance management approaches can effectively mitigate risks, and based on the significantly different results effective strategic control of PPP projects necessitates systematic integration of strategic planning, risk management and internal control of such projects.

4.10 Conclusion

This chapter supplies an overview of the research process of the study. This includes the planning of the study, the methodological conduct and the execution of the study. The chapter provides an overview of the data, the analysis and the presentation of the results of this study.

This chapter provides an assessment of preliminary results. The conclusions drawn from the preliminary results indicate a degree of bias in respondents. In order to overcome this limitation, the research will further explore the research questions through the qualitative data and results. The subsequent chapter encompasses the background to the case studies under review in this study.
CHAPTER 5

EMPIRICAL CASE STUDIES’ BACKGROUND

5.1 Introduction

An objective of this study is to determine the successes and failures of PPPs through reflections on local experience. This is achieved through a comparative analysis and assessment of four case studies, to establish whether PPPs are successful in serving the public through effective service delivery and also to establish the shortcomings of the prevailing model. This chapter provides background to each case study according to an integrated systems management approach. Case studies are used in this study as illustrations of theoretical assumptions to test the results of the study. Stake (1995:xi) defines a case study as “the study of a particularity and complexity of a single case, coming to understand its activity within important circumstances”. As mentioned in Chapter Four, case study research can be applied in quantitative and qualitative method. This study adopts an integrated systems approach to assess the selected cases as background for the interpretation of interview results. The purpose of this chapter is to supply a descriptive outline of the background to each case study under investigation.

5.2 Background

As discussed in Chapter Four, system analysis is concerned with examining complexities by assessing various systems and their linkages. Considering the complex arrangements involved in the organisation of PPPs, it is necessary to systematically assess the components of organisation. In order to assess each case this study adapts the systems thinking of the McKinsey 7S model. The McKinsey 7S model was developed in the early 1980s by Tom Peters and Robert Waterman, working at the McKinsey & Company consulting firm. The McKinsey 7S model involves interdependent factors in an organisation which can be categorised as either hard or soft elements. The hard elements include strategy, structure and systems. The soft elements are less tangible and more
influenced by culture, including values and work ethic, leadership and management style, staff and their capabilities, and the skills and competencies of the employees. The elements are interdependent and a change in one element can affect the other elements (Mindtools n.d.). Strategy would reinforce the structure and systems in the organisation, and the culture in the organisation is strongly dependant on the functionality of the strategy, structure and systems.

The original contributors to the McKinsey 7S Model, Waterman, Peters and Phillips, (1980:17) explain that: "our assertion is that productive organisational change is not simply a matter of structure, although structure is important. It is not as simple as the interaction between strategy and structure, although strategy is critical too. Our claim is that effective organisational change is really the relationship between structure, strategy, systems, style, skills, staff, and something we call super ordinate goals".

The strategy element in an organisation includes the organisation strategy, objectives, means of achieving organisational objectives, methods of dealing with competitive pressure, methods of dealing with changes in customer demands, and how the strategy is adjusted for external and environmental issues (Mindtools n.d.). Strategy would thus include the vision, mission, purpose, strengths, weaknesses, opportunities, threats and role of the organisation. Considering the definition of risk as a potential adverse effect to the optimal functioning of an organisation, risk would be treated as a threat or an opportunity; furthermore, the strengths and weaknesses of an organisation would reinforce the capability to effectively manage risk, thus, risk is classified as a strategy component for the purpose of this study.

The structure element in an organisation includes the following:

- the division of the organisation into teams;
- the hierarchy in the organisation;
- coordination of activities between the various departments;
- the organisation and alignment of team members;
- the centralisation or decentralisation of decision-making; and
- lines of communication, and whether communication lines are implicit or explicit (Mindtools n.d.).
The structure is also inclusive of the organisations’ organogram, location, reporting lines and delegation of authority.

The systems element considers the main systems and resources, through which the organisation operates, for example the financial, human resources procurement, supply chain, information, and knowledge, as well communications and document storage systems. The systems category is inclusive of monitoring and evaluated, and the internal rules and processes (Mindtools n.d.)

The McKinsey 7S model divides the soft elements according to shared values, style, staff and skills. Although a description of each element is provided below, the elements compose the culture of the organisation. For the purpose of this study, all the soft elements are referred to as culture. Generally, the culture in an organisation is reflected in the work ethic, commitment, or conflict in an organisation.

Specifically, shared values consider the core values of the organisation, the corporate or team culture, the strength of the values and the fundamental values the organisation was built on. In addition, the organisational style considers elements such as the participatory nature of leadership, the effectiveness of leadership, the competitive or cooperative nature of employees, and whether there are real teams or just nominal groups functioning within the organisation (Mindtools n.d.) These values would greatly impact on the work ethic and commitment in the organisation.

Staff elements entail that positions or specialisations are represented, as well as the gaps in required competencies. Lastly, the skills element considers the strongest skills represented within the organisation, any skills gaps, the specialisation and core business speciality of the organisation, the ability of current employees to execute their functions, and how skills are monitored and assessed (Mindtools n.d.)

As mentioned earlier, the organisational elements are interdependent and a change in one element would reinforce a change in other elements. Similarly, the organisational elements have an interrelated nature: for instance, risk would be classified as a strategy
component, but in order to manage risk, a system for risk management is required hence the system would contribute to the institutionalisation of risk management.

5.3 A Systematic Overview of Research Cases

An introduction of project information of each PPP case is outlined in Chapter Four, including particulars of the private party, transaction advisors, public party, capital contribution and the sphere of government. As explained earlier, this section aims to provide an overview of each case study according to the respective strategy, structure, system and culture of each case. Given the large scope and complexity of each case, for feasibility purposes, this study will only furnish an overview of each case; an in-depth analysis and review of each case is recommended for further study as this study focuses on the functionality of the PPP model and the use of risk management in order to increase good governance, and not individual cases in isolation. Notwithstanding, individual cases are considered for generalisation purposes.

5.3.1 South African National Parks

The following section provides background on South African National Parks (SANParks). An introduction of the sample under investigation for the SANParks case study is outlined in Chapter Four. A descriptive outline is supplied according to integrated systems management theory where background on the approach is provided according to the strategy, structure, systems and culture of the case under investigation.

5.3.1.1 Strategy

SANParks is an entity under the mandate of the Department of Environmental and Tourism Affairs (DEAT). This section affords an overview of the strategy of SANParks and outlines the purpose, objectives, rationale and role of SANParks.

An Act of Parliament launched the National Parks Board, now known as SANParks, as a parastatal, in 1927. The PFMA, Act 1 of 1999 (as amended by Act 29 of 1999), identifies SANParks as a Schedule 3(a) “public entity” functioning under the influence of the National Environmental Management Act (NEMA), the Protected Areas Act, 2003 (Act 57
of 2003), in tandem with the Biodiversity Act of 2004. Conserving and managing biodiversity and associated cultural heritage through the National Parks is the key function of SANParks, along with additional focus on associated ecotourism and education (Giju n. d. 3).

In order to increasingly focus state funding more directly to fundamental conservation needs the Department of Environmental Affairs and Tourism, in September 1998, declared that SANParks must adapt, becoming less reliant on national funds. Reacting, SANParks formed and adopted a Commercialisation Strategy in 2000. The basic economic idea behind this strategy is that the State should function solely in a regulatory capacity, with intervention only in the instance of market or economic failure, with the objective of reducing dependence on state funding and increasing the efficiency of existing operations (SANParks 2010:1). Consequently, the commercialisation provided a basis for engaging in a PPP delivery system through concessionaires.

Subsequent to this commercialisation strategy implementation, significant developments have occurred in SANParks approach to PPPs. The strategy resulted in private operators being awarded 11 lodge concessions, as well as the outsourcing of 21 shops and 17 restaurants, from all national parks. This led to SANParks creating and putting into action the Strategic Plan for Commercialisation 2006 to 2011 as a major portion of the SANParks ecotourism pillar, with the aim of lowering delivery and service costs; expanding levels of service by highlighting core business; utilising private expertise and capital; expanding tourism products; and the raising of additional funds for conservation and constituency building (SANParks 2010:1). The Strategic Plan for Commercialisation 2006 to 2011 reinforces and strengthens the implementation of commercialisation through PPPs.

The first PPP was focused on the Kruger Park restaurants. The bidding process for the first concessionaires took place in early 2001. The first concessionaires included Vilayet (Pty) Ltd, trading as Nature’s Group (2004), which won both bid packages (Kruger Restaurants A & B). The successful consortium consisted of Sakhile Kopano Caterers (Sakhile Caterers & Kopano Ke Matla Investment Company), Mochachos (a franchised chicken chain) and the National Tribal Community Trust. Handover was scheduled for
September 2011, at which all assets were transferred to Nature’s Group (Labuschagne & Scarbrough 2004:26-35).

5.3.1.2 Structure

The average SANParks PPP lodge concession is awarded with a 20-year contract, allowing the private party to erect and manage tourism facilities within a national park. The contract entitles the holder to pay a concession fee for a right-of-use mandate for a specified site or portion of land, along with upgrading existing, or erecting approved new structures, and their subsequent management and commercial use, for a set time period. The contract lays out strict guidelines and requirements, including financial obligations, social responsibilities and ecological awareness with strict penalties, performance bonds or termination for contraventions or non-compliance (Giju n. d. 5).

Commercialisation of the national parks was implemented as a two-phase project. The first was comprised of Greenfield ecotourism concessions and the second applied to national park retail and restaurant concessions. The Greenfield phase supplied the private party with a 20-year, exclusive land-use contract, allowing the design, erection, management and transfer of ecotourism activities and accommodation ventures. An annual fee is paid to SANParks, usually a turnover percentage, calculated in the bidding process. The second phase allowed the PPP operator to renovate, manage and transfer restaurants or concessions for a 10-year contract term. Existing employees transferred at the same wage to the new management, with an annual fee calculated as the higher of either a set turnover percentage or a fixed monthly rental. The ownership and use of all assets, including land and structures, reverts back and remains with SANParks at contract end, or when contractual breach or failure occurs (IFC 2009). The transaction structure thus would allow development and operations in the first phase and maintenance in the second phase.

As at 2009 the concession lodges include:

- Tinga Private Game Lodge - Kruger
- Jock Safari Lodge - Kruger
- Lukimbi Safari Lodge - Kruger
• Imbali Safari Lodge - Kruger
• Rhino Walking Safaris - Kruger
• Singita Lebombo - Kruger
• Shishangeni Lodge - Kruger
• Brandwag Hotel - Golden Gate
• Gorah Elephant Camp - Addo
• Nguni River Safari Lodge - Addo
• River Bend Country Lodge - Addo
• Kuzuko Game Lodge - Addo
• Darlington Lodge - Addo
• Roundhouse Restaurant - Table Mountain
• Tintswalo Atlantic - Table Mountain
• Xaus Lodge - Kgalagadi
• Intsomi Lodge - Addo
• Knysna Oyster Company - Knysna
• Quay 4 Restaurant - Knysna
• Marakele (Pty) Ltd - Marakele
• Langebaan Houseboats - West Coast
• Duinepos - West Coast
• Eden Adventure Canoe Trails - Wilderness
• Canoe Trails - Augrabies
• Cape Point Lease and TMACC – TMNP
• (SANParks 2010:4)
• As at 2009 the facilities rentals include:
  • KNP Shops - Tigers Eye
  • KNP Restaurants – Compass Game Park Services
  • Staff Shop KNP - Stoffels and Pursad CC
  • Tshokwane & Nkuhlu KNP- Outpost Picnics
  • West Coast – Geelbek Restaurant
  • Addo Shop & Restaurant - Tigers Eye
For the financial year 2010/2011, the following PPP projects were scheduled for conclusion:

- Outsourcing of the petrol stations in the Kruger National Park;
- Skukuza Airport - pending the outcome of a litigation process, the tender process for the appointment of an airport operator and aircraft carrier for the Skukuza Airport in the Kruger National Park will continue;
- Luxury Tented Safaris in the Kruger National Park;
- Appointment of an operator for the Addo Elephant National Park Picnic Site;
- Appointment of an operator for the Rhodes Memorial Tea Room in the Table Mountain National Park;
- Appointment of an operator for the Listers Place Tea Room in the Table Mountain National Park;
- Appointment of operators for various PPP Projects in the Mapungubwe National Park; and
- Canoe Trails in the Wilderness National Park (SANParks 2010:3).

5.3.1.3 Systems

A number of systems were implemented in SANParks commercialisation. The SANParks Management Plan Policy Framework is a coordinated policy directed at the governance of systems. There has been a progressive expansion of the number of PPP transactions incorporating a variety of projects. More than 40 PPP projects had been implemented by March 2010, endowing an increase of knowledge, experience and efficacy (SANParks 2010:1). The steady increase of PPPs makes this valid for both SANParks and the private sector. SANParks has received R361 million in PPP income from their inception to March
2010, with additional benefits including R340 million in infrastructure developments, with all assets reverting back to SANParks (SANParks 2010:4). Due to the detrimental effect of the global economic downturn, tourism revenues and occupancies have been reduced, with the average annual lodge concessions occupancy rates dropping by 4.5% to 46.5%, comparative to the previous reporting cycle (SANParks 2010:6). Past experience has illustrated that this trend should reverse, with an increase in demand, especially if the overall risk elements are correctly assessed and addressed. SANParks have found that PPPs are an effective method of servicing the tourism sector, encompassing accommodation, retail, leisure activities and restaurants. PPPs allow the accelerated development in infrastructure identified in the Accelerated and Shared Growth Initiative for South Africa (Asgi-SA). PPPs also support and facilitate the national Black Economic Empowerment (BEE) policies, with incorporated quota fulfilment targets outlined on a BEE scorecard supplied to all SANParks projects. All previously disadvantaged communities receive socio-economic benefits from the contractual obligations written into the PPP agreements, gaining employment, ownership and management positions, as well as receiving supply, service and procurement sub-contracts (SANParks 2010:2). Concessions allow for a major transfer of risk elements to the private sector, although SANParks must remain vigilant to contractual inadequacies or non-observance, as the parastatal remains vulnerable to these dangers should they occur (Giju n. d. 5). The repositioned hazards include construction, availability, financial and operational risks (Giju n. d. 6).

With regard to the restaurant performance, this is monitored by sms and e-mail feedback systems that were implemented, in 2008 and 2010 respectively, to allow continual monitoring of restaurant performance by notifying management of any problems or concerns which may arise, thereby allowing for rectification. The process identifies areas for improvement, allowing practical remedies to be made thus reinforcing the target of supplying superior service to SANParks guests (SANParks 2010:7).

With regard to retail, the outsourced National Park retail facilities have shown exceptional continued performance, supplying SANParks with R18.5 million in rentals for the previous reporting cycle. Problems and complaints have been minimal and minor, mostly relating
to prices and staff attitude, which have been addressed by on-going customer-relations training for employees and implementing studies which show prices as competitive and comparative with those charged in major centre convenience stores (SANParks 2010:8).

Regarding review of the monitoring process, in order to evaluate outsourced SANParks services a ‘mystery guest’ practice was instituted, but was found to be overly expensive, too awkward and excessively subjective, leading to its discontinuation. It has been replaced by customer service evaluation calls for random guests (Labuschagne & Scarbrough 2004: 37). PPP bids were assessed using 50:50 weighting on financial versus technical criteria. This system of evaluating proposals may unfortunately allow technically under-qualified parties to succeed in their bid by submitting a low financial bid or a high percentage of turnover bid. To avoid these adherent pitfalls the core business of each contender should be subjected to detailed evaluation, their objectives should be outlined and clear in their proposals and must be assessed properly, with attention paid to all aspects, not solely to the financial criteria. Fiscal suitability may not necessarily supply the most suitable operator. To prevent too great a focus on financial elements a fairly high minimum threshold may be implemented, with the technical portion of the submission sub-divided, each evaluated, and the total not just a pass or a fail (Labuschagne & Scarbrough 2004:45).

When evaluating the efficacy and efficiency of the concession holders’ operational and technical skills it was more straightforward to assess the outsourced concession facilities, rather than the lodge operators, as they continue to service the same clientele. This has resulted in more detailed inspections and assessment of product delivery in these concessions, and has led to certain vendor replacements. SANParks learnt from these incorrect choices and has evaluated and adjusted the vendor selection criteria. Too much emphasis was being placed on the financial status and forecasts of an aspiring bidder, especially as forecasts are inherently easy to manipulate. While the fiscal element is vital, it was felt that greater attention should be given, and a weighting system applied, to a potential operator’s track record, the existing clientele and proven technical abilities. Where basic mismanagement and inability to effectively operate the concession persist, with little or no profit, and a vendor is held to their financial predictions for the contract
term, with mandatory payment of concession fees, then liquidation will result, with broader socio-economic implications and possible environmental impact. Operational capability is essential for rapid, effective and responsible service delivery, allowing attainment of financial and BEE objectives (Giju n. d. 7). The issue of relying solely on the financial capability of the bidder is a strategic issue, which, in effect, influences the systems implementation, and the efficiency and sustainability thereof depends on both technical and financial capacity.

To be effective and successful, tourism products must accentuate the role of technical capability, strategy and operational ability. When SANParks instituted the PPP policy of commercialisation it was largely run by process managers, with limited or non-existent experience in hospitality. Many bids were submitted by financial or legal experts, rather than skilled tourism or hospitality individuals. These factors have resulted in SANParks appointment of many facility operators who lack the necessary skills for success. Recently the most profitable hospitality companies have illustrated the requirement for primarily customer-focused policies to supplement the legal and financial elements (McDonalds and Starbucks). This could be summed up as ‘Product over Process’ where the product fulfils the tourism customers’ needs. Appointment of operators who were not skilled in tourism may have been an element of poor selection, although understanding of the process is essential (Giju n. d. 8).

The outsourcing of certain projects was perceived as not following a tactical process of open and cooperative management, and these are considered as wrongly selected. Other incorrect selections included particular leisure activities which may have been chosen by process rather than product-driven strategic criteria (Giju n. d. 8). It is thus necessary to ensure that the strategy is cascaded down with the driver being the product, and not the process.

With relevance to empowerment matters, although within the tourism industry BEE is generally regarded as vital and necessary, in actuality, the transformation and adaptation is undergoing difficulties, especially when matching existing programmes to the project level (Giju n. d. 10). Implementing BEE is essential in South African tourism, especially
regarding the deluxe lodge market, which has historically been geared to the white customer, with similar demographics reflected in ownership, management, and support services. Understanding and evaluation needs to occur in altering the spectrum to reflect more diversity (Giju n.d. 11). Changes in the global hospitality markets, with an increasing trend towards many more Asian and Indian travellers replacing the more customary European guests, along with the social engineering that South African society has undergone, illustrate the requirement for drastic adaptation and alteration to a wider demographic in all services, including indirect functionaries. This will allow guests to feel at ease and facilitate fulfilling their varied requirements and will aid in completing BEE objectives (Giju n. d. 11). The understanding of diversity and management thereof is a cultural issue that requires systemic integration of PDI representation, cooperation and inclusion.

With relevance to risk management, risk management in SANParks is implemented through the SANParks Corporate Risk Framework which contributes the policy, procedure and methodology for risk management.

The key drivers of risk management include:

- **biodiversity conservation**
- **revenue generation for financial sustainability**
- **sustainable tourism development**
- **constituency building**
- **human resources management**
- **corporate governance**
- **stakeholder relationships (SANParks n.d.:8).**
Risk categories for identification of hazards or potential issues include:

- finance
- strategic issues
- operational
- employee value
- technology
- external risks (SANParks n.d.:8-9).

As stated in Chapter Three, according to the Public Sector Risk Management Framework, each government institution is required to establish and implement a risk management policy and strategy. The Corporate Risk Management Process in SANParks is a guide to achieve:

- the understanding of objectives;
- the identification of risks;
- the review of current controls/actions in place;
- determining the residual risk exposure;
- formulating the response strategy and management of risk;
- monitoring;
- reporting requirements; and

Furthermore, a number of systemic challenges have transpired. The main challenges include performance. Multiple consortium changes have occurred, largely due to poor performance and non-fulfilment of empowerment contractual terms. SANParks monitoring and regulatory procedures have shown to be unsuitable, inadequate and not comprehensive enough, leading to mismanagement of the consortiums. Changes and amendments to original contracts have, however, been implemented from formal reviews (Labuschagne & Scarbrough 2004:35).

To help clarify and outline expectations and responsibilities a Procedure Manual for Restaurant and Retail Concessions was developed, in 2002. This supplies correct procedures for the operational, administrative and management responsibilities of concessions and establishes communication lines and outlines protocols to help prevent or minimise the impact of non-conformance. It is intended for daily use by SANParks staff,
especially in the KNP, which deals with concessions daily (Labuschagne & Scarbrough 2004:35).

In the case of SANParks, strategic challenges regarding the bidding process and performance of the private party, had systematic consequences. Therefore the careful formulation of strategy is key in ensuring optimal systems and the functioning thereof.

5.3.1.4 Culture

With regard to culture, there have been issues from the shift to private sector involvement, as although the concept was understood, the actual implementation and changes in administration and management have caused conflicts. SANParks acknowledges that managing these changes and associated personnel issues requires insight and discussion, as many parks felt that a non-consultative attitude was adopted, especially regarding choice of project and PPP implementation, and that the process was used for personal advantage and not for SANParks benefit (Giju n. d. 7). In order to address this, SANParks recognised that the adoption of an increased institutional consultative approach was required.

In SA there are a variety of restaurant and retail organisations but within the premium game lodge industry there are only a very few oligopolistic companies which possess a major, dominant market-share. This makes it difficult for smaller newcomers to gain respect or entrance into the hospitality industry, with the major players competing among themselves. SANParks have had to assume their capabilities, due to the industry’s limited and closed nature. During a revision aimed at supplying frequently requested rent relief and term extensions for lodge operators, SANParks was subjected to their influence, especially within the Kruger Park, where a couple of the industry leaders took control, laying out a collective demand schedule. The true cooperation and partnership spirit between SANParks and the lodge concessionaires may be in doubt, as the awarded contracts are considered specific and non-collective. These elements have accordingly served to limit the possibility of hastening private participation in this area in the future (Giju n. d. 9). Thus the creation of oligopolies, which is a structural issue, and contract management which is a systems issue, has a direct effect on the culture.
The privatisation strategy of SANParks created a unique, unprecedented opportunity for offering their land to concessionaires. The restricted availability of sites, over-demand and over-optimistic financial expectations led to impracticable, excessive, and unjustified tenders. Without prior experience supplying a basis for evaluation, unfeasible forecasts were made, further inflating the offers. This, along with the inherently competitive nature of tendering, resulted in hopelessly high, impractical bids and subsequently, an increased share of turnover being committed to repayments. SANParks consequently, in 2004, was forced to reassess the contractual pecuniary commitments to pre-empt total failure, insolvency and associated negative elements (Giju n. d. 10). Thus, the strategy created an overly optimistic demand which in turn had an impact on financial procurement and supply chain systems.

SANParks recognise that the strengths and proficiency of service staff in all areas must be strengthened. Additionally, the attitude of many of these employees appears to be against commercialisation, which affects the trust and attention of potential bidders, as it increases the risk element. The education, concerns and cooperation of this staff needs to be addressed and corrected, especially prioritising and acquiring the support of many senior park managers, who perceive the changes as potentially ecologically detrimental, or even as a danger to the parks and their support. In order to be effective and successful, thereby maintaining biodiversity, this type of venture needs to attract suitable, premium investors (Giju n. d. 10). Undeniably, the functionary level of institutional capacity impacts on the culture, specifically on the buy-in.

5.3.2 Department of Rural Development and Land Reform, Service Head Office Accommodation

The South African President, Mr Jacob Zuma, in accordance with the expanded mandate, announced the renaming of the Department of Land Affairs to the Department of Rural Development and Land Reform (DRDLR) on 10 May 2009 (DRDLR RFP 2009:27-28). This section provides an outline of important considerations for the strategy, structure, systems and culture of the establishment of a PPP for the design, construction, operation, maintenance and finance of a serviced working environment for the Department of Rural
Development and Land Reform of the Government of the Republic of South Africa (2008). The request for qualification was issued in the second half of 2008 and the request for proposal was issued in mid-2009, with intended occupation in 2013. Negotiations with the preferred bidder were concluded in the second half of 2011. The reserve bidder, however, lodged an urgent application in June 2011 to have the decision reviewed. The DRDLR won the first round of a court case against the reserve bidder, however, the courts ruled only on the urgency of the application, and whether the application was premature. It was found to be not urgent and premature, and the courts did not decide or review the outcome of the evaluation process. This, under the Promotion of Administrative Justice Act (PAJA) can only take place once the final decision to award the tender has taken place. DRDLR is attempting to work with all parties to resolve this matter and if successful, a review will possibly not be required.

5.3.2.1 Strategy

The renaming of the Department was as a result of the revised mandates to the Department’s function, including land reform mechanisms; land management and information services and land restitution, along with the additional function targeted at assisting rural people with poverty, and associated issues. The preceding feasibility study identified that the Department’s current situation and environs would not support the facilitation of the amended Strategic Plan (2009-2012), or the necessary amalgamation of facilities and linked services into a single accountability point (DRDLR RFP 2009:27-28).

The Department’s current operations are widely spread throughout Tshwane and the feasibility study showed that this dispersal, along with a scarcity of workspace, could not be remedied by altering or adapting the existing environment. This resulted in a decision to relocate its Tshwane-based head office and provincial operations into an integrated, single working situation, with PPP-provided service assistance and provision. The serviced accommodation by the private sector transfers risk from the public sector and is considered economically sound and affordable (DRDLR RFP 2009:27-28).
Furthermore, the Department has chosen a greenbelt site of the Apies River, and requires an outstanding structure reflecting the ecological surrounds. Projected facilities include adequate office space for all head office and provincial employees, with mandated specified staff wellness amenities, a parking structure and training, conference and meeting facilities at the Berea Park site (DRDLR RFP 2009:31-32).

5.3.2.2 Heritage Aspects

To avoid complications arising from demolishing buildings older than 60 years as per the National Heritage Resources Act, Sect 34 (1), it was proposed that the existing Berea Sports Club structures be renovated and refurbished, keeping historical and architectural aspects intact. Similarly, the National Heritage Resources Act, Sect 38(1) specifies that the relevant local authority, the South African Heritage Resource Agency (SAHRA), be briefed and that the PPP must employ an archaeologist to undertake a supervisory and monitoring position when earthmoving occurred, submitting a written brief to SAHRA on completion, asserting that no heritage resources were found or compromised (DRDLR RFP 2009:103-104).

5.3.2.3 Structure

The facilities assets are owned by the private party for the project term. Ownership and control of facilities and assets revert from the Private Party to the Department at the end of the contract period, at no cost and in an operational state, allowing continued use for at least an additional three years (DRDLR RFP 2009:45). With regard to systems, once the contractual relocation of the departmental assets such as files, archives, staff property and minor equipment has occurred, the private party is no longer liable for their upkeep and may not utilise them in operational functioning (DRDLR RFP 2009:46).

A project management committee, chaired by a project officer, is to act as intermediary between the Department, the advisory team and other involved government parties, including the DPW and the National Treasury (DRDLR RFP 2009:37). Tshwane, the DEAT, the National Intelligence Agency (NIA) and the South African Police Service (SAPS) are other parties who may also be drawn in. The National Treasury is tasked with
overseeing and regulating the PPP process through its PPP unit, and to ensure affordable, economically sound project implementation, with major technical, operational and financial risk transfer to the private sector. The project office has multiple duties and responsibilities throughout the project period, including project initiation and procurement; delegation of duties; supervising the advisory team; payment approval; as well as controlling communication between the advisory team, the Department and all external parties (DRDLR RFQ 2008:19). With regard to structure, the relationship between the project office and the stakeholders is emphasised.

As per Treasury regulations, a transaction advisor was selected to advise on feasibility study preparation; to assess economic and operational viability; to draft procurement documentation; to aid in business assessment, appointments and negotiations and at project completion to help the Department and the private party to bring a financial close in preparation of a close-out report, with findings work-shopped. In addition to its role as regulator, the National Treasury had a second participatory function as an advisor for the project, appointing a Senior Project Advisor (DRDLR RFQ 2008:19).

5.3.2.4 Systems

With the worldwide economic downturn the South African government perceives financing costs, especially long-term liquidity premiums, as being too high. The project bidders were instructed to structure proposals based on medium term finance, with a view to allowing government to renegotiate should economic circumstances improve (DRDLR RFP 2009:46).

The Department specified that a successful bidder must not only be able to fulfil initial HR requirements, but must have a similar employee-centric mindset to the Department, with full and excess legal and legislative compliance, and must be capable of administering, appointing and managing HR for the entire period of the project contact (DRDLR RFP 2009:35). Thus, with regard to systems, the importance of human resources is emphasised.
With regard to the unitary payment and affordability level, risks and costs are contractually shoudered by the private party, and the contract requires the design and erection of the necessary structures; operation and maintenance of the facilities for the contract period; provision of both mainstream and peripheral support services, and either partial or complete funding. The selected PPP receives a single, unitary payment sum of R171 million from the projected occupancy date of 2009, subject to deductions and penalties relating to key performance and contract stipulations (DRDLR RFP 2009:42).

With regard to staffing and training, the private party is only required to supply accommodation to specified Department-employed service personnel, including household staff, drivers and messengers. The private party is responsible for recruiting, appointing, educating and developing project related personnel (DRDLR RFQ 2008:48-51).

The institution and the private party undertake to completely and comprehensively manage the necessary interactions relating to required services, with the private party providing appropriate support (DRDLR RFQ 2008:48-51). Hence, contract management and stakeholder management should be emphasised.

### 5.3.2.4 Culture

With regard to the culture, specifically regarding skills, the acquired transaction advisor appoints various professional sub-contractors. These include leading financial, legal and technical advisory firms with further technical specialist sub-contractors, such as environmental, heritage, facility management and architectural consultants; town planners; geotechnical and traffic engineers; quantity surveyors; and ICT and security specialists (DRDLR RFQ 2008:19).

At the time of writing, the study could not supply conclusions regarding the outcomes of the DRDLR project design, construction, handover and operation, as during the observation period in the research, suppositions could be deduced only from the inception and procurement phase in the project life cycle, as the project had not appointed the preferred bidder at the conclusion of this research.
5.3.3 The Department of Basic Education, Service Head Office Accommodation

The Department of Education initiated a PPP for the finance, design, construction, operation, and maintenance of a new serviced head office accommodation (HOA) for the Department of Education. However, a split took place in the Department of Education in April 2010, a month before move into the building. Therefore, the PPP was registered under the Department of Basic Education due to a strategic decision by the Department. Thus, in the case of the HOA PPP, this study refers to the institution as the Department of Basic Education.

5.3.3.1 Strategy

The project design considered future issues and is estimated to encompass all adaptations, changes or alteration requirements for the next fifty years. Technologically advanced engineering and environmental methods were utilised to enhance sustainability and efficacy, with specialist glazing and shading on the large north and west glassed areas, with other areas having reduced glass features and increased brick facades to prevent excess summer heating and winter heat loss (Construction Review 2010).

Centralised accommodation was considered necessary as the Department was divided between three separate Pretoria CBD buildings, creating logistical, communication and functional difficulties. The surrounding environs were deemed unsuitable, reflecting central urban decay and suburban migration, with a resultant absence of interest and investment. The surroundings were occupied by small retail outlets, used car lots and historical buildings (Construction Review 2010).

With regard to risk management strategy, the Department does not have an explicit risk management policy. In addition, the Department has consultants and an independent certifier who ensures that the contract was devised technically correct, and that the facility building adhered to the contract specifications. The Department indicates that challenges experienced include the implementation of the output specifications and the management of penalties. In addition, other challenges experienced with regard to strategy include the implementation of value for money (VFM) and quality control.
5.3.3.2 Structure

The extant office in the previous accommodation of the Department was cell-like, closed-off, with minimal open-plan areas and little inter-floor communication, in buildings considered to be impeding and ugly compared to other modern office areas. The Department had undergone many changes after its secretive, dark and clandestine activities, and felt it important that the new accommodations and systems reflected the clear, open and generally optimistic new mind-set (Construction Review 2010).

5.3.3.3 Systems

The office accommodation consists of a low rise structure with two parking basements and a ground floor plus three levels of offices. The facility includes a refurbished historical building, Jansen House, and its stables. The constructed area is approximately 52 000m² and the rentable area approximately 34 000m². The accommodation houses approximately 1 200 Department of Basic Education employees, including secure printing facilities for national examinations, and has a conference centre and ministerial office accommodation (HG Strategic Communications 2010).

With regard to monitoring, the private party shall allow the independent certifier to constantly monitor the progress of the works upon the project site (Department of Education 2007:69).

With regard to the transaction payment, once the private party has complied with its obligations and is satisfied that the works have been completed, it shall request the independent certifier to issue a completion certificate to the project committee, or give the project committee written notice specifying all the matters that, in the reasonable opinion of the independent certifier, must be satisfied before the completion certificate can be issued. When all of the works have been completed and satisfactorily commissioned by passing all the requisite tests detailed in the design and construction specifications (Department of Education 2007:70-71), thereafter, unitary payment is issued.

With regard to monitoring and inspection, DBE is entitled to undertake an annual review of the private party's maintenance, operating and management procedures relating to the
project deliverables, and audit whether, in undertaking the project deliverables the private party is performing in accordance with the current Revised Maintenance and Operation Plan (Department of Education 2007:120).

5.3.3.4 **Culture**

A Group Five representative from the private party largely attributed the success of the project to the culture within the PPP through cooperation, effective partnership and experience, despite two major alterations to the scheme. The representative stated that previously gained knowledge about the contract complexities, and understanding of finance, engineering design, construction operations and management, assisted with BEE companies supplying 38% of contract values and 45% from Tshwane-based SMMEs (HG Strategic Communications 2010). The department indicated that challenges experienced with regard to structure and culture related to relationship management, and in order to overcome these challenges the Department applied structural controls through regular meetings with sub-contractors, and monthly meetings with the steering committee for the PPP.
5.3.4 Gautrain Rapid Rail Link

5.3.4.1 Strategy

In early 2000 the Gauteng Premier, Mbhazima Shilowa, broadcast the intention to institute and establish a Rapid Rail Link, or Gautrain, linking Johannesburg, Pretoria and OR Tambo International Airport (then known as Johannesburg International). This was one of the Gauteng administration’s ten Spatial Development Initiatives (SDIs) or Blue IQ, which target certain provincial areas that have distinct economic enhancement potential, creating new jobs. This also allowed for the Gautrain project to fulfil the governmental directive and policy, under the National Land Transport Transition Act (22 of 2000), of advancing and prioritising public over private transport (Bohlweki 2002:1). Blue IQ is a multi-billion rand provincial government initiative, investing in the (now) eleven SDI projects, which are aimed at advancement, empowerment and development (Bohlweki 2002:1). The Gautrain was not envisaged to supplement existing public transport, namely the subsidised Metro Rail services which serve a specific market (Bohlweki 2002:2). The Gautrain was intended to fulfil certain identified aims, including:

- Supporting and increasing economic progress, infrastructure and employment opportunities.
- Reducing severe and excessive traffic congestion on the main arterial highway between Johannesburg and Pretoria.
- Fulfilling of national Governmental policy targets – SME utilisation, BEE implementation and advancement of business tourism.
- Illustrating the Governmental dedication to expanding the efficacy, increasing desirability and promoting awareness of public transport.
- Increasing public transport usage, thereby reducing the number of vehicles on the road and attaining new public transport users.
- Supporting business tourism through airport links with ease of access.
- Aiding urban redevelopment by reducing travel time and distance, and prolonging urban centre viability.
- Joining with the Tshwane Ring Rail Project – linking Mamelodi, Attridgeville and Soshanguve/Mabopane.
- Boosting Johannesburg and Pretoria CBD renovation, renewal and resettlement.
- Being part of a complete and holistic transport scheme and structure for Gauteng (Bohlweki 2002:2).

The feasibility study that was undertaken showed that the Gautrain should support and complement the Gauteng Spatial Developmental Framework (GSDF). The Gautrain Rapid Rail Link (GRRL) is aimed at fulfilling the following fundamental policies of the GSDF – mobility; accessibility; maintaining and sustaining Gauteng’s economic base; limiting urban spread, and changing industry distribution (Bohlweki 2002:5).

The SDI was implemented by the Gauteng Government in order to enhance the province’s overall economic structure and developmental character; expanding, promoting and developing job openings, trade and industry, and general infrastructure (Department of Transport and Public Works 2000:9). There were originally 10 projects identified, including:
- Newtown Precinct Redevelopment and Metro Mall;
- City Deep Industrial Development Zone;
- Johannesburg International Airport Industrial Development Zone;
- Alrode/Wadeville Industrial Regeneration Corridor;
- Rosslyn Auto Cluster / Urban Port;
- Pretoria Innovation Hub;
- The Big Five Game Reserve;
- World Heritage Site at the Sterkfontein Caves;
- Constitutional Hill in Johannesburg; and
- Gauteng SDI Rail Link. (Department of Transport and Public Works 2000:9).

It is considered essential that the Gautrain supports and corresponds with the general SDI targets and practices. The GSDF is directed by five critical factors, which form the basis of projected provincial growth and development to produce a specific land-use and densification pattern or spatial structure. The first factor relates to issues concerning rural areas and is not relevant to the Gautrain (Department of Transport and Public Works 2000:11).
The GSDF recognises that, due to the scattered character of our conurbations, we will remain dependant on transportation. With the intention to compact or condense our commercial and industrial zones, thereby promoting economic growth, there will be a greater reliance on public transportation. This will ensure that the provincial population is able to access and benefit from the new opportunities, bringing them closer to the economic centres. The major constraint is the cost of accessibility (Department of Transport and Public Works 2000:13).

The second covers economic growth, especially linked to provincial resources. In order to advance internationally and maintain balanced growth and evolution, the province’s prime assets need to be promoted and developed economically. To attain this as effectively and efficiently as possible the Gauteng Government has outlined three ‘strategic thrusts’. These are:

- Altering industry concentration away from capital-intensive production to high profit yielding sophisticated products, reducing heavy industry and developing the agricultural and mineral sectors.
- Creating awareness and supporting all technological, scientific and biomedical research and development, to ensure Gauteng’s status as the nation’s intellectual core.
- Encouraging financial and business industries to relocate to Gauteng or to remain in the province, developing support for technological commerce, making Gauteng a desirable head office location and promoting corporate tourism (Department of Transport and Public Works 2000:11).
- Thus, the purpose to ensure that Gauteng is a desirable location requires that the infrastructure, support, accessibility, security, transport and property availability and costs fulfil or exceed market expectations (Department of Transport and Public Works 2000:11).

The province largely supports governmental policies and legislation that reinforce the necessity of urban growth, however, Gauteng leaders feel that renovation, renewal and redevelopment of existing trade, industrial and commercial sites is preferable and should be prioritised. Gauteng has identified the need to reduce and contain peri-urban and
suburban migration by business; which has multiple latent and patent economic implications. Preventing urban sprawl by revitalising existing, currently less alluring neighbourhoods, requires no investment in new infrastructure and support by local government and municipalities, and allows the revamping of disreputable areas containing disused land and buildings in disrepair, reducing crime and promoting urban densification and utilisation (Department of Transport and Public Works 2000:12).

This strategy directly reinforces a number of systems; a key component of this intention to rebuild urban centres is ease of accessibility and transport availability. Staffing, support services and social facilities, and their attainability, are functions of mobility and accessibility (Department of Transport and Public Works 2000: 12).

In positioning any industrial or commercial ventures, the convenience and availability of vital components such as infrastructure and support, especially road and rail access, is considered imperative. Developing adequate and functional transport and haulage support services is, therefore, one of the major, essential constituents of Gauteng’s development policies. The province has to undertake a proactive role in engineering the requisite transformations in urban development, especially as all systems prefer the status quo. Significant modifications and alterations will only occur with sufficient motivation, benefit perception and encouragement (Department of Transport and Public Works 2000:12).

In order for urban revitalisation policies to be effective, industrial facilities in existing urban centres must be evaluated and improved, particularly their mobility aspects. Road and rail transport provision must be easily and readily accessible, notably in township settlement areas, which are key to staffing requirements (Department of Transport and Public Works 2000:12).

With regard to relationships with existing systems, Metro Rail is the major rail commuter operator, a division of Transnet, falling under the National Minister of Public Enterprises, with the South African Rail Commuter Corporation (SARCC), under the National Minister of Transport. Further concessioning of commuter rail services is envisaged, with the SARCC structure being subject to transformation. Within the Gauteng SDI Rail Link, the
province owns the rail infrastructure and the private sector provides the service (Department of Transport and Public Works 2000:iii).

The existing South African railway system is considered old, with 30 years the average age of the rolling stock and no new lines added for 20 years. Deliberation occurred as to whether to link the Gautrain to existing lines, as well as the utilisation of South African versus international gauge. New lines were laid for the project (Department of Transport and Public Works 2000:iv).

Other technical elements, including lifespan expenses and economic viability, also featured in decisions. With the incredible speeds attainable by the rail system it was proposed that new terminology and a unique hype be created, adding allure and a sense of wonder to the project, thereby captivating the public, increasing desirability, and promoting goodwill and patience during the construction phase.

Numerous previous studies had shown the vital need for an effective mass commuter transport system on the Johannesburg to Pretoria route, one of which highlighted it as one of the ten most important arterials in SA (Vectura). This corridor is also identified in the Gauteng Toll Road Strategy, with the Gautrain and other transport systems supplementing to ease congestion, enhancing the viability and efficiency of the route, and allowing Gauteng to obtain its envisaged economic potential (Department of Transport and Public Works 2000:6).

The events leading to the project are reflected in the strategy. Over the past decade the South African area with the largest economic growth has been the Johannesburg–Pretoria corridor region and to a smaller degree, the airport route, allowing the province to develop at an accelerated pace, compared to others. This best demonstrates the link between transportation and its accessibility, land utilisation and economic growth. With regard to systems, studies have shown that although many companies have sited themselves along these passages, inadequate public transport support is causing stagnation and has major future negative implications, as it limits employee availability to those with cars or at least, taxi access. Additionally the congestion and sheer volume of traffic experienced on these routes threatens to clog the arterials causing a blockage to
economic growth, which is already slowing development (Department of Transport and Public Works 2000:6).

5.3.4.2 Structure

Concession agreements serve a major function in mitigating and distributing risk for the Gautrain Bombela was awarded the concession to commission, plan, construct, manage and partially finance the project, leaving the provincial government responsible for land procurement and milestone payments (Gautrain 2009).

To ensure Bombela’s compliance and performance the contract had multiple security precautions, protecting the financial elements, including retention and performance bonds, with the performance bond at 8% of the turnkey contract, non-fulfilment of obligations receiving 25% of the bond and 75% in arbitration bond form (Gautrain 2009).

The Bombela Concession Company is comprised of four ‘sponsor’ entities, each supplying specialised skills to the project, which was the largest transport infrastructure undertaking ever seen in Africa. Each subgroup owned 25% of Bombela, however Bombardier and Bouyegues sold 8% of their shares to the South African J&J Group and ABSA Capital. The contract is for 20 years, with a 54-month construction and 15-year operating and maintenance term (Gautrain 2009). The various entities are illustrated below in the project structure.
Figure 5: Gautrain Project Structure
Source: Bombela TKC (2011)
Other important stakeholders involved in the Gautrain Rapid Rail Link include the Independent Socio-Economic Monitor (ISEM) who has an independent verification role to validate compliance by the concessionaire in terms of socio-economic issues such as labour matters and economic empowerment. In addition, Arup is the independent certifier (IC), who verifies completion of milestones.

5.3.4.3 Systems

An Environmental Impact Assessment (EIA) was deemed essential and was undertaken, with public participation considered an integral element. This was to educate all interested and affected parties (I&APs) about the necessity of the intentions and function of the Gautrain while registering their concerns, issues and requirement inputs (Bohlweki 2002:14). This was attained by the aid of a website opened in January 2002, providing information on the EIA process and allowing I&APs to express their interests, concerns, questions and comments (Bohlweki 2002:15).

With regard to the rail system, passenger feeder services between Gautrain stations and their required destinations incorporate existing public transport routes, which have been extended and up-graded, along with new Gautrain-specific, dedicated services (Bohlweki 2002:6).

The Gautrain is electrically powered which is considered ecologically sound, providing clean traction with lack of the noise pollution associated with diesel trains. Eskom supplies power to the train, which uses EMUs (Electrical Multiple Units) distributed by motorised axles, with cooling fans and air-conditioning in carriages. The stations are powered by municipal electrical feeds (Bohlweki 2002:4).

Risk identification is essential as well as allocating the element to the party best equipped to manage and address the hazard. Careful project design and task or solution development may assist in alleviating, eliminating or moderating impacts of these risks (Department of Transport and Public Works 2000:39). Hazards identified prior to the project included patronage; financial; public opinion; environmental and pre-implementation risks (Department of Transport and Public Works 2000:40).

Among others, a few risks are emphasised. Firstly, patronage risks include those which may impact the investors and operators but are beyond their control, involving
permits, subsidies, congestion levels relating to parallel roads, as well as development near the stations or other land use risks (Department of Transport and Public Works 2000:40).

Secondly, inflation, land taxes, finance fees, cost of power supply, toll fares versus train ticket prices, are all finance risks. The public opinion risk relates to the way the population perceives the Gautrain, especially with the existing negative outlook towards South African public transport. To minimise environmental risks, careful identification and management of ecological elements must be undertaken. Feasibility, governmental approval, and negotiations all form part of pre-implementation risks (Department of Transport and Public Works 2000:40). For any project it is essential to identify and plan accordingly with regard to the internal risks, controllable from within, and external risks, related to other elements (Department of Transport and Public Works 2000:41).

Other risks include:

- parallel public transport service permits;
- parallel public transport subsidies;
- the taxi recapitalisation project, with related supply and demand changes;
- acceptable services for feeder distributors;
- governmental developmental controls; and
- toll road strategy and similar impacts. (Department of Transport and Public Works 2000:41)

### 5.3.4.4 Culture

With regard to culture, the Gautrain emphasises a culture of training and socio-economic development. This is further elaborated in the results of this study in Chapter Six.

The Gautrain is a megaproject and a Greenfields development and thus a highly complex PPP. The DRDLR and DBE focus on constructing accommodation for housing the public service corpus for that particular sector. The SANParks concession is different compared to the other PPP case studies, as the SANParks is a Brownfields project focusing on using current infrastructure such as the lodges and restaurants,
and renovating existing infrastructure. SANParks has a considerable difference in strategy compared to the other PPP case studies, as the observed PPP case studies focus on infrastructure construction and development, whereas the purpose of the SANParks is commercial in nature, as SANParks seeks to leverage private sector capital for conservation and tourism purposes through a leasing mechanism.

5.4 Conclusion

This chapter contributed background to the strategy, structure, systems and culture of the case studies under investigation in this study. The main purpose of the SANParks PPP forms part of its commercialisation strategy to focus state funding more directly on fundamental conservation needs and to become less reliant on national funds. The main purpose of the DRDRLR and the DBE following a PPP route for facility development is to acquire a central working location, with PPP-provided service assistance and provision. The purpose of the Gautrain is firstly to support and increase economic progress, infrastructure and employment opportunities. Secondly, the Gautrain aims to reduce severe and excessive traffic congestion on the main highway between Johannesburg and Pretoria. Additional aims include the fulfilment of policy targets through SME utilisation, BEE implementation and advancement of business tourism. Moreover, the Gautrain aims to expand the efficacy, increasing desirability and promotion of awareness of public transport, and to increase public transport usage while reducing the use of public and private vehicles. The Gautrain also aims to promote ease of access to business tourism through an airport link, and to aid urban development. The qualitative results of this study is presented in the subsequent chapter.
CHAPTER 6

ANALYSIS AND ASSESSMENT OF EMPIRICAL CASE STUDIES AND INDIVIDUAL INTERVIEW DATA

6.1 Introduction

As previously explained, two broad research designs were combined in a mixed-methods approach to this study, namely qualitative and quantitative data-collection and analysis, in order to triangulate findings from the current state of theory on the topic, with the literature overview of current practices and respondents’ views. In order to determine how the prevailing PPP model can be improved to effectively mitigate risks that prevent the successful delivery of public services and best practice in PPPs, a number of study objectives are addressed in this chapter. Firstly, the role of systematic risk management in PPP projects as well as the inherent risks associated with the related projects is assessed. The second aim is to provide an overview of the functions of the private sector and public sector in PPPs; an overview is supplied, along with recommendations on how to improve the role of each entity are furnished in the following chapter. The third objective is to determine the successes and failures of PPPs through reflections on local experience. This consists of a reflection of the case studies of past and current PPP projects in SA. The purpose of this objective is to determine the effectiveness of PPPs in serving the public interest through effective service delivery and also to determine the shortcomings of the prevailing PPP model. Lastly, based on the risks identified in this study and the lessons learnt in the case studies, the study aims to construct a systematic risk management and strategic control framework for the effective reduction of risks in the concluding chapters.

6.2 Qualitative Results

This section captures the main findings derived from the interview results, and provides an overview of current literature as a reflection of these experiences in order to reinforce the results. As outlined in Chapter Four, as this study applies an interdisciplinary approach, the respondents interviewed were purposively selected as
high-level decision-makers and are thus deemed experts of various disciplines, including economics, politics, engineering, law, human resources, management sciences, and finance and commerce. The respondents are highly qualified in their respective fields. They included both individuals at the strategic management level and at the project management level, directly involved in the PPP case studies. Further information on the respondents is outlined in Chapter Four. It was not possible to standardise terminology for the public and the private partners, because different stakeholders use different terminology and the researcher used verbatim statements in some instances. For the purpose of this study the public partner is also referred to as the institution, the government department, the client, the department or the public party. The private partner is also referred to as the service provider, the concessionaire or the private party. These terms are referred to by different respondents as having the same interpretation and are thus captured accordingly in the results.

As explained in Chapter Four, the qualitative data was transcribed and coded, the conclusions are summarised in this chapter. The conclusions afforded in this chapter are based on interview notes and transcripts. Cross-references to the original data is not provided in the annexure because of the confidentiality of the data. A number of respondents requested anonymity and is therefore not identified in this study. The researcher agreed to protect the identity of respondents. In addition, due to the confidential nature of the data in terms of legal and financial implications of the sharing of data and/or because the data is exclusive, the researcher agreed to bestow a generalised representation of the data. The original data is available upon request, however, under conditions that protect the identity of the respondents.

As mentioned previously, the results yielded a number of strategic, structural, systems, and cultural challenges in PPPs, which are discoursed according to their relevant themes in the following sections.

6.2.1 Risk Management

Because the main focus of this study sets out to assess risk management in PPPs, this theme is the main theme of this study. The objective of analysing this theme is to determine the risk management conceptualisation, institutionalisation and its process in PPPs. In assessing this theme, the researcher attempts to discern the various
obstacles to risk management in PPPs; the major challenges in modelling risk in the PPPs; major risks, contingencies and liabilities and evidence of real losses incurred by either party; the major challenges experienced with contract management in PPPs; review controls in place for early warning of risk; challenges in ownership and transfer of risk; assurance of effectiveness of mitigation measures, and verification of results; effective risk communication strategy, and systems and recommendations for performing and improving risk management in PPPs.

Risk management is a management function; therefore management must identify risks, assess the degree of exposure and then determine the necessary risk treatment. The risk treatment includes the action to accept, avoid or transfer the risk and the implementation of mitigation measures and controls.


In terms of the framework provided by the National Treasury, the government entity should use the framework to compile its risk management strategy and policy. In most cases, risk management is dealt with and administered by the corporate governance unit on a departmental level, which is a support services unit. The corporate governance unit would ensure that there is a risk management committee in place, and should administer quarterly meetings. There should be a link between the audit and risk committee. Corporate governance should arrange risk assessment workshops and compile risk registers for the department.

The internal audit's role should transpire when the three-year rolling coverage plan is compiled, together and an annual internal audit coverage plan. The plan should be based on or determined by the audits that will be conducting based on the high risk areas identified by management. The purpose should be to express the adequacy and effectiveness of the department’s internal control environment. This should also extend to whether or not the department’s risk management process is adequate. This
is prescribed in the Institute of Internal Auditors (IIA) guidelines and practice advisories, to which, accordingly, the department’s work should follow. Thus, internal audit provides an oversight role and is an independent function from the risk management function. In any case, risk management should be treated as a management function. However, the above benchmark is not applied uniformly in all government departments. The above risk management process should be cascaded down to the PPP level and risk management policies and plans should be implemented that are aligned to the departments risk management policy. However, there is often a breakdown in the implementation because the responsibility of risk management rests with the PO, whereas in some cases the PO does not necessarily have the capacity to establish and sustain a risk management system.

As prescribed by the National Treasury, “the project officer and the project secretariat are strongly advised to set up the PPP project management systems in consultation with the institution’s internal audit unit to ensure appropriate compliance with the institution’s risk management, internal controls, and governance standards” (National Treasury 2004:8). The PPP manual delivers guidelines pertaining to risk management in PPPs, and a risk register and profile; however, the recommendations are not comprehensive. There are also no guidelines on how to institutionalise a risk management system, and no recommendations on how to ensure effectiveness of mitigatory measures.

In terms of private party risk management, the private partner implements their respective risk management frameworks, including ERM, corporate risk management and safety, health, environmental and quality (SHEQ) risk management, internal risk-based auditing, and other relevant corporate governance frameworks. General risk management methodology as outlined in Chapter Three was applied to the Gautrain and SANParks.

Thus, there should be alignment between the government department’s risk management policy, plan and process, the risk management policy, plan and process of the PPP entity, the public party’s risk management policy, plan and process, and the risk management of the private party. The results of this study suggest that there exists a need for integration of risk management and government-wide governance of risk management. Integration of the various risk managements and strategies should
enable government-wide risk management (GWRM), where the function of risk management is embedded in all organisational structures and a system for implementation and monitoring is institutionalised. However, there is currently no integration of the various spheres. The concept of GWRM was conceived in this study, based on the research results. An integrated approach is required to facilitate the synergy of risk management. The PPP objectives aligned with the service delivery aims of the government department should be the driver of integration.

Figure 6.1: Current Risk Management Landscape

The above figure illustrates the current risk management landscape, representing each sphere of risk management as an isolated function and entity. The isolated depiction of risk management indicates that there is no congruence or synergy between each sphere, thus disabling integration.

Figure 6.2: Proposed Risk Management Landscape
The above figure proposes that an integration of risk management should be achieved and that it should constitute a unidirectional approach. The recommendations of this study explore the improvement of risk management, thereby allowing for integration and the institutionalisation of risk management at government-wide level.

Figure 6.3 suggests a structure for government-wide risk management. GWRM would require that government take ownership of the risk management in PPPs.

**Figure 6.3: Government-Wide Risk Management**

The absence of integration between the various spheres of risk management can be accounted for by the lack of commitment and understanding of risk management, which is due to an absence of skill, experience, and human capacity, as in some cases the responsibility is a side-job, for financial and other related resources. The impediments to the successful implementation of government-wide risk management is due to disabling strategy, systems, structure and the culture of PPP risk management implementation. Firstly, the strategy followed for risk management in PPPs in many cases is not clearly formulated in terms of purpose and objectives, and does not provide clear guidelines as to the institutionalisation of a risk management system. In most cases, the risk management policy and plan delivers a theoretical framework for risk management but is not clear on the institutionalisation thereof. The public sector risk management framework provides an extensive theoretical framing of risk management literature, and templates for its implementation. Furthermore, the PPP manual, practice notes and guidelines contribute generic recommendations for risk management. However, both the strategies are not sufficient for the context of a
multi-stakeholder PPP entity. Secondly, the lack of evidence of sustainable risk management systems in PPPs is reinforced by the absence of strategic direction. Also, the strategy should determine and reinforce the structure in PPPs, thus proportioning the role and responsibility of each stakeholder. However, the risk management function is fragmented in the complex PPP projects, as in many PPPs there is no interface for risk management at multiple levels. If an integrated strategy were implemented, the various segments in the PPP would drive risk management and provide feedback loops. For instance, in many current PPPs, risk management would be an isolated function at the strategic level, and the project level does not carry awareness and understanding of the risk management strategy. In effect, there is no culture of consultation, cooperation, communication and awareness.

A number of respondents were unable to respond to the questions relating to risk management in the PPPs that they are directly involved with. This could be due to a lack of understanding or of risk management implementation, skill, culture and practice, and an isolation of the risk management process.

The results of this study suggest that a small number of skilled individuals exist who understand the purpose of risk management. A number of respondents remarked that people generally don't understand risk. In fact, a respondent refers to the lack of understanding as “there is no a priori understanding of risk”. In addition, some respondents lacked knowledge and understanding of the different stages of risk analysis. There is a misconception that risk management is done at the project level, with the effect, in some cases that risk management is understood in terms of safety, health, environment and quality (SHEQ). On the contrary, risk management should be recognised organisation-wide, including at the programme and project levels. Based on the observations of respondents, another misconception is that risk management belongs to a single person and that it is a designated function, the responsibility of an appointed individual. Thus, risk management is seen as an isolated function. This is misleading, because risk management involves every employee of the organisation, and all employees through their respective responsibilities should contribute to risk management. Hence, there is a lack of awareness of the role of risk management and a lack of ownership, accountability and responsibility to contribute to the sustainability of the organisation through risk management. Despite this, employers have not
increased efforts for the risk management training and education of employees. A few respondents included interviewees who possess expert knowledge on risk management. However, these respondents’ capabilities extended only to their disciplinary skills fields. In most cases, risk managers in PPPs in SA have a financial background. Thus in many cases, risk managers do not have the interdisciplinary capabilities which are essential to enable across-the-board capability. In effect, risk management in SA manifests as beta-risk. Risks are systemic in nature and not all risks have a technical, business and financial (beta risk) origin. For instance, a culture of unwillingness can lead to underperformance which has a financial impact through below-margin functioning of an organisation, which in effect can lead to decreased stakeholder value. A culture of unwillingness is a non-technical risk that possibly originates from employees who feel undervalued; this can be due to management that treats employees with disrespect and disregard, where they lose motivation to extend their work efforts to beyond day to day tasks. Non-technical, financial or business risks (referred to as alpha risks in this study) can thus lead to beta risks. This represents a gap in risk management capability in SA, and leads to unyielding risk management.

In general, there is a perception in both the public sector and private sectors that risk management is a project-level function. Risk management should move beyond project management (PRM) and financial management. Risk management also involves human and non-material risks that cannot directly be measured. As explained earlier, risk is a strategic function, encompassing all levels of an organisation or project. Risk management should manifest at the macro, micro and meso (individual) levels. Also, risk management should be included in all organisational functions, including, inter alia:

- business risk, for example sensitivity analysis and feasibility;
- employee risk, for example management of people, training, intellectual property and other human resources functions;
- legal risk including legislative, corporate governance, business process compliance and contract management;
- corporate risk focusing on the stakeholder value, profitability and sustainability of the organisation; and
- financial risk through financial management and cost modelling.
The above functions can be viewed and treated as proxy indicators, due to their multiplier effect.

The problem in SA is the approach to risk. The results suggest that there is little risk management culture. Risk management in PPPs in the South African context is not embedded in the management function, and thus inhibits institutionalisation of risk management. In some cases, risk management is done only as an exercise that is required for deriving the PSC, and as an annexure to the PPP contract outlining the risk transfer. In effect, the risks are modelled in the feasibility phase in a general and static fashion, and are not reviewed regularly during implementation. A respondent confirmed the above by stating that in order for innovation to take place in the risk management process, practice needs to move beyond risk modelling. The allotment of risk models is very theoretical and generic. Risks should not be too broad, and should be broken down in manageable activities. In two cases the risk management process is not included in the PPP agreement. A credible expert who is an advisor to a number of PPP projects remarked that risk cannot be followed according to a manual. Thus, there is an absence of dedicated risk management function, as in some cases there is no clear evidence of a risk management process in organisations. Risk management does not simply entail an assessment exercise; it involves the hands-on management of risk and the embedding of risk management in all management. The lack of an institutionalised risk management process can be accounted for as insufficient understanding of the value and role of risk management and the lack of experience and expertise in risk management. This leads to risk management not being recognised as a strategic function. Shortcomings of risk management generally include:

- lack of ownership of the risk management process;
- risk management processes are not clear and transparent;
- risk management is not linked to the objectives of achievement;
- risk management is not embedded in all management processes;
- risk management is also not embedded in collaborations with different stakeholders; and
- risks are not actively monitored and reviewed (Cleary & Malleret 2006:91).
SA PPPs have exhibited or shown evidence of all the risk management shortcomings listed above.

In a number of cases, however, excluding the Gautrain, the public party displays less capability to risk management than the private entity. In a number of PPP cases a risk analysis is done by the public party at the pre-project phase, and not revisited unless a problem is encountered. A respondent who is a PO for a PPP included in this study remarked that risk management takes place only when a problem is encountered. This indicates a lack of governance, accountability and ownership of the project on the public party’s behalf. A respondent confirmed this by stating that ‘government takes a back seat in PPPs’.

A representative from the public entity who is directly involved in risk management contends that in the Gautrain Rapid Rail Link, a non-traditional risk management approach was followed, where risk was managed on a day to day basis. The Gautrain is exemplary for instituting an integrated risk management system. Risk management in the Gautrain is designated to a specific position in both the public and private sector. The Gautrain implemented a risk management procedure that provides detailed clarification on the approach, methodology and implementation of integrated risk management. The procedure manual outlines the risk management purpose, scope, requirements, structure, responsible actions, risk management process, role and responsibilities of all stakeholders, reporting, risk management action plan, risk list, risk assessment, risk tolerance, risk treatment, risk mitigation, risk monitoring and a risk management plan for each entity in the concession. All parties are included in the risk management process and the government entity, namely province (PR), is included in monthly risk review meetings, participating in the risk management through risk analysis and review of mitigation measures, and their implementation. In addition, the risk management process includes a live executive risk management report that is updated continuously. Risk management in the Gautrain includes all levels of analysis, and risks are distributed to capable entities. In institutionalising a risk management system in the Gautrain, there is a dedicated risk management official who is responsible for risk administration. In addition, representatives from all entities in the concession structure, including a PR who represents the Department of Public Transport, Roads and Works Gauteng Province, Bombela Concession Company who
is the concessionaire, and consisting of the turnkey contractor (Bombela TKC), the Bombela Operations Company (BOC), the civil contractor Bombela Civils Joint Venture (BCJV) and the Bombela Electrical and Mechanical Works (E&M) contractor. Each representative participates in the risk planning and assessment, and each representative has dedicated roles and responsibilities. Also, there is risk communication and consultation through frequent feedback on the risk management process, through regular meetings and reporting. Thus, risk management takes place organisation-wide, and through an institutionalised system.

A noteworthy difference in other case studies is that risk management is not the sole responsibility of a designated authority. In other words, there is a lack of accountability, the task of risk management is not assigned to a specialised dedicated authority, as the project officer is tasked with risk management, and thus, there is a lack of ownership. A respondent reveals that the project officer is designated the task of managing the PPP, but most times this task is considered a side job. Thus, there is a capacity gap in government related to the provision of managerial capabilities and resources to effectively manage risks. In some cases, risk management in the private sector is included under the financial management umbrella of the organisation and not as a specialised function. The results reveal that generally in PPPs, except for in the case of the Gautrain, risk management is seen as a side-line activity.

A private sector respondent asserts that the conventional risk management approach of government is limiting. The respondent explains that the problem is that there is no conventional knowledge of risk management in the PPP market – that is, there is no general agreement and conventions regarding best practice in risk management.

A respondent expressed that risk management is transdisciplinary and involves finance, human resources, and marketing, and is placed at both board level and routine management level. Thus, there is too much focus on beta risks, with alpha risks often being disregarded or seen as ‘soft risk’. Different disciplines present different risk management methodological approaches. The different risk management pedagogies and methodologies inherent in different disciplines, if combined, can provide innovative assessments through, for instance, triangulation and scenario development, if resources are pulled together. Thus, specialists and generalists can contribute to innovative risk management.
Risks are systemic and risk management is a systematic process which requires a team of experts, for instance, multidisciplinary teams. Respondents’ emphasise that in order to institutionalise a risk management system a dedicated team and resources are required, which is often not the case in PPPs in SA. Respondents suggest that there is a lack of diversification in the skills bases in PPPs.

A number of respondents confirm that most emphasis has been on financial risk tracking; risk tracking should include things like board representation and other non-fiscal and technical issues. Many respondents involved in risk management in PPPs refer to skills as technical, financial or legal, and display a lack of generalist understanding. This is particularly evident in the conventional bureaucratic structures in PPPs, where stakeholders function in silos, and, as one respondent refers to them, ‘the one hand does not know what the other is doing’. However, in the Gautrain a unique approach of risk management is followed, as explained previously, where there is participation and representation from all entities.

Respondents indicate that there is no innovation in risk management in SA. Respondents contend that innovation in risk management is needed, and elaborate that red-tape and bureaucracy inhibit innovation. The lack of understanding of the value of risk management is indicative of an absence of a risk culture. A risk culture embodies a consensus on the meaning and value of risk management, contributes benchmarking for best practice, and enables conventions for best practice and a drive for innovation. Sustainable risk management practice should strive to achieve innovation through risk management practice, or as a spillover effect of risk management. The phenomena of risk translate into either loss or opportunity. There is a culture of risk avoidance in traditional risk management practice in the public sector in SA, in order to avoid loss. However, high-return opportunities carry risks, but through systematic risk management the risks can be managed in order to isolate, mitigate or reduce the risk, and rewards can be gained from these opportunities. Innovation in risk management through holistic thinking and intellectual risk-taking encourages the culture of risk-taking in order to maximise opportunities.

Risk management in SA PPPs, particularly in the public sector, is characterised by a culture of risk avoidance as bureaucratic practice; control in regulation provides a ‘comfort zone’ and thus a lack of intellectual risk taking. Some respondents suggest
that the public sector takes this approach because of a significant transfer in risk to the private entity; a respondent explains this by adding “that government forgets that it is in a partnership and that it has to manage its service provider”. This is indicative of a lack of ownership, accountability and understanding of the value of risk management.

Evidence of the result of what a respondent refers to as a “cold partners” includes the lack of quality and performance of service providers in some PPP cases, increased cost overruns in some cases, and wasteful government spending. There is a prevalence of remaining within the boundaries or ‘silos’ of the bureaucratic function of government. For innovation to take place in risk management it is essential to move beyond traditional risk management paradigms. In order for risk management to have a societal impact in the PPP context, innovation is required, but this innovation cannot take place in the absence of research and development, including human capacity development (HCD). In order to stimulate innovation there is a need to find more unstructured and open-ended ways of exploration. Considering that the public sector has an administrative function, it should encourage participation, consultation and capacity development in order to reduce red-tape and ‘silo-mentality’. This requires refraining from focusing only on the boundaries presented, and to consider possible frontiers, in order to encourage a holistic approach to risk management. Respondents who have firm grounding in risk management and who are highly competent experts, suggest the above approach as a paradigm shift in order to improve systematic risk management, and to stimulate PPP market development, to improve service delivery, to ensure sustainable infrastructure development and to encourage good governance.

Contrary to the bureaucracy of control in its silo approach to governance, creativity is necessary to allow innovation into the risk management process. However, an interrogation is required of how creativity and control can coexist. Creativity implies new phenomena and change, whereas control signifies a comfort zone and fear of the unknown. This is reinforced by the fundamental component in risk that constitutes uncertainty and reinforces the debate of rationality, control and heuristic value as discussed in Chapter Two, and represents a gap between theory and practice. This study aims to suggest recommendations in order to overcome this gap between theory and practice.
6.2.2 Risk Analysis and Assessment Methodology and Modelling

A number of respondents argue that the issue is not risk modelling or methodologies, as there are very sophisticated modelling mechanisms; the problem lies in understanding, implementation and monitoring. Thus, risk management is not an arduous task, but it requires careful planning and monitoring.

With regard to risk analysis, an expert on risk analysis and management suggests scenario development for the optimum course of action, and that the focus should be impact. The respondent suggest that in order to increase effective risk analysis and management, risk managers should develop flags for scenarios and should constantly adjust the probability of flags, thus enabling adaptation to change. The respondent cautions against exclusive academic scenario development and emphasise that scenario development should also applied, in other words, applicable in practice. Lastly, the respondent asserts that decisions should be based on the balance of evidence. Another respondent implies that the decision-making process in risk analysis is a subjective process and refers to it as “subjective probability to the cause”. The respondent explained that risks are topical and depend on individuals at a certain point and time. Furthermore, the respondent asserts that there is little science behind decision-making, as the quantification of risk is a somewhat arbitrary process.

In contrast, a respondent argues that there is no attempt to quantify risk in agreements. The respondent explains that there is no formalisation of how to quantify risks. Also, there is no historical information for risk, which makes it difficult to quantify. In addition, risk is often poorly defined. The respondent further contends that risk allocation is subjective and thus the probability would be subjective. An experienced technical advisor concurs that the quantifying of risk is an arbitrary process. The above phenomena are reinforced by the argument of whether risk management is rational. Respondents indicate that risk analysis is subjective and that this decreases evidence-based risk management. This can further be explained by the induction problem mentioned in Chapter Two, where risk is analysed on the basis of experience, and experience is subjective. However, in order to overcome the subjective nature of risk analysis, scenario development as a method for alternative risk management should be applied.
With regard to risk modelling, respondents suggest that risk costing is the most difficult task because it is a functional exercise and is difficult to quantify. Respondents explain that a Public Sector Comparator (PSC) is not appropriate. The base PSC costing includes all capital and operating costs concomitant with the project, and the risk-adjusted PSC model comprises a costing of all the risks associated with the PPP (National Treasury 2004:19). Respondents argue that risk costing is difficult as the risk costs cannot be modelled because the government does not know what the project will cost.

A respondent asserts that all risks will never be identified prior to the contract. This directly impacts the VFM formulation. “Treasury Regulation 16.1 to the PFMA defines value for money as: ‘a net benefit to the institution, defined in terms of cost, price, quality, quantity, or risk transfer, or a combination thereof.’ The value for money test is only conducted in the procurement phase as one of the requirements for TA: IIB when private party bids are submitted. For TA:I, institutions are required to give an initial indication of what value for money the project is likely to provide if it were procured through conventional public sector procurement or a PPP, by comparing the two models. Value for money is considered at this stage (feasibility stage) by comparing the risk-adjusted PSC model (conventional procurement) to the risk-adjusted PPP reference (PPP procurement) model on a net present value (NPV) basis” (National Treasury 2004:36). Value for money (VFM) has limited scope change, but reduces risk and is considered a strategic control and risk mitigation method. A PPP Unit respondent suggests that the PSC is to justify the investment in terms of the cheapest option.

The respondent reveals that the PSC is currently under review, and explains that one should not have to do it every time, after VFM has been demonstrated. The respondent argues that the UK does not do the PSC. The respondent explains that the review focuses on whether it should be done every time or should be done on a case by case basis, for instance particularly with Greenfields projects or high-priority sectors. The respondent asserts that “some of the UK stuff does not apply, but we have not been clever enough to understand what we can take and what we cannot take”. This relates to the issue of a ‘one size fits all’ approach as mentioned earlier in this study. PPPs should be ‘fit for purpose’ instead of ‘one size fits all’.
6.2.3 Risk Transfer and Ownership

A respondent from the public sector contends that the transfer of risk is becoming more and more problematic, and that regardless of the PPP agreement, risk still slips back to government, particularly in the case of operational risk. However, private sector respondents contend that the public partner does not understand that the PPP is a partnership and that they still have to manage the service provider, especially in the operational phase. Private sector respondents contend that the emphasis in risk transfer is done incorrectly. Respondents contend that government believes that all risks have a price attached to them, but they don’t, and this leads to artificial dealing in risks.

The risk ownership determines the risk profile of the particular party. Each project has a different risk profile. Respondents remark that not enough attention is contributed to the risk profile in PPPs. Also, standardised matrices often are generic and provide too little detail of the meaning of each component in the matrix. When investigating the risk matrix for each project, the researcher was advised that the standardised risk matrix is used. The results are contradictory regarding the application of the risk matrix, as some respondents suggest that risk is not followed according to the PPP manual, and the public sector representatives contend that the same matrix is applied that is recommended in the PPP manual. With regard to the profile, respondents express the need to differentiate between contractors versus the consultant. Risk is different for various stakeholders depending on the risk level of the responsible entity, including project, operational, business, commercial and strategic. Currently the PPP manual delivers generic recommendations.

An overwhelming number of respondents claim that there is too little focus on subcontractor arrangements. The contractor uses FIDIC and NEC contracts, in PPPs, operations are included. Also, the operator risk profile is different to the construction risk profile. In a PPP there is a need to pull the different profiles together. For instance, there is a different profile between the contractor and consultant. The consultant becomes the project manager and designer. Also, respondents indicate that in some cases increased cost and delays result from occurrences outside the control of PPP contractors for example, strikes, unforeseen ground conditions such as unexpected geological conditions, and inadequate project management of the contract and not
giving notice when required, which results in claims not being recognised by the Authority.

A respondent who is involved with the Gautrain reveals that it is not a matter of costs spiraling; the costs are not estimated in the first place. If the product is priced right, the economic implementation would be right. Price speculation is a planning issue of inputs versus outputs, and risk is transferred through the output specifications. Respondents contend that the contract price (unitary price) is the only thing that is fixed and therefore the scope is also fixed. However, there have been contradicting reports of change in contract price and scope, for instance in the case of the DBE, where the output specifications were changed to accommodate a growth in staff. Also, media reports are contradictory regarding the capital value of PPPs. For instance, one article cites the capital cost of the DBE HOA as R403 million (HG Strategic Communications 2010), whereas another media report reveals the capital price of DBE HOA as R650 million (Construction Review 2010).

The Democratic Alliance (DA) has requested that the Gautrain reveal the province’s real annual subsidy costs and that the contract should be made public. “It appears from documents tabled at a recent meeting of the Gauteng Legislature’s roads and transport committee that this subsidy will be more than R700m a year,” said MPL Neil Campbell. “The DA has for a while been concerned about the steadily growing costs of the Gautrain, which presently stands at over R27bn. Some R38m is budgeted for ‘operational and support costs’ for the Gautrain Management Agency and about R360m for a “patronage guarantee”. Paying this out every year will squeeze out other public transport projects as it will consume about one-third of the Gauteng roads and transport budget.” Campbell said this showed poor planning and skewed priorities. Metrorail needed upgrading to carry far more passengers than the Gautrain” (Flanagan 2011).

In response, the Gautrain Management Agency (GMA) asserts that the contract with Bombela was R25.2bn. A GMA spokesperson states “this is for design, build, operation, maintenance, and transferring the system”. Patronage is not included (Flanagan 2011).

6.2.4 Risk Mitigation

Risk mitigation in construction risk generally includes, for instance: construction subcontracts, a JV agreement, the PPP agreement, construction subcontracts and insurance. In addition, environmental risk includes legal liability, the PPP agreement,
regulatory bodies, due diligence, construction and operations subcontracts. Business risk can include for instance interruption insurance.

A representative from the PPP Unit explains that in theory, risk is retained by the public partner. It is clustered, and a person in the contract management team is responsible for mitigation and monitoring and evaluation thereof. However, the respondent claims that the allotment of risk theory does not happen in practice. Respondents contend that the problem is a process issue and is because of procedural uncertainty.

A public respondent indicates that risk management should not be a problem if it is well contained in the Special Purpose Vehicle (SPV). This indicates the public sectors’ limiting approach that the private sector should carry and manage all risks. In addition, government takes lowest cost insurance, which limits opportunity and indicates a lack of innovation in risk management. A government department PO remarked that risk only becomes a problem when you start managing the contract. This approach is limiting, as risk management should be advocated throughout the entire life cycle of the PPP.

Insurance is a mitigation measure and a risk control mechanism. A respondent postulates that there is a need for the review of the role of insurance in PPPs in SA. The respondent further proposes that the role of material adverse compensation (MAGA) be reviewed, and contends that the allocation and mitigation of risk depends on the definition of the risk.

Relative to underwriting, banks are risk-averse. However, the banking community is small, and there is a lack of competition and a need to consider how underwriting is done.

The PPP manual fails to supply specific recommendations of assurance of effectiveness of mitigation measures and verification of results. This function is usually associated with reporting and audit function, however, the process of assurance and verification should be integrated into an institutionalised monitoring and evaluation process. There was a lack of response from interviewees on the effectiveness of mitigation measures and verification of results. This can either indicate a lack of knowledge and understanding of what it constitutes, or a lack of implementation, both
of which indicate a gap between theory and practice. There also exists a lack of peer review in risk management for external verification of controls prior to development.

A number of strategic controls can be implemented in a PPP to mitigate risks. These generally include for instance the PFMA as an internal control, and Treasury approvals as an external control. With regard to environmental risk, the environmental impact assessment (EIA) is a risk control. The effective communication of risk can also play a role in risk mitigation. A respondent explains that the interface and communication in a PPP is a review of control in itself. Furthermore, poor contract administration prior to financial closure will result in risk being passed back to government, this being particularly due to ineffective communication. Respondents indicate that a feedback loop for accountability is required as risk communication does not take place in PPPs.

Review controls should be instituted as part of an early warning system to provide a safety net. A respondent indicates that there were no benchmark preventative measures in the SANParks contract. Benchmarking should be undertaken to include competitive measures for sustainability.

At a project level various controls are put place in the Gautrain, for instance, work permits, a method statement of work, snag lists, deviation reports and training of employees. Other controls include reporting as an internal control, value at risk (VaR) as a financial control, the limits of authority and board representation, and liability as a strategic control. The quantity surveyor and bill of escalation is an internal control to monitor costs. Independent certification of construction is an external control.

Business process compliance management can also strengthen risk mitigation in terms of legal, contractual and systems management. A respondent remarked that “in SA it does not matter what the compliance requirements are, people don’t stick to whatever regulations except for highly skilled individuals”. A respondent, who is an expert in business compliance, argued that from a business process compliance management perspective, quality is the greatest issue.

6.2.5 Monitoring and Evaluation

Monitoring and evaluation (M&E) is a management function that can identify and recognise potential risk for early warning and response. In addition, monitoring
mechanisms also provide strategic risk controls through internal and external control mechanisms. There is a lack of M&E in PPPs in SA. The short-term benefits of PPPs are known, but not the long-term, and thus the outputs are known, but not the outcomes (Garvin & Bosso 2008).

The PPP Manual does not supply comprehensive recommendations on the monitoring required in PPPs. The PPP Manual suggests that monitoring should be included in the performance management system (PMS). According to multiple respondents, M&E is achieved through the helpdesk function in projects, reporting and meetings in PPPs. This indicates little evidence of comprehensive M&E in PPPs. Some respondents from the private sector indicate that monitoring is the responsibility of the Department, and this also indicates a limited approach in the partnership, where each party should be involved in the M&E process.

An expert on M&E reveals that a workshop on PPPs was held in 2004. The expert admits that the workshop revealed that there had been no evaluation of PPPs. The workshop was held by the Development Bank of South Africa (DBSA), with the Business Trust and international stakeholders also involved. A respondent who is an expert on M&E revealed that “nothing came of the workshop” and the respondent proposed that “one need to understand the structure and how to evaluate all structural components.” The respondent continues that an issue that was identified was that “because no advertising of PPPs is done is a matter of concern”. This indicates that a lack of awareness inhibits market development. The respondent further extrapolated that “we have not yet measured PPPs because it will show failure”. In any case, the evaluation expert maintains that, to derive results of success from an evaluation is not necessarily the goal. The expert deduces that ‘failure is not bad, it is about development’. The purpose of M&E is to evaluate success and failure in order to develop, but development is not possible where there is no measurement of impact and without a baseline of M&E, and no comparison of success and failure is possible. The recent cancellation of PPP Prison bids which is outlined under the following governance section indicates a need to review and evaluate the PPP model.
6.2.6 Variation Management, Claims and Dispute Resolution

Variation management is a component of the PPP agreement administration, and is linked to the PPP agreement maintenance and administration (National Treasury 2004:29). Variations are due to evolving needs. Respondents indicate that a variation order is difficult to measure and should be guided by management practice and not exclusively by legal statute. Variations impact on unitary fees as they require additional work or a change in work.

Each PPP establishes a dispute resolution board (DRB) to deal with disputes and unresolved claims and variations. An experienced lawyer maintains that no dispute resolution in the world is good, as most disputes are nominal in nature. Major claims or disputes go to arbitration. A majority of respondents agree that there should be more emphasis on DRB. Capacity for dispute resolution is limited in SA PPPs. An expert on SHEQ in the construction and infrastructure industry claims that SA does not publish information on penalties and so forth. The researcher attempted to obtain evidence of losses through claims and variations information. However, the researcher was prevented from accessing such information, because the information is exclusive. The researcher also attempted to access information on claims and disputes through the Association of Arbitrators. However, the researcher was advised that the Association does not deal with PPPs or keep information on claims and variations of PPPs. The study could have been more efficient in reviewing risk management practice in the event that such data was available for further study.

In the event of a variation, a retendering process should be followed for substantial changes. However, this was not the case in DBE. In the case of the DBE, catering was not part of the original contract. A respondent indicates that Tsebo was at a loss due to volume risk. Multiple variations and change of specifications can be due to organic changes or ineffective planning and improper defining of specifications. DBE contends that the first variation was for an increase in the size of the building because of the growth of staff. In effect, the second was due to the enlargement of the conference venue. Private sector technical advisors for DBE contend that “DBE did not step out of their contract, as they are audited by the Auditor General” (AG). However, when the researcher attempted to obtain information on PPPs from the AG, the researcher was advised that the AG does not keep information on PPPs.
In the case of the Gautrain, letters from the private party are retained by the public sector as possible claims, as the public sector contends that the private sector has ‘their eye on the commercial ball’. In an interview with representatives from Murray & Roberts (M&R), M&R was unwilling to respond to questions relating to the Gautrain, and specifically relating to claims, variations and disputes, and stated repeatedly: “we are not at liberty to comment on the Gautrain”. This could indicate they had their eye on the commercial ball or that they had something to hide, the respondent stresses. The Gautrain appointed a chairperson to the DRB in 2006, Judge John Myburg SC.

A legal advisor to the Gautrain suggested that there is indeed evidence of losses in the case of the Gautrain, where the construction contractor forfeited claims. A respondent indicated that “things that are not specified in the contract need to be dealt with in a special way”, for example in the Gautrain context, cell phone reception in the tunnels was not specified, which led to a dispute. In the context of the Gautrain the public sector asserted that the private party used the programme as a weapon for claims. However, the private sector argued that in the Gautrain, the public partner was “no carrot but all stick”. This indicates a fundamental distrust in the partnership and a lack of cooperative spirit.

Moreover, a respondent reasoned that the January 2007 Eskom power outage may result in a claim. Another respondent argued that a claim for cost-overruns in 2004 resulted in R5 billion. M&R reports that interim results ending December 2009 have been impacted by problems with its Gautrain contract and delays in Eskom-related contracts (Rego 2010).

The request for the delivery of the Gautrain for the World Cup also resulted in dispute. Brian Bruce, M&R Chief Executive Officer (CEO), explained that an agreement was made to change the job specification to deliver the project earlier than initially agreed upon so that it could have phase one ready in time for the World Cup in June 2010. However, the province was refusing to compensate M&R for the early delivery. M&R was funding the construction on the Gautrain itself, which it was prepared to claim back at a later stage (Rego 2010).

Murray & Roberts recorded a loss due to activities for the Gautrain. The BCJV, in which M&R has a 45% share, demonstrated a major financial drain on M&R with
penalties being levied due to the failure to achieve the targeted phase two handover date of 27 March 2011. The first phase, a 48-month contract to construct and deliver the Gautrain route from Sandton to OR Tambo International Airport, was completed ahead of schedule for the World Cup. There were several delays due to the late handover of land, and the route between Hatfield and Rosebank finally opened on 2 August 2011. Water ingress in the 1 km section of tunnel between Park Station and Rosebank constrained the opening of this section. While the specification for drainage of 10 litres per 10 metres per minute proved to be correct, following a dispute ruling, the 1 km section under dispute was determined to be 13 litres per 10 metres per minute. There were 17 external environmental incidents reported in the year on the Gautrain project, but no fines were imposed during the period. Oil traps were installed and continuous audits done to mitigate the risks of polluting water and ground water (Murray & Roberts 2011:75).

The claim lodged against the client will, it is envisaged, will repair profitability if successful (Murray & Roberts 2011:78). BCC has rendered its statement of case in relation to the delay and disruption and related disputes on the Gautrain project (Murray & Roberts 2011:200).

A method has to be standardised in dealing with variations and to accommodate both private and public partners. The feasibility phase should place emphasis on predicting organic changes in public needs. Although future changes in public needs cannot be measured, contract and financial planning should allow flexibility for nominal changes. In addition, early warning risk management systems, effective contract administration and agreement management should pre-empt troubleshooting against disputes.

In the case of SANParks private concessions, they incurred losses due to the international financial and economic crises that affected the tourism industry, as low occupancy is the biggest risk to SANParks.

6.2.7 Contract Management

A legal representative, who is an expert in contract law and litigation for construction and infrastructure, contends that the contracting strategy in PPPs needs to be reviewed. The results indicate that the contract should drive the design of the project. The risk matrix indicating the transfer of risk and risk ownership should inform the
contract documents. Risk management and the PPP agreement management should be integrated. The following figure indicates a hexagon radial diagram which illustrates the risk management framework as a sequential process that relates to a central theme, namely the PPP agreement. The figure represents the risk management framework as a driver for the formation of the PPP agreement.

![Hexagon Radial Diagram](image)

**Figure 6.4: Sequential Process of the Contractual Structure**

The risk policy is the guiding strategy or plan for managing risks in an organisation. The risk register identifies the various risks faced by the organisation and the risk matrix provides a risk assessment of the risk impact and risk tolerance level of the organisation while the risk profile indicates the organisation’s risk exposure. The risk programme outlines the various processes towards risk management, which deliver risk schedules outlining the various risks and their controls. All these instruments are linked to and structured sequentially around the PPP agreement. Respondents indicate that risk management lies in the contract. The contract itself thus is a risk control.

A respondent remarked that the contract serves as insurance. The contract is a risk control because of contract monitoring compliance. However, solely relying on the contract as a risk management mechanism, as the results suggest is the case in some PPPs under investigation, indicates a gap between theory and practice. The contract provides a guide, however in practice, the contract does not supply exhaustive
recommendations for best practice, and in some cases terminology can be nominal and ambiguous, which presents the risk of misunderstanding, misinterpretation, misrepresentation and uncertainty. Also, a culture of following the contract ‘for the sake of compliance’ and a lack of understanding the contract and absence of hands-on management can inhibit intellectual risk management. There is a lack of capacity for contract management in PPPs.

Often, in PPPs the parties who negotiate and draw up the contract are not the implementers of the contract. The negotiation team is separate from the operational team. Because training is expensive, underinvestment in resources and capacity in contract management results in poor contract administration. In some cases documents are taken from one PPP to another and names are simply changed and are not authentic. Also, a respondent highlights that the issue is that too much information becomes data.

A credible attorney, experienced in PPPs, reveals that the PPP contract “would say one thing, but in the interest of preserving the relationship with government”. Poor contract administration will result in risk being passed back to government. There is a lack of accountability in contract management in PPPs in SA in both the public and private sectors. Need to continually review SLAs and contracts, the agreement should be a live document. Contracts should be more commercial to prevent exploitation by the private sector.

A majority of respondents indicate that the contractor does not understand the contract, and that mispricing takes place. The contractor does not understand what the role, purpose and structure of the TKC is. For instance, when a contractor contracts through a new engineering contract, or a (NEC) contract, they do not understand how it is supposed to be implemented in the PPP. Also, some contracts like the NEC, are vague and do not provide enough detail. The PPP model does not deliver recommendations for the contracting mechanisms in a PPP. Different construction companies apply different contracts, which function on fundamentally different conditions and principles, and have different guidelines.

The PPP model should contribute recommendations for each contracting mechanism, including the Fédération Internationale des Ingénieurs-Consells (FIDIC), the Joint
Building Contracts Committee (JBCC), Engineering Procurement Construction (EPC), General Conditions of Contract for Construction Works (GCC) and NEC. Incorrect pricing takes place because the different contracting mechanisms have different requirements with regard to lump sum payments, and so forth. For instance, the problem with FIDIC contracts is that if there is no fixed lump sum, then engineers underestimate the risks. Engineers do not understand contracts, and should get legal expertise to interpret them. Contracting inconsistencies create ambiguity and indirectly present alpha risk, as in many cases there is a ‘bad relationship between the contractor, project manager and the engineer’ due to the uncertainties. Government needs to ensure that the risk is passed on to the contractor, as they are best placed to manage the risk and have allowed for it by building contingencies into the price they have bid.

To illustrate, a respondent reveals that the DBE did not do all their variations at once; the contractors thought they were contracting in terms of FIDIC, without a variation order, which presented a problem. Thus, different contractual measures are unique and a review of the contracting strategy in PPPs is required.

6.2.8 Management Function

The management function should focus on foundational issues such as vision and values. There is little evidence in leadership in PPPs in SA. Leadership should encourage long-term vision and ask questions relating to why a particular decision or approach is impactful, thereby clarifying the purpose and goal of a strategy, whereas management focuses on how to achieve a particular goal. Both leadership and managerial outcomes should be translated into objectives anticipated in the PPP, and the objectives should be cascaded down to implementation. The challenge in PPPs in SA is an issue of lack of good governance when a breakdown occurs at the implementation level. This is put down to a lack of leadership and clear vision. In addition, this is compounded by the lack of strategic planning in the public sector. Much attention is paid to complying with the various requirements set out in the Treasury regulations; however, at the project’s inception, the public partner does not provide strategic direction for the implementation of the PPP. A number of respondents maintain that once the PPP arrives at the inception, the “public entity forgets that it is a partnership, where a service is outsourced and that the service provider still has to
A PPP constitutes a partnership between a public and a private partner where a long-term contract is adhered to.

The relevant legislation and practice guidelines do not make reference to strategic planning; much focus is on the project level. Also, reference to training is committed to project management and not strategic management. Furthermore, there is no clear conceptualisation to the public what the strategic objective of the PPP is.

As previously mentioned, risk management is a management function and should be cascaded down to all management functions. Risk management in PPPs is fragmented, and there is a need to integrate it. Risk management is an important element in organisational development and strategic planning. The following cycle matrix illustrates that the various management functions have an interrelated function. Firstly, performance management should aim at stakeholder management and should focus on human resources and partnership management. Secondly, corporate governance should focus on business process compliance, professionalism, best practice, corporate social responsibility and initiative (CSR and CSI). Business process compliance management is linked to contract and risk management. In addition, contract management should focus on grievance and variation management that is linked to stakeholder management and business process compliance management, as well as risk management.

Furthermore, risk management should focus on service delivery and stakeholder value, because the risk can affect the venture, and if the venture is not functioning optimally, stakeholder value and service delivery may be impacted negatively. Lastly, risk management is linked to all other management functions in the following diagram. Moreover, other management systems such as financial management, information technology, and communication management, supply chain management and business and project management, are relevant in all management functions in the diagram below. A respondent explained that if there is a problem with the generic management system, “you can forget about institutionalising a risk management system”. The results of the study suggest that the generic management function in PPPs is underdeveloped.
Respondents expressed the need to have incentive-based regulation. Private sector requires an incentive where the harder the concession works, the more profit they make. A commercial model should have been introduced in the Gautrain.

Respondents suggest that this is illustrated through the performance measurement schedule which delivers penalties but no incentives. The main attraction of the private sector to the PPP model is that government provides guarantees for payment and subsidy. However, the PPP model does not bestow sufficient incentive for the private sector to introduce innovative project delivery. In addition, a number of impediments such as uncertainty about public administrative justice of tendering, and government planning and inconsistency, decrease the private sector’s trust in the PPP model. The matter of government planning and inconsistency is elaborated later in this chapter under government slowness and inefficiency.

The lack of commercial value may explain the sluggish PPP market development in SA. The PPP model should enable commercial value to attract competitive private sector involvement. Although the government is outsourcing the function of
infrastructure development to the private sector, they are still responsible for the PPP. In order to ensure that the private sector can provide sustainable value, the PPP model should contribute a viable business case for industry.

Respondents representing a prominent private sector entity in the construction industry who is a key player in the Gautrain, contend that the PPP route is not a viable business option. In response, an experienced legal advisor explains that the entity might be of this opinion because the PPP market is too small a business to them. The respondent adds that PPPs might not be lucrative, but the only reason why the private sector is participating in PPPs is because it is guaranteed business, considering the provided government guarantees.

6.2.9 Competition

Monopolistic constraints of PPPs provide challenges to the sustainability of the PPP market development, as the banking community is small and there is a lack of competition. A respondent, who is positioned at a strategic level in a financial institution or bank, reveals that because of the small market and limited competition, banks overcharge government. The respondent also reveals that the government is the banks biggest client and they make the most money off the government. This contravenes the PFMA and the value for money principle of affordability due to the monopolistic constraints presented, and because of limited competition, cost effectiveness is compromised.

A number of respondents also attest that limited competition and sluggish market development are due to an ‘immature insurance sector’, lack of aid agencies, and an absence of academic presence in the PPP field. The PPP Unit affords financial aid to certain government departments for project development through the project development facility (PDF). Private sector aid includes the DBSA which provides financial support to qualifying BEE entities. The Infrastructure Development Corporation also delivers project finance. However, support provided by these agencies is not significant or comprehensive and is not inclusive of a large population.

A number of respondents suggest that the PPP environment in SA presents an uneven playing field, manipulated by established consortiums, companies and banks. The uneven playing field is reflected in the recent investigation of the Competition
Commission into anticompetitive practices of large construction companies, which offer possibilities for bid-rigging. The Competition Commission has been investigating anti-competitive behaviour in 70 public and private sector projects, including the Soccer World Cup stadiums, the Gautrain and road construction (Mokopanele 2011).

As reported in 2011, the probe was instigated two years ago into alleged anticompetitive conduct by large construction companies and their subsidiaries. The Competition Commission was concerned about high levels of concentration in the sector, and the possibilities this offered for bid-rigging (Mokopanele 2011).

In addition, the Competition Commission is also “investigating 65 bid-rigging cases for price collusion for construction products such as long steel, mining roof bolts, concrete pipes, plastic pipes, wire mesh, reinforcing steel-bar installation and pilings construction” (Mokopanele 2011).

Some of the entities included in the sample of this study such as M&R, Group Five and the Grinaker-LTA Aveng Group had submitted applications indicating an intention to apply for corporate leniency on more than one project. The Competition Commission contends that major construction firms held meetings to allocate tenders and patrol each other’s behaviour through a structure named ‘The Party’ (Mokopanele 2011). Although anti-competitive practice does not equal fraud and corruption, it can suggest fraud or corruption, and companies can run the risk of fines and penalties. In order to determine whether fraud has taken place, a number of matters are considered by the Competition Commission and Competition Tribunal, for instance intent, misrepresentation and prejudice. With regard to corruption, where more than one party is involved, i.e. the corrupter and the corruptee, with both parties benefitting.

In addition, market development is constrained in an industry or economy that presents limited competition. To illustrate, respondents suggest that PPP market development is hampered due to a lack of competition and this is evident in HOA, although HOA entails standard building construction and not complex infrastructure. Compared to Greenfields projects, HOA is not the fastest growing business because there are too few players in the field.

In the researcher’s attempted to question government agencies to determine the level of support for market development and competitive practice, a number of public
institutes were approached. The Local Government Business Network (LGBN) was not able to assist the researcher with information on interaction between the public and private sectors in infrastructure development, because the staff kept on changing at the organisation. As mentioned earlier in this chapter, the researcher was advised that the Association of Arbitrators do not deal with PPP’s. In addition, the researcher was advised by representatives from the National Business Initiative (NBI) that the organisation does not deal with PPP’s anymore. In sum, neither the private nor the public sector organisations were enabling and mature enough to encourage market development and competition.

6.2.10 Procurement

Procurement is governed by the State Tender Board Act 1968, Supply Chain Management (PFMA 1999). A two-envelope system is implemented as mandated by the PFMA. Designated signing powers for national PPPs rest with the Director General (DG), the Head of Department (HOD) for provincial PPPs, and, in municipal PPPs in the manager. A number of respondents propose that the exclusive designation of authority presents a challenge in that the designated authority does not have sufficient understanding of the PPP. Firstly, this presents a challenge in that the PPP is not sufficiently contextualised and can lead to misinformed decisions. Secondly, approvals take long because the designated authority is responsible for a number of functions in the Department, thus the designated authority does not have exclusive time to dedicate to the PPP. Moreover, some respondents add that the designated authority is a political appointment which may be subjective due to political pressure that can influence commitments, cooperation, and buy-ins to the PPP.

In other cases, a respondent who is PO of a PPP case under investigation in this study, reports that after a new DG was appointed, the PO had to convince the DG of the VFM of the PPP project. The respondent reveals that although VFM was demonstrated during the procurement and inception phase, the PO had to prove the VFM to the DG in order for the project to be continued. This was during the development stage of the PPP. This adds an administrative burden to the PO who is overstretched in terms of responsibilities, capacity, resources and time.
As discussed later in this chapter, the cancellation of the Prison PPPs is an illustration of the strategic shift that the designated authority is capable of. Another respondent confirms this by adding that ‘government does not care what is in the bid, they just change their minds’. Moreover, bids cost the private sector money to develop and have a negative effect when government cancels projects. A government official indicated that 17 HOAs had been cancelled by 2010. Also, apart from the Gautrain, government does not consider bid cost compensation.

Respondents reveal that in some PPP cases the implementation of the two-envelope system of BEE and price has presented drawbacks in that the focus is not on the capability of the private party, and that in effect, in some PPPs quality has been compromised due to underperformance and low standard capability, as was evident in SANParks. A respondent who is a reputable legal advisor to government refers to this as government ‘being penny wise and pound foolish’. A respondent suggests that the public partner should consider what is effective in the commercial world. Opportunities need to be balanced 50/50 with financial value in relation to the bottom line. Reliance on the highest bidder creates a problem. There should be an emphasis on track record and performance, which impact on time, cost and quality.

In terms of BEE, a majority of respondents from the private sector assert that BEE is implemented as a penalty system instead of a reward system. A further discussion of BEE is provided in the following section.

A respondent argued that the procurement process is a cold bid-process and should be tailored to a more interactive approach. The advisors are not part of the procurement process and individuals involved in the negotiations are not the same as in the operational stages. This impacts on the retention of institutional knowledge and project background. The process should be consultative to obtain expert inputs. In some cases government officials do not possess industry-specific knowledge as compared to the advisors. Hence, the advisors could supply objective insights into the decision-making process for procuring a partner. A respondent refers to the procurement of PPPs as the process ending up being a state process. There should be co-creation between partners.
Respondents also expressed concern over the effectiveness of government administration. Respondents’ state that bidders are not advised when they are not successful. Also, the DRDLA was subject to legal action by the reserved bidder in 2011. The basis of legal action was the Public Administration Justice Act (PAJA) which resulted in a court case against the DRDLA. Some respondents reveal that there are errors in procurement, as some public officials do not understand procurement and supply chain management.

A number of respondents maintain that consultants are getting tired of the tendering system due to its exhaustive red-tape and regulation. According to a respondent, industry refers to this as ‘tenderneurship’. There is a need to shorten the procurement process. In addition, to the administrative burden presented by the onerous tender process, PPPs in SA take longer to transact compared to other countries.

The PPP Unit does not recognise unsolicited bids. An unsolicited bid entails a proposal from the private sector that was not sought by government. National Treasury (2004:11) does not recognise unsolicited bids “because unsolicited bids are difficult to manage, threaten to violate constitutional protections of fair administrative process and competitive procurement”. A representative from the PPP Unit confirmed that there have not been any unsolicited bids in the past ten years that have been endorsed by the PPP Unit. A number of respondents from the private sector are dissatisfied about this regulation as it could increase competition and innovation. Unsolicited bids may contribute to market development.

6.2.11 Black Economic Empowerment

A number of respondents contend that black economic empowerment makes projects more expensive as in many cases BBBEE partners and employees underperform because they lack the necessary skills and experience. In response, some lead partners or employers would have acquired additional capacity or, as a respondent states, “do the extra work” in order to ensure the functioning of the PPP. In effect, a majority of respondents reveal that BBBEE partners are often silent partners. Respondents express concern that the silent BBBEE partners present a risk to the PPP. To illustrate, the researcher attempted to interview the BBBEE partners in some cases, but was not successful as they were either unavailable or not willing to
participate. Specifically, in the case of the Gautrain, after extensive efforts to meet with a representative of the BBBEE equity partner of Gautrain, the Strategic Partners Group (SPG), the researcher was informed after several attempts, that participation would not be possible as SPG is “run by one person who is not available and that SPG is not able to assist with information on the Gautrain”.

With the exception of the BBBEE equity partner of the Gautrain, there have been reports of the positive role of the Independent Socio-Economic Monitor (ISEM). BBBEE is implemented differently in the Gautrain, where the ISEM plays an active role in achieving the BBBEE targets. The BBBEE targets were exceeded in the Gautrain and reports indicate that Socio-Economic Development (SED) had a socio-economic impact.

The reported progress as at 2009 includes jobs created, specifically: 11 700 direct jobs and 63 200 direct, indirect and induced jobs. The companies that benefited include 260 BEEs (R1 900 million), 90 new BEEs (R800 million), and 230 Small Medium Enterprises (SMMEs) (R600 million). Training includes 10 400 courses for unskilled or semi-skilled staff and 1 250 courses for management (Gautrain Management Agency n.d.). Bombela exceeded SED obligations as at end of October 2008 as follows:

- 10 517 HDIs were employed, compared to an obligation of 4 898
- 834 women were employed, compared to an obligation of 369; and
- 63 people with disabilities were employed, compared to an obligation of 49 (Gautrain Management Agency n.d:15).

Furthermore, with regard to local content, Gautrain procured more than R1 210 million of SA materials including plant and equipment, compared to an obligation target of R980 million; and employed more than 11 540 local people, compared to an obligation target of 6 641 (Gautrain Management Agency n.d:22). The SED strategy focused on the development of SMMEs for the sustainable development of underprivileged communities, and the maximisation of local content; historically disadvantaged individuals (HDIs), including woman and people with disabilities; the procurement of services and materials from black empowerment entities; and the development of new and existing black economic entities (Gautrain Management Agency n.d:5). Thus, the
strategy aimed at black economic empowerment and socio- economic development has had a sustainable impact on the bottom-line.

6.2.12 Performance Management

As mentioned previously, according to the PPP Manual, performance monitoring is embedded in the PMS system. The PMS system utilises a third generation balanced scorecard. However, respondents indicate the challenge in utilising a scorecard is that “it becomes a means in itself”. The purpose of the scorecard serves as a tool to provide feedback on performance and deliver tracking data for monitoring; relying on the score card does not manage performance. Also, the scorecard is not detailed, and does not contribute comprehensive information.

Respondents argue that the PPP specifications make it easy for government to take a back seat. Respondents also reveal that involvement of the public partner deteriorates after operations start. The public partner does not engage in partnership management throughout the entire life cycle of the PPP, and as mentioned earlier, respondents are of the opinion that “government forgets that it has to manage its service provider”.

Another point of concern expressed by some respondents is the “incompatibility of goals”. A respondent refers to this as “how do you measure success when the goals are different”. The private sector focuses on profit and stakeholder value maximisation, and public sector focuses on service delivery. A respondent posits “how do you, as government, manage the profit power-seeking of the private sector towards development. Do we change the model altogether, or do we incentivise the private sector?” Although the goals of parties are different, the interface should be bridged by incentivising the private party through various business and non- business incentive mechanisms. Non-business mechanisms include alpha risks for instance through cooperative governance-like partnerships and trust building. These non-business or alpha risks as incentives for performance are further elaborated upon in the findings of this study in Chapter Seven. Business incentives can include rewards, which will also be elaborated upon later in this study. A respondent suggest that non-governmental organisations (NGOs) are supposed to pick up the pieces where government is not delivering. A number of respondents remark that a presence
independent from the public or private sectors is required to monitor performance and
to develop the PPP marketplace through rewards and incentives. This point is further
elaborated later in this chapter.

To illustrate the lack of an inclusive performance management approach in PPPs,
some respondents claim that the helpdesk is used as a performance management
mechanism. The helpdesk is a requirement in PPPs but respondents from the private
sector contend that it is used by the public sector as a basis for calculating penalties.
On the contrary, a PO from one of the selected case studies argues that the helpdesk
provides live data and prevents disputes.

In the case of SANParks, a number of respondents contend that the public partner did
not performance manage the private partners. This is in contradiction to SANParks's
opinion that due to the two-envelope system and procurement approach, quality was
compromised. This is indicative that there is a fundamental distrust extant between
the public and private sectors and a lack of ownership, as a number of respondents
suggest a “culture of finger pointing” in PPPs in SA. To rectify past oversights in
SANParks, the business development unit (BDU) in SANParks has monitored
performance through a short message system (sms) or feedback system, since
February 2008 and an email feedback system since February 2012.

A respondent who has experience in both the public and private sector indicated that
the private sector is not always efficient. Another respondent confirms that the public
sector undeniably does not have the capacity to deliver high capital-intensive projects,
but the private sector is also not “as mature as they would like to believe”. The PPP
market is highly regulated and the only enabling element for the private sector to
participate in PPPs is that PPPs present government guarantees. However, this
presents an impediment, because this prevents partnership-building and cooperative
governance; there therefore should be increased focus on performance management
through an incentivised approach. In addition, as mentioned earlier, government
should also recognise the commercial constituent of the private sector, and engage
that sector in a lucrative manner, to encourage marketable PPPs and also to prevent
exploitation by the private sector. A partnership entails a relationship, and any
relationship requires management.
The focus in PPPs is on time and cost, and there is not sufficient emphasis on quality. Moreover, there should be greater emphasis placed on effectiveness, not only on efficiency. It is necessary to differentiate between the two. Efficiency as defined by the Cambridge Dictionary (2003:391) is “when someone uses time and energy well, without wasting any”, whereas being efficient entails “working or operating quickly and effectively in an organised way” (Cambridge Dictionary 2003:391). Conversely, effectiveness necessitates “success, or achieving the results you want” (Cambridge Dictionary 2003:391). Consequently, one can be successful and thus effective, but that does not necessarily equate thoroughness, or in other words, efficiency. In order to increase quality, government should place a greater weight on both efficiency and effectiveness in order to improve performance in PPPs.

In terms of quality, the procurement stage is vital in identifying the key service provider with technical and operational capacity and who possesses the experience to deliver effectively and efficiently. However, as explained previously, the focus in PPPs is more on cost than quality. Also, on a project management level, there is a greater focus on safety and health than on quality, with regard to SHEQ. Nevertheless, there is some evidence of quality control in the Gautrain. The public partner is supposed to do quality control and as a respondent from the Gautrain indicates, the province implemented a quality control system and an embedded quality framework. The respondent explains that “province check the checkers, as the private sector’s weakness lies in quality.”

6.2.13 Stakeholder Management

There is an absence of a section dedicated to stakeholder management in the PPP manual; it is indirectly included in the partnership management function. Also, insubstantial guidelines are supplied in the PPP manual for performance, partnership and agreement management. There is a gap between theory and practice; the tenuous guidelines are not practiced.

Cultural issues were identified by respondents as inhibiting effective relationship-building and trust in partnerships. Another respondent identified the background and history of the South African environment as an inhibitor to develop effective relationships.
A respondent explained that the ‘blame culture’ in SA, and more specifically in the Gautrain, is a disguise for a lack of knowledge of the process or operation. Another respondent confirms that “there is too much finger-pointing because people are not doing their jobs”.

In the case of the Gautrain, international stakeholders were involved in the project, and an international stakeholder notes that each country's construction works differently. There is a difference for instance in terms of capacity, work ethic, resources, contracting strategies and environment. A respondent is of the opinion that the SA culture is “'n boer maak 'n plan”, which loosely translates to, regardless of the adversities, they will be overcome (Econobee 2010). Transnational relationships are important as we can benefit from the exchange of expertise and experience, but the results of this study suggest that there is little cooperation on an international level, and that international cooperation and collaboration should be emphasised in order to benefit from international best practice and from countries who have surpassed stage one of the PPP market development curve.

Similarly, there is antagonism between the various local parties and stakeholders involved in the PPP projects. The private sector blames the public sector for not trusting them, whereas the public sector blames the private sector for being commercially driven, and as a respondent suggests “out to claim”. The absence of trust indicates a lack of cooperative governance and stakeholder management through partnership building. Likewise, there is an absence of professionalism in PPPs, and a respondent explains that “often government officials are disrespectful”. Some respondents are of the view that the “public partner makes the concessionaire do everything, they forget that it is a partnership”. Consultants and advisors also experience animosity from and in the public and private sectors. The public and private sectors also experience opposition from regulating authorities such as the PPP Unit. A number of respondents posit that there is conflict between various departments and government entities. For instance, respondents claim that there is conflict between the PO and the PPP Unit and that in one case under investigation, there is conflict between the entity and other departments. This is further elaborated later in this chapter under the sections that provide an overview of the PPP Unit and intergovernmental relations (IGR). The cause of the adversarial behaviour and lack of stakeholder management
can be due to a number of factors, among them incompatibility of goals, political unwillingness, and a lack of understanding or capacity. It could also be due to the interrelatedness of factors. This study will extrapolate the results in order to determine the weaknesses of the PPP model in SA, with the aim of providing recommendations to improve risk management in PPPs to achieve good governance.

The results of this study indicate a need for an independent facilitator to manage the interface and exchange between the various stakeholders, and to act as an integrator and coordinator. The facilitator should have a transdisciplinary capacity. A large amount of respondents conclude that an independent body is required for stakeholder management.

6.2.14 Capacity

An experienced technical advisor indicated that capacity in PPPs is lopsided. According to a tremendous amount of respondents, one of the greatest challenges in PPPs is the lack of capacity, specifically human capacity. This lack of capacity extends to skill, experience, understanding and the amount of human resources dedicated to PPPs. Respondents point out that the lack of human capacity is an institutional challenge.

A respondent illustrates that you can “have the best ideas and processes, but if you do not have a competent team with the necessary experience and skills, a PPP will not work”. The internal capacity on a project has an impact on the success of the project, and has the potential to affect the efficiency, effectiveness and quality of the project. Respondents infer that thorough attention should be focused on identifying the effective capacity in the due diligence, with a focus on employing the right individuals.

The results of this study deliver evidence that there is a lack of understanding of what a PPP constitutes. This manifests in both the public and the private sector. Several respondents involved in the project level indicated that PPPs are difficult, while several respondents from the advisory and strategic level are of the stance that a PPP is not difficult, as they contend that there is a lack of understanding, experience and skill. This could be indicative of a gap between theory and practice, because the strategic level possesses the conceptual knowledge and a theoretical understanding of PPPs, but not on the project level. The strategic level should increase efforts on cascading
the purpose, functions, objectives and roles down to the operational level. A representative of the Gautrain, who has considerable experience in PPPs and is an expert in risk management, explains that “employees in a PPP do not understand what a PPP is. There are people who will work in a PPP who do not know they work in a PPP. For instance, they will be designing their bridge in isolation and not know what a PPP is. We are not really building capacity in PPPs”.

Contradictory responses are encountered with regard to the purpose of a PPP. The PPP Unit maintains that “a PPP is not a solution to a problem; it is simply a procurement method”. Whereas some respondents are of the view that a PPP is a solution to a number of problems, and some responses include that the purpose of a PPP should be to benefit the people, to enhance land value, to develop surrounding communities, to create jobs, and to improve service delivery. The lack of consensus on what a PPP constitutes creates a challenge with regard to integrated systems management theory.

A respondent proposes that in order to improve PPPs it is essential to “consider the demand and supply of capacity”. The respondent explains that “the lack of people is the biggest source of disputes in PPPs”. This also leads to futile stakeholder management and grievance management, which inhibit partnership development and management. In defence, a respondent from the strategic level in a PPP case under investigation claims that “because of having to put out fires, you are not getting to cascading objectives down to individuals”. A public respondent contends that the private sector takes advantage of the public sector’s incapacity, and argues that “it is about intellectual capital” that the public sector is lacking.

A selection of respondents suggests that there is problem with staff turnover in the public sector, while the private sector is consistent in the staff they employ. The challenge of staff turnover is that employees are not incentivised due to a lack of human and financial resources, and they are demotivated by red-tape and bureaucracy. A respondent contends that the administrative burdens and red-tape of bureaucracy inhibit staff development and also “bogs them down with day to day on the job activities”. Capacity in PPPs in the public sector is often strained and overstretched.
In effect, low staff turnover inhibits institutional memory and there is little knowledge transfer in PPPs. In the long term, changes in staff influence the retention of institutional knowledge in PPPs. For example, political medium-term appointments and where there is change of staff, as the HOD is replaced every mid-term, and the individuals involved in the inception and negotiating phases of the PPP lifecycle is not the same as the ones implementing the PPP.

Knowledge transfer and institutional memory retention is attempted through a document and information management system (DIMS) in PPPs. The DIMS keeps records of events, systems, reports, policies, procedures, processes and activity logs. However, the results reveal that the records are not kept up to date and in some cases, the DIMS are incomplete. To demonstrate, a respondent reveals that “records of events are either not kept or not kept up to date, and when staff leaves the public partner would pay three times the amount to regain their knowledge”. The absence of institutional memory and knowledge transfer is exacerbated by the lack of M&E in PPPs; M&E makes knowledge explicit and maps institutional systems.

Furthermore, the transaction advisor has the support of a technical, legal and financial advisor. However, there is limited capacity for inclusion of risk management experts. Advisors are expensive; fees should not be less than 4% of the transaction. Transaction advisors are usually kept for a year after the signing of the PPP agreement. A respondent explains that “government departments use external advisors and there is no skills transfer taking place which then leads to a ‘hangover’ effect when advisors leave”. A ‘hangover’ effect denotes an incapacity and inability to perform well. Governments should up-skill the public sector and develop internal capacity in order to decrease reliance on external technical capacity. There should be a skilled team in government that circulates. A respondent provides an example of capacity development in PPPs by stating “the Middle East do PPPs for capacity development. PPPs should not be indefinite; they should be used to up-skill the public sector.”

The lack of capacity in PPPs is also due to an absence of learning and development in the public sector. Respondents claim that “the issue is that people do things for the sake of compliance and not for the sake of learning and development”. Respondents also emphasise that there is a presence of anxiety and unwillingness to learn in the
public sector, and that the emerging ladder of unskilled people is disrupting the leadership ladder. A respondent asserts that in an environment lacking development and growth, “in complying for the sake of compliance, people revert to old ways of doing things.”

A training framework and HCD intervention is required for PPPs. The PPP Unit provides training through a three-day workshop titled PPP foundational training. Nonetheless, a large number of respondents indicate that comprehensive training is not supplied as the training is general and theoretical; there is a gap between theory and practice. The respondents concede that the training has limited impact. The research also indicates that there is no evidence of accredited and standardised PPP training courses in SA. There is also little evidence of internships and apprenticeships aimed at training for PPPs.

The GRRL project is the only PPP that bestowed evidence of an increased effort to HCD through the employment and training programme (E&TP) and the ISEM. The E&TP developed in the tunnels and viaducts of the GRRL project and was used as a ‘pull mechanism’ where the needs and actual positions were identified in a specific megaproject and then unemployed persons were screened, employed and trained for specific jobs. The success of the programme lies in the identification of actual skills needed prior the training, as opposed to the generally applied ‘push mechanism’ where training institutions provide standard training programmes and successful candidates seek employment prior training (Nevin 2010:56-57).

The project has contributed employment for 2,357 individuals during January to October 2008, comprising of 7, 070 courses and 2,440 assessments and gap-filling exercises (Nevin 2010:57).

As mentioned earlier in this chapter, trans-disciplinary skills are required in order to empower capabilities in PPPs. Skills include:

- Risk management
- Project finance
- Contract management
- Human resources or industrial relations
- Insurance
The results of this study suggest that alpha risks including HCD, human resources, staff retention, institutional knowledge, training and skill are obstacles in PPPs.

6.2.15 Governance

A number of governance gaps in PPPs in SA were identified in this study, including decision-making, planning, political willingness, service delivery, leadership, intergovernmental relations (IGR), stakeholder consultation and public participation.

A respondent asserts that policies are not detailed enough and are too generic, and also that SA takes on international policies not necessarily suited to local conditions. This presents a gap between theory and practice because policies are not custom tailored for the South African environment. On the contrary, a respondent asserts that the issue with governance in SA, specifically infrastructure governance, is not policy, but politically motivated.

Several respondents indicate that the lack of impact in PPPs is due to a fluctuation of head of departments (HODs) in PPPs. HODs aim at achieving outputs within their running term and there is a lack of cohesive attempt towards long-term outcomes, but not short-term outputs. There is a temptation for a quick fix with new leadership, and a lack of visionary political leadership. This is evident in the recent PPP prison bid cancellation.

According to Basil Read, CEO Marius Heyns, the delay of prison PPPs seems to be the result of fluctuating political leadership in government departments, which hindered decision-making. In other many countries, the DG would be a professional, instead of a political appointment (Venter 2011). A high-level Gautrain representative confirms this by revealing that PPPs are politically motivated.
The South African government's prison procurement process started in October 2003, the request for qualifications was released in October 2007, and the final tender on September 30, 2008. The private sector bids were submitted in May 2009. Correctional Services Minister Nosiviwe Mapisa-Nqakula, who was appointed in May 2009, introduced a policy and operational review, and the bids were kept in a secure facility and “not opened or evaluated”. Mapisa-Nqakula announced in 2011, that the review highlighted a number of financial and operational problems with the PPP model, including the fact that it conflicted with policy stipulating that security and custodial services of the state not be handed over to third parties (Venter 2011a).

Master Builders South Africa (MBSA), the national federation of Master Builders Associations, argued that the bidding process cost the construction industry “vast sums of money and resources in the preparation of bids”, and requested “more insight” into the decision to cancel these projects (Venter 2011a). There were no specific details as to what the review revealed or specific reasons for the cancellation of the PPPs tenders.

Group Five claim that they had to shave R20-billion off their then R138-billion opportunity pipeline, owing to a number of PPP cancellations and delays. Group Five also suggest that they were considering taking legal action against the Department of Correctional Services for costs incurred relating to the cancelling of the private prisons tender (Creamer 2012). Government indecisiveness and political meddling lead to the construction industry losing appetite for PPPs (Slabbert 2011).

In the preceding three years Basil Read reveals that they invested R50 million in tenders for PPPs, “but has nothing to show for it”. They contend that “all the consortiums have at least one international partner”, and that “international investments are being lost because no one knows what government is planning”. The public sector often lacks the proficiency to set out the requirements clearly from the initiation of the PPP, as requirements often change during the bidding process and even at the instance of awarding of the contract (Slabbert 2011).

The PPPs are mostly large contracts drawing great attention, which in some cases results in political interference (Slabbert 2011). Due to increasing dissatisfaction in the industry, government was obliged to respond, by creating a Presidential Infrastructure
Group Five was encouraged by the establishment of the PICC, and is of the opinion that it should improve certainty to SA’s infrastructure priorities, and the future role of PPPs (Creamer 2012).

The results of this study suggest that government does not view market development as a governance imperative. The lack of market development is a result of a number of governance gaps in PPPs. These include a lack of planning, buy-ins, political willingness, inconsistent decision-making, lack of capacity and understanding, and a lack of public awareness and marketing. A number of respondents indicated that a lack of marketing in PPPs is a risk to the sustainability of the project.

As mentioned in Chapter Three, in order to move up the market development curve, governments should improve capacity in the public sector. In comparing the stages of PPP market development as outlined in Chapter Three, Eggers and Startup (2006:6) provide an outline of the characteristics of each stage; SA is still in stage one of market development.

A respondent who participated in a strategic workshop held on the viability of PPPs in 2004 by the DBSA, the Business Trust and other stakeholders, furnish statements that an issue that was identified in the workshop was that “because no advertising of PPPs is done is a matter of concern”. The issue of market development and marketing of PPPs was identified by key stakeholders, however, as mentioned earlier in this chapter, nothing sprung from the workshop. A lack of awareness and

Marketing adds to the lack of understanding and consensus of purpose role and function of a PPP, and also inhibits buy-ins from civil society and the public sector. The only evidence obtained of marketing and public awareness in this study, was in the Gautrain. A respondent reports that mitigating the press and building public awareness is an important soft risk for the Gautrain. The Gautrain implemented a number of initiatives to increase public awareness through community liaison forums, an updated website, a sms and advertising in the print and television media.
Some respondents argue that government’s insular approach to PPPs hinders market development, and suggest that government should move away from the parochial towards competitive advantage. A number of respondents who have experience in PPPs and who are in the public sector propose that the problem with the public is that they do not have an ‘eye on the commercial ball’. This was even the case with the Gautrain. When interviewing a government representative about the greatest lesson learnt in the development of the Gautrain, the respondent stated that they “did not have their eye on the commercial ball”.

Some respondents propose that there is no benchmarking in PPPs in SA, and that valuable lessons can be obtained through benchmarking, “locally, taking lessons learnt from one PPP and applying them to another”. SA should also benchmark with countries with similar economies and markets. SA is an emerging economy and can learn and draw experience from its partners in the Brazil, Russia, India, China and South Africa (BRICS) formation. A respondent suggests that Brazil has a good PPP system. They have a state planning commission dedicated to PPPs and they have a five-year plan of what each sector should do, how they should do it, where they should do it, and so forth. Another respondent points out that India approached PPPs as a capacity development exercise. The recently established National Planning Committee (NPC) of SA does did not feature recommendations for PPPs in the 2011 release of the 2030 National Development Plan. Also, the notorious New Growth Path (NGP) that was released in 2010 also did not provide any recommendations for PPPs.

A benchmarking of PPPs in the BRICS formation in order to evaluate impact and to learn lessons would be valuable in shaping the future of PPPs, however, the scope of this study does not include the supranational level of analysis and due to limited feasibility of scope, time and resources of the research, a comparison of PPP activities in BRICS is recommended.

As covered in a prior section of this chapter, the PPP market is immature and in addition to competition, commerciality, a small insurance and banking sector, and an ‘uneven playing field’, respondents point out some elements that also affect the development of the PPP market. These include that the PPP market in SA is a small market that can only function successfully on a user basis, and that SA lacks expropriation power.
6.2.16 Service Delivery

A limited number of respondents were able to respond to the question relating to service delivery. This could be because there is a lack of understanding of service delivery, or it could be because the individuals do not have experience in the operational phase of the PPP lifecycle. The study included all phases of the PPP lifecycle and the results suggest that there is a lack of evaluation of the operational phase in PPPs. This could be because of the long-term nature of PPPs and a focus on outputs and not outcomes. In order to measure impact and service delivery, an isolated study of the operational phase is required, which is beyond the scope of this research and is recommended for further study. Nonetheless, the researcher was able to obtain some insights on the operational phase of the GRRL. These insights are outlined under the section relating to sectoral matters in the conclusion of this chapter.

Furthermore, the results suggest that the lack of public participation and stakeholder consultation in PPPs limits effective service delivery. A respondent suggests that PPPs should be “done according to a cultural indaba approach” in order to establish and improve stakeholder consultation and public participation. Consultation should be aimed at benefiting society as a whole. In order to increase good governance, consultation should be a bottom-up approach, but the study results indicate that it is a currently top-down.

Consultation should engage at different levels and should serve the bottom-line. The following figure demonstrates that consultation should be approached from bottom-up across different levels.

![Public Participation and Stakeholder Consultation](image-url)

Figure 6.6: Public Participation and Stakeholder Consultation
6.2.17 Planning

The feasibility stage of the PPP lifecycle aims to determine the viability of the PPP. There are a number of planning documents in PPPs which include for example:

- Status quo report
- Situational analysis
- Environmental impact assessment
- Integrated development plans (IDPs)
- Concept swot analysis
- Organogram of authority structures

A respondent who is an expert in legal litigation in construction and infrastructure argues that the Gautrain’s feasibility was 20% correct. The Gautrain took four years to complete the feasibility study. The cost benefit analysis was tested by the DBSA, the Council for Science and Industrial Research (CSIR), and the National Treasury. Demand predictions of the Gautrain were based on international trends. A respondent remarks that country risk predictions were difficult to assess as the SA context is different to international trends. Also, conditions change in terms of past projections. Planning should be done for multiple regime lifetimes.

The approval phase is the most challenging phase in the PPP life cycle, particularly in the case of the Gautrain. It is difficult and the requirements are high. It is also the phase that took the longest; the feasibility took four years to meet the three principles of VFM, affordability and risk.

The South African environment is unique and elements such as local content, cultural heritage, indigenous knowledge and land acquisition should be considered. During the investigation for this study, little evidence was available of efforts for green initiatives moving towards a green economy through infrastructure, in order to reduce the harmful effects of infrastructure and construction development to the environment, and decrease contributions to climate change. The environment is considered in terms of NEMA, the EIA and the environmental component in SHEQ. However, there are no specific recommendations or controls for green initiatives. This is a governance concern as SA has not yet established green infrastructure or a green economy, and there is scant evidence of any large-scale green initiatives in SA. The recent PPP tenders for Independent Power Producers (IPPs) can offer valuable case studies of
the readiness of the SA PPP market to offer greener initiatives. The focus of this study is on risk management in PPPs. Environmental risk for climate change contributions is a complex and systemic risk and phenomenon and goes beyond the scope of this study, therefore this study recommends a further investigation into the conduct, practices, controls and safety nets in PPPs to adapt and integrate into a green economy and decrease environmental vulnerability.

6.2.18 Government Slowness and Ineffectiveness

Government slowness presents a risk to the critical path for completing PPPs. The private sector is reliant on the approval of government departments for certain decisions. A number of respondents indicate that feedback from government departments would be slow, for example, the transfer of land is critical in terms of the critical path in a project plan. For instance in the case of the Gautrain, where works were dependent on land expropriation.

In the case of the Gautrain, a respondent from the private party argues that a site was handed over late and more people had to be put on-site to meet targets. However, a financial advisor to the Gautrain contends that although land was handed over late, it was not on the critical path, although a forty-month delay is argued by the private party, and this will probably go to arbitration.

A number of private sector respondents argue that the lack of cooperative governance is an issue in government, especially in terms of accountability and the governments’ inability to make decisions and commitments.

In the case of the DBE, a lawyer representing the private party maintains that the client cancelled ninety per cent of meetings, which is indicative of a lack of commitment on the public party’s behalf.

6.2.19 Political Willingness

A large number of respondents indicated that government often lacks political willingness to support or buy in to PPPs. This leads to a lack of shared rationality or vision, and creates antagonism among the parties. The lack of willingness and buy in can be accounted for by the lack of ability to change and a lack of flexibility of the
leaders. Respondents have indicated it is also because leaders are politically motivated, with a short-term approach to governance and a lack of long-term vision, or a lack of capacity and understanding.

To demonstrate, a respondent reveals that “government would disregard what is in the bid specification and change their minds”. This displays ineffective decision-making and ineffective planning on government’s behalf. Legal advisors agree that government does not act reasonably in the principle of the law.

### 6.2.20 PPP Unit

National Treasury (2004:2) outlines the role of a PPP Unit as a dedicated function of National Treasury, firstly to deliver quality technical assistance to institutions embarking on PPPs throughout the PPP project cycle, and to assist institutions to achieve a quality PPP project and comply with Treasury Regulation 16 to the PFMA. Secondly, the PPP Unit is responsible for recommending to National Treasury whether Treasury approvals should be granted or declined. In addition, the PPP Unit is responsible for developing and disseminating PPP policy, manuals, standardisation and sectoral toolkits. The PPP Unit is also responsible for disseminating accurate and up-to-date information on PPP projects. The PPP Unit is responsible for building PPP capacity. Lastly, the PPP Unit is tasked with building confidence and integrity in SA’s PPP market (National Treasury 2004:2).

In reviewing the functionality of the PPP Unit, the results delivered a number of conclusions. Firstly, the PPP Unit provides technical assistance to institutions embarking on PPPs, however, it does not supply assistance consistently throughout the PPP project cycle, and to assist institutions to achieve a quality PPP project and comply with Treasury Regulation 16 to the PFMA. Respondents indicate that the PPP Unit provides assistance to the development phase and not to the entire life cycle of the PPP.

Secondly, the PPP Unit has taken responsibility for recommending to National Treasury whether Treasury approvals should be granted or declined. In addition, the PPP Unit has taken responsibility for developing and disseminating PPP policy, manuals, standardisation and sectoral toolkits. The PPP Unit is also responsible for disseminating accurate and up-to-date information on PPP projects. However, the
PPP Unit has not produced sectoral toolkits for all sectors, only the tourism and head office accommodation toolkits are underway. Information on PPP projects has not always been kept up to date in the past. The PPP Unit provides foundational training workshops; however, respondents maintain that the training is introductory and that more comprehensive training is required. Lastly, the PPP Unit is tasked with building confidence and integrity in SA’s PPP market, however there has not been much evidence of this. Respondents also suggest that the PPP Unit should increase advocacy in their approach and that they should improve project management capacity to facilitate deal flow.

A respondent who was previously employed by the PPP Unit commented that PPPs are over-regulated by the PPP Unit. The respondent contends that “the PPP Unit misinterprets their powers”. Another respondent confirms that “there exists a misconception of the PPP Unit’s powers and no one wants to challenge them”. Respondents recommend that the PPP Unit should ease up on regulation and encourage private sector initiative, because the private sector is the biggest source of employment creation.

The results of the study reveal that the view of the PPP Unit that a PPP is simply a procurement option can limit innovation.

A number of respondents are of the opinion that there was not sufficient consultation in the original drafting of the standardisations. A respondent revealed that the PPP Unit “ignored comments from the private sector in the consultation of the original drafting of the standardisations”. There has been a review of the standardisations where inputs to the standardisations were requested.

A number of respondents indicated that capacity issues exist in the PPP Unit. A respondent from the PPP Unit confirmed that capacity is an issue and that this is due to a shortage of skilled staff, and not being able to offer lucrative remuneration. The PPP Unit is resource-constrained with regard to financial and human capacity.

6.2.21 Intergovernmental Relations

IGR is concerned with the interaction between the various spheres in government, including national, provincial and local. IGR is a network of interactions and parts of
institutions, policies and protocols to form coherence in government. The Intergovernmental Relations Framework Act, 2005 (Act 13 of 2005 – “the IGR Act”) aims to provide mechanisms to manage national government, provincial governments and local governments to promote and facilitate intergovernmental relations (DWAF n.d. 5). The purpose of the Act is to deliver procedures to facilitate the settlement of intergovernmental disputes and to build sustainable relationships between the various spheres of government (DWAF n.d. 6). The Act provides a framework for the coordination between clusters and intergovernmental relations in SA.

The results of this study suggest that there is a lack of coordination between the various spheres of government in PPP in SA, and that IGR in SA in the PPP context lacks cooperative relationships. A respondent clarifies that “there are a lot of things happening across the board, but it is disjointed and there is no coordination”. Moreover, PPPs are not integrated into Integrated Development Plans (IDPs) or with IGR through all spheres of government. Respondents confirm that IGR is a challenge and that there is a need for an IGR task team with an execution function for planning risk. A respondent remarks that “no one knows who has what function in government”. Respondents assert that there is no clear direction of roles and responsibilities and hierarchy for departments. A technical advisor remarked that there is a lack of intergovernmental relationships in PPPs. To illustrate, an international representative employed in the Gautrain mentioned that the Metropolitan areas in Gauteng are disjointed, which created IGR challenges.

A majority of respondents concede that “departments do not see eye to eye”. A respondent emphasises that “turf wars between government departments are an issue”. The results confirm that there were challenges experienced in dealing with the Department of Public Works (DPW) in three case studies under review, including DRDLR, DBE and Gautrain. SANParks would not have experienced challenges as they were not dependent on the handover of land and sites, as the SANParks deal involved protected land. Respondents argue that the DPW presents efficiency and capacity challenges. Particularly, a respondent explicates that “politics interfered in the project for about a year, due to conflict between the DPW and department”.

In addition, a number of respondents report that there was conflict between the government department and the PPP Unit, while another respondent indicated that
the PPP Unit has limited executive authority and expressed the need for an intergovernmental task team. Respondents claim that delegation of authority challenges in IGR is a challenge, and a respondent who is a public sector representative in a PPP case under study, clarifies that “I have to report to the institution or government department, to four CFOs, three DGs and three ministers”. This also causes challenges with signing powers. The respondent commented that “ministers have ego issues”. Lastly, the respondent asserts that some government officials “try to back out of deals”.

At a recent New Age (Media) Business Briefing on 12 April 2012 at the Sandton Convention Centre in Johannesburg, the Minister of Public Enterprise, Malusi Gigaba, expressed scepticism towards PPPs and revealed that the department is considering a move towards public-public partnerships. The Minister also asserted that the under-investment in infrastructure in the past two years has led to systemic incapacities in the country. This illustrates the lack of consensus and a lack of buy-in to PPPs across the government.

The Department of Provincial and Local Government is responsible for the institutionalisation of the IGR Act (DWAF n.d. 5). The Act contributes recommendations that, with regard to private sector cooperation, IGR Practitioners should negotiate and coordinate relations and outcomes between the private and public sector. However, this does not happen in practice. Also, the various IGR forums should coordinate and provide strategic direction between the various spheres of governance (DPLG 2008:7). The results of this study elucidate that this is not done consistently and coherently in practice. Also, it seems that PPPs do not feature in the programme of IGR forums. On the whole, stakeholder management is not only a challenge between the public and the private partner, but also internally in the public sector. The research postulates that lack of cooperative governance and coordination within the public sector, has spill-over effects on PPPs.

6.2.22 Committee

As mentioned earlier in this chapter, respondents indicate the need for an independent body to manage the interface and relationship between the public and private partners. Also, there is a need for academic presence and private and public sector
representation in the independent body, to be representative of all parties. The independent body should facilitate and stimulate the development of PPPs and add value to the PPP market as an accelerator of development and a catalyst for synergies of different initiatives. An overwhelming number of respondents confirm the need for an independent body for stakeholder relation management. The independent body can manifest as a forum for PPP development. Also, respondents suggest that there is a need for a formal or professional association for PPP practitioners to provide a platform for interaction and to establish codes of best practice. A committee for the planning and coordination of PPPs can also be established. The PPP Unit plays a regulatory role, but their efforts do not extend to managing relations and to stimulating the PPP pipeline, therefore a body of some sort should be established.

6.2.23 Legislation

The research delivers evidence that there is a lack of integration of sector-specific policies and legislation in PPPs. A respondent from the Department of Justice confirmed that there is no concise list or categorisation of legislation according to sectors. Each sector presents unique circumstances and procedural requirements. For instance, in the case of HOA the construction charter and the property charter are highly relevant. In the case of land acquisitioning, certain procedural guidelines are attached to land handover. In the case of the ecotourism sector, and with reference to SANParks, the protected area legislation is relevant; in the case of the Gautrain, there is guiding legislation, for instance the provincial transport plan, spatial development plans (SDPs), and in the case of the DBE where there is the presence of a heritage site, the national heritage regulation is relevant. Also the NEMA is relevant in all PPPs. There is shared overarching legislation relevant to all PPPs, such as the National Treasury Regulation 16, the PFMA, the Public Administration and Justice Act (PAJA) and so forth, however, each sector has unique characteristics. Respondents indicate that the sector-specific legislation is not enabling to the implementation of the PPP legislation and policies. The lack of clarity of the relevant legislation provides a challenge to implementation, as the results suggest that people do not understand procedural acts. Respondents reveal that the PPP standardisations have a knock-on effect over other legislative clauses and specifications. Therefore, a need for a comprehensive breakdown of the various shared legislation and sector-specific
legislation is required. The scope of this study does not extend to a detailed analysis of legislation and policy development and thus recommends that further research be dedicated to the assessment of sector-specific and shared legislation in order to provide clarity in the link to the PPP process and the role of sector-specific legislation.

6.2.24 Transparency, Auditing and Reporting

Auditing and reporting is a business process compliance function, there is a lack of comprehensive reporting information in PPPs. Government departments provide a summary of PPP activities in their annual reports, however, the information furnished is not sufficient in terms of assessing the progress of the actual PPP project development. In attempting to access audit information from the government departments for PPP projects, the researcher was unsuccessful. The researcher was advised that this type of information is not available. Following this, in an effort to clarify what role, if any, the Auditor General plays in the auditing of PPP projects, the Auditor General confirmed that they do not keep internal audit information. In their capacity as an external auditor, they mostly focus on financial management such as compliance and expenditure and special investigations. No external audit of PPPs takes place, therefore the Auditor General as an external auditing body does not play a role in the audit of PPPs. The PPP Unit also does not conduct an audit or review of PPP projects.

A respondent who was commissioned to do a case study on a particular PPP revealed that after delivering a report, the report was changed and names were taken out. This suggests that reporting in some cases is not transparent. In addition, there is little evidence of substantial governmental reporting on PPPs. PPPs are narrated in the annual reports of government departments. However, in some cases, reporting on PPPs has not taken place. In other cases, reporting on PPPs in some annual reports would not be detailed; there is only a brief account on the financial expenditure of the government department in terms of inputs in PPPs, and little reporting exists on the outputs and outcomes in PPPs.

Lastly, the PPP manual requires that PPPs should provide close-out reports on the project, which should be accompanied by a case study of the PPP. When the researcher requested the close-out report of a case under investigation, the researcher was denied access to the reports, and was advised that it was confidential.
This indicates a lack of openness and also inhibits learning and development, as lessons could be learnt and the close-out reports and case studies should suggest recommendations for current and future PPPs.

6.2.25 Sectoral

This section aims to provide an outline of the sector-specific challenges derived from the qualitative results. The aim of providing an outline of sector-specific challenges is not to simply critique the cases under investigation, but to draw lessons from challenges experienced in each PPP case.

The results of the study suggest the strategies, structures and systems for individual sectors are unique, however, the cultural issues are universal across sectors. Moreover, the results indicate that although there are overlapping risks in each sector, each sector presents unique legislative and regulatory challenges and though there is a need for sectoral-specific recommendations, legislation is not enabling to sector-specific matters. Thus, there is a need for sectoral-specific legislation and though there is a need for sectoral-specific recommendations, legislation is not enabling to sector-specific matters. Thus, there is a need for sectoral-specific legislation regarding PPPs. Currently, the PPP framework, only provides sectoral-specific legislation for the tourism industry. The following section contributes an overview of sectoral highlights for each PPP case.

6.2.25.1 Department of Tourism and Environmental Affairs: SANParks

The results of the study reveal that SANParks is self-sustaining after more than 10 years, and that their commercialisation has been a good strategy, except for the Department. However, lessons learnt from the SANParks case study are that there should be an emphasis on performance management and partnership management. To demonstrate, a respondent questioned whether the SANParks relationship is a concession process or a PPP. The respondent pointed out that SANParks is “more like a lease”. The respondent explained that there is no real performance or involvement from the public partner’s side. The respondent explained that the public partner does not have a focus on sustainability of the partnership.
6.2.25.2 **Head Office Accommodation**

A number of respondents expressed their concern in the development of HOA, explaining that it is a lower-risk project compared to Greenfields projects such as the Gautrain. On the contrary, the PPP market is experiencing a degree of exhaustion within the industry, especially in HOA (Slabbert 2011).

6.2.25.3 **Department of Basic Education**

In the case of the DBE HOA PPP, a respondent reveals that there was a site issue that was not detected prior to development. There was a petrol station previously on site, and underground pollution and consolidation of the site cost more than anticipated. Lessons learnt from the DBE case in light of the respondents’ responses, is the importance of careful planning. In addition, in light of variations and change in departmental requirements, the respondents emphasise the importance of change management in a PPP.

6.2.25.4 **Department of Rural Development and Land Reform**

A respondent revealed that the DRDLR was successful in overcoming the first round of a court case with the reserve bidder, and that when the Courts ruled on the urgency of the application and whether the application was premature, it was found not to be urgent or premature. The Courts did not decide or review the outcome of the evaluation process, as this is done under the PAJA, and can only take place once the final decision to award the tender has taken place, after Treasury Approval three (TA: III). The department has been working in a spirit of cooperation with all parties to resolve the matter. A lesson learnt from the DRDLR is to increase emphasis on the effectiveness of the procurement process and that there is a need for greater administrative efficiency and timeous awarding of bids.

The status of the procurement as at end 2011 is that negotiations have been concluded with the preferred bidder and the department is busy with risk allocation and documents have been submitted for signature.
6.2.25.5 Department of Transport: Gautrain

A respondent revealed that the Gautrain has approximately 4,345 hazards and 1,823 project risks. The risk identified in this study that had the greatest impact on the critical path of the project during the development phase is that of water seepage, and risks deduced from the results that had a great impact on the operational phase include patronage risk, labour risks and theft.

Water seeping through the walls of the Gautrain tunnel between Park station and Rosebank station required additional engineering work to reduce the seepage of groundwater, and delayed the opening of the rail service from Johannesburg to Pretoria (Prinsloo 2011). The works required drilling small diameter holes through the tunnel lining and injecting grout into the surrounding rock in order to reduce the permeability of the rock mass to reduce the water which enters the tunnel drains (Prinsloo 2011). A respondent concedes that the water ingress seepage signified ineffective planning and projections. A respondent from the engineering industry argues: “how can the water problem in the Rosebank tunnel happen, if you have apparently employed some of the best engineers internationally”. The respondent also reveals that “approximately 60 kilolitres of water is drained daily, and this does not even include the rain season”.

The results of this study suggest that there is a need to provide commuters with an incentive to use the rapid rail. An international expert on high speed rail projects found it interesting that Gautrain had no ridership model. An international expert involved in the development of the Gautrain remarked that there are adverse reports on the Gautrain model. The respondent concludes that the model is not effective and needs to deliver incentives for the private partner to provide an excellent service and motivate them to up the patronage.

The Gauteng government has to pay an approximate R280 million subsidy to the BOC, as the company’s income from the rapid-rail service will not reach the levels projected by the provincial government, and government is responsible to provide a top-up for low patronage levels (Venter 2012a). The reduction of toll rates would also impact projected commuter numbers. The GRRL currently transfers 34,000 train commuters a day, and 12,000 bus passengers (Venter 2012a).
The low patronage levels could be owing to uncertainty and delay around the roll-out of an electronic tolling system on Gauteng’s freeways, and the delay in the opening of the last leg of the 80 km Gautrain route (Venter 2012a). A respondent from the Gautrain revealed that the Gauteng tolls were planned alongside the implementation as a mechanism to manage patronage risk. It was envisaged that the implementation of the tolls would incentivise commuters to use the rapid-rail. However, a respondent questions the rationale behind the current governance of transport in the Gautrain and contends that the Gauteng Freeway Improvement Project (GFIP), which also rolls out the toll system, cost nearly the same as the GRRL.

Province concedes that the GRRL was planned and built on the understanding that the roads would remain as they were at the conceptualisation of the project; that is congested, and without any improvement to the infrastructure. However, there are roads that have been upgraded that may not be tolled. Province explains that where congestion was the initial motivation for the public to use the rapid-rail service, it then became the implementation of a toll system. In the absence of these two factors, the impact on the Gautrain is uncertain. It may result in paying the ridership guarantee to Bombela for a longer period than expected (Venter 2012a).

This is indicative of a governance gap, as the various transport modes should have been integrated in the planning of the project. A respondent explains that in the Gautrain public transport integration, risk is not the top priority.

Some benefits of the Gautrain include a marked increase in investment and property prices and development in the surrounding areas. Urban renewal and development projects include for instance, Rosebank, with a R600 million advancement; Midrand, with the multi-billion rand Zonk’lzizwe; Sandton underwent almost 1.7 million square meters of development of the area around the node; Hatfield, Pretoria received a R280 million investment; and the Alexandra Urban Renewal Project worth R1.2 billion, uplifted the Marlboro environment (Watt 2008).

The GRRL implemented a good public communications system during the development phase and the project had an online automated newsletter that the public could subscribe to which kept the public abreast of progress on the development. Also
through the operation, as mentioned earlier, a sms communication system and a mobile application system was used to interact with users.

A number of risks and operational issues in GRRL were identified by respondents. Respondents indicate that the stations do not enable convenience for commuters. Firstly, there are not enough lavatories available, which creates congestion at peak hours at the lavatories. No eating or drinking is allowed and a R700 fine is issued upon infringement. An attendant reports that a woman who wanted to feed her crying baby was given a fine for feeding the baby milk. There is no discount for pensioners. Only children under three years of age are allowed to commute for free. However, an attendant reveals that a little girl was charged R210 on her third birthday. No American Express cards are accepted. There are no waiting areas or shops. Vendors and waiting areas with restaurants could have potential benefits through leasing arrangements, and incentivise ridership. This provides evidence that the Gautrain should have followed a more commercial approach. Some respondents argue that there is not sufficient signage for bus services en route. Commuters argue that there is not sufficient space for luggage, especially connecting to and from the airport. Commuters point out that not having cell phone reception in the tunnels is an inconvenience.

Gautrain only delivers a service until 20:30 and the car park closes at 21:00. Commuters have expressed dissatisfaction at the operating hours. In two events, people were stranded, not having means of commuting after 20:30, and not being able to access their cars. These events happened due to unforeseen circumstances. A representative from the Gautrain states that longer operating hours are not possible, as this would entail modifications to the current schedule of the Gautrain. BOC would have to receive an instruction to do so from the Gauteng province, and it will incite a variation to the concession agreement and also implies an added cost to government (Venter 2012a). A commuter remarked that the times are not consistent with the schedule on the website and that buses also arrive late.

Another risk that was not managed effectively by the GRRL is the theft of copper cables, which impacted on the operational efficiency of the rapid-rail. Fifty-four trains were cancelled on the Hatfield-Centurion service early in 2012 owing to overnight copper cable theft in Tshwane (Venter 2011b). Only CCTV monitoring guards the
precinct, but there should be physical guards as risk mitigation to guard against cable theft.

During the initial period of the operational phase Gautrain services were unreliable due to several reasons, namely strikes, cable theft, mechanical problems and floods. Interruptions were experienced on a number of accounts and regular commuters were affected by interruptions. For instance, by one account in early 2012, no trains were running between Sandton and Rosebank due to loss of electrical power. As a mitigation measure, a replacement bus service was available. In addition, due to engineering work between Centurion and Pretoria station, there were interruptions of service of up to 15 minutes on the north-south Gautrain service on 10 December 2010.

Labour risks have been evident during the initial operational phase of the Gautrain, through labour strikes from December 2011 until February 2012. According to sms alerts received from the Gautrain sms service, the rapid-rail was affected by illegal strikes. A labour strike took place on 5 December 2011 by one of four security providers. On 2 January 2012, due to illegal strike action by bus drivers, all Gautrain bus services remained suspended. MegaExpress has procured four buses branded ‘Gauteng Coach’ to run on the Gautrain RbTemp (Rosebank Temporary) bus route. On 8 February 2012 Gautrain bus services were reopened on all Sandton routes as well as the Rosebank/CBD route. Buses were operating between 06h00 and 18h00 at frequencies to meet every second train at Rosebank. MegaExpress management has met with driver representatives and on several occasions suggested that the driver’s grievances be referred to the South African Road Passenger Bargaining Council for independent arbitration. However, the strikes proceeded. MegaExpress then proceeded with legal action. The matter has been resolved, and all services were reinstated. However, the fact that the staff went on strike raises concerns. When interviewing a ticket attendant, a security guard and a train driver, they confirmed that the wages are too low.

With regard to security and safety, a Gautrain bus driver was shot while trial-running bus routes in the Centurion area. The trial was in preparation for the route being restored, following recent illegal strikes by Gautrain bus drivers, which had led to the dismissal of 318 drivers. It was reported that the shooting incident followed a number of past incidents where Gautrain buses were targeted by criminal elements determined
to disrupt the Gautrain’s bus services. For instance, bus depots were blockaded, replacement drivers intimidated, buses stoned, and there were incidents of arson and attempted arson. In a second shooting incident, one of Gautrain’s new bus drivers was injured (Venter 2012).

BOC was extremely concerned about the seeming increase in the criminal and violent nature of the attacks. BOC reports that they adhered to industry-wide labour practices as agreed in the Industry Bargaining Council agreements and that in dealing with the bus driver strike, two court interdicts were obtained, and additional security was implemented on bus routes (Venter 2012). The labour risk has given rise to a political risk of civil riots however, the BOC implemented mitigation measures to prevent loss.

A Gautrain commuter lodged a complaint with the consumer commission shortly after the system introduced operations, expressing that the rail link is breaching the Act by allowing its frequent user discount passes to lapse within seven days and 35 days, respectively. According to the Consumer Protection Act vouchers, coupons and other prepaid devices expire only after three years. The commission has already instructed the GMA to change its pricing policy, after which the GMA requested a meeting with the commission (Venter 2011c).

The researcher interviewed a commuter who was visiting SA from Japan, who compared the Gautrain to the Tokyo Suica transport system and revealed that the Gautrain is impractical and ineffective, stating that for instance, the fact that there is no waiting area, and no internet connection facilities or connecting nodes, makes the Gautrain impractical, ineffective and inconvenient. The respondent also found that there is insufficient signage; for instance, three families, including the respondent, got off at the wrong station and were in the wrong trains commuting from Pretoria to O. R. Tambo. The respondents suggest that trains should be marked.

A respondent who was commuting through the GRRL reveals their experience of operational inefficiency of the Gautrain on 21 February 2012. The respondent states that “it’s been a nightmare this afternoon. Firstly, it took forever for the trains to arrive; there were tons of people when I got there. I’ve never seen it so busy. Then they told everyone it was the opposite platform so there was a stampede of everyone trying to get to the other side. Then there is not enough space, so everyone has to go back to
the platform. I would still be there if I didn’t push to get onto this train. Then we got stuck between Midrand and Centurion for about 20 minutes. They just kept apologising saying it is a technical delay. Then we went off again and it got stuck a few meters from the Centurion station for another 10 minutes. Again we just waited and finally got there. In all of this I did not see one officer or whatever they are called at the station or on the train. It took two hours in total, where the train is normally about 20 minutes from one point to another for me”.

After interviewing a number of commuters at a Gautrain station and on some of the trains, they suggest that the Gautrain is not convenient or practical; they also observe that the alternative transport does not feed in to the Gautrain system. In reviewing the operational phase of the Gautrain, the results of the study suggest that the Gautrain is practical in terms of overcoming traffic congestion, but it is not practical in terms of integrated transport systems. The rapid-rail is safe as there have been no safety losses reported during operations, but the rail service is not convenient in terms of operating hours and accessibility. The rail service is not cost effective in terms of the lower income population of Gauteng.

The public has raised concerns in the past over of government expenditure and the cost effectiveness of the Gautrain. The expropriation cost of property and land for the GRRL is not included in the unitary cost of the Gautrain project. Land was expropriated along the entire route, including a number of properties in Rosebank, Centurion and Pretoria. For instance, the Gauteng government set aside R500 million for the compensation of more than 1 000 Pretoria property owners affected by the route, and approximately half of those properties were residential (Gautrain 2009:13). The patronage subsidy is also not included in the unitary fee. The patronage guarantee is additional expenditure for government. Nonetheless, a number of respondents argue that the erecting of a rapid-rail would not have been possible without the PPP modality of delivery and the capacity of the private sector.

Regardless of the challenges experienced in GRRL, the GMA and BOC have made an effort to address shortcomings and improve service delivery. Due to a demand from commuters for improved customer service and greater service delivery, a number of improvements were implemented by BOC in early 2012, including airport trains direct from Marlboro; a simplified fare structure; reduced parking fees; discounted fares for
The Gautrain is the first in its kind in Africa, a number of respondents agree that without a PPP procurement option to render the project, the Gautrain project would not have been possible and valuable lessons can be learnt from the case study. Regardless of some challenges experienced during the initial operational period, Gautrain has contributed to job creation, socio-economic upliftment in certain areas and has provided a means of alternative transport. If indeed the Gautrain Rapid Rail Link succeeds in providing an integrated transport system in future, linking up to other transport modalities, during the remainder of the PPP operational project life cycle, the Gautrain could serve as a benchmark for future planning and integration of additional future transport networks.

6.3 Conclusion

The results of this study suggest that there is a ‘basket of problems’ that are overlapping and interrelated. The problems are multiple, and the study was not able to isolate results as the various risks and challenges in PPPs present spillover effects to multiple risk factors. This chapter provided a presentation of the qualitative results obtained during the research. The qualitative results revealed a number of strategic, structural, systemic and cultural challenges that impede effective risk management and governance of PPPs. These shortcomings are further interpreted in Chapter Seven of this study. Chapter Seven supplies a summary and interpretation of the results and a critical summary of the overall findings of the study, in order to derive recommendations on improving risk management in PPPs.
CHAPTER 7

FINDINGS, INTERPRETATIONS AND RECOMMENDATIONS

7.1 Introduction

The aim of this chapter is to present the research findings, interpretations and recommendations. This chapter also aims to address the final objective of this study, which is based on the risks identified in this study and the lessons learnt in the case studies. The study aims to present a systematic risk management framework for the effective reduction of risks. The findings of this study denote that the PPP market would be more effective and efficient if risk management, contract management, the management function in PPPs, the commercial approach, competition, procurement, performance management, stakeholder management, understanding, capacity, training, governance, intergovernmental relations, government slowness and ineffectiveness, political willingness, an independent body dedicated to the cause of PPPs, monitoring and evaluation, transparency, auditing and reporting were addressed. Because a number of interrelated risks have been identified and the weaknesses in PPPs can be accounted for by a number of strategic structural systems and cultural impediments, the study derives a number of systematic risk management frameworks to address the various underlying weaknesses of PPPs in SA, which are presented in this chapter.

7.2 Triangulation of Research Findings

An inter-comparison of the various data sets indicates that the findings are highly correlated. When triangulating the qualitative and quantitative findings, the findings correlate as a global comparison of the preliminary and final findings that suggest a pattern where the same themes emerge.

The quantitative findings indicate that procurement, transparency, corruption, political commitment and late payments require improvement. The qualitative findings confirm that these gaps present major challenges in practice. These short-comings are institutional gaps, relating to the inability to manage risks relating from a lack of political
commitment and the inability to enforce or speed up procurement. Late payments are a significant barrier in both the quantitative and qualitative data sets. This could indicate a gap in the institutional framework, administrative inefficiencies and the inability to impose and administer contracts. Procurement regulation challenges are viewed negatively in both the qualitative and quantitative findings.

The overwhelming lack of response for risk management indicates a capacity gap as the respondents possibly do not have the experience or knowledge of risk management. This might be accounted for respondent bias as there is a lack of risk management practice in the public sector in SA. Corruption is regarded as a serious barrier and at the same time, transparency and accountability rank significantly low. The public sector requires technical expertise regarding risk control, assessment, mitigation and communication. Corruption is viewed as the second most significant barrier, and this is contradictory to the qualitative findings which reveal no real evidence of corruption. However, evidence of collusion in the PPP market, with bid rigging and a lack of transparency has recently emerged, making the quantitative findings ambiguous in this instance, as respondents may have classified the lack of transparency and high concentration in the sector as an estimate of corruption. Nonetheless, there is evidence of irregularity in practice. Bid-rigging is a form of collusion in PPPs, and has been identified as a major risk, which may suggest a link between collusion, corruption and lack of transparency. However, such an investigation is beyond the scope of this study.

Both the qualitative and quantitative findings reveal that the various indicators are overlapping in nature which has a spillover effect for strategic, systemic, structural and cultural risks. For instance, the lack of political commitment may lead to ineffective decision-making and late payments. Political commitment is a cultural risk that can affect decision-making which is a structural risk, resulting in a systemic risk such as late payments. The overlapping themes derived from the findings are presented in the following diagram. The themes are classified according to the integrated systems management components.
Figure 7.1: Research Findings: Overlapping Themes
When comparing the various data sets, triangulation reveals that the qualitative data reinforces the preliminary findings as majority of the findings correspond, and the findings that do not necessarily correspond can be explained within the context of the research. For instance, the qualitative findings in the final data set reveal that there is a procurement challenge which reinforces the preliminary quantitative findings of late payments and political commitment, which is a political risk.

### 7.3 International Best Practice Compared to SA PPPs Practice

Chapter Three provided an overview of current international best practice, including programme development measures and tasks and best practice in risk management and governance.

As mentioned previously, to date there has been no formal review or evaluation of current practice in PPPs or risk management in PPPs. Moreover, as is expounded later in this chapter, there has been no evaluation of PPPs or risk management of PPPs in SA and furthermore, there has been no benchmark of SA practice to international best practice. Based on the findings of this study, this section aims to compare South African best practice against international best practice.

Based on the PPP programme development tasks identified in Chapter Three, a comparison between international best practice and current practice in SA has been generated in the following table. The ‘measure’ column is inclusive of the programme development measures and tasks as explained in Chapter Three.

**Table 7.1: Comparison between International and South African PPP Programme Development Measures and Tasks**

<table>
<thead>
<tr>
<th>NO</th>
<th>MEASURE</th>
<th>PRACTICE IN SA</th>
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<tbody>
<tr>
<td>1</td>
<td>Develop a legal framework and implement consistently:</td>
<td>SA has implemented a legal framework as per National Treasury Regulation 16.</td>
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<tr>
<td></td>
<td>• Institute a clear legal and regulatory framework</td>
<td>However, there is a breakdown in implementation:</td>
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<tr>
<td></td>
<td>• Implement framework and policies consistently</td>
<td>• Legislation is not implemented consistently</td>
</tr>
<tr>
<td></td>
<td>• Ensure that policies are able to accommodate change</td>
<td>• The legal and regulatory framework is not clear, a number of respondents</td>
</tr>
<tr>
<td></td>
<td>• Consult the public during policy development</td>
<td>confirm that the legislation is ambiguous and onerous. Equally, the legal</td>
</tr>
<tr>
<td></td>
<td>• Develop legal capacity</td>
<td>framework is not flexible and does</td>
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</table>
| **(Adapted by author from Jooste et al. 2009:9-11)** | not accommodate change. Also, the supporting sectoral legislation is complex and unclear  
- The legal and regulatory framework does not develop legal capacity in SA; there exists a high reliance on the capacity of external legal advisors, which is contracted on the basis of a transaction advisory fee |   |
| 2 | **Ensure political commitment:**  
- Provide high-level commitment  
- Warrant political risk management by means of advocacy within the government  
(Adapted by author from Jooste et al. 2009:9-11) | • Legislation does not encourage commitment. Public sector and political commitment is limited  
- The legal and regulatory framework does not warrant political risk management by means of advocacy in government, since there is both a lack of political risk management and advocacy |   |
| 3 | **Encourage public awareness and understanding of PPPs:**  
- Grow public awareness and understanding of PPPs  
- Inform the public of their right to participate in PPPs project development  
(Adapted by author from Jooste et al. 2009:9-11) | There exists a lack of public awareness and understanding of PPPs in the public and private sector and civil society:  
- No marketing or public awareness advancement takes place in SA  
- There is not sufficient public consultation in the drafting of policies. Also, there is a lack of participation because the public is not aware of their right to participate in PPP project development |   |
| 4 | **Obtain buy-ins from key constituents**  
(Adapted by author from Jooste et al. 2009:9-11) | There is a lack of buy-in for the PPP concept by government officials. In addition, due to procedural inefficiency and a lack of buy-ins from government officials, private sector is displaying a reluctance towards PPPs |   |
| 5 | **Advance public sector knowledge of PPPs:**  
- Provide training to public sector staff  
- Communicate the lessons learnt to civic and public sector  
- Publish guidance materials for public sector  
- Develop pilot projects  
(Adapted by author from Jooste et al. 2009:9-11) | Inconsequential efforts are made to advance public sector knowledge of PPPs:  
- The PPP unit provides foundational PPP training. However, training efforts are apparent and respondents have indicated that the training does not bridge the gap between theory and practice  
- There is no review of lessons learnt in SA. Consequently, there |   |
<table>
<thead>
<tr>
<th></th>
<th>Establish a market of private providers:</th>
<th>There is an immature market of private providers. There exists a lack of competition and the market of private providers for PPPs is small. Also, there is a slow market development rate in SA:</th>
</tr>
</thead>
</table>
|   | • Encourage private investment and develop domestic capital markets  
|   | • Sustain state credibility  
|   | • Sustain a stable political environment  
|   | • Publish guidance materials to aid private sector organisations  
|   | • Ensure early involvement of market in order to influence project scope, size and structure | • Inefficiencies and lack of decision-making in government discourage private investment  
|   | (Adapted by author from Jooste et al. 2009:9-11) | • The political environment in SA is unstable and there is a lack of vision and leadership  
|   |                                            | • Government does not provide current and practical guidelines to aid private sector organisations  
|   |                                            | • The market is not included in early development in order to influence the project scope, size and structure |
|   | Establish a PPP unit  
|   | (Adapted by author from Jooste et al. 2009:9-11) | SA has an established PPP unit. However, due to a lack of resources and capacity the facilitation of the process and leadership to programmes is constrained |
|   | Coordinate deal flow:  
|   | • Direct deal flow to avoid 'bunching' of projects  
|   | • Communicate forthcoming projects to the market  
|   | • Coordinate public sector 'buying power'  
|   | (Adapted by author from Jooste et al. 2009:9-11) | • Forthcoming projects are only communicated online on the PPP unit website. However, projects are not communicated timeously  
|   |                                            | • As the scope of this study does not include project finance and financial deal flow, no conclusions can be derived for this best practice measure |
|   | Improve transparency:  
|   | • Improve transparency in project development and the options analysis  
|   | • Improve transparency in the procurement process, particularly sharing information during and after the bid  
|   | • Ensure that public is well informed about project details | There is a lack of transparency in SA:  
|   |                                            | • A deficiency of transparency in project development  
<p>|   |                                            | • Lack of transparency particularly in procurement process, and there is a lack of information-sharing during and after the bid |</p>
<table>
<thead>
<tr>
<th>Ensure quality of projects:</th>
<th>Quality of projects is not ensured:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Identify best projects taking local content into account</td>
<td>• This study questions whether best projects are taken into account, considering the main focus of PPPs in SA is HOA</td>
</tr>
<tr>
<td>• Appoint strong private partner</td>
<td>• Local content is taken into account through BBBEE and SMEs. However, this is not uniform and consistent</td>
</tr>
<tr>
<td>• Improve government understanding of objectives of private finance</td>
<td>• In a number of cases there has been evidence that the strong private partners are not appointed in PPP projects</td>
</tr>
<tr>
<td>• Identify risks early and transfer optimal level of risk to private partner, be willing to retain some of the risk</td>
<td>• There is a lack in government understanding of objectives of private finance. On the whole there exists a lack of understanding and capacity for PFI in both the public and private sectors</td>
</tr>
<tr>
<td>• Ensure good project and contract management</td>
<td>• Risk identification and transfer takes place, however, due to a lack of understanding, risks are not conceptualised appropriately. The transfer optimal level of risk to private partner is willing to retain some of the risk</td>
</tr>
<tr>
<td>• Apply performance specifications</td>
<td>• Good project management by the private party takes place, however, contract administration and management is a challenge</td>
</tr>
<tr>
<td>• Provide clear contract clauses for step-in rights</td>
<td>• Performance specifications are applied inconsistently or not applied at all. In some cases, performance is not specified. Whereas in some cases, performance is not managed</td>
</tr>
<tr>
<td>• Assess VFM when selecting a delivery system</td>
<td>• Contracts include clauses for step-in rights, however, the scope of this study does not include the investigation of step-in rights, and therefore no conclusions can be derived on the clarity of step-in rights in PPPs in SA</td>
</tr>
<tr>
<td>(Adapted by author from Jooste et al. 2009:9-11)</td>
<td>• VFM is assessed when selecting a delivery system, however, the conceptualisation of VFM is a nominal term and more clarity is required when selecting a delivery system</td>
</tr>
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</table>
| 11 | Implement independent oversight:  
• Institute independent oversight over the procurement process through a monitoring or auditing body  
• Provide independent oversight for performance monitoring and publish results  
(Adapted by author from Jooste et al. 2009:9-11) | There is inadequate implementation of oversight. In some cases, independent oversight is not present, whereas in the cases where independent oversight is present, it is ineffective:  
• There is ineffective, and in some cases no institutionalisation of independent oversight over the procurement process through a monitoring or auditing body  
• In most PPP cases there is ineffective independent oversight for performance monitoring and results are not published |
|---|---|---|
| 12 | Provide government support for private providers:  
• Provide support through example guarantees and loans, but provide support with care  
• Ensure even-handed regulation and avoid over regulation  
(Adapted by author from Jooste et al. 2009:9-11) | Support is provided through BBBEE, but there exist challenges with the implementation of BBBEE |
| 13 | Keep line agency discretion in check  
(Adapted by author from Jooste et al. 2009:9-11) | Line agencies are not kept in line. There exist challenges with IGR:  
• Prevent that line agencies make unrealistic commitments on behalf of government  
• Safeguard quality of project development of line agencies |
| 14 | Monitoring of private partner:  
• Prevent unfair competition, bribes, political influence and corruption  
(Adapted by author from Jooste et al. 2009:9-11) | There exists evidence of unfair competition, bid rigging and political influence |
| 15 | Provide management support to public sector agencies on specific projects:  
• Provide technical advice and support on specific projects  
• Appoint external advisors where necessary to bridge the skills gap  
(Adapted by author from Jooste et al. 2009:9-11) | Management support is provided to public sector agencies on specific projects. However, support is constricted |
<table>
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<tr>
<th></th>
<th>Increase programme accountability:</th>
<th>There are weak measures to keep the PPP programme accountable for performance.</th>
</tr>
</thead>
<tbody>
<tr>
<td>16</td>
<td>• Keep the PPP programme accountable for performance</td>
<td>User feedback is not incorporated in performance measures and there is a lack of public consultation</td>
</tr>
<tr>
<td></td>
<td>• Incorporate user feedback in performance measures (Adapted by author from Jooste et al. 2009:9-11)</td>
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<tr>
<th></th>
<th>Ensure the PPP projects promote the interests of the public:</th>
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<tbody>
<tr>
<td>17</td>
<td>• Define how PPP projects promote the interests of the public</td>
<td>• There is no communication to the public and government does not define how PPP projects promote the interests of the public</td>
</tr>
<tr>
<td></td>
<td>• PPP policies should provide clear economic and social objectives</td>
<td>• PPP policies provide clear economic and social objectives, however, there is a breakdown in implementation</td>
</tr>
<tr>
<td></td>
<td>• Government should ensure equity in access to all citizens</td>
<td>• Government ensures only equity in access to all BBBEE constituents</td>
</tr>
<tr>
<td></td>
<td>• Ensure adequate stakeholder consultation</td>
<td>• Adequate stakeholder consultation is not safeguarded</td>
</tr>
<tr>
<td></td>
<td>• Warrant that the private partner complies with health and safety requirements (Adapted by author from Jooste et al. 2009:9-11)</td>
<td>• There are systems and structures in place to warrant that the private partner complies with health and safety requirements</td>
</tr>
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<tr>
<th></th>
<th>Enable fairness in procurement:</th>
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<tbody>
<tr>
<td>18</td>
<td>• Apply recognised procurement practices to avoid corruption</td>
<td>• There are recognised procurement practices to avoid corruption</td>
</tr>
<tr>
<td></td>
<td>• Ensure that the PPP unit retains neutrality and independence from the private sector</td>
<td>• The PPP unit is neutral and independent from the private sector</td>
</tr>
<tr>
<td></td>
<td>• Establish an avenue of complaint through an independent tribunal</td>
<td>• There is no established avenue of complaint through an independent tribunal</td>
</tr>
<tr>
<td></td>
<td>• Improve competition by including non-discriminatory rules (Adapted by author from Jooste et al. 2009:9-11)</td>
<td>• There is an absence of improved competition</td>
</tr>
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<tr>
<th></th>
<th>Improve environmental performance of projects:</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>19</td>
<td>• Incorporate ‘green’ technologies to ensure that PPPs deliver public</td>
<td>The environmental performance of projects is not considered, except for in conservation projects:</td>
</tr>
<tr>
<td></td>
<td>The environmental performance of projects is not considered, except for in conservation projects:</td>
<td>• ‘Green’ technologies are not incorporated to ensure that PPPs</td>
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services in an environmentally friendly way
• Include specific and realistic ‘green’ objectives in bid
• Include environmental champions in the process
• Carefully review ‘green’ claims made by bidders
• Include ‘green’ performance in payment mechanisms

(Adapted by author from Jooste et al. 2009:9-11)

deliver public services in an environmentally friendly way
• Specific and realistic ‘green’ objectives are not included in bids
• Environmental champions are not included in the process
• The findings of this study reveal that there is little evidence of ‘green’ claims
• ‘Green’ performance in payment mechanisms is not included

In comparing SA to international best practice, a number of conclusions can be drawn. Among these are a lack of government support for private providers, a lack of oversight, quality of projects is not ensured, there exists a lack of transparency in PPPs, an underdeveloped market of private providers, a lack of buy-ins from constituents, a lack of public awareness and understanding, a lack of political commitment, inconsistent implementation of legislation, limited programme activity, ineffective procurement and a lack of emphasis on environmental performance of PPPs.

A breakdown of international best practice for the transfer of risk was provided in Chapter three. The following table compares the SA PPP risk matrix for risk transfer with the international best practice for risk transfer. An x illustrates that it doesn’t correspond to the SA standardised risk matrix whereas a √ signifies that it corresponds to international best practice.

Table 7.2: International Best Practice in Risk Allocation for PPPs

<table>
<thead>
<tr>
<th>RISK</th>
<th>APPROPRIATE PARTY</th>
<th>DETERMINANTS</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning or statutory</td>
<td>Public</td>
<td>Planning and statutory process undertaken in advance of tender</td>
<td>√</td>
</tr>
<tr>
<td>Misspecification of output requirements</td>
<td>Public</td>
<td>Information and resources relevant for output requirements</td>
<td>x</td>
</tr>
<tr>
<td>Category</td>
<td>Ownership</td>
<td>Description</td>
<td></td>
</tr>
<tr>
<td>----------------</td>
<td>-----------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Performance</td>
<td>Private</td>
<td>Works adhere to contract specifications regarding performance</td>
<td>x</td>
</tr>
<tr>
<td>Financial</td>
<td>Private</td>
<td>The private party undertakes the investment and is responsible for the financing of capital expenditure</td>
<td>x</td>
</tr>
<tr>
<td>Design</td>
<td>Private</td>
<td>A degree of risk-sharing can take place where public partner has an informational advantage</td>
<td>✓</td>
</tr>
<tr>
<td>Construction</td>
<td>Private</td>
<td>Private sector performance is contractually binding. A degree of risk-sharing can take place where public partner has an informational advantage</td>
<td>x</td>
</tr>
<tr>
<td>Operation</td>
<td>Private</td>
<td>Private sector performance is contractually binding. A degree of risk-sharing can take place where public partner has an informational advantage</td>
<td>✓</td>
</tr>
<tr>
<td>Utilities</td>
<td>Private</td>
<td>Utilise due diligence and contingency plans as mitigation</td>
<td>✓</td>
</tr>
<tr>
<td>Demand</td>
<td>Public</td>
<td>Government provides guarantees</td>
<td>✓</td>
</tr>
<tr>
<td>Subcontractor</td>
<td>Private</td>
<td>As mitigation measure utilise professional indemnity insurance</td>
<td>✓</td>
</tr>
<tr>
<td>Time-schedule</td>
<td>Private</td>
<td>Private sector performance is contractually binding</td>
<td>x</td>
</tr>
<tr>
<td>Latent defects</td>
<td>Private</td>
<td>Likelihood or impact can be mitigated through efficient environmental assessment and due diligence</td>
<td>✓</td>
</tr>
<tr>
<td>Maintenance</td>
<td>Private</td>
<td>Efficient facilities management, sub-contractor agreements and contingency funds can aid risk mitigation</td>
<td>✓</td>
</tr>
<tr>
<td>Exchange rate</td>
<td>Public</td>
<td>Government provides guarantees for fixed real</td>
<td>✓</td>
</tr>
</tbody>
</table>
In conclusion, the SA standardised risk matrix is not comprehensive and inclusive of all risks as compared to international best practice. A number of risks in the standardised PPP risk matrix should be reviewed, including output specifications, financial, performance, construction, time-schedule, regulatory and residual value.

### 7.4 Integrated Systems Management Theory Recommendations

The following section aims to suggest recommendations according to integrated systems management theory in order to improve the strategy, structure, systems and culture in PPP organisation.
7.4.1 **Strategy**

As mentioned in Chapter Three, PPPs are long-term contracts between the public and private sectors. PPPs are also a good vehicle for other social objectives, such as economic empowerment, through aligning the incentives of the private party with social objectives (National Treasury n.d:4).

With regard to the above purpose of PPPs, stakeholders do not provide equal understanding of the purpose and value of a PPP. In addition, risk management is not generally well understood by many of the respondents. Stakeholders do not seem to have a working understanding of the purpose and process of risk management in PPPs, and a number of respondents fail to interpret the purpose of risk management in concrete terms.

The majority of responses indicate that there is a need for PPPs, as government does not have the means for developing and maintaining infrastructure. Most respondents indicate a concern about the market development of a PPP pipeline in SA, expressing concern that if the government’s approach, resource constraints and structural shortcomings are not addressed in the next five years, the PPP market functionality will deteriorate.

The findings reveal that PPPs are making an impact in the country by providing infrastructure development and maintenance, particularly in the case of Greenfields projects, such as the Gautrain, as there is a consensus among respondents that the development of the Gautrain would not have been possible had it not been delivered by the private sector.

The majority of respondents indicate that the relationship between government and the private sector is not enabling, and the private sector indicates that they are not satisfied by the governance of PPPs, or the lack of good governance in PPPs. There have not been sufficient efforts to build consensus for PPPs. This is indicative of the government not facilitating the development of capacity for PPPs.

Private sector respondents are of the opinion that government is not providing adequate support and assistance to PPPs. Private sector is also of the opinion that the influence of government inefficiencies negatively affects the PPP market.
development, and that government should assume a greater role in assuring good governance in PPPs.

Major recommendations for improving the strategy for PPPs include improvement of the risk management strategy in PPPs. A comprehensive risk management strategy for the institutionalisation of a risk management system should be developed for PPPs and should be accompanied by micro-PPP risk management strategies for each sector that implements PPPs. Furthermore, as previously mentioned, a number of systems need to be developed in order to institutionalise risk management. These include a performance management system, grievance management system, monitoring and evaluation, stakeholder management system, and a reward system. Risk identification and transfer takes place in SA, however, due to a lack of understanding, risks are not conceptualised appropriately. Reflections on international lessons learnt indicate risks should be sufficiently conceptualised and managed. This is a challenge in SA as there is a lack of understanding of risk.

The recommendations of this study suggest that efforts towards market development of PPPs has to increase towards the establishment of coordinating entities, marketing, research and development, and benchmarking with countries of similar conditions.

The findings of this study suggest that there is a lack of human capacity development and there should be an increase of funding for skills development, training, internships and apprenticeships. The funding should include the standardisation of high quality training material and training courses, and tertiary development programmes.

A comprehensive monitoring and evaluation strategy and framework has to be developed and integrated into all levels of risk management. The issues should be integrated within the systems management model. Moreover, specific intervention strategies need to be developed to effectively monitor sector-specific initiatives. In addition, this should focus on issues of accountability, reporting and frequency, and quality of meetings.

It is further recommended that the organisational culture of PPPs be considered. There are a number of extant weak relationship dynamics. This is a cultural issue due to structural constraints. The structural constraints are due to the complex structure within government, and between the public and private sector. Hence, the strategy
should address the structural and systematic issues influencing the organisational culture. Due to a negative culture, there are a number of alpha risks evident in PPP that have a spill-over effect. A management strategy is required to reduce alpha risks and build organisational culture.

There should be an increased effort for cooperation and competition in PPPs, commonly referred to as coopetition. This study suggests the implementation of market-based governance mechanisms such as coopetition, where the market is viewed in terms of “the market is not an atomistic structure based on instant exchange, but it becomes a system of interactive and continuous relationships in which the firms progressively strengthen their reciprocal commitments and realise a process of mutual adaptation and joint value creation” (Dagnino & Padula 2002:8). However, to prevent opportunism, “compatible behavioural assumptions” (Dagnino & Padula 2002:10) must be developed through building a strong trust between the various stakeholders. Dagnino and Padula (2002:2) describe coopetition as hybrid behaviour in the management literature, comprising cooperation and competition. Coopetition implies that competition and cooperation merge to form a “new kind of strategic interdependence between firms, giving rise to a cooperative system of value creation” (Dagnino & Padula 2002:2). Coopetition is increasingly important to manage interfirm dynamics, as strategic interdependence between firms is growing (Dagnino & Padula 2002:4). Coopetition may present a stakeholder management perspective where the collaborators, competitors, suppliers, clients and customers are considered, and where stakeholders pursue convergent interests and obtain reciprocal benefits (Dagnino & Padula 2002:4-7). There should be co-creation between partners. As a recommendation, coopetition, co-creation, and co-production as cooperative governance mechanisms, should be endorsed in PPPs.

7.4.2 Structure

Respondents agree that PPPs should be situated at and coordinated by the National Treasury, through the PPP Unit, because the National Treasury has a regulatory function across all government departments. The findings suggest that IGR forums should coordinate relations between government departments. IGR forums are intended to play a facilitation and coordination role between government entities, in terms of the IGR Act and framework. However, the research suggests that IGR forums
are not prominent within the PPP context and thus an emphasis should be placed on
the inclusion of PPPs, and that IGR forums be held accountable for coordinating IGR,
by reporting on the IGR to the PPP Unit. The PPP Unit should also institute a national
planning commission or team committed to the planning of the PPP pipeline, dedicated
to the development of the PPP marketplace. The national planning entity should also
assume the role of research and development towards benchmarking, and the entity
should be responsible for the monitoring and evaluation of PPPs. The planning
commission should be politically neutral and should include academic inputs, international experts, national planning experts in the public sector and inputs from
industry in order to ensure that the PPPs are commercially sound. The findings
suggest that there should be an independent body working in cooperation with the
public and the private sector, with the purpose of managing the interface and
stakeholder relations between the public and the private parties, in order to ensure the
good governance of PPPs. The body should also be responsible for consensus
building, public awareness building and enhancing the visibility and marketing of
PPPs. The body should institutionalise government-wide risk management (GWRM).

The figure on the following page illustrates the suggested structure for coordinating
PPPs in SA. The amber block and yellow block represent the line department and the
client. The blue and grey blocks indicate national government coordination. The
independent entity is situated central to the public and private party and the PPP. The
PPP is illustrated in the green block.
Figure 7.2: PPP Environment
The independent entity will serve as a bridging point for interface management in the PPP project. The entity will play a facilitator role as a mediator between the public and private sector, encouraging cooperation and ensuring that both parties are represented equally and fairly. The entity will also serve as a platform for the public to interact with the PPP, thus encouraging stakeholder consultation. The entity will also ensure that there is coherence and that best practice is encouraged. The following figure illustrates the formation of the independent interface.

Figure 7.3: Independent Interface Management

The entity should consist of a representative from the public party and a representative from the private party, and should include an academic representation to encourage research and development participation; it should also be inclusive of a media representative to ensure transparency and visibility. The entity should also include an international expert to contribute inputs on international best practice, and for SA representatives to learn from international experience. The entity should be politically neutral and ensure objectivity. Furthermore, it is recommended that a representative from the DRB be included. It is envisaged that the entity contribute to building and maintaining a vision for the PPP and a shared common goal.
With regard to improving the structure for PPPs, this study recommends that the roles and responsibilities of the various constituents obtain greater focus by breaking up the roles into manageable activities. In addition, this study recommends that the Project Officer (PO) be provided with a support team throughout the entire PPP life cycle, and have a dedicated team of personnel to manage various management systems. In addition to the above suggestion of improving the coordinating structure of PPPs, this study proposes that clarity be provided to the distinction between the roles and responsibilities of the various government entities.

Lastly, this study advocates that community meetings are conducted to explain the roles and responsibilities of various constituents to community members in order to improve public awareness and understanding and to clarify the various roles of constituents.

7.4.3 Systems

As mentioned in Chapter Six, apart from the Gautrain, there is a lack of institutionalised and functional systems in PPPs, particularly in the public sector. A number of systems that are either inadequate or non-existent requiring development include:

- Risk management system
- Monitoring and evaluation system
- Performance management system
- Document and Information management system
- Contract management
- Business process compliance management system
- Grievance and variation management system
- Stakeholder management system
- Human resource management

Moreover, there is isolation and fragmentation in the institutionalisation of the PPPs systems. To illustrate, the private party will implement and manage systems and the public sector will implement and manage their systems separately. What is required is a parasol management function, where there is an umbrella system for the partnership management in order to align goals, to obtain clarity regarding roles and responsibilities, and to encourage common understanding. The umbrella system,
termed the PPP management function in the following table, is a shared system between the public and the private partner. The system can be implemented in cooperation or it can be implemented by the public partner, who is essentially the accountable partner and the partner responsible for the management of the service provider and the management of the partnership. The management of the system can be shared by the two parties. The aim of the parasol system is for management efforts to cascade down and contribute strategic control of the partnership. Thus, an integrated systems management approach is followed. The following figure illustrates the unified management system in the PPP partnership and the individual management system of each party. Note that only a few examples of management systems are included in the diagram, and they are recommended as embedded functions in both the public and the private sector structure.
Figure 7.4: Integrated Management Function
The findings reveal that there is a shortage of resources in the public sector which is disabling to PPPs as the resource constraints have a spill-over effect leading to capacity limitations. Firstly, there are not sufficient human resources in the public party in PPPs. As discussed, there is a shortage of skills, experience and training and the overstretched capacity of individuals in PPPs leads to ineffective governance. As illustrated in Chapter Five, the PPP unit is under-resourced in terms of skilled personnel and the remuneration is not at market value, which leads to low staff turnover. This is also the case in the government departments where the PO often manages the PPP as a ‘side job’ and does not have the necessary human resources for project management. As an exception, the Gautrain is the only PPP case which has a dedicated team of personnel and resources. The shortage of human resources leads to insufficient management capabilities.

Resources towards PPP market development should be increased. There is a shortage of capacitated stakeholders, as a number of respondents remark that government is “pound wise and penny foolish” as it selects the lower-cost service providers and advisors. Additionally, it and does not provide career-pathing for PO’s and is not willing to invest in the most capable advisors as they are more expensive. Government should appoint quality advisors and build human capacity through career-pathing, apprenticeship, internships and regular ongoing training. Human resource issues that should be addressed include:

- more personnel should be employed in the public party in the PPP;
- provide IGR coordination through IGR forums;
- a career path for risk managers should be established;
- supply personnel with more systematic and applied development and training; and
- skills training programmes are required.

The following common skills programmes are suggested:

- project management skills;
- risk management;
- construction management;
- contract management;
- stakeholder management;
• leadership skills;
• local economic development; and
• conflict resolution and negotiation skills.

Coordination across government indicates that communication among the three spheres of government is ineffective due to a number of reasons, including that information is not passed on effectively between them, that there are turf-wars, that roles are not clear, and agendas are politically motivated. Thus, there should be an increase of effective communication in IGR. There is also a negative relationship between the private and public sector and IGR. There could therefore be a correlation between understanding the role of PPPs, the lack of commitment and political willingness, and inconsistency in government decision-making. If the government agency does not fully understand the role of the PPP, then there will most likely be a poor relationship because the government agency will not want to cooperate with and support the PPP. It is therefore important that the role of PPPs is explained clearly to the different government agencies to promote buying in and support. It is also recommended that communication should be developed through the media and marketing channels. Workshops or training to resolve conflict and improve communication should be organised in departments where there is a poor relationship between the various stakeholders.

7.4.4 Culture

Key root causes for the problems encountered in PPPs are cultural in nature and in order to bridge the gap between theory and practice, risk management must extend towards addressing the soft risks in PPPs and to address the risk culture in PPPs. In terms of culture the key risks that were identified include human capacity challenges, lack of understanding, lack of political willingness, government slowness and ineffectiveness, and a lack of training. The risk culture should be addressed by various sustainable practices of empowerment. This study recommends that the current culture be improved on an individual, organisational and national level through human capacity development (HCD), and through social capital development.
7.4.5 Human Capital Development

While there are many risk solutions that offer control over risks, human capacity is a critical component – humans are the critical part as they can make mistakes that can lead to loss. Human capacity involves the experience, skill, competence and knowledge of a human being to provide value added and sustainable inputs into an organisation and to create new knowledge and to share knowledge.

Human capacity involves the capability and competence of humans to perform productively according to technical and non-technical standards. Human capacity development includes the development of critical skills and the enhancement of human resources. Continuous audits of human capacity should be undertaken, as well as monitoring and evaluation of the procedures, structures, principles, processes and tools, and methods. Audits can be in the form of psychometric testing, process mapping of productivity, training and education, and encouraging and rewarding employee inputs. Holistic initiatives that encourage creative experimentation and intellectual risk-taking in order to develop competitive and innovative decision-making should be encouraged. Government slowness and ineffectiveness can also be accounted for by a lack of productivity due to human incapacity or a lack of training.

Continuous workshops should be conducted in PPPs to assess the culture of the organisation and to provide a sounding board for employees to share lessons learnt in order to guide best practice. Human capacity development should enable growth and learning and it is important for risk managers not to work in isolation, but to facilitate the development of employees to create a greater awareness of risk and to foster a good risk culture. An enabling environment for mentorship and leadership should be established and fostered. In order to improve best practice in risk management for PPPs, government should embark on HCD development campaigns. These campaigns should include foundational training and tertiary training. Currently there are few dedicated tertiary professional training programmes focusing on comprehensive training for risk management in PPPs. The field of public governance should introduce custom-tailored master training programmes to grow and develop critical problem solving and analytical occupational skills. Skills training planning should be conducted in the PPP field and a skills profile should be introduced for best practice in risk management. The skills profile should incorporate aspects such as
interdisciplinary ability and an ability to ask critical questions of why, and not only of how. Career mapping should be incorporated in the skills profile in order to further human capacity development.

A typical skills profile recommended to enable human capacity development and best practice in risk management should include, among law and policy, mentoring and coaching, information technology and communications skills, sustainable development planning, monitoring, modelling and evaluation, change management, organisational development, green economy planning skills, ethics and social justice practices, procurement and supply chain, research skills, risk analysis, assessment and risk management skills, project finance, contract management, human resources or industrial relations, insurance, organisational development and strategic planning, and project management. Risk managers need not be technical experts in the abovementioned skills, however, a generalist experience and grasp is recommended. Alternatively, in addition to having interdisciplinary risk management, multidisciplinary teams can prove very successful, as a team of experts with the above skills can approach risk planning and management most effectively.

7.4.6 Social Capital Development

There is a lack of understanding and awareness of the need and purpose of PPPs in the greater civil society, and in the public and private sectors, and also of the need and purpose of risk management within the PPP projects. In order to bridge the gap between theory and practice, the research suggests that there should be greater focus on consensus-building and understanding in the PPPs. Consensus-building for a shared rationality and greater understanding can be achieved through social capital development improvement. Social capital development implies the rationality of individuals, groups, organisations and society as a whole, and the interaction and experiences shared between the entities. This is becoming more important, as no entity functions in isolation in the network society of the current globalised nature of the world; hence entities can no longer be insular and function in silos.

Social capital should be developed through the greater participation of all spheres of civil society. This can be achieved through greater transparency, increased communication and information through marketing, which could contribute to
increased market development by means of greater public awareness and buying in regarding the role and purpose of PPPs, and an increased shared awareness of risk management in order to improve best practice.

A shared vision of the purpose of PPP can be developed by allowing community participation through local content. Tools to improve this can include a cultural indaba approach focusing on grassroots and serving the bottom line through for instance road shows, workshops, learnerships and science advancement. Science advancement towards improving social learning should be instituted to make knowledge of PPPs explicit and to engage the public knowledge. Feedback channels should also be included in PPPs as a barometer of the risk culture in PPPs. Social learning should be encouraged, however to do so, it requires a willingness to learn, if any, and should first be identified through feedback loops. Social networks can also be used to facilitate the diffusion of integration. Organised interaction can be encouraged through e-governance. Specifically, social networks such as online networks, forums, associations, international collaboration, benchmarking colloquiums and community of practices can encourage organised interaction and collaboration. For instance, institutions such as the World Economic Forum, the World Trade Organisation utilises international community of practices and colloquiums to encourage communication, collaboration and cooperation across a complex network. The Gautrain for example, during the operational phase, makes use of an online website that allows social media interaction on a number of platforms such as the smart phone commuter information application and the short message system. During the development phase of the Gautrain, the website provided project information to the public. The Gautrain also marketed the development through billboards, print and broadcast media. The Gautrain is a good example of human capacity development and social capital development in that during the development phase a number of workshops were hosted to educate employees on the development and operation of the Gautrain, and in addition, as part of its socio-economic development mandate, learnerships and training were also provided for capacity development. The PPP Unit can benefit by applying e-governance for greater public awareness by developing an interactive online platform. As mentioned earlier in this study, respondents have suggested that the PPP Unit does not deliver comprehensive training solutions. The PPP Unit is tasked with the responsibility to create and disseminate project information to educate
the public, however, the PPP Unit’s website, as pointed out by some respondents, is not useful in providing up to date information to the public. Other media such as newsletters could be used to create a greater awareness. There is a lack of shared vision between the public and private sector in PPPs. Team building and consultation should also be encouraged in PPPs for relationship building.

What binds people together is trust and relationships. In order to establish some form of social cohesion for a shared understanding and vision, there should be increased efforts made towards establishing and maintaining cooperative governance, not only on a project basis within a PPP arrangement, but also for capacity development to spill over to other projects and provide sustainable long-term links between the private and the public sector. Capacity development can also be increased by managing the soft or non-beta risk in a partnership, particularly in the interface between the public sector and the private sector. An example is the Gautrain’s interface management framework to facilitate stakeholder management. Although interface management was one of the greatest challenges in the Gautrain and there were a number of weaknesses in the interface, the efforts towards interface management prevented an escalation of losses in some instances. Regardless of some of the challenges experienced in the lifetime of the PPP, the Gautrain PPP project is the most accomplished PPP project in SA to date, in a number of ways. Lessons can be learnt from the Gautrain in order to benchmark for future best practice, and to aid market development. A culture of benchmarking for the improvement of PPPs should be established in SA.

Lack of social capital results in division, corruption, cynicism, lack of buy-in and vision, racism, crime, and weak institutions. Thus, government should direct governance efforts towards establishing an identity of cooperation and shared vision, by upholding best practice values for the public interest, and integrating values across all spheres of society. Things that can bind or divide a society include, among new technologies: semiotics, semantics, politics and for instance, limited resources. Considering that PPPs are a form of a new technology or a method of governance, there should be greater focus on good governance in PPPs. Also, as the findings suggest that there is a presence of political interference in PPPs and a lack of resources, the PPP market can be categorised as lacking social capital. Even more so in a plural country such as SA, and considering plurality in a PPP brought about by the complexity of stakeholders
it is difficult to develop social capital amid plurality without increased efforts. Additionally, the elements that influence the credibility of governance need to be determined and addressed. In Chapter Six, this study provided an overview of some elements that influence the credibility of governance. Elements that influence the credibility of governance can be classified as soft or non-beta risk. These soft risks are interrelated and can have an overlapping effect. Soft risks identified in this study that could contribute to division among stakeholders include for instance:

- a lack of legitimacy and identity may lead to a lack of motivation and dedication;
- a lack of clear purpose will cause a lack of foundation and direction;
- a lack of understanding of resources available and required, which may lead to lack of productive deliverance;
- a lack of knowing rights and responsibilities;
- a lack of trust and cooperation;
- a lack of sufficient incentives, empowerment and reward systems;
- a lack of career-pathing and uncertainty regarding required professional profile;
- a lack of feedback to facilitate grievance and recovery management;
- a lack of leadership and mentorship, and thus no demonstration or examples of best practice;
- a lack of freedom for creativity and innovation;
- dysfunctional ‘peace-makers’, in other words dispute and conflict resolution and judicial bodies that are not representative, for instance ineffective dispute resolution boards;
- a lack of consistency in management creates uncertainty and may lead to labour disputes;
- a lack of skills transfer to the next generation;
- a lack of team work and group dynamic, and interaction and communication between stakeholders;
- a lack of competition and opportunity;
- lack of marketing and reputation management;
- a lack of accountability, ownership, advocacy and transparency; and
- a lack of emphasis of the public’s right to participate in the PPP process.

Governance should also draw on the psychological and sociological learning theories of persuasion and presentation to determine why people hold a certain perception,
and to guide social capital development. Other methodologies that could also provide insights into identifying soft risks that could hamper human and social capital development include for instance, institutional ethnography in order to draw conclusions from experiences of individuals and organisations to reveal power relationships and other characteristics of the institutions within which they operate (Babbie 2010:311).

Social capital focuses on the perceptions of entities and thus in order to increase social capital, stakeholder perceptions need to be altered. It is easy to change techniques and tools, but the most challenging is changing mindsets. Thus, the ‘lenses’ through which PPPs are viewed should be addressed for a paradigm or frame of reference shift. The following diagram represents these altered ‘lenses’ through which PPPs should be viewed. As mentioned in Chapter Six, not only is there a lack of awareness of what a PPP constitutes, there is also a decline in private sector confidence in PPPs. Addressing stakeholder perceptions may increase social and human capital for societal impact. The PPP market is undeveloped and transition is hampered by a number of cultural barriers. Addressing societal participation and awareness through the illustrated initiatives in the grey circle could be instrumental in addressing stakeholder perception and the take-off of the PPP market, therefore governance towards an increase of participation and awareness is recommended. The purpose of PPPs is to utilise private capacity to alleviate the public burden of infrastructure, so in order for PPPs to be successful, efforts towards addressing investor perception is required; the research recommends that the factors in the blue circle be addressed in order to improve private sector confidence. Public sector inefficiencies and incapacities spill over to the private sector as the public sector is not establishing an enabling environment for PPPs to be developed independently, and too many government inefficiencies and political elements are disabling.
Figure 7.5: Stakeholder Lenses

- Political Commitment
- Participation
- Understanding and awareness

- Capacity development
- Increased market development

Good Governance

Risk Management
A lack of understanding and various perception silos create division due to lack of social capital. Governance should aim towards empowering people instead of simply yielding its authority. In order to create identity, we need to deconstruct current silos through enabling theoretical frameworks. To do so, leadership is needed to investigate the ‘glue that holds together’ and then manage the connections between entities.

Stakeholder risk perception should be assessed from the planning phase through to the operational phase and should be constantly monitored and reviewed. By addressing human and social capital, a more resilient risk culture can be fostered, and intellectual risk management can take place through which there is not a sole reliance on strategic controls to mitigate risk, but the project capacity would allow more holistic solutions through human strategic decision-making to facilitate integrated risk management in all counterparts of the PPP. The following diagram depicts the integrated risk management approach to an enabling risk culture which should be aspired to in PPPs.
Figure 7.6: Integrated Systems Risk Management
Furthermore, there is limited focus on ‘green’ governance initiatives towards sustainable development to ensure a safer and more resilient environment. To increase the livelihoods of the wider population in PPP development, this study recommends that further research considers the impact of PPPs on the environment and investigates more sustainable infrastructure development. On the whole, the results, interpretations, findings and recommendations of this study are expansive. Also, with regard to the theoretical framework, the paradigm for implementing PPPs needs to be reviewed, as current governance reform is moving past NPM arrangements, and the impact of such reforms through PPPs needs to be evaluated. Finally, this study recommends a move beyond the conventional conceptualisation of risk management that is purely based on positivist paradigms focusing on probability and hypothetical assumption and deduction, towards a more integrated approach for adaptation to the network governance era that is currently manifesting, with all the complex risks that it poses to civil society. The study recommends that a ‘risk governance’ approach, as conceptualised by van Asselt and Renn (2011), be considered, where good governance principles are transferred and translated to the risk management process.

7.5 Conclusion

The aim of this chapter was to fulfil the final objective of this study, namely to provide recommendations for improving best practice in risk management in PPPs by providing solutions for systematic risk management. A number of systematic frameworks were constructed based on the findings of this study. In interpreting the findings, an integrated systems management approach was followed where risks were divided according to the strategic and structural systems and cultural nature. A number of these risks were overlapping in nature. In summary, PPPs should be improved by addressing the strategy to increase market development and to allow for a more commercialised approach. Also, there should be a greater focus on coopetition arrangements to improve cooperation in PPPs.

A number of weaknesses in the PPP environment in terms of structure were identified. This study recommends that a government-wide risk management approach be implemented to allow for greater coordination of PPPs. The structure should allow for
enhanced intergovernmental relations and for independent interface management between counterparts in a PPP. A number of systems that are inefficient in PPPs were identified, with the main cause being a lack of institutionalisation of the management function in PPPs.

This study recommends that efforts should increase towards embedding the management function in PPPs. A lack of understanding and capacity are presently impediments to PPPs, and the study recommends that there be a shift from relying on controls towards human and social capital development.

An assessment of international critical success factors provided the basis for benchmarking in this chapter, of which this study contributed recommendations based on international lessons learnt, for improving practice in PPPs in SA. In addition, the various risk transfer mechanisms were benchmarked, comparing SA’s risk transfer mechanisms to those of international best practice.

In terms of sector-specific recommendations, it is difficult to standardise risk management across sectors, thus, this study recommends that sectoral-specific legislation and micro PPP strategies provide guidance on sector-specific issues. The final chapter highlights the conclusions of the study and the implications of the research.
CHAPTER 8

CONCLUSIONS AND IMPLICATIONS OF THE RESEARCH FINDINGS

8.1 Introduction

This chapter aims to provide a synthesis of the key arguments of this study to determine the endeavours of the study, and the suppositions and propositions for future inquiry. In order to do so, the key arguments outline the breakthroughs, propositions and consequences of the research.

The purpose of this study is mainly to focus on devising a framework for the systematic risk management and strategic control of PPPs. The guiding research question of this study is to establish how the principal PPP model can be improved to more effectively manage risks that prohibit the successful delivery of public service and best practice in PPPs in SA. In so doing, the aim is to bridge the gap between theory and practice by providing recommendations for the improvement of risk management in PPPs. The rationale of the research is based on the challenge of risk-sharing and risk management in complex partnership arrangements such as PPPs as an alternative service delivery mechanism.

This study applies a mixed-method methodology, to reinforce the research question; two hypotheses guide the research in addressing the research problem. Firstly the study presumes that best practice combined with performance management approaches would mitigate risk in PPPs. Secondly the study presumes that effective strategic control of PPPs requires integration of strategic planning, risk management and the internal control of PPPs. This implies that the higher order management functions are embedded and integrated through the strategy, structure, systems and culture of PPPs. This establishes the foundation of an original contribution to scientific knowledge by making a case for vision and strategy at the centre of the management process, and uncovers strategic linkages of the major causal relationships of risk factors.

The outcomes of this study are intended for a wide range of audiences. Firstly, because the study provides recommendations to encourage best practice,
practitioners and administrators can apply the findings in the day to day administration and functional branches of the public sector, and the private sector can integrate the recommendations to improve project management. Moreover, the outcomes of this study are intended to contribute to policy-making, as the study explores fundamental questions relating to good governance and serving the public interest through effective service delivery. Furthermore, the study provides recommendations in terms of higher-order strategic management functions and suggests useful measures to aid strategic decision-making. Lastly, the study provides an overview and a synthesis of incongruities in public management reform for academic consideration. Thus, the study bestows a balance between practical, conceptual and theoretical standpoints in the investigation.

8.2 Research Objectives

In order to achieve the above, the study systematically addresses five research objectives. Firstly, the study explores the role of systematic risk management and strategic control in PPPs and the inherent risks in these partnership arrangements, in order to provide an understanding of the strategic nature of PPPs. Secondly, the study aims to determine the functions of the private and public sector in PPPs to contribute an understanding of the structural requirements in PPPs. Specifically, Chapter Three in this study furnishes an overview of the nature of risks in PPPs in an effort to address the first research objective. Additionally, Chapter Three provides an overview of the structural nature of the partnership arrangements in an effort to address the second objective of this research.

The third research objective focuses on determining the success and failure of PPPs through reflection on local experience. In order to accomplish this objective the study conducts a number of case studies to evaluate the progress and performance of PPPs in SA. Furthermore, the study includes stakeholder perceptions to gain an understanding of the impressions of PPPs. Chapter Five introduces the case studies and Chapter Six presents the results of the review. The aim was to determine whether PPPs are serving the public interest through effective service delivery.

The next objective is to establish a risk management framework. However, during the progress of the study, the findings revealed that a single model and framework is not
sufficient to capture the outcomes of the study. On the contrary, a multi-pronged approach was required to capture the overlapping nature of the findings. In order to organise and communicate the research findings, a framework representing the overlapping themes in the research was constructed. Furthermore, a framework of international best practice compared to current practice in SA was constructed, following a framework on risk allocation.

The final objective of the study is to construct a risk management model based on the findings of the study. As mentioned above, the nature of the findings required a sequence of models and frameworks. Therefore, a number of smaller models were constructed, in Chapter Seven, to represent the interdependent nature of risks and the overlapping findings. The aim of these models is to represent a complex reality and capture the recommendations to be applied in practice. A number of models were presented capturing strategic, structural, systems and cultural challenges in PPPs. In addition, Chapter Seven also provides interpretation of the findings, extracting lessons learnt from current practice.

8.3 Synthesis of the Research Statements, Findings and Recommendations

A logical approach is followed in this study to address the research question through five objectives as mentioned above; these objectives were addressed throughout the study in an outline of eight chapters. The study was structured as follows:

- **Chapter One**: introduction and background
- **Chapter Two**: conceptual framework and theoretical synthesis
- **Chapter Three**: nature and manifestations of PPPs in South Africa
- **Chapter Four**: research design and methodology
- **Chapter Five**: empirical case studies background
- **Chapter Six**: analysis and assessment of empirical case studies and individual interview data
- **Chapter Seven**: findings, interpretations and recommendations
- **Chapter Eight**: conclusions and implications of the research findings

Chapter One delivers an introduction to the study and conceptualises the motivation of the study, research problem, research hypothesis and the research objectives; all
these elements are abridged in the introduction of this chapter in order to conceptualise the purpose of the study. Chapter Three to Chapter Seven is discussed in this section, containing the essence of the research inquiry and the results thereof.

The following section contributes a summary of the research statements, findings and contributions. The purpose of this section is to provide an account of the discoveries in the inquiry in order to supply subsequent references for future practice.

8.3.1 Conceptual Framework and Theoretical Synthesis

Chapter Two conceptualises the theoretical framework and foundation of the research. Chapter Two provides an overview of the development of public management and governance and the major reforms that have shaped the discipline, by reflecting on past and current theories.

Market-based governance suggests the application of the market for public interest, and PPPs recognise the usage of the private sector for public interest. Since PPPs are a product of NPM reform, this study applies a market-based governance conceptual framework characterised by elements of NPM.

However, the current trends and practice is no longer subjugated by NPM; there are a number of competing and complimentary approaches in the development of public management reform. This study views PPPs as an offspring of NPM, but not separated from good governance paradigms. As this study subscribes to pragmatism, it does not isolate a single theory, as the study proposes that public management and governance should be adaptable to environmental pressures and not isolate a singular theoretical standpoint, but rather build on the strengths of past theories and learn from and improve on the weaknesses of past theories.

Public administration, management and governance has experienced a number of reforms during the development of the discipline; some paradigms that have been instrumental to the development of the discipline include the Classic model, the neo-bureaucratic model, the Institutional model, the Chicago School of Economics, Managerialism, the Network theory, the Public Choice model and the Principal Agency Framework, and the most recent editions of NPM and governance theory, ranging from network governance to good governance. NPM was intended to improve on the
shortcomings of the above theoretical paradigms through contractual models, managerial values, private-sector business management techniques, decentralisation, increased competition and efficiency gains, performance management, cost-effectiveness, professionalism and customer-focus.

Due to the pressures presented by globalisation and the inadequacy of traditional paradigms addressing these pressures of globalisation, network theory and advanced governance theory has started to extend or supersede NPM reform. Governance negates the mobilisation of the public sector to achieve public good and thus stakeholder value. However, current trends in public administration and management should focus on good governance where the interaction with society is a normative and positive outcome towards sustainability, achieving and maintaining development goals in a country, increasing the quality of life and promoting best practice in civil society. Subject to context, good governance centres on accountability, transparency, participation and efficiency. There are different variations of governance theory however this study focuses on good governance incorporating elements of NPM towards market-based governance. NPM proposes the use of market-based governance mechanisms such as alternative service delivery through outsourcing, separation of the allocation of services, increased competition, contracting and the incorporation of private tools. Thus this study employs a market-based governance approach towards risk management in PPPs and proposes that if indeed there is good governance within a market-based governance approach, there would be better risk management and best practice in PPPs.

8.3.2 Nature and Manifestations of PPPs in South Africa

Chapter Three provides an overview of the nature, manifestations and theoretical functions of PPPs. In addition, Chapter Three contributes an outline of risk management in PPPs and an introduction to the nature of PPPs in SA. PPPs entail a contractual arrangement between a public and a private entity, where the private sector affords an institutional or structural service for government and a substantial amount of risk is transferred to the private sector. A PPP furthermore is characterised by a relationship between public and private entities and necessitates a common vision, strategic consensus, cooperation and commitment. The ultimate outcome of a PPP is to create public value for the community.
PPPs take on different forms ranging from concession agreements, infrastructure design, build, finance, operation and maintenance, leasing, divestures or hybrid type of partnerships or combinations of any of the above. Services that can be provided can either be ‘hard’ or ‘soft’ in nature. The highest concentration of PPPs is generally in infrastructure development. This study focuses on a number of PPP types, including megaprojects, Greenfields, Brownfields and concessionaire provisions.

Chapter Three provides an introduction to international best practice mechanisms in PPPs and supplies an overview of critical success factors in PPPs, ranging from legal direction and consistency, political commitment, public awareness, understanding and unison, advanced public sector knowledge of PPPs, market development, a PPP regulatory body, coordinated deal flow, transparency, quality of projects, independent oversight, government support, line agency discretion, monitoring, management support, accountability, promotion of public interest, equitable and fair procurement, improved environmental performance, capacity building and training, project development funding and efficient risk allocation.

Good governance principles that should direct and guide PPPs include participation, decency, transparency, accountability, fairness and efficiency.

Chapter Three outlines international best practice in the allocation of risks between partners in a PPP. Risk-sharing is an important aspect of PPPs; in principle, optimal risk-sharing should be applied in PPPs, where risk is allocated or transferred to the party most capable of bearing the risk. Strategic controls should be embedded in the risk management systems of PPPs to minimise adverse risks.

Furthermore, Chapter Three indicates some reflections on international lessons learnt in PPPs, which show that risks can be adequately conceptualised and managed through careful planning and structuring and risk ownership. The body of knowledge reveals that there is a greater focus on the beta, generally known as hard or business risk, than on alpha risk, which is also recognised as soft or non-business risk.

There are three stages in the development of the PPP marketplace as indicated by the PPP market development curve. In order for countries to develop such a marketplace, governments should draw attention to the various characteristics of each phase as outlined in Chapter Three.
Chapter Three delineates a number of challenges that can be encountered in the implementation of PPPs. It is essential that government ensures the necessary management capacity is in place to overcome such challenges. Challenges range from lack of supervision, over-regulation, and exploitation by the private sector, to lack of accountability and representation. Increased cooperative-governance is thus required. The literature reveals that there is a definite need for PPPs internationally, and a number of advantages of PPPs are demarcated in Chapter Three, including increased competition, efficiency, economies of scale, cost effectiveness, sharing and transferring of risk, and capacity development.

Risk management in PPPs can be a complex task, and a systematic approach is required where risk is conceptualised, assessed, reviewed and communicated through the PPP project life cycle. Some important factors that management should pay attention to with regard to risk management in PPPs includes sufficient planning, clear decision-making structures and ownership outlines, performance management of projects and communication of risk.

Furthermore, Chapter Three supplies a legislative background and background on the regulatory environment in SA. SA has guiding legislation relevant to the implementation of PPPs that includes the PFMA, the National Treasury’s PPP Manual and the Standardised PPP Provisions for Practitioners. Other important factors that affect the implementation of PPPs that should be considered in the planning process include intergovernmental relations, specifically the IGR Act; black economic empowerment, specifically the BBBEE; and additionally, specific guidelines for PPPs are available in the PPP Manual that encompasses a Code of Good Practice for BEE, corporate governance regulations and intellectual property management. The Public Sector Risk Management Framework provides specific guidelines for risk management in line with the application of the PFMA.

The Public Sector Risk Management Framework proposes a general risk management methodology through an Enterprise Risk Management (ERM) approach. The risk management process entails the following steps: a risk identification phase through which the risk matrix is developed; development of a risk management plan based on the outcomes of the risk matrix; the allocation of risk; the formation of risk mitigation
measures; the verification of risk mitigation measures; ingraining risk management into the organisation and lastly, the monitoring and evaluation of risk.

SA has a unique developmental context of PPPs and some development challenges include equity, capacity, political and institutional shortcomings. The study sets out to assess these shortcomings, among other governance gaps, in order to improve risk management in PPPs.

8.3.3 Research Design and Methodology

Chapter Four contributes an outline of the systematic methodological execution of the study. The scope of the study focuses on risk management as a governance function in order to improve best practice and good governance. The unit of analysis is PPPs and the study combines a mixed-level of analysis in studying the units of analysis, including at macro, micro and meso-level. The macro level focus is on the implementation of PPPs in SA, with particular provincial case studies in Gauteng province in SA; the micro level focus is on the public and private sectors, whereas the meso-level focus is on the internal organisational environment in the respective PPPs.

The study aims to provide recommendations for best practice and provides practical applications and is thus applied in nature. The study departs from a pragmatist paradigmatic view. Considering the complex nature of PPPs, this study, as an interdisciplinary research philosophy, is recognised in order to incorporate all the elements of the strategic management function in PPPs and to bridge interdisciplinary divides by assessing certain political, social and economic matters. The inquiry is exploratory, commencing with inductive reasoning to deductive reasoning in interchanging and sequential phases.

The research is structured according to a sequential mixed-method research design, applying both quantitative and qualitative data, methods, techniques, constructs and writing style. Both primary and secondary data is used in the study. The preliminary data set is quantitative and a survey is used to engage stakeholder perceptions and opinions. The main data set in the study is qualitative and interviews are used in order to capture in-depth rich text of multiple expert opinion. As mentioned earlier in this study, the sample consists of four case studies, namely, a megaproject, a Greenfields project, the Gautrain, a concessionaire and a Brownfields project PPP arrangement.
the SANParks, head office accommodation for the Department of Basic Education and
the Department of Land Reform and Rural Development. A total of 66 interviews were
conducted and a total of 168 surveys were collected. The qualitative data was coded
and analysed in consecutive stages using open, axial and selective coding
respectively. The quantitative data was coded and analysed using SPSS. The results
were categorised according to a number of themes, including risk management,
business process compliance management, service delivery tasks and general
governance issues. The quantitative data was collected to generate a preliminary
assessment for the research. The preliminary assessment revealed the following
governance gaps, thus indicating bad practice in these areas: black economic
empowerment, lack of transparency, systemic corruption, lack of political commitment
and institutional barriers caused by late payments on government’s behalf.

The quantitative methodology and design followed in this study presented some
limitations. The major limitations were missing results and duplicate results from the
quantitative data; this could because respondents either did not understand the
question or had no experience relating to the question. The sample size was adjusted
for each question and was decreased in some cases due to missing values and
duplicate (contradicting) values.

The use of a self-administered surveys also presented a limitation as there is no
opportunity for intervention or probing in the case a respondent misinterprets the
question and a selection bias may also be present where respondents may not be
motivated enough to complete the survey.

Lastly, the total amount of positive frequencies presented for the public sector display
an overwhelming confidence of respondents in the public sector. This could be
suggestive of a bias towards the private sector. The study disabled the above
limitations by triangulating the quantitative results with the qualitative results.

8.3.4  Empirical Case Studies’ Background

Chapter Five provides a descriptive introduction and background to the case studies
used in this research. The McKinsey7S integrated systems management is used to
present the background on each case study; the descriptive information presented on
each case study is structured according to organisational elements of strategy,
structure, systems and culture. The cases studies are considered for theoretical
generalisation purposes to gain an understanding of the progress of PPPs and the
gaps inherent in risk management and good governance. It is recommended that
future studies consider cases in isolation to obtain in-depth analysis of particular case
studies.

SANParks’s main function is to manage and conserve biodiversity and cultural
heritage through the National Parks and to promote ecotourism and education. In 2008
the Department of Environmental Affairs and Tourism (DEAT) declared that SANParks
must become less reliant on national funds, which led to SANParks adopting a
commercialisation strategy in 2000. This formed the basis of engaging
concessionaires to fulfil the function of operating and maintaining the National Parks
ecotourism infrastructure, such as the restaurants and lodges. The first PPP
concession was awarded in 2004 with a 20-year contract to establish and manage
facilities within the National Park in an effort to promote ecotourism and conserve
cultural heritage. The commercialisation strategy was implemented in two phases, the
first being a Greenfield ecotourism concession and the second a restaurant
concession. The first phase granted the private party a lease contract; the latter phase
involved the transfer of existing facilities. In both situations an annual fee is paid to
SANParks for the use of the National Parks. At the end of the contract, ownership is
transferred back to SANParks. In this arrangement the majority of risks are transferred
to the private party.

The Department of Rural Development and Land Reform required centralised serviced
head office accommodation to house the public service corpus of the Department. In
2009, a PPP approach was selected to design, build, construct and transfer the facility
to the Department. During the period of this study, the Department was still undergoing
procurement, as negotiations with the preferred bidder were only concluded in the
second half of 2009. However, this reserve bidder lodged a court claim that the
decision should be reviewed. The outcome was not reviewed, as according to the
Promotion of Administrative Justice Act (PAJA), this could only take place once the
tender award decision had been finalised. The intended occupation date was set for
April 2013.
The Department of Basic Education required centralised, serviced head office accommodation and instigated finance, design, build, operate and maintain PPP in 2007. The purpose of the PPP was to provide clear, open and centralised housing for the public service corpus of the department, housing approximately 1 200 employees. The structure was erected and transferred in 2010.

The intent to establish a Gautrain Rapid Rail Link was made public in early 2000. The rail system was intended to link Johannesburg, Pretoria and OR Tambo International Airport. As a spatial development initiative the intent was also to reduce congestion on the national route between Johannesburg and Pretoria and to enhance economic potential and urban revitalisation in the area. The PPP contract was awarded to the Gautrain Bombela concession to design, build, finance, construct and operate the system on a 20-year contract. Tranches of payments were made to the concession after specified milestones were reached, followed by unitary payments until the completion of the system, with risks being shared between the public and private party.

8.3.5 Analysis and Assessment of Empirical Case Studies and Individual Interview Data

Chapter Six presents the research results and main findings obtained through interview data. The main aim of this study is to make recommendations for improving the PPP model in terms of risk management. In order to do so, obstacles to effective risk management in PPPs were assessed. The major barriers deduced from the collected data include risk management, and these obstacles relate particularly to challenges in risk methodology, risk transfer and ownership, risk mitigation, monitoring and evaluation, variation and grievance management, contract management, the functionality of management, lack of commercial value in the PPP approach, lack of competition, challenges presented by procurement and barriers thereof, complexities presented by black economic empowerment, performance management, stakeholder management, capacity challenges, service delivery, planning, government slowness and ineffectiveness, political willingness, the functionality of the PPP Unit, intergovernmental relations, lack of independent representation, legislation challenges, transparency, auditing and reporting and sectoral challenges.
The challenges and barriers identified are overlapping and interdependent in nature and study was not able to isolate research results, as the above-listed elements present multiple risk factors with spillover effects. The outcomes disclose a number of strategic, structural, systems and cultural challenges that obstruct effective risk management and good governance in PPPs. The findings are outlined in the following section.

The findings reveal that risk management in PPPs lack a unidirectional approach and that risk management as a higher order function is not embedded in the organisation. Also, risk management is fragmented across the implementation level in the public sector as there is no integration of risk management between and across intuitions. Risk management is an integrated process and should be linked to organisational objectives and to cascaded national planning in order to reach service delivery objectives. Thus the study recommends a government-wide risk management system (GWRM) with increased focus on coordination and integration of risk management.

Furthermore, risk management in PPPs is not institutionalised and thus not sustainable. This could be due to a number of reasons including a lack of human capacity, specifically skills, or a lack of ownership and accountability, leading to the various levels of risk management not being understood or realised. Also, there is too much focus on beta risk (business or hard risk), and a lack of sufficient attention to alpha risk (non-business or soft risk). Bureaucratic control and focus is also limiting as it provides for rigid risk management and a silo thinking culture. A more holistic approach with a culture that encourages innovation, creativity and interdisciplinary integration is required. Thus, it is recommended that the risk culture in PPPs be improved.

With regard to risks transfer and ownership, the findings reveal that there is a lack of sufficient focus on sub-contractor arrangements in PPPs. Moreover, risk mitigation is limiting as there is uncertainty regarding the verification of controls for early warning systems. The assessment of these controls needs to be reconsidered, and the role of insurance mechanisms for PPPs also needs to be reviewed.

When assessing monitoring and evaluation, it is revealed that there is very little evidence of monitoring and evaluation of PPPs in SA. Another major concern in PPPs
is that there is a lack of competition, specifically the presence of high levels of concentration in the market, monopolistic constraints and limited aid. Academic and insurance development in the country is suggestive of a lack of competition.

The lack of a commercial approach and slow-moving market development also raises concerns over the effectiveness of PPP market development and the PPP development curve. The above both point to strategic inconsistencies. Legislative uncertainties and ambiguities further highlight strategic concerns.

Evidence of a lack of leadership, breakdown in the implementation in the public service which is evident in black economic empowerment as indicated in Chapter Six, and a lack of the integration of the management function, raises concerns over the functionality of the management function in PPPs; the findings also suggest that the management function is not institutionalised. This is further aggravated by administrative inefficiencies, lack of decision-making and appropriate planning, and government slowness and ineffectiveness, which is highly evident in procurement challenges in PPPs’ fragmented performance management. This is further intensified by human capacity challenges where a deficiency of apt skills and experience exists. In addition, there is a lack of capacity for contract management in the country; contracts drive risk management as the agreement provides direction to the PPP, thus poor contract administration in management in PPPs results in ineffective risk management. Inconsistencies in contract administration and management need to be considered and the role of various contracting mechanisms needs to be reviewed. Linked to the contract management incapacity is the lack of capacity in SA for variation, dispute and grievance management in PPPs. These inefficiencies are indicative of structural and systems challenges in PPPs. The role of the PPP Unit in developing capacity in addressing the abovementioned shortcomings should be revisited. Another structural and systems challenge includes the lack of transparency in PPPs.

The culture in PPPs is also another barrier, which is evident in the lack of political willingness, ineffective relationships and stakeholder management, which inhibits cooperation and trust. This is evident between the various counterparts in PPPs and also in intergovernmental relations (IGR). Respondents reveal that the presence of an independent body to manage the interface between the public and private partner
could be useful and the study recommends that the assistance of IGR forums be considered.

The abovementioned barriers are all indicative of governance gaps and the findings reveal that due to these gaps, the PPPs are not ensuring optimal service delivery and there is no holistic foresight for bridging the gap between theory and practice due to a lack of best practice in the PPPs. Greater participation should be encouraged in order obtain optimal results from alternative service delivery mechanism such as PPPs. Lastly, with regard to sector-specific recommendations, the data reveals that there are overlapping risks in the considered sectors and most sectors share the same general experiences with regard to risk management and governance. This is also confirmed by the broad nature of the research findings and recommendations deduced from the research, however, there are sector-specific challenges in SA that require attention including legislative and policy development and management for market development in each sector.

8.3.6 Findings, Interpretations and Recommendations

Chapter Seven provides an outline of the research findings, the interpretation and recommendations. The conclusions of the study are wide-ranging. A global comparison of all the data sets, including the quantitative and qualitative data shows highly interconnected research results, and the correlated research findings reveal possible risks that may be linked to organisational strategy, structure, systems and culture.

Risks relevant to the strategic context include lack of a commercial approach, legislation and sectoral shortcomings, competition and governance which have service delivery implications. Structural matters include IGR, the PPP Unit functionality, transparency, auditing and reporting.

The systems context includes risk, variation and dispute, contract, procurement, stakeholder and performance management. Other systems contextual matters include management disfunctionalities, black economic empowerment, government slowness and ineffectiveness.
Based on the interpretations of the study, a comparison of international best practice with South African practice is provided in Chapter Seven. The suppositions derived from the comparison, are briefly outlined in this section.

Firstly, there is an implementation breakdown in SA. This could be due to ambiguous legislation and lack of capacity. Secondly, current strategic direction does not encourage political commitment. Furthermore, there is a lack of understanding and awareness of PPPs in SA. Also, there is a high level of procedural inefficiency and a lack of buy-in to projects, and there is little evidence of public sector knowledge development on the matter. Moreover, the PPP market development in SA is slow and fragmented.

In addition, the PPP Unit is not equipped for capacity development or to coordinate deal flow in the PPP market. There also exists a lack of transparency, which is aggravated by a lack of communication and stakeholder engagement. Also, the quality of projects is not ensured and there is a lack of competition. In addition, IGR and BBBEE present implementation challenges. Management support is limited and poor performance measures and accountability constrains the PPP process. Lastly, there is very little evidence of green governance towards environmental sustainability in PPPs. A further breakdown comparison of risk transfer in SA as compared to international practice reveals that risk transfer is inconsistent with international standards.

In order to overcome the organisational impediments with regard to structure, strategy, systems and culture, this study recommends an integrated systems management approach towards improving risk management in PPPs. This requires a systematic intervention in the abovementioned organisational components. In order to overcome the challenges outlined above, a number of practical application models are recommended.

To address the strategic barriers such as a lack of understanding, support, value and market development, it is suggested that risk management as a function be embedded throughout the public and private counterparts and the joint PPP project. Furthermore, a comprehensive monitoring and evaluation strategy in PPPs is required. Lastly, a
coopetition approach should be explored to manage strategic interdependencies between the public and private sectors.

The study established that the regulatory function of PPPs should remain the function of the National Treasury; however, measures should be positioned to manage IGR through IGR forums. A model is proposed in this study for the independent interface management of the public-private partnership. The autonomous interface management should have equal public, private, academic, community, international and legal representation to ensure that there is political neutrality.

The study recommends that to overcome the lack of institutionalised and functional systems in PPPs, an integrated management function should be embedded in PPPs where systems are developed internally and externally of PPPs and linked to the higher order management function. Furthermore, in order for these systems to function optimally, human capital development is necessary and therefore an intervention for training and development is required. Additionally, to ensure greater participation and shared vision, social capital development is required.

An integrated systems risk management model is proposed to encourage a holistic culture with shared vision and human and social capital development towards strategic human control, in order to empower and mobilise human resources towards intellectual risk taking.

The outcomes of the study suggest that market-based governance is not consistent in PPPs. Elements of NPM are being implemented such as incorporation of private sector mechanisms and tools and contracting and contestability, however, there still exists a lack of market-based value such as cooperation, competition, professionalism and best practice. Moreover, since PPPs are a product of NPM, the future conceptualisation and implementation of NPMs needs to be reviewed, since the current era is no longer self-contained by NPM. This has theoretical and practical implications. Firstly, reconceptualisation of NPMs needs to take place to consider good governance mechanisms as currently there is little evidence of such practice and it would entail a paradigm shift. Lastly, significant planning and realignment of the objectives of PPPs are necessary. In order to derive greater public value, PPPs should
be considered as a development mechanism, and a more sustainable approach is required than simply utilising PPPs as a procurement mechanism.

Limitations encountered in this study are that the research findings are generic in nature. This is because a very large sample and a complex unit and level of analysis were approached, however, this was appropriate for the study as the research is exploratory and set out to draw generalisations for improved best practice in PPPs in SA. Thus, the outcomes of this study present baseline data for future research or ongoing enquiry, and it is proposed that the research will provide a foundation for future evaluation of PPPs in order to determine the impact of the projects and the implications for service delivery and public value. On the whole, an ex-post evaluation analysis is recommended to draw lessons with the purpose of deriving evaluation frameworks for future assessments. Specifically, a greater emphasis on more focused analysis and evaluation should be considered along with the specific contributions of different types of PPPs. For instance, it could be valuable to distinguish between hybrid types of PPPs, mega projects, and Greenfields and Brownfields projects, as they all represent distinct complexities. The dynamics in developing countries are also considerably different, considering weak and immature institutions are not really capacitated to affect good governance in complex public-private arrangements. These are some of the recommendations of an ongoing inquiry in developing nations. Lastly, with regard to sustainability, there is a very weak focus on green governance in PPPs and this should also be taken into consideration in future assessments in order to derive value for green infrastructure and essentially, development of a green economy.

This study provides a balance between theoretical, practical and academic applications, and the conclusions of the study are intended to improve decision-making in PPPs and apply to both the practical and implementation levels and the policy and decision-making levels. Furthermore, theoretically, the relevance of current paradigmatic standpoints in PPPs is considered and it is emphasised that to consider the ideological complexities, and as PPPs are a product or offspring of New Public Management (NPM) governance reform, it must be noted that there has been a shift from NPM towards networks and new and good governance. Accordingly, it would perhaps be important to move past simply capturing such ideological points of departure, and actually measure them in the real world. Currently, one of the main
challenges in developing nations is that PPPs are not entirely separated from NPM (market-based types of reform), and so some of the partnerships are experiencing challenges with shifting to public-value types of reform (which is a neo-Weberian type of ideological shift). These ideological points of departure impact on policy formulation and management and this could be of value in considering the theoretical developments of PPP arrangements.

This study set out to determine how the PPP model can be improved to effectively manage risks in PPPs. It was established that there is a lack of effective strategic control of PPPs through the integration of strategic planning, risk management and internal control, and that there is also a lack of best practice combined with performance management to mitigate risk. In order to address the main research question of the study, a number of objectives were addressed. Firstly, this study provided an outline of the role of systematic risk management and strategic control. Secondly, the study determined the role and functions of counterparts in PPPs and the nature and manifestation of PPPs. Drawing from lessons learnt, the study provided recommendations on how to improve good governance and best practice in PPPs. Lastly, the study provided simplified frameworks and models to improve PPPs.

The implications of the research outcomes are multiple, mostly the reform that is required in terms of organisational strategy, structure, systems and culture, which would necessitate renewed organisational planning, organisational renewal in terms of roles, responsibilities and decision-making, the redesign or adjustment of current systems to function more optimally and attention to the vision and thus culture in PPPs. All of the above would require considerable resources and could be useful to the National Planning Commission, the Infrastructure Development Committee, National Treasury and all other relevant line agencies or government ministries, to consider the highlights presented above in order to plan better for a more sustainable environment, community development, and to enhance best practice in the public and private sector corpus in SA.

Moreover, this study makes a case for the adoption of a risk governance outlook to improve best practice by shifting good governance principles to all areas of risk management, policy, and all risk-relevant areas, including strategic management.
8.4 Conclusion

The main features of the research are presented in this chapter together with an outline of the findings, recommendations and implications of the research. The chapter outlines the discoveries and the recommendations for theory and practice. It is recommended that the organisational strategy, structure, systems and culture be addressed in PPPs. There should be a greater shift towards public value, empowerment and mobilisation, sustainability and enhanced market development, for PPPs. In order to improve best practice, risk management should be combined with strategic management in PPPs and future inquiries should focus on the effects of specific types of PPPs for more focused impact assessments.


Cloete, F. 2000. *At full Speed the Tiger Cubs Stumbled*. Pretoria: HSRC.


ANNEXURE A

QUALITATIVE INTERVIEW QUESTIONS

First Stage, Phase A) of Qualitative Interview and Data-Collection

1. Major risks (high-risk areas or real-world losses) in terms of strategic control and accountability in PPPs
2. Can risks be effectively mitigated through a combination of best practices in risk management and performance management approaches
3. Does government have the skill in determining, assessing, valuing and transferring risk factors in PPPs
4. Most effective mechanisms for risk transfer and risk-sharing according to your experience
5. Experience in short-term PPPs
6. Length of most pre-contract phases
7. PPPs that have resulted in cost-overruns, time-delay or default risk
8. Competitiveness of the PPP process and implementation
9. Major challenges in the transformational sectors with regard to project implementation
10. Major legislative ambiguities with regard to project implementation
11. References for PPPs transaction advisors
12. Institutional challenges to project implementation of PPPs
13. Recommendations of “institutional champions” in PPPs
14. General recommendations for PPP implementation
15. Recommendations for service delivery in the context of PPPs
16. Background in IP management
17. Major challenges in IP management in a PPP
18. Impact of BEE in the PPP process and in project implementation
19. Recommendations with regard to BEE and the conduct thereof in PPPs

First Stage, Phase B) of Qualitative Interview and Data-Collection

1. Introductions
2. Background
3. Collaborative efforts to avoid duplication
4. Ethical considerations
5. Risk Management in the SA PPP context
  5.1. Major risks that are generally included in a risk matrix
  5.2. The typical risk management process in a PPP in SA? (map of risk management process)
  5.3. The major obstacles in risk management in PPPs in SA
  5.4. The most popular risk modelling methodologies applied ex. CCS Candy, BuildSmart, SmartBuy, MARS 2007, ProjectWise, @Risk and so forth.
  5.5. The major challenges in modelling risk in SA
  5.6. Most suitable risk management methodology for the SA PPP context
  5.7. Do you have any additional comments on the current PPP risk index
  5.8. The major challenges experienced with contract management
  5.9. Comments or recommendations with regard to risk management in PPPs
6. Multi-sector cross-case study analysis
  6.1. Sectors: Infrastructure (Gautrain), EcoTourism (SANPARKS)
  6.2. Major challenges experienced in each sector
  6.3. Evidence of institutional PPP champions
7. Does BEE in reality pose any practical constraints to the development and stimulation of PPPs in SA
8. Potential of SA to leapfrog up the PPP development curve
9. The major challenges faced with the development of the PPP market place
10. Outcomes and status of: ‘PSC and VFM: PPP Nodal Officer’s Roundtable 2008’, discussions surrounding PSC options:
    • Model A: Drastic Change
    • Model B: Gentle Change
    • Model C: Mature Sector
11. Any evidence of corruption present in the PPP process
12. Presentation, accreditation and inputs into the results of the study
13. Further comments and recommendations
Second Stage of Qualitative Interview and Data-Collection

Risk Management

- Major obstacles in risk management
- Major risks, contingencies and liabilities, evidence of real losses incurred by either party
- Major challenges in modelling risk in the PPP serviced head office accommodation
- Major challenges experienced with contract management in PPPs
- Review controls in place for early warning of risk
- Challenges in ownership and transfer of risk
- Assurance of effectiveness of mitigation measures and verification of results
- Effective risk communication strategy and systems
- Other comments or recommendations with regard to risk management in PPPs

Business Process Compliance Management and Systematic Management

- Strategic internal controls
- Major challenges faced with monitoring and evaluation
- Corporate governance issues

Service Delivery Tasks

- Major challenges for service delivery tasks
- Recommendations for the management of service delivery tasks
- Major challenges in role and responsibility and implementation of Project Officer

General

- Implementation of Black Economic Empowerment (BEE)
- Major challenges faced with the development of the PPP market place
- Evidence of corruption in the PPP process
- Coordination between clusters and intergovernmental relations

PPP documents

- Feasibility study
- PPP agreement
- Reports
- Live data
- Close-out report (construction)
- Risk management framework, profile, register
ANNEXURE B

QUANTITATIVE SURVEY QUESTIONS

Bad practice contributes to potential risk factors on a strategic, business and operational level. A number of practices that are indicative of the effectiveness of governance, are listed below. The practice factors indicated in the table include beta (business) and non-beta (non-business) risks. In addition, the indicators are representative of legal, financial, managerial, regulatory, human resource, institutional, business compliance and contractual practice.

Please select the relevant box to indicate whether current practice is reflecting negatively on the governance of PPPs. A negative (no) response is indicative of bad practice and is a potential risk. A positive (yes) response is indicative of good practice and does not present a potential risk to the governance of PPPs.

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