THE POTENTIAL FOR PUBLIC PRIVATE PARTNERSHIP (PPP) IN ETHIOPIA

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<tr>
<td>AACC-SA</td>
<td>Addis Ababa Chamber of Commerce and Sectoral Associations</td>
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<td>CBO</td>
<td>Community- Based Organisation</td>
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<tr>
<td>ECC-SA</td>
<td>Ethiopian Chamber of Commerce and Sectoral Associations</td>
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<td>EFY</td>
<td>Ethiopian Fiscal Year</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GIZ</td>
<td>German Agency for International Development</td>
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<tr>
<td>GTP</td>
<td>Growth and Transformation Plan</td>
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<tr>
<td>GVA</td>
<td>Gross Value Added</td>
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<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
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<tr>
<td>ICT</td>
<td>Information and Communications Technology</td>
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<td>MDGs</td>
<td>Millennium Development Goals</td>
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<td>MoFED</td>
<td>Ministry of Finance and Economic Development</td>
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<td>MTN</td>
<td>Mobile Telecommunication Network</td>
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<td>NGO</td>
<td>Non-Governmental Organizations</td>
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<td>NPISH</td>
<td>Non-Profit Institutions Serving Households</td>
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<td>PASDEP</td>
<td>Plan for Accelerated and Sustainable Development to End Poverty</td>
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<td>PPP</td>
<td>Public Private Partnership</td>
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<td>PPPD</td>
<td>Public-Private Partnership Dialogue</td>
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<td>PPPSD</td>
<td>Public Private Partnership for Service Delivery</td>
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<td>PPPUE</td>
<td>Public Private Partnership for Urban Environment</td>
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<td>PSD</td>
<td>Private Sector Development</td>
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<td>PSD Hub</td>
<td>Private Sector Development Hub</td>
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<td>ToR</td>
<td>Terms of Reference</td>
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<tr>
<td>UNECA</td>
<td>United Nations Economic Commission for Africa</td>
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<td>UNDP</td>
<td>United Nations Development Programme</td>
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<td>UNCDF</td>
<td>United Nations Capital Development Fund</td>
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<td>SIDA</td>
<td>Swedish International Development Cooperation Agency</td>
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1. INTRODUCTION

1.1 Background and Objectives

This report presents an assessment of the potential for public private partnership (PPP) in Ethiopia and a road map for its implementation. The objective of the study is to identify and clearly show the potential areas for PPP investments and set out the policy, legal, institutional and operational requirements essential for effective delivery of PPP initiatives. The study is premised on the assumption that PPP arrangements are not widely used in Ethiopia, and the subject is a relatively new and unexplored one in the country. The study thus aimed at developing a road map for the implementation of PPPs in Ethiopia.

More specifically, The objectives of the study were to:

- Assess and share the experiences of PPP implementation of other countries;
- Detect potential sectors and projects for PPP implementation in the Ethiopian context;
- Identify alternative modalities for PPP investments in the sectors/projects identified;
- Identify and analyse the required policy, legal and institutional frameworks for PPP;
- Indicate opportunities and challenges of the PPP in Ethiopia; and
- Develop a road map for PPP investments in the sectors/projects identified by the study.

1.2 Methodology

The following methodology was adopted to undertake the study:

- A quick scanning of secondary documents to identify existing and potential PPP projects as well as public and private entities engaged in the provision of such projects;
- Analysis of PPP concepts in relation to the context and conditions in Ethiopia, and justifications for introducing PPP investment arrangements;
- Primary data gathering and analysis via interviews and strategic conversations held to verify existing and potential PPP projects, anticipated challenges and opportunities, including policy, legal/regulatory, institutional, financial and operational constraints;
• Analysis and documentation of the experiences of other African and Asians countries that have implemented PPP projects in infrastructure and service sectors;
• Assessment of PPP options and proposal of investment modalities for prioritized potential PPPs;
• Consolidation of study findings, drawing of conclusions and recommendations as well as proposals for a road map to PPP implementation.

The consultant relied on secondary data captured from documents made available by the PSD Hub and others obtained through Internet as well as information gathered by interviewing key persons of 18 public, umbrella and development partner organisations.

1.3 Structure of the Report

The report is structured in the following manner. The second chapter gives an overview of PPP concepts and the context for PPP in Ethiopia. Chapter 3 discusses the findings of the study, including constraints and opportunities of PPPs, while Chapter 4 elaborates on a number of PPP case studies from African and Asian countries. Possible PPP options and investment modalities for potential PPPs are described in Chapter 5. Chapter 6 puts forward the conclusions and recommendations of the study, while Chapter 7 discusses the road map for the implementation of PPPs in Ethiopia.
2. CONCEPTUALIZATION OF PUBLIC PRIVATE PARTNERSHIP (PPP)

Building and operating infrastructure facilities as well as the delivery of basic services have predominantly been the responsibility of the public sector as they involve huge investment costs and take long time for the returns on investment to be realized. However, it has proved very difficult for many governments to meet the growing demand for infrastructure facilities and basic services by themselves. The inability of the public sector (government) to provide infrastructure and deliver services affects the promotion and expansion of businesses in communities. As a result, governments in several countries have been increasingly engaging the private sector in the provision of infrastructure facilities, investments in operation and maintenance of facilities as well as the delivery of basic services through PPP arrangements.

PPP can be defined as an arrangement between a public body and a private party or parties (including community beneficiaries) for the purpose of designing, financing, building and operating an infrastructure facility that would normally be provided by the public sector. In other words, PPP is a contractual agreement between a governmental organization and a private party whereby the latter performs whole or certain parts of the government organization’s service delivery, infrastructure provision or administrative function, and assumes the associated risks. In return, the private party receives a fee which may take the form of user charges or direct payments from the government in accordance with the pre-defined performance criteria.

The German Agency for International Cooperation (GIZ), under its partnership framework, defines Public Private Partnerships as common projects that private companies and development organizations plan, finance and implement together with the objective of achieving win-win results for both parties.

2.1 The Context of PPP in Ethiopia

2.1.1 Public Private Partnership (PPP)

In the context of Ethiopia, PPP can be defined as an engagement and a relationship between the public (including development partners) and private sectors as well as civil society (including community beneficiaries, the poor and vulnerable groups), where the private sector brings on board efficiency, local innovation and cutting edge technology to complement
public sector regulatory authority, asset ownership, budget support, public education powers and capacity development support to achieve commonly identified objectives, outputs and activities. At the same time, civil society’s mobilisation, monitoring and oversight role is harnessed and combined with PPP guiding principles and citizens’/beneficiaries’ responsibilities to ensure positive synergy in the delivery of public goods and services. It is worthy to note here that GIZ has tested and applied its definition of PPPs in the construction and agriculture sectors in Ethiopia. These will be analysed in Chapter 3 of this report.

2.1.2 Privatization

Privatization infers that a government sells a public asset/physical structure to a private or nongovernmental buyer and consciously disengages itself from responsibilities and accountability for the provision of a service. In the context of Ethiopia, privatization can also involve co-ownership and joint ventures between government and private partners or a set of processes leading to divestiture and outright sale of state assets by government to private parties. In the case of the first scenario (co-ownership and joint ventures), responsibilities and accountability are exercised jointly by the government and private partners, whereas in the latter case responsibility and ownership are ceded to private parties by the government.

2.2 Benefits of PPP

When based on good practices, PPP offers a win-win benefit to both the public and private sectors in the delivery of public infrastructure, goods and services. The major benefits for the government are the speed, efficiency and effectiveness associated with private business practices to public service delivery in order to ensure value for money. The involvement of the private sector in public service delivery also forces the procurement process to be transparent and competitive. As a result, the long-term costs of the service delivery can be assessed more realistically under a PPP framework which in turn promotes more efficient use of resources. In addition, PPP helps to improve service delivery and management of facilities through innovation, customer care and ultimately increasing cash flows.

Another major benefit of PPP is that it enables governments to tap into private capital for the provision of public services. By using PPP as a strategic service and infrastructure delivery mechanism, government is able to pool private

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1 This definition was deduced by benchmarking global definitions with the perspectives of stakeholders, and synthesizing ideas obtained through interviews and conversations with key stakeholders as well as review of various literature on Private Sector Development in Ethiopia.
capital to complement public budget resources to speed up economic and social development.

For the private sector, PPP brings in new experience to work in tandem with government for sustainable development as well as economic gains because the government is a major player in the market (as is the case in Ethiopia). By engaging with government and investing in public service delivery, the private sector is able to inject improved technologies, apply innovative business practices and create efficiency to boost profits. Beyond this, the private sector also benefits from capacity development interventions which are deliberately embedded in PPP arrangements to develop and empower individual private partners, private institutions and societies to become skilful and knowledgeable to achieve local and national development goals. In Ethiopia, PPPs would allow private umbrella organisations (for example the Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA) to bring innovative development ideas to the Public Private Partnership Dialogue (PPPD) platform, which could be turned into business opportunities and/or projects for wealth creation. For instance, a number of initiatives such as PPP in health care delivery (telemedicine in South Africa), PPP in crime prevention and control (via joint investigations, shared communication systems etc. in Ghana) and PPP in dry waste recycling in Malawi, Lesotho, Namibia, South Africa etc., have all emerged from initial ideas of private sector umbrella bodies and community-based associations. These ideas were tabled either on dialogue platforms or during project steering board meetings, and later developed through decision-making processes to procurement, contracting and implementation arrangements.

2.3 Success Factors for PPPs

Experience has shown that for PPP to be effective there is a need for permissive policy and legal framework as well as suitable investment climate. The government needs to have a clear policy framework that sets out guidelines for the selection, preparation and procurement of projects to be undertaken in a PPP framework. There is also a requirement for a legal and/or regulatory framework that ensures the effectiveness of long-term contractual PPP agreements. Moreover, the government should have a well-prepared and detailed infrastructure investment plan that clearly indicates the extent to which PPPs could be utilized. Both the government and private parties may also need to make changes in their institutional setup to facilitate public procurement procedures, negotiations, contract management, operational efficiency and customer satisfaction. Furthermore, the guiding principles for PPPs need to be pursued.
Guiding Principles for PPPs

Various literature and case reviews acknowledge that there are principles which need to be integrated as a standard part of PPPs. These are transparency, competition, accountability, legality, clarity and predictability, specificity, economic and financial sustainability, flexibility, continuous learning, equity, inclusiveness, and empowerment. (Some of the principles such as accountability, participation, transparency, inclusiveness, and empowerment are also tenets of good governance.) A brief overview of the principles is presented below:

a. Transparency simply means sharing information and acting in an open manner. In PPP, it is about including all stakeholders and building awareness on a partnership project in terms of the objectives, policies, procedures, and more importantly data sharing to eliminate conflicts caused by distorted or incomplete knowledge;

b. Competition involves opening markets to all actors to remove abuse of dominance. It helps to keep costs low and ensure that services respond to customer/beneficiary requirements;

c. Accountability involves holding the partners (public and private) responsible for results against agreed upon performance standards to ensure customer/beneficiary satisfaction;

d. Legality: Partnership needs a solid legal basis to create a safe environment for investors and a sound foundation for delivery of services. Without a legal basis, the accountability of partners becomes tenuous. Legality is ensured through the effective management of PPP processes and due legal processes;

e. Clarity and predictability: The partnership framework and the contract agreed upon must be as clear as possible to create a stable context for delivery of services and thus encourage investors;

f. Specificity means creating a specific partnership appropriate to needs and local context. To be successful, the partnership framework and options for private sector participation must be designed to address specific problems and circumstances;

g. Economic and financial sustainability: PPP is feasible to public and private sector partners if it is economically and financially sustainable. Economic sustainability can be affected by the economic activity the partnership generates. For example, using local labour and local materials stimulates new entrepreneurial activities and new opportunities in the informal sector hence triggering community support and creating
more demand in a particular locality. Financial sustainability depends on sufficient demand for services contracted out to sustain beneficiary willingness to pay or government’s acknowledgement to subsidize the service because those who cannot pay also need to be serviced;

h. **Flexibility** is essential in all partnerships because changes are likely to occur in PPP projects as they develop. In addition, external conditions can change as well. It is often difficult to predict these changes with certainty, especially where PPP is being implemented for the first time by a sector agency or municipality. Hence there is a need for flexibility;

i. **Continuous learning** means making conscious efforts and commitments to turn daily incidents and activities into “learning moments” or in other words “learning in action”. Since all actors in a partnership will go through this process of learning and discover new ideas and techniques and share them with other project stakeholders, the partnership progresses and grows to deliver service targets;

j. **Equity**: Explicit provisions are required in the partnership framework and in contracts to ensure that both large-scale and small-scale service providers deliver services by catering for the needs of poor communities as well as middle to high income communities. Some mechanisms that ensure equity in PPP include differentiated service levels, alliances with community-based organizations, flexible payment options, and empowerment of umbrella NGO advocacy groups to become monitors in service delivery;

k. **Inclusiveness**: This implies the removal of institutional constraints to enhance participation by beneficiaries (including poor and marginalized groups) in service delivery decision-making, policy shaping and enjoyment of benefits. It requires the use of participatory poverty assessment tools which is time consuming but pays off, and the results contribute to pro-poor planning and good governance in PPPs;

l. **Empowerment** means creating the necessary conditions to strengthen and develop emerging entrepreneurs, especially those in the informal sector, to participate in PPP competitive processes. It requires enhancement of legal status service providers and training them to participate actively in tendering and contracting processes as well as creating supportive institutional mechanisms for stakeholder organizations (especially at the community level) to perform oversight functions by establishing and applying agreed monitoring and evaluation indicators to support assessment and certification of service providers.
2.4 The Need for PPP in Ethiopia

Although PPPs have been rapidly growing in several countries in Europe, Asia, Latin America and parts of Africa, its implementation in Ethiopia has so far been limited. The situation is worse as divestiture and privatization seem to have hijacked most of the private sector interventions created by the government through the market-based approach articulated in the Plan for Accelerated and Sustainable Development to End Poverty (PASDEP), the Growth Transformation Plan (GTP) and other development plans.

In spite of the huge success achieved in divestiture and privatization, there is still a huge unmet demand for public infrastructure, agriculture and basic service in the country. According to “The Road to Private Sector Led Economic Growth” (June 2008), a strategy document developed by the PSD Hub, the government still controls 50 percent of the total value of production of medium to large scale enterprises, despite the privatization market-based approach and the successes achieved. Government dominance and monopoly in the industry and some service sectors is crowding out the private sector. Besides, the market-based approach has resulted in the crowding in of the private sector in the infrastructure and utility sectors where the incentives for private sector to invest and engage in the provision of those services are not attractive.

PPP arrangements in Ethiopia can undoubtedly establish the appropriate balance between the crowding in and crowding out business syndrome currently prevailing in the market-based approach to strengthen private sector development and ultimately bridge the demand and supply gap in infrastructure and service delivery. This is achievable in the short to medium term, depending on the type of projects prioritized and the way and manner projects are formulated and implemented to achieve win-win results for the public and private sectors as well as the citizens who are the ultimate beneficiaries. This arrangement can be developed and promoted in Ethiopia by putting in place a partnership framework that will facilitate the pooling of local innovation, efficiency, risk management, cutting edge technology and application of guiding principles from the private sector. The partnership also needs to be complemented by public sector authority, asset ownership, budget support, public education powers, capacity development support and application of relevant PPP guiding principles among other things, to achieve positive synergies. An illustration of how this works is shown in Figure 1 below, and demonstrated in the findings from the study in Chapter 3 of this report. It is worth noting, however, that for this model to work successfully, development
partners and the civil society need to lend support by contributing high-ended policy and regulatory advisory services, facilitation and transaction advice as well as tools and capacity development to kick-start the process.

For private sector service providers in Ethiopia, the PPP investment modality offers an opportunity to have access to public powers and competencies as well as significant influence on government decision-making with regard to urban development, infrastructure, service delivery, and other development activities. This is because in PPPs an all-inclusive planning and decision-making process is entrenched, clearly understood risks identified and shared, and functional capacities developed to maximize efficiency gains. Irrespective of the activity, area and/or project, international experience has shown that one crucial factor for PPP investment is whether the private partner can earn a profit from a satisfactory return on his investment or because there are sufficient public subsidies to make up for shortfalls in return on investments.

Other key advantages to the private sector are comprehensive preliminary public investments (which prevails in Ethiopia) and clear-cut planning decisions that safeguard investments, public guarantees that permit and back extensive borrowing, medium to long-term contracts that ensure good investment returns, and some basic safeguards (risk management plans) that are often agreed with public partners in partnership agreements, especially on risky projects, in order to hedge against unpredictable cyclical developments and potential risks.2

Figure 1: Model for PPP in Ethiopia

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3. FINDINGS OF THE STUDY

For any government to embrace PPPs fully as an alternative modality to creating wealth and stimulating growth as well as creating employment, there is the need to establish the relationship between PPP and key economic indicators and variables. The findings of this study have first and foremost attempted to highlight the relationship that exists between PPPs. Gross Domestic Product (GDP) and Employment. The relationship was established by drawing extensively from *A Study on the Determination of the Share of the Private Sector in Ethiopian GDP* (PSD Publication No. 14), to make subsequent justifications for PPP in the country. The findings also analyze data obtained from various institutions on existing and potential projects that can be implemented through PPP arrangements.

3.1 Overview of Ethiopia’s Economy

Ethiopia had an estimated population of 78.8 million, a per capita GDP of Birr 5,166 (472 USD) in 2009/10 EFY (forecast) and an average real GDP growth of 11.3 percent between 2003/04 and 2009. Of significant value is the fact that the economic figures showed a broad-based economic growth at a relatively similar pace, including the agriculture sector. “This impressive growth witnessed in real GDP since 2003/04 has, however, been accompanied by high inflation, as measured through the change in GDP implicit price deflators (IPDs) (estimated as GDP at current prices/GDP at constant prices * 100%)”.

In order to sufficiently highlight the contribution of PPP to the above mentioned variables, we will first of all draw on the share of the private sector in GDP with the view to indicating proposed areas of PPP potential for consideration.

<table>
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<th>Table 1: Country Statistics (2009-2010)</th>
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<tr>
<td><strong>Surface area</strong></td>
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<td><strong>Population</strong></td>
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<td><strong>Density</strong></td>
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<td><strong>Rate of urbanization</strong></td>
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<td><strong>Economy</strong></td>
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<td><strong>GDP (nominal) (2009)</strong></td>
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<td><strong>GDP real growth rate</strong></td>
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<td><strong>GDP (nominal) per capita (2009-2010)</strong></td>
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<td><strong>GDP - composition by sector</strong></td>
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<tr>
<td><strong>Agriculture</strong></td>
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<td><strong>Industry</strong></td>
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<td><strong>Services</strong></td>
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<td><strong>Literacy rate (adult &gt; 15 yr. old) 2009</strong></td>
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Source: Telecom Study Final Report, PSD Hub Study Report 5
3.2 The Private Sector and the Ethiopian Economy

According to the PSD Hub Publication No. 14, the share of the private sector in the GDP of Ethiopia at current prices was 84.8 percent in 2008-2009, considering the generally accepted definition of private sector as that part of the nation’s economy not controlled by the government. This figure has the dominance of the agricultural sector, and within that cohort the unorganized/household/informal sector which is often referred to in this document as informal sector.

Of this 84.8 percent share in 2008-09, private corporations accounted for 25.1 percent, Non-Profit Institutions Serving Households (NPISHs) 0.6 percent and the informal sector 59.1 percent, indicating that the bulk of the private sector lay within the informal sector. Within this informal sector, agriculture accounted for 48.1 percent and all other non-agriculture informal activities accounted for a mere 11 percent of the GDP. This appears to be somewhat low for a developing economy. The private sector share in GDP, excluding informal agriculture, thus came to 36.7 percent in 2008-09.3

In terms of trends, the public sector share to GDP has fallen short for the past five years, showing a 4.1 percent decline, while the private sector increased its share with about the same margin. Although there are differences in the contribution per share within the private sector in terms of private corporations as against the informal sector within private sector, the rapid rise in the total share of the private sector can be attributed to the faster growth in the private sector as compared to the public sector. This gives credence to the need to further develop appropriate frameworks and regulations that bolster innovative partnership arrangements between the public and the private sectors through Public Private Partnership (PPP) investments.

PPP investments would not only facilitate a win-win situation for all stakeholders, but would also have the potential to create value for achieving the current balance between crowding in and crowding out private sector, and eventually bridge the demand and supply gap in infrastructure provision and service delivery. The good thing about this arrangement is that it places emphasis on inclusive and shared growth where contributions from private, public, community beneficiaries, civil society and development partners are harnessed for development results, rather than pushing for private sector led growth.

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PPPs create value for the money of the taxpayer through optimal risk transfer and risk management and ensure optimum efficiencies through the integration and cross transfer of public and private sector skills, knowledge and expertise. Other key dimensions PPP bring to complement private or public sector led growth include alleviation of capacity constraints and bottlenecks in the economy through higher productivity of labour and capital resources in the delivery of projects, accountability for the provision and delivery of quality public services through performance incentive management, non performance regulatory sanctions, innovation and diversity in the provision of public services and effective utilization of state assets to the benefit of all users of public services.

It is worthy of note that the share of the private sector in the Gross Domestic Product (GDP) of Ethiopia in 2008-09 (excluding agriculture) was higher at constant prices than at current prices, showing clearly a lower inflation rate in the non-agriculture private sector and much higher inflation in the agriculture sector. If this gives us any indication for PPP investment direction, it probably suggests that exploring new partnership arrangements in the non–agriculture sector holds prospects for significant contribution to GDP even at current prices.

Another interesting aspect is that the share of public corporations in GDP was stagnant over the 5-year period from 2004-09 at about 8.6 percent, whereas private corporations increased their share of GDP by 3.9 percent points from 23.4 percent to 27.3 percent, which reinforces the fact that growth rates of GDP were much higher in private corporations than in public corporations. Given this basis, and coupled with the private sector value addition, the potential that PPP offers cannot be overemphasized.

### 3.2.1 Contribution of the Private Sector to Aggregate Employment

The *Study on the Determination of the Share of the Private Sector in Ethiopian Gross Domestic Product* (PSD Hub Publication No. 14) highlights that the contribution of the private sector to total employment stood at 38.7 million in 2008-09. Out of this figure, as many as 34.8 million were employed in the informal (including NPISH) sector, accounting for almost 90 percent of employees. Of these, 34.8 million were employed in the informal sector, 27.3 million or 78.6 percent in agriculture, with the balance 7.5 million working in non-agricultural activities.
An analysis of the share of the private sector in total employment in 2008-09, especially with regard to private corporations, indicates that less than 10 percent are employed by corporations with about 90 percent concentration in the informal sector. If we exclude informal agriculture, the share of the private sector in total employment comes to 25.2 percent.

If the growth rate of the private sector employment is high, the natural corollary is the increase in the share of private sector in overall employment over the years. This can be seen from the trend in shares of different institutional sectors in the overall employment. The share of private corporations and government in the total employment rose from 4.6 percent and 2.6 percent in 2004-05 to 5.8 per cent and 3.0 percent respectively in 2008-09. On the other hand, the share of informal sector employment has decreased from 91.5 percent to 89.7 percent during this period.

Within the informal sector, the share of agricultural employment has come down from 76.1 percent in 2004-05 to 70.6 percent in 2008-09. But non-agriculture employment by private corporations has risen from 15.4 percent to 19.1 percent. In contrast to private corporations, the role of the private informal sector and its labour-intensive nature had an employment share at 19.4 percent in 2008-09. What emerges from here is the relatively stable share of employment in the institutional sectors, with marginal upward trends in the shares in non-agriculture informal sector and private corporate sector. For a country considering an approach to further bolster its employment possibilities, our findings from the PSD Hub Publications 14 and 05 indicate that drawing on the institutional frameworks controlled by government and the agility of the private sector, coupled with proper design and structuring, PPP investment arrangement can provide the necessary sustainable employment conditions.

It is also worthy to note that the private informal sector and its labour-intensive nature play significant roles in employment creation. Recognising and integrating them in potential PPP investment arrangements would undoubtedly contribute immensely to sustain employment creation.

3.2.2 Addressing the Challenges of Achieving MDGs through PPP Investments

A cursory review of the Ethiopian 2010 MDGs Report⁴ reveals that Millenium Development Goals (MDGs) are well placed in the national development context of Ethiopia. The report indicates that massive investments, which

⁴ Ethiopia MDGs Report for 2010: Trends and prospects for meeting MDGs by 2015; FDRE, MoFED, UNCT
could be considered as best practices to address the challenges of achieving the MDGs, have been carried out in both physical and human capital formation. However, the report admits that there are still challenges for the sustainability of growth and vulnerability of the poor to external shocks resulting from climate change and global price variations in exports and imports.

To address sustainability at a macro level through structural transformation of the economy and greater participation of the private sector, the report, among other remedies, postulates a medium-term strategy by tackling the dependence on rain-fed agriculture through the expansion of small and large scale irrigation and strengthening public private partnership. This policy decision was a good basis for this study to explore the potential for PPP investment in small and large scale irrigation projects in contribution to achieving MDG 1.

To improve the urban living environment and urban poverty, the report also confirms that the government has introduced a number of interventions including a reduction in urban unemployment to below 20 percent, providing support for small and micro enterprises through various programs such as micro-finance institutions and micro-enterprises, pursuing improved urban land management, the implementation of solid waste disposal and water-borne sewage disposal systems as well as improving rural-urban linkages. These interventions, which the government intends to pursue vigorously, create opportunities for City/Urban governments to engage Small and Medium Enterprises (SMEs) and businesses for potential PPP investments in contribution to achieving MDG 7.

In tandem with these interventions for MDGs 1 and 7, the report further identifies proper targeting of low income groups, especially for housing projects, higher education, skills development, effective policy prescriptions and political commitment as means to achieve MDGs in the next five years.

3.2.3 Existing PPPs in Ethiopia

Contrary to the belief that PPP is non-existent in Ethiopia, the findings illustrated in Table 2 below show that 50 percent of agencies in private and public sector, development partner agencies and AACCSA are piloting one form of PPP or another. The scope of the PPP initiatives cover housing, construction of side road pavements, dry waste management and recycling services, agro and food processing, irrigation for small-scale farming, management of Addis Ababa City Government Exhibition Centre, textile and garment processing, prepaid metering and unified metering. Apart from
the irrigation project executed through a PPP management contract and the Addis Ababa City Government Exhibition Centre managed through a PPP management agreement, the rest of the pilot initiatives are service contracts. This is not far from the normal practice in PPPs because service contracts serve as the entry points and thereafter, when confidence is built by partners, they take up management and lease contract agreements. The Water and Energy Ministry and the Addis Ababa Chamber of Commerce and Sectoral Associations can therefore be commended for taking up the challenge of launching into management and lease PPP agreements which have more investment responsibilities than service contracts. The two projects have actually been considered as benchmarks for replication in the selection of potential PPPs.

Table 2: Data on Existing and Potential PPPs in Ethiopia

<table>
<thead>
<tr>
<th>Institution/Agency</th>
<th>Existing PPP Project/Type</th>
<th>Potential PPP Project/Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Micro and Small Enterprises Development Agency</td>
<td>- Condominium Housing - Pavement of side roads - Textile, Garment and Food (fruit) processing via service contract</td>
<td>- Bamboo processing and bamboo panelling of houses - Production and supply of concrete poles via Youth and Energy Project</td>
</tr>
<tr>
<td>2. Ministry of Urban Devt. and Construction</td>
<td>Housing Delivery Service Contract</td>
<td>Housing Delivery via Service Contract and Equity Financing</td>
</tr>
<tr>
<td>3. Ministry of Mines</td>
<td>None</td>
<td>Kalub Gas</td>
</tr>
<tr>
<td>4. Ministry of Communications and Information Technology</td>
<td>Unified billing of water, electricity, telephone services on pilot basis via service contract</td>
<td>ICT Centres (Management)</td>
</tr>
<tr>
<td>5. Ministry of Culture and Tourism</td>
<td>None</td>
<td>To be decided by Tourism Board</td>
</tr>
<tr>
<td>6. Ministry of Water and Energy</td>
<td>Irrigation project – Community-Public-Private (Mgmt. contract)</td>
<td>Scale up small-scale irrigation project</td>
</tr>
<tr>
<td>7. Ethiopian Roads Authority</td>
<td>None</td>
<td>Toll Road, Road Maintenance and Mgmt. Contract</td>
</tr>
<tr>
<td>8. Ministry of Industry</td>
<td>None</td>
<td>Agro processing, Footware and Garment production</td>
</tr>
<tr>
<td>9. Ethiopian Investment Agency</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>10. Ethiopian Electric Power Corporation</td>
<td>Prepaid Metering pilot project via service contract.</td>
<td>Power generation and distribution may be potential after 5 years. First phase of study on reforms is under review to address failed PPPs</td>
</tr>
<tr>
<td>11. Ministry of Agriculture</td>
<td>None (land is leased to private investors long-term based on crop types)</td>
<td>Undecided</td>
</tr>
<tr>
<td>12. Privatization and Public Enterprises Supervising Agency</td>
<td>Hilton Hotel, Matador Addis Tire, Ambo Mineral Water, and a few farms — under lease management and/or joint venture arrangements</td>
<td>None – Divestiture success rate of 90 percent is high so agency wants to sustain it</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>13. World Bank</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>14. UNDP/UNCDF</td>
<td>Waste management (but not well structured)</td>
<td>Road construction, Waste management and recycling</td>
</tr>
<tr>
<td>15. GIZ</td>
<td>Food processing (sun dried tomatoes), construction (enhance quality production and use of cobble stones and steel works), sustainable coffee production and marketing</td>
<td>To be decided after pilot review</td>
</tr>
<tr>
<td>16. Construction Contractors Association of Ethiopia</td>
<td>Road and Housing – Service contracts</td>
<td>Toll Roads, parks and gardens, municipal waste services</td>
</tr>
<tr>
<td>17. Chamber of Commerce – Addis Ababa (AACCSCA)</td>
<td>Exhibition Centre – AACCSCA (Management Contract with Addis Ababa City Government)</td>
<td>Exhibition Centre (replication in other cities and regions)</td>
</tr>
<tr>
<td>18. Chamber of Commerce – Ethiopia (ECCSCA)</td>
<td>None</td>
<td>Management of Information Technology Centres</td>
</tr>
</tbody>
</table>

The road, electricity, tourism, agriculture and petroleum sectors have not initiated PPPs. The respondents from these sectors assigned various reasons for the absence of PPPs. These included lack of clear cut regulations and directions, high investment inputs, feeding tariff (in relation to electricity generation and distribution). In the case of tourism, for instance, it was disappointing that the sector ministry had not embarked on any PPP for tourism and historical attractions. When pushed for the underlying reasons, the respondents in the ministry explained that there was an ongoing restructuring that would lead to the setting up of a Tourism Board. It is envisaged that the Board will prepare a master plan and a strategic plan for tourism activities.

In the agriculture sector, there were some expectations for PPPs but feedback from the Ministry of Agriculture showed that there is a deliberate regulation to push the sector towards promotion of export-oriented crops over long-term investment agreements. Accordingly, land is leased by the government to private commercial farmers based on crop types ranging from sugar cane, which is leased for 35-40 years, to tea that is leased for life after five years cultivation. The existing arrangement seems to suggest that the government is more inclined towards pushing more investment responsibilities to private commercial farmers rather than pooling resources together in a true partnership.
fashion. In the petroleum sector, PPP intervention is lacking because of high investment requirements, high risks of upstream activities and over allocation of risks to the private sector and the notion that infrastructure in the industry is best handled by private sector. In the construction sector, GIZ has implemented its concept of PPP under its development partnership framework by strengthening institutions, improving workmanship and skills of contractors and promoting investments in the form of joint ventures between German and Ethiopian companies. In the same vein, GIZ has improved sustainable coffee, bamboo and fruit production and marketing as well as processing of sun dried tomatoes by promoting investment PPPs between GIZ, and private companies in Germany and other European countries and farmers’ producers’ cooperatives.

The studies actually revealed that some form of PPP arrangement exists as a bridging arrangement between the transfer of state assets from public ownership and management to full scale privatization. The PPP arrangement exists as management and lease contracts, but this has not been realized by the government as an entry point for promoting PPPs. The underlying reason is that the government sees the bridging arrangement as part of the normal privatization process. The bridging arrangements could be explored and developed to become full PPPs to enhance synergy, better participation and mutually beneficial long-term partnerships among public and non public actors.

When respondents were asked to identify some potential PPPs, they mentioned a number of projects. These are catalogued in the table under discussion. The projects are also categorized under various sectors and analysed in Chapter 3.

3.2.4 Partners Involved in Existing PPP Initiatives

Partners engaged in the pilot PPPs are civil works contractors, SMEs, small-scale commercial farmers (with half hectare leased plots), federal government and regional government agencies, corporations, city/urban governments, the Addis Ababa Chamber of Commerce and Sectoral Associations (AACCDSA), commercial banks and development partners. Although interviews were not held with the banks, some of the public agencies in the housing sector identified commercial banks as active partners. In all the initiatives, it was observed that there was some form of contractual arrangement between the public sector and private investors, and/or service providers. It was also insightful to note that development partners were more aligned with government in terms of their role in PPPs. The figure below presents the partners and the contractual relationship described in this section.
3.3 Potential PPP Projects, Constraints and Challenges

In this section the potential PPPs identified in Table 2 are categorised under the industry, agriculture and service sectors. Table 3 below gives a summary of potential PPP investment projects, and the anticipated constraints and challenges. Descriptions of the projects in each sector are discussed in detail.

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Potential PPP Projects (Investments)</th>
<th>Constraints and Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>1. Small Scale Irrigation farming (half hectare plots)</td>
<td>• Weak capacity to perform economic and financial analysis for PPPs</td>
</tr>
<tr>
<td></td>
<td>• Horticulture</td>
<td>• Misunderstanding and mixed understanding of PPP</td>
</tr>
<tr>
<td></td>
<td>• Vegetables &amp; fruits</td>
<td>• Access to land</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Access to and cost of capital</td>
</tr>
</tbody>
</table>

Table 3: Potential PPPs, Constrains and Challenges
| Service | Housing • High rise type  
• Low income (bamboo type)  
2. Municipal Dry Waste Management & Recycling  
3. Exhibition Centre (Replicating in other regions and cities)  
4. ICT Centres  
5. Upscaling Unified Billing (in telecom, water & electricity)  
6. Toll Roads  
7. Road Maintenance  
8. Parks and Gardens | Regulations on options and modalities for PPP are not clear  
• Inadequate expertise to develop and implement guidelines for different PPP scenarios  
• ICT Policy allows for PPP, but weak implementation. (PPP ICT study is ongoing)  
• Regulation on capital threshold for local contractors is disincentive | Structure, systems and business culture are not robust enough  
• Regulation on capital threshold for local contractors is disincentive  
• Incentives for private sector participation in telecom industry is unattractive | Weak skills to adapt and apply new technologies  
• Inadequate technical and management skills (Inadequate strategic experts)  
• Weak capacity to design PPP options  
• Poor contract negotiation skills  
• Lack of confidence |
| --- | --- | --- | --- |
| Industry | Power Generation | Policy allows for PPP, but regulation on feeding tariff is big obstacle  
• High investment capital threshold is crowding out local companies | National Petroleum Authority is not yet established  
• Institutional frameworks are skewed towards privatization | Lack of high tech skills  
• Weak manufacturing skills for equipment and accessories  
• Lack of confidence  
• Mindset constraint  
• Insufficient awareness of PPP options and modalities |
| 2. Upscaling Pre-paid Metering  
3. Garment  
4. Leather shoe production  
5. Agro-processing | | | |

It is ironic that tourism is not among potential PPPs identified in Ethiopia despite huge expectations from the consultant and the client. As explained in the previous section this is due to restructuring and the lack of readiness on the part of the sector ministry to promote PPP investments. To address
concerns of the proponents for PPP in tourism, the consultant reviewed documents on PPP in the tourism sector in Kenya which was availed by the sector ministry. Analysis of the documents, however, indicated that apart from permissive regulations put in place by the government to promote local content, the tourism sector is operated on purely private basis by service providers through a value chain approach. The real PPP indicators could not be verified in the documents, most of which had been presented by Kenya in international tourism conferences.

PPP in commercial agricultural production ventures (on 10 hectares or more plots) is also missing, due to indecision by the Ministry of Agriculture. The most potentially viable agriculture related PPP is the scaling up of on-going small-scale commercial irrigation farming discussed below.

3.3.1 Scaling Up Potential Small-Scale Irrigation Farming (Agriculture Sector)

As described earlier in the existing PPPs, this form of PPP is an arrangement that would involve government (Ministry of Water and Energy), farmers (holding minimum of half hectare leased plots) and a private company with expertise in operation and management of irrigation canals and pumps as well as marketing. The federal government will allocate farming plots to more small-medium scale commercial farmers in regions. Farmers will access irrigated water supplied through either pumps or canals to achieve specified crop yields. In tandem to this, the government will procure and enter into a partnership agreement with a private company which will provide management support to the farmers by operating and maintaining the irrigation pumps and promoting access to markets locally and overseas. Crops could include all year grown ones such as horticulture, vegetables and fruits. In terms of prioritization, this PPP can be classified as a priority because it has the propensity of demonstrating early results within a contract period of 3-5 years. The other reasons adduced include the following:

- There are low risks involved and the risks can be shared and managed by all the partners;
- Commercial farmers can acquire technical, management and technology skills transferred by the private partner;
- Women and youth entrepreneurs would be integrated into the scheme to respond to gender objectives;
Management contract is feasible for the private partner while the farmers can enter into lease agreement with the government; and

Studies on PPP in irrigation have been conducted and the reports can be used to inform successful planning and implementation.\(^5\)

### 3.3.2 Service Sector

#### 3.3.2.1 Housing

In the service sector, housing features strongly as another viable potential PPP. This is because information gathered from the field suggests that there is huge demand for both high-rise and low-income housing. According to the Ministry of Urban Development and Construction, there is a need to increase the housing stock to over 500,000 units in 5 years. PPP arrangement in housing could be formulated and structured as a multipurpose partnership scheme involving the federal government, construction contractors, commercial banks and beneficiaries. Two schemes of PPP investments are proposed: In the first scheme, the federal government could keep its engagement with construction contractors via the traditional 2-3 years service contract to build housing units according to specifications. To finance the scheme, the government needs to enter into a smart partnership arrangement with commercial banks that have committed themselves to finance up to 60 percent of the cost. The second scheme would be an agreement between the government and beneficiaries who are expected to raise the remaining 40 percent capital investments through deposits before and during the construction period. The field data indicates that interest has been shown by some beneficiaries to deposit up to 100 percent of the cost allocated to them before construction is completed. Discussions with government respondents, however, confirmed that the financing arrangement is an innovation which requires a well-structured investment plan, plus regulatory guidelines in which Government-Banks and Beneficiary Owners take up risks and responsibilities and share incentives under a mutually beneficial agreement.

#### 3.3.2.2 Municipal Dry Waste Management and Recycling

Municipal dry waste management and recycling is a viable and potential PPP in Ethiopia because it combines labour-intensive strengths of private entrepreneurs and their innovation, local technology and community mobilisation skills with government authority, budget support, mass education skills and regulation enforcement. Ongoing pilot projects by UNDP have shown huge success, and that is why there is a need to benchmark and scale it up in other communities and regions. Municipal waste and recycling can

\(^5\) Report is available, but efforts by the consultant to access it failed due to bureaucracy.
be unpacked into value chain service by structuring and sequencing the management into source separation: collection, recycling, transportation and treatment and/or land filling. PPP investment arrangement can be brokered between a city/urban government and private contractors (including formal and informal entrepreneurs) by using service contracts where city/urban governments can shoulder greater part of the capital and operating investment risks. On the other hand, the local governments could enter into franchise agreements with private service providers where local governments are cash strapped, but private service providers have the capacity to manage the investment risk within a medium to long-term contractual framework. Municipal dry waste management and recycling projects being carried out in partnership with UNDP and others are briefly documented under section 3.3.4.

3.3.2.3 Exhibition Centre Management

Information shared by the Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA) and verified by the local consultant for this study, show that Exhibition Centre Management is one of the flagship projects implemented successfully by AACCSA. The success has been achieved as a result of a management contract agreement between the Chamber of Commerce and the Addis Ababa City Government Exhibition Centre and Market Development Enterprise (ECMDE). Improving from an annual turnover of Birr 2.3 and 2.5 million to Birr 13 million, the profit after tax has correspondingly increased from Birr 670,000 to about Birr 5 million. This increase in profit can be attributed to prudent management on the part of AACCSA and the fact that the PPP management contract has run for six years without interruption. The current contract will remain in force for another four years. There is an incentive package in the contract which allows the two partners to share dividends equally on the basis of the income statement. The partners have developed mutual trust and they all agree that the arrangement is a successful venture. Feedback from field interviews also shows that customer satisfaction has been enhanced.

It is believed that the partnership arrangement can be benchmarked within the same service sector elsewhere or some of the aspects of the contract (especially the incentive package) can be introduced into other PPP contract arrangements in other service sector areas. This is why exhibition centre management has been selected, and hence can be ranked among the most viable potential PPPs in Ethiopia.

6 ECMDE is a public enterprise established via regulation by the Addis Ababa City Government. One of its major objectives is preparing and staging exhibitions and bazaars which help to enhance and promote the economic sector of the City Government and the country.
3.3.2.4 Upscaling Unified Billing (for telecom, water and electricity)

This PPP pilot project is run at the national level between the federal government (Ministry of Communications and ICT) and private service providers to enhance a unified billing system for water, electricity and telephone services. Payment is done electronically and the fee for service providers is generated from transaction charges under a PPP service contract arrangement. Information from the ministry indicated that it is operating successfully, but more information is needed on cost benefit analysis and contractual relations to ascertain viability for its upscaling.

3.3.2.5 ICT Centres

The Ministry of Communication and ICT is conducting a study on PPP for ICT and hopes to identify 3-5 projects through the study. A build and operate modalities will be explored in the PPP. According to the analysis of information availed, there is scope for partnership relations with big local companies and international companies. SME opportunities will also be identified in the design and formulation stages. It is premature to confirm the viability of PPP in ICT Centres in this report because of the ongoing feasibility studies. Report from the studies may become the basis to support the ministry to design and formulate the PPP in the sector. It is important to state, however, that there is a lot of experience on PPP ICT Centres in Ghana where over 70 centres have been established across the country, and they are being managed through contractual arrangements between local service providers and the government.

3.3.2.6 Parks and Gardens

Park and garden management is a new area for PPP arrangement in Ethiopia, but it is a viable potential that can be developed and implemented within the short term. It involves less risk, less capital and minimum technology inputs. It is also one of the few PPPs that can fully satisfy employment creation benefits for the poor and vulnerable. It is also a type of PPP that can be formulated and implemented using lessons from the exhibition centre managed by AACCSA. A management contract can be entered between the government at all levels and service providers.

3.3.2.7 Road Maintenance and Toll Roads

Analysis of the consultant reveals a lot of excitement for this potential project. The project requires huge capital for construction and installation of facilities. It also requires a build, operate and transfer arrangement with
long term investment returns. Considering the fact that taxes on goods and services are already high in Ethiopia, toll road may exacerbate road transport costs. The social and other implications of road tolls on other sectors of the economy need to be verified through detailed feasibility studies. In the light of these arguments, it is proposed that this potential PPP be rolled out in the medium to long term.

3.3.3 Industry Sector

3.3.3.1 Leather Shoe Production

Information obtained from respondents and crosschecks made through strategic conversations show that this is a viable potential PPP which needs to be designed and developed to harness the full strength of local entrepreneurs in the industry. Detailed risk analysis is, however, needed to ascertain the type of PPP option suitable for this venture. Nonetheless, it is possible to formulate and implement PPP in leather shoe production in the short to medium term.

3.3.3.2 Upscaling Pre-paid Metering

Pilot test runs seem to suggest that there are bottlenecks with the operational performance of the PPP. Among these are faulty meters, technical losses due to theft and weak local manufacturing skills for meter equipment and accessories. There is the need to investigate the risk sharing and management responsibilities under the PPP. Besides, the shared partnership arrangement between the government and the service provider needs to be analysed to check its suitability and sustainability.

3.3.3.3 Power Generation

The analysis shows that this potential PPP can only be realized after five years due to ongoing reforms in the industry as well as the review of a study conducted for the sector.

3.3.3.4 Garment Production and Agro-processing

This industry is dominated by local entrepreneurs, most of whom are women. PPP is possible in the short term, but proper design of investment modalities is paramount. The GIZ PPP development model, which involves networking international companies to add value to local production processes, needs to be explored further and implemented to promote the sector.
3.3.4 Some Existing Regional PPPs Documented in Brief

3.3.4.1 Hula Bamboo Project

**Background:** Hula Bamboo Project is a project set up to supply bamboo to the domestic and, in the long-term, to foreign markets. The project is located in the Southern Nations and Nationalities Regional State in a locality called Hula in the town of Hagere Selam, 366 km from Addis Ababa.

**Partnership:** The project involves the following entities as partners.

- **Farmers’ cooperative.** This cooperative is formed by 115 farmers from the local community to supply the formal market with bamboo harvested from their individual land holdings.

- **Marketing and Cooperative Office.** This is an organ under the Regional Government responsible for facilitating activities of cooperatives and establishing market linkages.

- **GIZ:** Through the private sector component of the Engineering Capacity Building Program (ecbp), it supports the project in finding and establishing market linkages, quality assurance of bamboo and knowledge transfer.

- **Adal Plc:** This is the company that *ecbp* was able to identify in its market linkage exercise for the project. Adal, located in Addis Ababa, is engaged in wood works, particularly bamboo-based products such as doors and floor tiles.

**Activities and Results:** Ecbp in cooperation with the Cooperative and Marketing Office of the regional government assisted in the formation of the Farmers’ Cooperative (called Edget Minch Bamboo Cooperative). The *ecbp* also brought together Adal and the cooperative to negotiate and make a contractual deal for the supply and purchase of bamboo. As part of the scheme to transfer knowledge to the cooperative, training was given to the farmers on basic cooperative management, pre and post harvesting techniques of bamboo.

A pre-processing plant was set up at the locality with financial support from *ecbp*/GIZ and contribution by Adal. This situation has helped scale up the value added by the cooperative to the bamboo supply and to further augment the knowledge transfer scheme.
The positive results achieved from the partnership arrangement of the project include the following:

- Bamboo, which was traditionally used for fencing and firewood, has now become cash earner;
- Bamboo standards (on the basis of which prices are determined) are now set, enabling cooperative members to attain value for money for their harvests;
- Cooperative members have attained basic technical and administrative skills.

**Challenge:** The contractual agreement between the cooperative and Adal has been strained, leaving the market linkage stalled for the time being.

### 3.3.4.2 Africa Juice Tibila Share Company

**Background:** Africa Juice Tibila S.C, a subsidiary of the Dutch company Africa Juice BV, was established in 2009 in a Joint Venture (JV) arrangement with the Ethiopian government. The objectives of the company are:

- Development of tropical fruit plantation, namely passion fruit (core fruit for the company), mango, papaya and guava;
- Processing and exporting;
- Implementation of outgrowers’ scheme.

The company has set up a juice processing plant and exports fruit juice to Europe. The total land targeted for development is 1,000 hectares and the land currently developed is 200 hectares. The company is located in a locality called Tibila, 145 km from Addis Ababa.

**Partnership:** The following partners are involved in the activities of the company.

- The share company and the parent company, Africa Juice BV;
- The Ethiopian Government through the JV arrangement – the government’s contributions to the JV are farms and office buildings;
- Out growers – 66 out growers currently have contractual agreement with the company to supply passion fruit to the company. Passion fruit is currently planted by out growers on 13 hectares, and it is planned to raise the area to 52 hectares in the near future. The out growers also have share in the company.
• GIZ and ICCO: These NGOs make contributions in the form of developing agricultural infrastructure (irrigation system) and capacity development activities of out growers.

Results
• There is a dramatic increase in the earnings of out growers – each out grower earns about Br 2,000 a month from supply of passion fruit to the company.
• 500 people are employed on the company’s plantation – 70% of whom are women. (One of the major activities at passion fruit plantation is pollination carried out manually, and this being a delicate task requires patience and is best handled by women – thus a pro-women project). At full capacity, the company would need 3,000-4,000 people working on its plantation.
• Technical assistance provided to out growers would constitute the basis to transform their livelihood in the long-term. Noteworthy is the drip irrigation that is being introduced in the plantations by the partners involved.

Challenges
• Setting the right mindset of farmers – the farmers were suspicious that project design and plan would not materialize; and establishing mutual trust.
• Tendency by farmers to switch to other types of crops.

Prospects
• There is government interest to involve more farmers in the growers’ scheme.
• The Oromiya Regional government has plans to bring about 8,000 hectares of land in the locality under irrigation scheme.

Lessons Learnt
• Project design and implementation need to take into account grass roots situation, and hence the need to adopt the appropriate approaches by all stakeholders.

3.3.4.3 Solid Waste Management Project in Bahir Dar

Background: Solid waste management in Bahir Dar used to be carried out by the City Administration. The Administration had difficulties in transporting and disposing the solid waste effectively and efficiently. The situation led to the decision by the City Administration that the activity needed to be outsourced. A partnership was thus forged with a private limited company called Dream Light Plc for solid waste management and recycling in Bahir Dar.
**Partnership:** The following partners are involved in the activities of solid waste management and recycling project.

- *Dream Light Plc:* The private limited company established by 13 young university graduates undertakes the collection, transportation and disposal of dry waste and awareness creation among the community. The service fee paid by the community is the source of revenue for the company.

- *Bahir Dar City Administration:* The Administration financed (in the form of loan) the seed capital required for the project to take off. It is also involved in awareness creation, enforcement of rules and regulations, and street cleaning.

- *UNDP:* Provides financial assistance.

- *GIZ:* On the basis of an agreement being finalized, GIZ will support the company in the recycling phase of the project with particular focus on briquette production and introduction to the community.

- *UNEP* and a civil society called *Forum for Environment* are involved in technical and financial assistance for integrated waste management plan.

- The *Regional Bureaus for Health and Environment Protection* make contributions to the project in their respective areas.

**Results**

- Solid waste collection, transport and disposal are currently carried out in a more effective and efficient manner leading to a much cleaner Bahir Dar.

- The project has provided employment opportunities for 300 people – 60% of whom are women. More employment opportunities will open up when the project’s second phase of recycling (comprising of briquette, bio gas and compost production) becomes operational in a few months.

- Community awareness has been raised resulting in about 50% meeting their obligation of making service fee payment.

- Adoption of technologies for recycling project.

**Challenges**

- The policy that existed (at the time of forging the partnership) did not permit the involvement of a privately owned company in an activity
that was the domain of the City Administration. Furthermore, giving loan by the administration was not permitted. The commitment that the situation demanded was quite a challenge.

- Dream Light Plc has not been profitable, preventing it from repaying its loan to the City Administration. (This is expected to change when the recycling phase becomes operational)

**Lessons Learnt**

- The need for great commitment by politicians and city administrators to forge partnerships in such projects.
- The project has set an example for others – replication efforts are underway in some cities in other regions.

### 3.3.5 Policy, Legal, Institutional and Operational Constraints for Potential PPPs

#### 3.3.5.1 Policy and Legal Constraints

Generally, the study analysis indicates with a sense of high certainty that there is already a policy provision in the various sectors for PPPs. In fact, it is on this basis that development partners such as UNDP, UNCDF, GIZ and some government agencies have made bold attempts to pilot PPPs. As a matter of fact, it is on this same basis that UNDP has stressed under its partnership strategy in the CPAP (2007-2011) to support formulation and implementation of PPPs. In addition, it is the same reason that has committed the organization (in the same document) to create a forum and/ or platform to address issues arising from the implementation of PPPs. GIZ’s innovative development partnership/ PPP strategy also stems from the policy thrust.

The analysis is supported by some government agencies, which indicated in their responses that policy on PPP exists, but capacity to analyse PPP modalities and implement different contractual arrangements is weak. These agencies, including the Ministry of Water and Energy, Ministry of Communication and ICT, have taken bold steps to initiate studies on PPP in irrigation as well as PPP in ICT. The reports on these studies are under review to address prevailing bottlenecks.

It is, however, clear that regulation on options and modalities for PPP is not clearly defined in all the sectors. For instance, it was discovered that there are no regulations which allow private contractors or companies to use legitimate government contracts as guarantees for loans. The capital
threshold for local contractors is a critical incidence that was flagged by a lot of respondents during the data collection activity. Indeed, it was confirmed as one of the key reasons responsible for the crowding out of local companies in development interventions. Inadequate expertise to develop and implement policy/regulatory guidelines for different PPP scenarios is another challenge identified. In the case of power generation, which was identified as a potential for PPPs, the Ethiopian Electric Power Corporation shared their frustration about the regulation on feeding tariff which has become a big obstacle to attracting private investors.

3.3.5.2 Institutional Constraints

Institutions in most PPPs are there to strengthen and promote permissive regulations and establish the right incentives for the private sector to engage with government in infrastructure provision and service delivery. However, the findings and analysis of the study show that there is mixed and/or misunderstanding as well as insufficient awareness of PPP as a concept. For this reason, there is weak capacity to perform economic and financial analysis for PPPs to help allocate and manage appropriate risks. Besides, the structure, systems and business culture of actors in both the public and private sector are not robust enough to push for win-win PPPs. A few critical incidents were cited by respondents. In the telecom industry it was stated emphatically that the incentives for private sector participation was unattractive. The absence of a National Petroleum Authority to regulate oil and gas ventures was also highlighted. Within the private sector, the regional structures of the Ethiopian Chamber of Commerce and Sectoral Association were observed (during the validation workshop) to be weak, despite the fact that an appreciable number of SMEs and businesses have signed on as members. By and large it was observed that the existing institutional frameworks are skewed towards privatization. SMEs and businesses are also not able to access jobs in the open and competitive privatisation market system due to weak structures. Transformational leadership is needed to tune minds and hearts towards PPPs.

3.3.5.3 Operational Constraints

The operational constraints which could derail the formulation and implementation of potential PPPs are access to land, access to and cost of capital, weak skills to adapt and apply new technologies and weak manufacturing skills for equipment and accessories. In addition, inadequate technical, management and strategic advisory skills were identified. One cross cutting constraint is poor contract negotiation skills on the part of both the public and private partners. These challenges have culminated in lack of confidence to pursue and promote PPPs.
3.3.5.4 Key Partners for Potential PPPs, Anticipated Challenges and Opportunities

a) Key Partners for Potential PPPs

The table presented below shows key partners that are likely to participate in dialogue, decision-making, development, design, implementation and monitoring of potential PPP projects. The partners cut across different shades of opinion and they are representative enough to satisfy the principle of inclusiveness in PPP processes. As explained in Chapter 2 of this report, relationships in PPPs are not limited to only the public and private parties but encompass actors from the civil society which play promotion, mobilization and oversight roles as well as development partners that provide technical assistance support and facilitate policy and regulatory dialogues. For these parties to work in partnership arrangement and play their roles effectively, there was the need to review and analyse the anticipated challenges they may face in formulating and implementing potential PPPs. Table 4 below presents the findings on anticipated capacity challenges for different partners in the development and implementation of PPP projects.

**Table 4: Key Partners for Potential PPP Projects**

<table>
<thead>
<tr>
<th>PPP Partners</th>
<th>Public sector</th>
<th>Private sector</th>
<th>Civil society</th>
<th>Development agencies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Federal and Regional Government Officials</td>
<td>Chambers of Commerce – ACCSA &amp; ECCSA</td>
<td>Beneficiaries and Users</td>
<td>Donors</td>
</tr>
<tr>
<td></td>
<td>City Government Officials</td>
<td>International Companies</td>
<td>Community-based Organizations</td>
<td>International NGOs</td>
</tr>
<tr>
<td></td>
<td>Politicians and Decision-makers</td>
<td>Local Companies</td>
<td>Representatives/Leaders of the Poor</td>
<td>International Civil Service Organizations</td>
</tr>
<tr>
<td></td>
<td>Interested Parties at Higher Levels of Government</td>
<td>Small and Medium Scale Enterprises</td>
<td>Non-governmental Organizations</td>
<td>Charity Organisations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Informal Service Providers</td>
<td>Unions</td>
<td>Foundations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Commercial Farmers</td>
<td>Consumer Protection Agency/Associations</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Farmer Cooperatives</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Construction Contractors Association of Ethiopia</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
b) Anticipated Challenges

i. Public Sector

The role of the public sector in PPPs has been articulated very well in Figure 1 of Chapter 2 in this report. It has also been established that the institutional framework in most public institutions is skewed towards privatization interventions. The public sector thus requires adequate capacity to realign itself towards PPPs. A lot of training in PPPs and transformational leadership would help to improve public sector skills.

The public sector has the authority and regulatory powers as well as the political will to implement PPPs. To go through a full PPP project cycle, based on steps recommended in this report, they need technical and operational capacity to design and implement PPPs. They also need capacity to develop ToR for the formulation of policy, legal and regulatory guidelines, and possibly the promulgation of a White Paper or Blueprint on PPPs which will set the steps for selection, prefeasibility, detailed feasibility, procurement and contract management. This capacity is very crucial in the face of contrary views expressed by some government agencies for new policy and regulatory framework on PPPs.

ii. Private Sector

It has also been established that the private sector service providers have direct contractual relationships with the government during the implementation of PPPs. In addition, they are also required to account for their performance to users and beneficiaries of services provided by them. Customer satisfaction or dissatisfaction is a key indicator that helps them to be efficient and accountable. For them to perform their role as partners they need capacity to master PPP concepts, benefits and associated risks. They also need capacity to do proper bookkeeping, cash flow analysis, investment planning, tendering, and build negotiation skills and other related contract management responsibilities. The acquisition and application of these skills can be provided through training and implementation of concrete partnership projects under the principle of empowerment and continuous learning. Fixing these capacity challenges within a PPP arrangement may help the private sector in Ethiopia to reduce tax related constraints which they flagged during conversations. In the case of business associations (AACCST, ECCSA) which also serve as advocates, the lack of exposure to success stories on PPP and inability to participate and learn from successful examples is seen as a hindrance to championing PPPs. Leaders of these two associations need
continuous learning through exposure visits to strengthen them to become very competent in their advocacy works.

iii. Development Partners
Development partners play catalytic roles for the public sector, while keeping an eye on whether PPP is achieving, among other things, economic, social and poverty related objectives. The partners need capacity to distinguish between PPP and Privatization so that they can influence government regulations on PPPs. Development partners are known for their negotiation and advocacy skills. These skills need to be sharpened and complimented with PPP brokering skills so as to support the promotion of PPPs.

iv. Civil Society
Although the study could not interact with organized groups from the civil society, strategic conversations with individual citizens, especially users and beneficiaries, revealed that they need confidence building skills to check and demand feedback for lapses in service delivery and infrastructure provision. It was also established that they need to be sensitized on the concept and implications of PPPs. To support the civil society to perform meaningful roles in PPP, there is the need to establish and strengthen a consumer protection association or agency in Ethiopia. Countries making good strides in PPP are propelled by consumer protection agencies which are constituted basically by users and beneficiaries but registered to become legal entities.

c) Opportunities for PPPs

Despite the challenges, a number of opportunities which can be harnessed and developed as entry points for potential PPPs have been identified. The opportunities include existing policy, legal, political and administrative instruments, mechanisms and platforms. Among the opportunities identified are the following.

- Enabling development frameworks including the PASDEP, GTP, Sector Proclamations, UNDP - CPAP, GIZ Country Programme and policy provisions available in various sectors lay the basis for PPP; [The CPAP 2007-2011 makes firm commitment for UNDP to support PPP implementation in Ethiopia in two aspects: (a) formulation and implementation of PPP projects and (b) establishment of a forum to discuss all issues and challenges emanating from the implementation of PPP projects.]
• The contribution of the private sector (formal and informal) to GDP and employment creation, and the synergy that can be derived from pooling private capital, technology, efficiency, innovation and so on, with government regulatory power, budget support, public education and capacity development are all good opportunities for PPPs;

• The existing Public Private Dialogue forum provides a good platform for PPP advocacy. The platform could be enhanced to include user associations or consumer protection groups and other relevant stakeholders to become inclusive enough for policy and regulatory debate and for formulation of potential PPP projects;

• The business and entrepreneurship programme for SMEs is a good entry point for PPP training. PPP modules could be developed and integrated into the programme;

• The establishment of more Micro Finance Institutions creates enabling conditions to promote alternative products and services for PPP financing;

• Tax waiver on imports of heavy equipment is a good incentive;

• The Procurement Law allows for competitive tendering. This will create innovations and value for money for PPP arrangements;

• The huge success (more than 90 percent) in privatization ventures by the government is a good motivator for PPP;

• The bridging arrangement (management and joint ventures) put in place by the government in preparation for full-scale privatization can be explored and structured to constitute PPP investment projects;

• There is consensus among a number of line ministries on the need to integrate PPPs into sector wide master plans, programmes and budgets.
4. COUNTRY EXPERIENCES IN PUBLIC PRIVATE PARTNERSHIP

In this section PPP cases from Ghana, Namibia, South Africa, India and Nepal are presented to show how the concept has been applied in practical terms to achieve different development objectives. Apart from the cases from Ghana and South Africa, the projects from India and Nepal were developed with support from UNDP Public Private Partnership for Service Delivery (UNDP/PPPSD). 7

4.1 Ghana: UNDP/MTN ICT Centres of Learning Project Model

This PPP is structured within the ICT services sector with the objective of blending an education, ICT penetration and private sector access to underserved communities across Ghana in a unique way. It also draws on multilateral support to infuse into the model water and sanitation component which serves as not only a sustainability model but also addresses the MDG 7 goals for Ghana.

The private sector partner is MTN Company which has the largest market share and over 9 million subscribers across Ghana. The partnership is set within the context of growing sustainable business while addressing the issues of profitability and development challenges that Ghana faces, especially within the MDGs 1, 2, 7 and 8.

The UNDP/MTN ICT Centre of Learning Project is at its pilot stage covering beneficiary communities across the country, with one centre in each of the 10 regions of Ghana. Each of the centres serves an average of 10 schools per community with each school having an average total enrolment of about 520 school children. The project, therefore, serves over 5,200 school children per beneficiary community and over 52,000 school children nationwide.

Within a period of 12 months, the project also provided sustainable livelihood opportunities for an average of 50 entrepreneurs per community, and trained over 2,000 citizens, including teachers, per beneficiary community. On this basis, the project provided training for over 20,000 citizens, it extended internet connectivity to over 75,000 people in otherwise neglected communities and

7 UNDP/PPPSD is a UNDP Programme Management Unit based in Johannesburg. The case from India and Nepal and further information on PPPs can be viewed on their website: www.undp.org/pppsd/
provided sustainable livelihood opportunities in terms of employment for over 500 entrepreneurs nationwide.

The centres act as business hubs for the sales of mobile telephone services and products, thus creating spin-off businesses for over 500 local entrepreneurs in the sales of credit cards and other mobile telephone products. The project has also provided employment for 10 managers, 10 security officers, and 20 support staff nationwide.

Each of the 10 centres has bore-holes that do not only provide water for sanitation at the centre, but also provides portable drinking water for the community, and creates a spin-off sachet water business that directly employs over 20 people and provides jobs for over 250 individual salespersons per beneficiary community.

The project in essence provides jobs for over 990 people nationwide. With an estimated household of 6 persons per home, the project is envisaged to directly elevate over 5,940 people from poverty while providing portable drinking water for selected beneficiary communities.

The UNDP/MTN ICT Centre of Learning Project Model also addresses MDGs 1, 2, 7 and 8. The primary aim of the project is to augment the effort of the government of Ghana in implementing the ICT component of the educational curriculum and to use ICT to promote teaching and learning in deprived schools.

The project has a sustainable livelihood component that seeks to promote wealth creation and reduce poverty in beneficiary communities. The drilling of bore-holes and power inverters are added to the centres to ensure uninterrupted power supply to all centres, thus, providing competitive advantage to the private sector partners while promoting environmentally friendly energy solutions.

The model promotes partnerships between Community chiefs, District administrations (MMDAs), private sector organization (MTN) and development partner (UNDP) to conceptualize, implement and sustain community projects.

As a result of successes achieved within the first year of implementation, not only do other communities express interest in the project but other private sector organizations have also indicated their interest in the project.
The learning model delivers educational, social and entrepreneurial benefits, including:

- ICT capacity building for teachers and the general community;
- Practical ICT teaching for school children;
- Internet connectivity to promote research, learning, engagement in social networks, and online education;
- Entrepreneurial skills development; and
- Retailing business solutions for the telecommunication company, such as mobile money transfers and processing of data (business process outsourcing).

**Key Capacity Challenges**

- Capacity of the government of Ghana to implement the ICT component of educational curriculum in deprived communities;
- Capacity of MTN to conceptualize sustainable community project, mobilize community stakeholders and implement community-based projects;
- Capacity of MMDAs to develop partnerships with the private sector.

**Conclusions**

- UNDP/MTN ICT Centre of Learning Project provides a success model for PPP engagement in Ghana;
- The centres have inbuilt revenue generation modules that sustain them;
- The centres provide school children from deprived schools the opportunity to learn the ICT component of the educational curriculum, interact with the external community via internet, and learn employable skills;
- The centres promote gender equality.

**4.2 Namibia**

**4.2.1 Background**

The experience in PPP urban service delivery in Namibia began in 2000 when the government requested support from UNDP. This resulted in a National PPPUE Capacity Development Programme in 2001, which has been running till today. The overall goal was to support local authorities with technical advisory and support services to identify, select and implement pro-poor PPP initiatives. The support included:

- The review of existing national policies and development of policy guidelines and guiding principles for PPPs in service delivery;
• Capacity building for local authorities, regional councils and private sectors on PPPs;
• Provision of technical advice for the development of partnership projects; and
• Multi-stakeholder engagements

4.2.2 Establishing the Policy and Regulatory Framework for PPPs

The process of establishing enabling policy environment for PPP for urban environment in Namibia started with the establishment of a national policy task force. The mandate of the task force involved:

• Review of all existing policies and legislation related to PPP at local level to determine the status quo for PPP development;
• Consultations with private sector partners and municipalities that have initiated PPPs;
• Review of by-laws and operating practices for a representative sample of 10 municipalities;
• Analysis of potential barriers, bottlenecks and disincentives for PPPs that should be addressed; and
• Production of a set of preliminary guidelines.

4.2.2.1 Results and Achievements of the National Policy Task force

• Guiding principles and policy guidelines for public private partnership projects were developed, validated and adapted by all stakeholders for implementation;
• The traditional PPP concept was redefined and contextualised to local conditions to allow for participation of other actors, besides the private sector;
• The concept was also adapted to the needs of the poor, considering service levels affordability, procurement and contracting arrangements;
• Sensitization and creation of awareness through video documentaries and case studies for over 1,000 officials from 30 local government authorities to better understand issues;
• Pilot initiatives implemented in solid waste management, community tourism, parks and recreational facilities.
The following pieces of legislation identified in the policy guidelines support the implementation of PPPs:

- Regional Councils Act 1992 as amended;
- Decentralisation Enabling Act 2000;
- Trust Fund for Regional Development and Equity Provisions Act 2000;
- National Water Policy; and
- National Environment Health Policy.

The Local Authorities Act 1992 (as amended in 2000) is the governing law relating to local government affairs which lays the foundation for PPPs in Namibia. The Act empowers the Minister of Regional and Local Government to make regulations relating to the entering into of joint business ventures by a local authority and the commercialisation of any service rendered or function or duty exercised or carried out by a local authority, respectively. The Minister has made regulations relating to the entering into of joint business ventures by a local authority or the commercialisation of services. These regulations were promulgated in 2001. The law thus prescribes two mechanisms for PPPs:

- Joint Business ventures; and
- Commercialisation of services, functions and duties.

However, the entering into of a joint business venture was accepted as the most preferred instrument for public private partnerships because commercialisation is more aligned towards privatization.

Guiding Principles for PPPs: Some 14 guiding principles have been identified and agreed upon by stakeholders as reference for the development and implementation of PPPs, based on best practices worldwide. These are transparency, competition, contestability, accountability, legitimacy, stakeholder participation, equity, economic and financial sustainability, risk management, clarity and predictability, environmental sustainability, specificity, empowerment, and choice.

4.2.2.2 Institutional Frameworks for PPPs

To enhance ownership, the PPP Programme has been anchored into the planning and management responsibilities as well as the strategic functional activities of the Decentralisation Directorate of the Ministry of Regional, Local Government, Housing and Rural Development (MRLGHRD). During the
pilot phase, a Steering Committee was set up with members from the private sector, civil society, local authority umbrella organizations, development partners, sector agencies, and partners from the financial sector. At the local level, PPP steering committees were also established in pilot municipalities with contract compliance units. These two entities served (and still serve) as liaison between municipalities and the ministry.

4.2.3 Challenges Faced

- Some gaps were identified in the existing legislation during the implementation of PPPs:
  - Not all revenue generating services normally performed by a local authority are clearly spelled out in the regulations;
  - Some groups are excluded from entering into joint venture agreements;
  - Prior approval of the Minister for a local authority to enter into joint ventures might cause delays due to bureaucracy.
- Poor understanding of institutional responsibilities and roles of the local authorities by the private sector; and communities created lengthy negotiations and high transaction cost.
- Absence of functional community structures to allow for consultation and participation.
- Limited access to investment funding: commercial banks have been slow to develop products and services to finance bankable PPPs due to perceived risks in smaller local authorities.
- Lack of credit worthiness in some local authorities due to absence of improved revenue collection systems to recover costs of investment.

Government’s Response to Identified Challenges

- The MRLGHRD facilitated the development of strategic and management plans for Local Authorities (LAs).
- There were targeted skills development in the areas of financial management, planning, and governance.
- Rigorous monitoring of service performance was done to ensure compliance.
- Facilitated discussions and negotiations were held with the financial sector, leading to the creation of products and services in the form of grants and loans.
• Through government budget support, MRLGHRD is providing partial financing for projects and raising awareness on service levels and investment options.

4.2.4 Lessons Learnt
• Reason for the success of pilot PPPs was based on ownership by LA, funding availability, and consultative process with key stakeholders.
• Implementation of PPPs relies heavily on the enhancement of capacity at all levels.
• For inclusive partnership building at both national and local levels, dialogue with strategic partners and local actors.
• PPP initiatives need to be driven by national and local country demand to enhance true ownership.
• Lack of understanding of each other’s needs and interests among partners can be eliminated through active stakeholder engagements, open dialogues and discussion of roles and risks.

4.2.5 Current Status of PPPs in Namibia
• Government is scaling up pilot PPP projects to sector wide application, especially in the area of sanitation, water and housing.
• Government has drafted an overarching policy on PPPs which has been approved by cabinet for legislative instrument. The overarching policy includes infrastructure provision, tourism and municipal service delivery.
• The Ministry is an active participant of the UNDP Community of Practice on Capacity Development for Local Service Delivery. The platform has strengthened the Ministry and positioned them to offer strategic policy advisory services to all line ministries embarking on PPPs.

4.3 South Africa: PPP Initiative in Dry Waste Management

4.3.1 Background
There are 45.5 million people living in South Africa. Almost 30 percent of employable people are actually unemployed due to absence of formal jobs and lack of entrepreneurial skills among the citizens. Amidst this situation, the generation of waste is growing at 6 percent per annum and 66 percent of South African households do not have waste collection services.
To ameliorate the situation, TEDCOR was founded in 1996 by CEO Mr. John Houghton in order to develop community response strategies for waste management. Through the response strategy, TEDCOR has trained 116 local Community Contractors to date to provide waste collection services. Half of these contractors are women because the company believes in gender equality for local service delivery.

4.3.2 Operations of Community Contractors

Each Community Contractor employs an average of 16 workers from the community. Half of these are women and each worker feeds an average of 8 family members. TEDCOR’s solid waste management projects currently provide services to some 80 designated areas, which comprises some 600,000 households.

4.3.3 Dealing with Waste Hazard

Data gathered by TEDCOR show that household refuse in poor areas is illegally dumped. Besides, the refuse that is collected and dumped in landfills is mostly scavenged for usable items. This practice leads to serious health hazards. Through practice, TEDCOR has found out that failure to spend 1USD on waste removal results in 50 USD spent on health. Waste removal can thus be used for poverty alleviation while leading to a healthier environment.

4.3.4 The Business Model

TEDCOR signs a five-year waste removal contract with the municipality, and sub-contracts and trains Community Contractors from a local community. The firm assists Community Contractors with finance for procurement of the equipment. Thereafter, it provides two weeks induction training and five years of staggered business training to the Community Contractors. Community Contractors employ workers from their communities based on a criteria set by TEDCOR in consultation with community leaders. Backstopping support is provided to Community Contractors during the contract period.

4.3.5 Benefits from the Business Model

The benefits of the business model include:

- Education;
- Skills transfer;
- Financing of Community Contractors;
- Enhancement of social environment and social investments;
• Environmental improvements;
• Local economic development;
• Business opportunities for committed entrepreneurs;
• Promotion of community education for the poor by the poor.

4.3.6 Constraints

TEDCOR and the community contractors have realized that in most developing countries waste removal is a lower government priority than food, housing and water. The TEDCOR business model’s success, therefore, depends on high-level professional management and training of Community Contractors which comes at a cost. The cost of implementing the model has to be charged on top of contract sums which require lengthy negotiations with municipalities.

The business model and how it functions are illustrated in the figures below. The first figure shows the structure of the model, and the second one illustrates the operational and functional aspects.

Figure 3: The TEDCOR Model

Source: TEDCOR, South Africa
4.4 Nepal: PPP in Public Toilet Management

4.4.1 Background

Nepal is one of the countries in Asia that benefitted from UNDP support to formulate and implement PPP projects and programmes. Just like Namibia, the country started with dialoguing and building consensus on policy and regulatory guidelines for PPPs. The country has, through the process, developed and enacted a national PPP Policy and Regulatory Framework to guide the development and implementation of PPPs. It has also applied the policy and regulations to implement over 50 municipal level PPPs across the country. The public toilet management project presented below is one of the flagships of PPPs.

4.4.2 The Process

The Municipality of Hetauda advertised for a PPP venture with private contractors of all categories through a competitive procurement process. A Community-Based Organization (CBO) won the bid to operate the municipal public toilets under a management contract. The CBO brought the toilets into operation after renovating and greening the surroundings. The municipality used its public education platform to market the facility.
4.4.2.1 Achievements and Results

- The daily revenues went up from an average of Rs.200-500 to Rs.1,300-1,500;
- The CBO invested 50 percent of net profit into infrastructure upgrading and for that it was exempted from paying royalty to the Municipality;
- The CBO received a loan of Rs. 300,000 from the Municipality, which was paid back from the second year of operation.

The picture below depicts the impact of the PPP arrangement.

Figure 5: PPP Contribution to Sanitation Delivery in Nepal

Source: PPPSD Programme, UNDP Regional Centre Johannesburg: undp.org/pppsd/

4.4.2.2 Capacity Challenges

- Government’s ability to identify service sectors suitable for small scale service providers;
- Permissive policies and institutional arrangements to support inclusive service delivery;
- Establishing adequate oversight and feedback mechanisms;
- Modifying procedures in procurement regulations to suit PPP;
- Monitoring performance compliance of service providers through flexible and continuous contract revisions.

### 4.5 India: Sustainable Local Energy Services Provision

In the town of Tiruchengodu (India) a group of women formed a cooperative to undertake poultry farming. The business became successful and grew in terms of stock and cash inflows. In the process, the group encountered a huge challenge with the disposal of chicken droppings. Close to the poultry industry, a power generating company was contracted by the government to produce electricity using different options (thermal, biomass, solar, wind, etc). To meet the maximum energy target set for the company in their contract, the company decided to explore the use of poultry droppings which were abundant in the town they were operating. The company approached the women and negotiated to cart their chicken droppings on daily basis at zero cost.

#### 4.5.1 Achievements and Results

Through the arrangement, the women became the key suppliers of raw materials for the company. As a result, the company was able to generate 3.7 MW of electricity which was fed into the national grid to benefit the entire state of Tamil Nadu. Eventually a public private community partnership model was developed leading to the signing of a service contract between the company and the women, and a service level agreement between the company and the government. The whole arrangement was a win-win situation for the parties involved and ultimately for the beneficiary communities.

#### 4.5.2 Lessons Learnt

- Inclusive partnership involving informal local entrepreneurs, big companies and government is possible in the case of India’s experience.
- Waste to Energy projects can be structured via public private community partnerships in a win-win fashion.

The pictures below, Figures 6, 7 and 8, show the public private community partnership experience of India.
Figure 6: Poultry Waste Generation from a Farm in India

Developing public-private-community partnership model for poultry litter management to...

Source: PPPSD Programme, UNDP Regional Centre Johannesburg, South Africa

Figure 7: Plant Processing Poultry Waste into Electric Energy

...generate electricity (3.7 MW of power) from the poultry waste to...

Source: PPPSD Programme, UNDP Regional Centre Johannesburg, South Africa: undp.org/pppsd/
Figure 8: Electric Energy from Poultry Waste fed into the National Grid

...feed it to the state grid & for the benefit of all parties.

Source: PPPSD Programme, UNDP Regional Centre Johannesburg, South Africa: undp.org/pppsd/
5. MENU OF OPTIONS AND MODALITIES FOR POTENTIAL PPPS

5.1 Options for PPP

The first matrix presented below in this section elaborates on the menu of options used in PPP arrangements. Based on the information, experience from practice and case studies discussed earlier, the consultant has subsequently proposed suitable investment modalities for infrastructure and service delivery potential PPP projects identified through this study in the second matrix. The modalities are based on the premise that when government takes more risks in PPPs than the private sector, service and management contract arrangements prevail. However, if those risks are shifted to the private sector, lease, franchise, BOT (Build, Operate and Transfer) and concession agreements would be applied and enforced. Firm decisions on each of the modalities proposed for the potential projects in Table 6 would, however, require further in-depth risk analysis, viability and detailed feasibility assessments which are beyond the scope of this study.

Table 5: Generic Options and Modalities for PPP Investments

<table>
<thead>
<tr>
<th>Type of PPP Investment Arrangement</th>
<th>Description</th>
<th>When It is Used</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Contract</td>
<td>Govt. contracts out to private sector specific tasks (e.g. installing or reading meters, revenue collection, street sweeping and refuse where government provides equipment): <strong>1-2 Yrs.</strong></td>
<td>Used when service is already well managed and commercially viable. Not to be used where a service provision is inefficient or suffers poor cost recovery.</td>
</tr>
<tr>
<td>Management Contract</td>
<td>Responsibility for operation and maintenance of publicly owned businesses is contracted out to private sector: <strong>3-5 Yrs.</strong></td>
<td>Main objective is to rapidly enhance a public provider core technical capacity and efficiency. Transitional arrangement for greater private sector role.</td>
</tr>
<tr>
<td>Lease Agreement</td>
<td>Private sector leases assets from Govt. and provides service and maintains assets. <strong>8-15 Yrs.</strong></td>
<td>Used if there is scope for gains in operating efficiency but limited need for investments. Improved lease where Govt. wants private sector to take investment (e.g. water in Senegal)</td>
</tr>
<tr>
<td>Type</td>
<td>Description</td>
<td>Used where</td>
</tr>
<tr>
<td>----------------------</td>
<td>-----------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Franchise</td>
<td>Private sector invests in operation and maintenance equipment, maintains built assets (where applicable), collects user charges, pays surcharge (% of user charge) to government. Duration varies.</td>
<td>Financial resources, operation and maintenance expertise and effective revenue mobilisation is needed. E.g., abattoir management, cesspit emptying/disposal services.</td>
</tr>
<tr>
<td>Joint Venture</td>
<td>Here, both the government and the private sector jointly own a utility either through sale of some of the shares in an existing utility or through the creation of a new utility. Number of years vary.</td>
<td>Sector is very strategic and Govt. wants to monitor closely activities of private sector and provide management inputs to service provider.</td>
</tr>
<tr>
<td>Community Public Private Partnership (CPPP)</td>
<td>Govt. and private partner promote and empower CBO’s and entrepreneurs to become business owners in PPPs and also help to create jobs in high growth sectors</td>
<td>Where local enterprise development and job creation is key. E.g., BEE Initiative– mining, agro-forestry, fishing, tourism in peri-urban and rural South Africa</td>
</tr>
<tr>
<td>Concession</td>
<td>Private sector operates and maintains public assets and invests, but ownership remains with Govt. 25 – 30 years.</td>
<td>Large investment is needed to expand coverage.</td>
</tr>
<tr>
<td>Divestiture</td>
<td>Full government divestiture of ownership through sale of assets, shares, and management buyout.</td>
<td>Need for investment and gains in operation efficiency. Sector not strategic for government.</td>
</tr>
<tr>
<td>BOT/BOOT²</td>
<td>Private sector builds and operates a power generation, water treatment or waste treatment plant for 20–30 years after which ownership reverts to Govt. Govt. usually commits to buy part of output.</td>
<td>Existing public service provider cannot meet projected demand.</td>
</tr>
</tbody>
</table>

² BOT(build, operate and transfer); BOOT(build, own, operate and transfer)
### 5.2 Proposed Modalities for Prioritized Potential PPP Investments

Table 6: Proposed Modalities for Prioritized PPP Investments in Ethiopia

<table>
<thead>
<tr>
<th>Potential Investment in Infrastructure PPPs</th>
<th>PPP Option/Modality</th>
<th>Potential Investment in Service Sector PPP</th>
<th>PPP Option/Modality</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Parks and Recreational Facilities</td>
<td>Lease Agreement</td>
<td>5-15 years</td>
</tr>
<tr>
<td>Agro-processing</td>
<td>Franchise 5-10 years</td>
<td>ICT Centres</td>
<td>Management contract (Public + Private + Community)</td>
</tr>
<tr>
<td>Low-income housing</td>
<td>Joint Venture 10-25 years</td>
<td>Dry waste Management and Recycling</td>
<td>Franchise 3-5 Years (renewable annually)</td>
</tr>
<tr>
<td>Urban Housing</td>
<td>Service Contract (design and build 1-3 years)</td>
<td>Exhibition Centre</td>
<td>Lease Agreement 5-15 years</td>
</tr>
<tr>
<td>Irrigation Farming (small-scale)</td>
<td>Management Contract 3-5 years (public + private + community partnership)</td>
<td>Unified Billing</td>
<td>Service Contract</td>
</tr>
<tr>
<td>Pre-Paid Metering</td>
<td>Management Contract 3-5 years</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
6. CONCLUSIONS AND RECOMMENDATIONS

6.1 Conclusions

From the findings and analysis done on the study of PPP in Ethiopia, the following conclusions are drawn:

- Contrary to the notion that PPPs are non-existent in Ethiopia, it was found out that about 50 percent of organizations interviewed were practicing pilot PPPs in one form or another in different sectors;

- Some of the existing piloted PPPs identified included irrigation, housing, agro-processing, exhibition centre management, pre-paid metering, unified billing, dry waste management and recycling;

- Those involved in the implementation of existing PPPs included international companies, development partners, government, communities, civil works contractors and the Addis Ababa Chamber of Commerce and Sectoral Associations;

- Some potential PPPs have been identified in the infrastructure and service sectors. Those in the infrastructure sector include: toll road and road maintenance, agro-processing, low-income urban housing, small-scale irrigation farming and pre-paid metering. For the service delivery sector, potential PPPs include: parks and recreational facilities, ICT centres, solid waste management and recycling, exhibition centres and unified billing;

- Awareness creation on PPP concept is lacking by way of training events, exposure visits and public campaigns. As a result, the pilot PPPs implemented, were not structured in accordance with internationally accepted guiding principles;

- Despite the existence of appropriate policies and regulations in place for private sector participation in social and economic development activities in Ethiopia, institutions have not adopted these instruments for design, formulation and implementation of PPPs;

- Institutional arrangements for private sector development and support are functional and adequate;

- PPP Dialogue Forum which is an important platform to bring all relevant stakeholders into policy debate and formulation of new regulatory frameworks for potential PPPs is already in existence in Ethiopia. The platform may have to be expanded to include user associations or consumer protection interest groups/agencies;

- The incentive regime (tax reliefs, guaranteed loans, training support and facilitation of access to markets) put in place by the government for private sector engagement in sector wide activities are good foundations for PPPs; and
• There is good will by the government and development partners to support policy dialogue and implementation modalities for PPPs.

6.2 Recommendations

6.2.1 Awareness Creation

There is ample evidence that awareness creation on PPPs is lacking in Ethiopia. In view of this, there is the need to use the Public Private Dialogue (PPD) forum to sensitize policy and decision makers about the PPP investment concept and its applications to help build consensus on the potential projects identified in this study report.

In addition, stakeholder discussions and consultative meetings should be conducted to facilitate agreement on PPP investment objectives (economic, social, financial, environmental, political and institutional). The table below elucidates the development objectives for PPP. These objectives would be relevant to inform the formulation of potential PPP investment projects.

<table>
<thead>
<tr>
<th>Economic</th>
<th>Environmental</th>
<th>Financial</th>
<th>Social</th>
<th>Political</th>
<th>Institutional</th>
</tr>
</thead>
<tbody>
<tr>
<td>* To improve efficiency</td>
<td>* To improve availability, quality and reliability of services</td>
<td>* To enhance cost recovery</td>
<td>* To improve the well-being of the people</td>
<td>* To achieve legitimacy</td>
<td>* To improve skills</td>
</tr>
<tr>
<td>* To ensure economic sustainability</td>
<td>* To promote capital investment</td>
<td>* To promote health, security and safety</td>
<td>* To ensure a political mandate for private sector participation</td>
<td>* To delegate management to skilled organisations</td>
<td>* To improve skills</td>
</tr>
<tr>
<td>* To promote cost effectiveness</td>
<td>* To promote private investment in operations and maintenance</td>
<td>* To promote capital investment</td>
<td>* To represent constituency interests</td>
<td>* To institutionalize better management practices</td>
<td>* To delegate management to skilled organisations</td>
</tr>
<tr>
<td>* To generate economic growth</td>
<td>* To ensure environmental sustainability</td>
<td>* To promote private investment in operations and maintenance</td>
<td>* To maintain power over allocation of resources</td>
<td>* To access new technologies</td>
<td>* To institutionalize better management practices</td>
</tr>
</tbody>
</table>

Table 7: Development Objectives for PPPs
6.2.2 Establishing PPP Policy and Regulatory Guidelines

Although there are divided opinions on the need for new policies and regulations for PPPs, the experiences shared in this report from some Asian and African countries reveal that the entry point to establish policy and regulatory framework for PPP investments is to review existing policies, regulations and legislations, and draft appropriate cross-sectoral guidelines. There is therefore the need for stakeholders to set in motion a process to facilitate the review of policies and regulations governing the potential PPPs identified with a view to developing guidelines for selecting and implementing PPP options and investment modalities. These guidelines should be developed through a participatory process by involving all stakeholders in planning and decision-making. The PPD platform could be used to set up a technical team to consult with all stakeholders for views and inputs. The guidelines would consolidate issues on the rationale for PPP policy and legal provisions, planning and procurement issues, capacity building interventions and institutional roles and responsibilities. To ensure legitimacy of these guidelines, the government of Ethiopia could consider developing a PPP White Paper which would outline the government’s vision, policy thrust and legal/regulatory authority to back the use of the guidelines. The experience of South Africa on White Paper for Municipal Service Partnership9 (MSP) is a good reference for this process.

6.2.3 Formulation and Implementation of PPP Investments

The project life cycle for formulation and implementation of potential PPPs in Ethiopia should be guided by the following steps:

Step 1: Project Identification, Detailed Needs and Options Analysis;
Step 2: Viability Analysis and Pre-feasibility, including investment and financial analysis;
Step 3: Feasibility Studies and Full Appraisal, including alternative scenarios and cost benefit analysis, risk assessments, etc.;
Step 4: Procurement Process, including pre/post tendering activities;
Step 5: Contract Agreement, Risk Management and Capacity Development;
Step 6: Contract Management, including Performance Monitoring.

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6.2.4 Capacity Development Interventions

Capacity development is vital for stakeholders engaged in PPP because it helps to address weaknesses in technical and functional capacities. Capacity development should be addressed at three levels, (i) individual, (ii) institutional, and (iii) societal \(^{10}\) to help turn infrastructure and service delivery challenges into business opportunities in Ethiopia. To begin with, there is the need to conduct capacity needs assessment for key stakeholders to identify strengths and weaknesses and gaps in technical and functional competencies. The results from these assessments should lead to the development of tailored modules for training interventions. The UNDP, World Bank and other development partners have various tools on PPPs that could be adopted for basic and module type PPP training events. To ensure that training events are focused and targeted, the training should be implemented for stakeholders in cities and regions where potential PPP projects would be implemented.

6.2.5 Institutional Reforms to Integrate PPP Arrangements

There is the need to integrate PPPs into the institutional frameworks as well as into the master plans of institutions engaged in PPP. To achieve this, PPP steering committees should be established at federal, regional and city government levels. Moreover, operational task units and/or PPP desks should be established to handle the design, formulation and implementation processes relating to PPP. For city and/or urban governments, PPP could be integrated as a functional/service line under a Local Economic Development Unit which could be established if PPP becomes a big service delivery investment modality in the near future. These structures are needed to help fast track promotion, facilitation, implementation and monitoring of potential PPPs.

**Strengthening Regional Chamber of Commerce and Sectoral Associations:** It was revealed at the stakeholder validation workshop that the ECCSA has very large membership at the regional level, but the structures are weak. Since some PPP projects have been identified in the regions, there is the need to strengthen the regional structures so that they can seize the business opportunities offered by such potential PPP projects.

Transformational leadership for results programme is one of the interventions that could be considered and developed for the management and administrative staff. ECCSA could collaborate with UNDP to roll out its Leadership for Results Programme (LRP) for core staff in the regions. The staff could use the knowledge and skills gained from the programme to develop and implement breakthrough PPP projects in partnership with regional or urban

\(^{10}\) UNDP addresses capacity development interventions at the individual, institutional and societal levels.
governments. The breakthrough projects could focus on urban initiatives that could contribute to the MDGs and poverty reduction objectives.

### 6.2.6 Implementation of Potential PPP Projects with MDGs, Poverty Reduction and Other Development Objectives in Mind

It is established clearly in Chapter 3 and in the case studies shared in this report that PPP can contribute to achieve MDGs in general, and particularly achieve MDGs 1 and 7. It has also been proved that by setting the right development objectives and integrating them into policy and regulatory guidelines, small and medium enterprises can be targeted, developed and empowered to engage with governments in PPP investments. By focusing on MDG targeted objectives such as job creation and income security, health and environmental improvements, affordability of services etc., the poor can benefit substantially from PPPs. Focusing only on economic and financial gains may not help to reduce vulnerabilities and growth challenges. It is for this reason that small-scale irrigation PPP projects, low-income housing PPPs have been featured in the potential PPP investments for the short-medium term. These PPPs are keys that contribute to the achievement of MDGs 1 and 7 by expanding access to jobs, reliable incomes and access to housing and sanitation services. The two projects can contribute further to achieve MDG 3 by leveraging women competencies for small-medium scale irrigation farming activities and housing delivery (through supply of materials).

PPP should, therefore, be designed and implemented to demonstrate its contributions to MDGs and poverty reduction as well as other economic and financial outcomes. In this connection public sector partners should set clear and unambiguous objectives in order to insulate the primary objectives of the project and the activities involved from being dominated by purely profit-oriented conceptions of the private partner.

### 6.2.7 Exploring Alternative Financing Options through a Mixed Bag of Resources

Potential PPP investments can be financed from any of the following mixed bag of resources. A combination of the following funding sources can also be explored:

- Private capital;
- Equity funding;
- Direct budget support;
• Government bonds; and
• Development partner grants.

In tandem with this arrangement, there is also the need to design and manage effective cost recovery measures. The key issues that planners and decision makers should consider are (a) payment mechanisms, (b) willingness to pay, and (c) financial sustainability.
7. ROAD MAP FOR THE IMPLEMENTATION OF POTENTIAL PPPS

The proposed road map for PPP implementation in Ethiopia is sequenced as follows:

- Document ongoing pilot PPP cases being implemented by the government and development partners in Ethiopia, and benchmark them with known cases in Africa;

- Create national, regional and local level platforms spearheaded by the PPD leadership to share the documented cases as well as the concept of PPP and its application with all stakeholders, including users and vulnerable groups. The concept of PPP must be articulated clearly as a business relationship between fundamentally different entities in order to perform a given task or provide a given service to achieve win-win results;

- Conduct viability and detailed feasibility assessments for prioritized PPPs with technical assistance from local development partners and international PPP experts. This activity should lead to identification and proper sharing of risk associated with each potential PPP, and safeguards to mitigate against such risk;

- Review and document sector policies, legal and regulatory frameworks to assess how they influence or how they would impact negatively on PPP investments to inform the drafting of PPP policy/regulatory guidelines. This process should logically lead to the promulgation of a government White Paper on PPP Investment in Ethiopia. The process should be supported by key development partners in Ethiopia such as UNDP, the World Bank, ILO, and GIZ with technical backstopping from UNDP/PPPSD and consulting firms and administrative support from the chambers of commerce. The process should be accompanied by extensive consultations with stakeholders to share findings, promote inclusive inputs, obtain feedback and ensure ownership of the final product;

- Develop a PPP project/programme document to enhance the design and formulation of prioritised potential PPP projects based on findings from detailed feasibility assessments and outcomes of sector wide policy/legal/regulatory framework reviews. This process should be supported by UNDP and World Bank and SIDA, in collaboration with GIZ, ILO, government agencies (including MoFED) and international PPP experts. The outcome of this process should be a project/programme document that details clear goals, objectives, outputs, activities, indicators, budget and potential sources of funding;
• Pooling resources from development partners through a donor round-table conference to be organised. The results obtained from this process should contribute to the finalisation of the project document and validation of the document by key stakeholders and partners;

• Conduct procurement processes through Request for Proposals (RFPs) and pre-tendering activities to screen, shortlist and select capable private service providers to implement key project activities and deliverables. A combination of government procurement procedures and those of the funding agencies can be explored and applied to prevent roadblocks/bottlenecks. The RFPs should be able to provide detailed Terms of Reference (ToR) that articulate clear and unambiguous objectives for PPP investment, roles of public and private partners as well as beneficiaries/users, the civil society (where relevant) and development partners. Potential risks associated with each project should also be specified to enable service providers to propose innovative safeguards and/or mitigation remedies to inform sensible sharing of the risks. The ToR should also be able to provide information on the current state of infrastructure, service facility, user charges, government budget, financial rewards for performance based outputs (if user financed or budget financed or both), and innovative approaches the private service provider intends to introduce to maximize profits. To ensure that the procurement process and content of the ToR is well understood, pre-tender training should be organized and facilitated using the tender document developed for PPP procurement. Experience can be obtained from Namibia\textsuperscript{11} to guide the procurement process;

• Develop PPP Contract and/or Service Delivery Agreements in response to PPP investment modalities identified in this report for the prioritised infrastructure, services and other development projects. The Contract/Service Delivery Agreement should include issues such as the type of partnership (public-private; public-private–community etc), the business model (revenue streams for investments and operations including user charges, government budgets, dividends etc.), the contract model and the financing model (project finance, private capital, grants etc.). To sustain costs of PPP investment projects, the public sector would be required to distinguish between short-term liquidity and long-term profitability. Cost elements should therefore take account of the total costs accruing to the public purse now and into the long-term, rather than postponement of financial burdens;

• Post Tender Training sessions should be conducted to develop the capacities of management staff from the public and private sector to understand the content and issues in the service delivery agreements and

\textsuperscript{11} Directly from Ministry of Regional and Local Government and Housing or UNDP/PPPSD, Johannesburg
comply with all the provisions therein. The training would also build the long term capabilities of the public sector to impose sanctions on the private partners as well as community partners and or beneficiaries. It would also embolden the private sector to seek remedies through prescribed arbitration processes in the contract. UNDP/ PPPSD and independent international PPP experts can be brought on board to strengthen this process. They could support the review and adaption of similar contracts from other projects in Africa and elsewhere, and develop tailor made agreements to suit specified PPP investment modalities;

- Negotiate, administer and manage PPP investment contract agreements to address complicated negotiations. To perform this function effectively post-tender training should be conducted for private and public negotiators from various institutions involved in prioritized PPP investment projects. This training would help to improve their strategic and technical proficiency as well as their negotiating skills and tactics so that they can act as equal partners;

- Develop continuous learning through lessons sharing and awareness creation. PPP investment initiatives undergo systematic procedures, processes and arrangements. These actions and interventions create a body of knowledge and experiential learning, and hence they have to be documented, shared and published to create better awareness for sector ministries, umbrella organisations, development partners, user associations, consumer protection agencies, the civil society in general and the media. Awareness creation should be integrated in the project document as a continuous activity throughout the project duration and beyond;

- Implement, monitor and evaluate PPP investment project/programme outputs and activities with clearly defined performance indicators so that quality, standards, targets and timely delivery is not downgraded. Monitoring schedules should be developed, executed and reported on a quarterly basis. Performance indicators should be formulated right from the project identification, prioritization, design and formulation phase. From experience, this seems to be a neglected practice and a weakness in most PPPs. To avoid similar pitfalls partners should be made to go through rigorous training in identification and setting of performance indicators for the different PPP potential/ prioritised investment projects. To ensure accountability, a Project/Programme Steering Committee/Board should be established to provide technical guidance and oversight controls. The Committee/Board should be established in Addis Ababa and in the regions where potential PPPs would be implemented. Members of the Committee/Board should include PPD stakeholders and key partners engaged in the implementation of PPP investment agreements/contracts.
The road map is presented in a generic form. It is important, therefore, that it be adapted to suit own specific situation. It is suggested that a task force be set up for the purpose. The point of departure for implementation of PPPs is considering projects that are technically and financially feasible. Experiences from other countries show that public toilet management and dry waste management and recycling projects could be embarked upon initially. The task force can be entrusted with the responsibility of kick-starting such projects.

Last, but not the least, it is envisaged that if the proposed road map is considered and pursued religiously, stakeholders together with relevant political actors in Ethiopia, will be able to judge for themselves and determine (within 2-5 years) whether PPP investments become the rule, an exception or a transitional stage towards the progressive privatization of public sector responsibilities which the government of Ethiopia is vigorously pursuing currently.
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### ANNEX 1

**List of Organizations and Officials Interviewed**

<table>
<thead>
<tr>
<th>S/N</th>
<th>Name of organization</th>
<th>Name and position of official</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ministry of Mines</td>
<td>Dr. Ketsela Tadesse, Petroleum Operations, Licensing and Administration Process Owner</td>
</tr>
<tr>
<td>2</td>
<td>Ministry of Industry</td>
<td>Ato Ahmed Nuru, Advisor to the State Minister</td>
</tr>
<tr>
<td>3</td>
<td>Ministry of Agriculture</td>
<td>Ato Birhanu Tesfaye, Senior Agronomist, Agriculture Investment Support Directorate</td>
</tr>
<tr>
<td>4</td>
<td>Ministry of Water and Energy</td>
<td>Ato Fekahmed Negash, Director Basin Administration Directorate</td>
</tr>
<tr>
<td>5</td>
<td>Ministry of Culture and Tourism</td>
<td>Wzo. Senayit Abebe, Acting Director, Tourism Development &amp; Marketing Directorate; Ato Yaregal Emirie and Ato W/Gabriel Berhe - Promotion Experts</td>
</tr>
<tr>
<td>6</td>
<td>Ministry of Urban Development &amp; Construction</td>
<td>Ato Amare Asgedom, Head, Housing Bureau; Ato Tesfaye Yalew, Head, Construction Industry Bureau; Ato Mekonen Getachew, Head, Policy &amp; Program Bureau</td>
</tr>
<tr>
<td>7</td>
<td>Ministry of Communications and Information Technology</td>
<td>Ato Teshome Worku, Director Private Sector Information Technology Directorate</td>
</tr>
<tr>
<td>8</td>
<td>Ethiopian Electric Power Corporation</td>
<td>Ato Mekuria Lemma, Director, Corporate Planning</td>
</tr>
<tr>
<td>9</td>
<td>Ethiopian Investment Agency</td>
<td>Ato Yohannes Latamo, Coordinator, Promotion Team</td>
</tr>
<tr>
<td>10</td>
<td>Privatization &amp; Public Enterprises Supervising Agency</td>
<td>Ato Beyene Gebre Meskel, Director General</td>
</tr>
<tr>
<td>11</td>
<td>Micro &amp; Small Enterprises Development Agency</td>
<td>Ato Girma Diriba, Head Technology Department</td>
</tr>
<tr>
<td>12</td>
<td>Ethiopian Roads Authority</td>
<td>Ato Abdu Mohamed, Deputy Director General, Engineering Operations</td>
</tr>
<tr>
<td>13</td>
<td>UNDP</td>
<td>Getachew Asaminew, Program Manager</td>
</tr>
<tr>
<td>14</td>
<td>World Bank</td>
<td>Ato Menbere Taye, Consultant Private Sector Development Specialist</td>
</tr>
<tr>
<td>15</td>
<td>GIZ</td>
<td>Dr. Christian Jahn, D/ Country Director; Yared Fekade, Executive Program Officer, Private sector-ecbp</td>
</tr>
<tr>
<td>16</td>
<td>AACCSA</td>
<td>Ato Teshome Beyene, Secretary General</td>
</tr>
<tr>
<td>17</td>
<td>ECCSA</td>
<td>Ato Tamiru Wubei, Advocacy Specialist</td>
</tr>
<tr>
<td>18</td>
<td>Contractors Association of Ethiopia</td>
<td>Ato Solomon Gezaw, Manager</td>
</tr>
</tbody>
</table>
ANNEX 2
Structured Questionnaire and Interview Guide

BI For Associations, Civil Society Umbrella Organizations Chamber of Commerce (ECCSA & AACCSCA)

0. Particulars of Institution:

<table>
<thead>
<tr>
<th>Name of Institution</th>
<th>Core Activity</th>
<th>Federal Scope-National/Regional/Local</th>
</tr>
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<tbody>
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</tbody>
</table>

1. Do you know of any PPP projects in Ethiopia?
   a) Yes
   b) No (skip to 2)

2. Where is the project located?
   a) East
   b) West
   c) North
   d) South

3. In what town/community is the project located? Specify

4. What type of service is the project delivering?
   a) Infrastructure
   b) Health and Sanitation
   c) Agriculture
   d) Tourism and Recreation facilities
   e) Housing
   f) Other, specify

5. Who are the service providers? Specify.
6. How many of the providers are women?
   a) 1-10
   b) 11-40
   c) 40 and over
7. How many are men?
   a) 1-10
   b) 11-40
   c) 40 and over
8. How were the service providers engaged?
   a) Competitive bidding
   b) Sole sourcing
   c) Joint venture
   d) Political consideration
   e) Other
9. Do you participate in the planning, design and development of PPP projects?
   a) Yes
   b) No
10. If yes, what role do you play?
    a) Planning
    b) Design
    c) Development
    d) Performance Monitoring
11. Are there a greater number of informal groups who are providing services to satisfy un-met demands?
    a) Yes
    b) No
12. How large are these groups?
   a) 1-10
   b) 11-40
   c) 40 and above

13. Are the groups capable of competing with companies for PPP projects?
   a) No, they don’t have at all.
   b) They have some capital but not enough to compete.
   c) They have just enough capital to compete.
   d) They have experience but not enough capital to compete.
   e) Other reasons, specify.

14. What are the key challenges for PPP project implementation?
   a) Unavailability of policy and legal frameworks.
   b) Absence of institutional and regulatory mechanisms.
   c) Financial constraints.
   d) Other, specify.

15. What do you think are the key capacity challenges for PPP service providers in general?
   a) Investment planning
   b) Tendering processes
   c) Project management
   d) Performance monitoring
   e) Technical skills
   f) Other, specify
16. What are the capacity challenges for your association members in particular?
   a) Lack of exposure to successful PPP in Africa
   b) Options and application of PPP in various sectors
   c) Tendering processes
   d) Performance monitoring
   e) Other, specify

17. Name some potential sectors or projects that can offer quick win PPP results in the near future?
   a) Agro processing and marketing
   b) Education and Low
   c) Health and Sanitation (including waste management)
   d) Construction and Management of Toll Roads
   e) Low Income Housing
   f) Other, specify

18. Do you think medium scale entrepreneurs will participate actively in these PPP projects?
   a) Yes
   b) No

19. If yes, in what form should they engage? As…
   a) Single contractors
   b) Associations
   c) Business partners
   d) Other, specify
BII for Line Ministries, Local Authorities, other Sectors and Donors

0. Particulars of Institution:

<table>
<thead>
<tr>
<th>Name of Institution</th>
<th>Core Activity</th>
<th>Federal Scope-National/Regional/Local</th>
</tr>
</thead>
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</tbody>
</table>

1. Is your agency engaged in PPP projects?
   a) Yes
   b) No (skip to No 16)

2. If yes name the projects, communities and geographical locations

<table>
<thead>
<tr>
<th>Name of Project</th>
<th>Community</th>
<th>N/S/E/W</th>
</tr>
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</tbody>
</table>

3. What are the institutional arrangements for the design and implementation of these PPP projects?
   a) Formal
   b) Informal
   c) Other, specify

4. Are there critical governance issues for effective engagement and participation of private sector in PPP?
   a) Yes
   b) No

5. If yes, what is it due to?
   a) Lack of information
   b) Poor planning
   c) Other, specify

   What sector strategy, policy or legislation has your agency put in place to support the PPP project implementation?
6. What are the major capacity challenges for PPP project implementation?
   a) Legal
   b) Policy
   c) Institutional
   d) Technical and operational human resource
   e) Other, specify

7. What are the perceptions of people on PPP?
   a) Mistrust
   b) Cultural related beliefs
   c) ‘Failed’ partnerships
   d) The presence informal service providers
   e) Fear of increase in tariffs
   f) Other, specify

8. What role can civil society play in PPP Projects?
   a) Awareness creation
   b) Tariff Collection
   c) Enforcement of consumer rights
   d) Performance monitoring

9. What facilities are available to develop local entrepreneurial skills, for PPP service delivery projects?
   a) Entrepreneurship development programmes
   b) Business incubation
   c) Microfinance support
   d) Business development programmes
   e) Other, specify
10. If there is none, what would you propose as a remedy? Specify:
   Has any innovative practice emerged from PPP projects implemented?
   a) Yes
   b) No
11. If yes, give concrete examples with documentation if any?
12. Does the procurement law promote competition for PPP projects?
   a) Yes
   b) No
13. If yes, can you name the relevant provisions and share a copy of the law?
14. Name some potential sectors or projects that can offer quick win PPP results?
   a) Agro processing and marketing
   b) Education-Hostel Facilities
   c) Health and Sanitation (including waste management)
   d) Construction and Management of Toll Roads
   e) Low Income Housing
   f) Other, specify
15. Are there affirmative action mechanisms to empower women entrepreneurs to engage in such PPPs?
   a) Yes
   b) No
16. If yes, name these platforms ---------------------------------------------------
    ---------------------------------------------------
    ---------------------------------------------------
17. What incentives would you propose for local contractors who participate in these potential PPP projects
BIII Contractors and other Private Service Providers

0. Particulars of Institution:

<table>
<thead>
<tr>
<th>Name of Institution</th>
<th>Core Activity</th>
<th>Federal Scope-National/Regional/Local</th>
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1. In what community is your company located? Specify

2. In what region of Ethiopia is your company located
   a) North
   b) South
   c) East
   d) West

3. What does your company do to earn a living?
   a) Advisory services
   b) Infrastructure provision
   c) Manufacture
   d) Agriculture production and processing
   e) Educational Services
   f) Other, specify

4. Are you currently engaged in any PPP projects?
   a) Yes
   b) No (skip to 15)

5. If yes, name them.
6. Do you have any functional or technical capacity challenges to implement these PPP projects?
   a) Yes
   b) No

7. If yes what are they?
   a) Business management
   b) Investment planning
   c) Tendering processes
   d) Project management
   e) Performance monitoring
   f) Technical skills
   g) Other, specify

8. What are the policy, legal and regulatory constraints that affect your ability to implement PPP especially in poor communities?
   a) Local tax regimes
   b) Labour laws
   c) Procurement laws
   d) Other, specify

9. What are your financial constraints?
   a) Low tariffs
   b) Affordability by citizens
   c) Private financing barriers
   d) Unfriendly capital markets
   e) Absence of targeted public subsidies
   f) Other, specify
10. What are the institutional constraints?
   a) Lack of transparency in the procurement process
   b) Unwillingness of public sector to share information
   c) Operational inefficiency
   d) Other, specify

11. What are the contract related constraints?
   a) Uncompetitive bidding
   b) Lack of cost benefit analysis
   c) Contract size
   d) Other, specify

12. What are the perception constraints?
   a) Mistrust
   b) Cultural related beliefs
   c) ‘Failed’ partnerships
   d) The presence informal service providers
   e) Fear of increase in tariffs
   f) Other, specify

13. Are there time frame constraints for implementing PPP
   a) Yes
   b) No

14. If yes are they due to
   a) Short term arrangements?
   b) Political cycle arrangements?
   c) Project duration arrangements?
   d) Other, specify-----------------------------
15. Name some potential sectors or projects that can offer quick win PPP results?

a) Agro processing and marketing
b) Education-Hostel Facilities
c) Health and Sanitation (including waste management)
d) Construction and Management of Toll Roads
e) Low Income Housing
f) Tourism and Recreational facilities
g) Other, specify