

PARTNERSHIPS AND PROJECTS IN AFRICA – FORGING A NEW PROJECT PARADIGM

**IAN MCKECHNIE
MANAGING DIRECTOR – GLOBAL AFRICA PROJECTS**

INTRODUCTION

If the oft-touted dream of an African Renaissance is to be realized, then the many associated development opportunities that can be identified with this vision in and for Africa must be translated into realizable and achievable development activities.

The implementation of projects in the developing world, including Africa, faces many difficulties. One of the biggest obstacles to the implementation of projects in this environment, is the ability to finance the project. Budget resources (including aid funding) of government, semi-government and even private sector organisations are very stretched, with many conflicting demands. Even where the merits of the project are undeniable, there is often simply a lack of resources to bring them to proper formulation, let alone fruition.

These constraints and problems are not going to go away in the foreseeable future. For countries and organisations to grow their infrastructure and capabilities, and for companies to grow their business in the developing world environment, alternative approaches must be therefore be considered, to overcome these hurdles – new project implementation paradigms are required. In addition, it can be noted that as the use of this methodology increases in various countries, companies are also going to be forced to adapt to the revised paradigms.

It is important to understand the implications of this for various project sectors, including technology-based projects. By technology based projects we refer to the “empowering” technologies, such as for example, IT, telecommunications, power and energy, petrochemical industry etc, rather than the “basic” infrastructure such as roads, bridges etc (without implying of course that these latter types of infrastructure do not require the use of engineering technology – such is the difficulty of finding all encompassing sector descriptors without offending!).

In the “basic” infrastructure environment, project alternatives have been recognised and used for some time. However, in the technology-based environment, the possibilities have tended to be less-well exploited, particularly in Africa, where there has traditionally been more of an initial focus on applying these alternatives to the provision of basic infrastructure rather than technology-based infrastructure.

It is important that technology-based projects also be seen as infrastructural in nature. For example, telecommunications systems, IT systems, power transmission and distribution, and energy (including petrochemical) projects are just as “infrastructural” in nature as roads, railways and bridges, and have a direct impact on the ability of a country to be productive, grow their economy and become internationally competitive.

TYPICAL PROJECT BIDDING SCENARIO

The typical project bidding scenario entails a response to a conventional tender enquiry or invited quotation. This may also be after some pro-active initiation by an organisation (which may even have included assisting with arranging finance, for example from an aid organisation).

Under such a scenario, there are certain constraints relating to financing and profit, and the project can be held up due to financing considerations. These include problems relating to funds availability, the client organisations/government credit-worthiness, political in-fighting over funds allocation, etc, which can significantly delay or derail projects.

The risk profile of such projects is such that the project risks are largely borne by the client (success benefits and risks, return on investment, funding, etc). Generally the risk on the contractor is primarily the technical or implementation risk, and the relationship between client and implementer tends to be adversarial in nature (although project management techniques are available to counteract this). The successes and failures of the project tend to impact on the client, rather than the implementer. As the client organisation carries much of the project risk, there is also a limited prospect of the implementer sharing in any "upside" benefit of the project.

As a result of the above, and the associated generally reactive approach, projects tend to be held back, with resultant constraints on infrastructure growth.

NEW PARADIGM

The alternative project paradigm often proposed as a viable alternative for projects is formulated around a particular model, commonly known as the Public/Private Partnership (PPP) model, such as for example the Build-Operate-Transfer or BOT approach. This model can almost be viewed as public-sector outsourcing of infrastructure provision.

In respect of this project model, the client typically awards a concession to an implementation consortium, to design, build (or rehabilitate), finance and operate a particular piece of infrastructure, for a defined period. At the end of the period, ownership of the infrastructure either reverts back to the client at no cost, or in some variations, ownership can remain with the implementer (opportunities also exist for renewal of the concession period). During the concession period, which length depends on the project nature and funding, the implementer/investor gains access to a defined revenue stream, in order to repay the financing costs, and to derive a return on his investment.

The project model offers an excellent alternative to full-privatisation of state infrastructure, with the political problems associated with that approach in many developing countries. Whilst it is a form of privatisation, it is for limited and defined periods, after which the assets revert to the state, free of charge, having been essentially "user-financed". In addition, opportunities for skills transfer exist.

This model has been less well used in the technology related sector, than in other infrastructure sectors, such as roads and bridges. There are various reasons for this, related to factors such as identifying and securing revenue streams, financier wariness of technology, training, support and business process issues, and the mind-set shift necessary to think about technology-projects in terms of this paradigm. The model is however well suited to many such projects.

A good example is the Phillipines. This country has enthusiastically adopted the BOT project approach, and has attracted over USD20 billion in direct foreign investment in infrastructure through this approach. Projects range in scope from roads through airport terminals, power generation plants, light rail systems, telecommunications, and information technology systems. Looking specifically at the technology sector, for example, a BOO (Build-Own-Operate) project has recently undergone international tender for a Land Titling information technology (IT) system, with an estimated project value of at least USD80m. IT projects alone account for USD177 million, and are a more recent development of this project model in that country. Energy projects amount to over USD11 billion of the overall figure.

Even in a developed country such as the UK, a significant number of technology projects are being implemented using this paradigm.

In South Africa, use of this methodology is also gaining momentum. Although use of the methodology gained prominence through its application to various toll road projects, such as the Maputo Corridor and the N3, and the various "BOT prisons", its use is also being extended to other sectors such as for example the provision of information technology infrastructure.

A similar picture can be found in various other African countries, for technology related projects. Global Africa Projects for example has recently been busy with structuring, planning and bidding on an African project in the downstream petrochemical sector, using this project paradigm. The author has also been responsible for designing and planning/structuring similar projects in SA and other SADC countries in the technology sector involving IT and telecommunications infrastructure using this paradigm.

The increasing usage of the PPP methodology both in South Africa and elsewhere therefore implies that business must become familiar and comfortable with the process, and understand that it is becoming a major factor in infrastructure procurement, operation, financing and maintenance process.

PROJECT PARTNERSHIP CONCEPT

Such projects are based on a partnership between the client and implementer, because both parties have to contribute towards the success of the project (the terminology of Public-Private Partnerships is very appropriate).

From the government side, there are a number of contributions that are required. These include factors such as :-

- Making (and enforcing) the necessary legislative amendments that may be necessary to facilitate the implementation and operation of the project (including collecting revenue)
- Ensuring/guaranteeing rights to repatriate monies (including profits) in the designated investment currency
- Ensuring and facilitating the co-operation of the relevant government bodies
- Ensuring that future government policy and actions does not impact negatively on the project
- Assisting with the user-base relations

From the implementer side, the requirements are more onerous and extensive compared to a more traditional project approach. These in turn include factors such as:-

- Performance of feasibility/viability studies to ensure a sound financial model is developed
- Provision of financing (direct, single source or multi-sourced)
- Design and implementation (as per a conventional project)
- Operation of the system (including collection of revenues)
- Ongoing maintenance and updating
- Transfer of assets and systems as applicable

Additional skills are required within the implementer project team, to ensure that the process is correctly structured and implemented.

BUSINESS PLANNING

In order to successfully plan and implement such a project, it is essential that the project be treated as a stand-alone business, in respect of its viability and sustainability.

In addition, the potential revenue stream must be identified, quantified, carefully analysed within the project scope and requirements, and secured.

Such projects are typically funded on the basis of limited or non-recourse funding, which implies that the financier looks at the viability of the project and the project revenue flows in assessing the financial risk, rather than the implementer balance sheet (although the implementer may of course be required to sign a performance guarantee or issue a performance bond). This "business analysis" is therefore vital in the planning process.

In planning such a project the identification and securing of the revenue stream is of critical importance. The principle of user pays is often adopted for such projects (e.g. toll fees, to quote a simple example from the transport sector). However, revenue contributions can also come from the client (a sort of "lease payment"), or a combination of the two.

In all cases however, the revenue stream must be achievable, viable and affordable to the user.

It can be mentioned that technology-based projects also often have sophisticated management systems associated with them, which can assist with the management of the revenue component.

It should also be mentioned here that the use of this project model also allows for a very pro-active approach to be adopted by a potential project implementer. If that organisation is able to identify a potential project opportunity, do the necessary technical, financial and risk evaluations, and come up with a viable project/business strategy, the unsolicited bid approach is usually available. In this situation, the potential implementer does not have to wait for the client to come up with the project, but can present a package (including financing) for consideration, as a pre-emptive move. Such a proposal would be evaluated and if the project fits in with the client's needs, it can be processed. Typically an unsolicited bid can either be directly negotiated, or will be subjected to a counter-bid process, whereby the proposer will usually have the right to better any subsequent offers, and be awarded the project.

Clearly this offers an additional business generating opportunity for dynamic and proactive organisations.

BID RISK

One of the issues to be carefully considered is the bidding risk – ie the risk associated with bidding for (and hopefully being granted) a PPP project. This is of significance due to the expense of the typical bidding process, both in the case of a solicited bid, as well as (and more so) in the case of an unsolicited bid.

In many countries, the usage of the PPP methodology is at a relatively “mature” stage. In this respect, the country has been using the methodology for some time, officialdom is familiar with the process, and some structure has been introduced into the procurement process.

If we think of the South African case, the establishment of the PPP Task Unit in the Treasury is illustrative of this process. Similar to the UK approach and structures, this unit is in the process of establishing standard procedures to be followed. Various guidelines and procedures have been published, and more are in the pipeline, as government seeks to establish sound procurement procedures which are standardized across all ministries and departments, replacing previous procedures and practices adopted by individual pioneering ministries and departments.

However, in many countries, the use of this methodology is at an early stage. In addition, the more regulated approach being adopted in SA, and as adopted in other countries (eg UK), implies additional costs and responsibilities on the part of the host/client, which may not be presently affordable or achievable/available. As a consequence the procurement methodology is more ad-hoc and less regulated, as well as less defined in respect of individual project requirements, allowing the country to still benefit, but obviously introducing additional risks on all sides. On the one hand, this also represents an opportunity for business to be proactive (in a responsible manner), but does imply significant additional bidding uncertainties and risks to business.

RISK PROFILE AND RISK ISSUES

The general project risk profile associated with PPP projects is very different from more conventional projects. Many of the risks normally carried by the client are either shared by, or transferred to, the implementer. Whilst this may seem onerous, the old risk-reward scenario is relevant – returns can be higher and there are also significant opportunities to share in the upside of any project (e.g. profit sharing after agreed returns generated early, etc)

Probably one of the more significant risks is the fact that revenue streams are dictated by project success. Any threat to the project success (through client, implementer or user fault/actions), including delays, must therefore be factored into the project risk management.

At the heart of a successful project of this nature therefore lies a comprehensive risk management programme, to identify the various project risks, and put in place the necessary risk management practices (financial, technical, project management, contractual) in order to contain the risks.

BID AND PROJECT PARTNERSHIPS

These project and business risks can also be mitigated through various means such as for example the forming of a non-adversarial project alliance, the bringing on board of a wider skill set (rather than trying to do everything in-house), ensuring client sharing in the up-side, sound insurance practices, good contractual arrangements, etc.

Key amongst these is the issue of project partnering, both on a local and international basis.

International partnering allows the project sponsor to access key success factors such as for example access to relevant international skills and experience, enhanced credibility (technically, financially, capacity and skills/knowledge base), enhanced or additional access to international funding, etc.

Local partnering is also a critical issue, both for bid purposes as well as in terms of practical implementation. On a bidding level, the host government/client usually has a critical interest and requirement in respect of skills transfer, local empowerment, employment implications, local business enhancement etc. From a practical implementation perspective, effective use of appropriate and carefully selected local partners will also usually enhance the probabilities of project success through the effective application of local capacity, knowledge and experience

TECHNOLOGY-BASED RISK ISSUES

One of the factors which significantly differentiates technology based projects from other projects implemented on this basis, such as toll roads, is the issue of the technology life cycle. This is because of the typically short technology life cycles faced, versus the typically medium to long term project agreements dictated by implementation and financial considerations.

This is seen as a project issue by financiers and clients alike:-

- Financiers are understandably nervous that the implementers will be saddled with dated technology, and will have difficulties in repaying financing.
- Clients are concerned that at the end of the concession they may be saddled with dated technology, or with proprietary technology that can only be maintained at a great cost. Alternatively, critical technology components may no longer be available, for various reasons.

In contrast, a road constructed on the basis of this project model is not subject to such extensive technology life cycle problems, and the issues are therefore more manageable.

Issues relating to proprietary technology, support, maintenance and training are also viewed as project risk factors.

In the case of technology projects therefore, technology life-cycle management, and technology choice, become critical factors. The correct choice of an appropriate PPP model is therefore also of critical importance for technology based projects.

FURTHER IMPLICATIONS

The continued instability and economic weakness of many countries continues to be a negative factor in respect of any project paradigm. With the increasing need to adopt new project paradigms for provision of facilities and infrastructure, It is therefore essential for countries and their governments to appreciate the necessity of becoming more investor friendly if they are to attract and secure the much needed projects and infrastructure provision.

It should be noted that this is further complicated by the fact that the higher risk/shorter payback period often dictated by technology projects, due to both the business/project environment as well as due to constraints around the technologies (eg their risk and life cycle management) may require imaginative design of revenue streams.

The pre-project costs associated with such a methodology also remain a potential obstacle in initiating such projects. For example, suitable budget must be made available by the project initiator (including by the potential implementer as the initiator, in the case of unsolicited bids) to ensure that the project analysis, investigation, structuring and planning is effectively performed, as this is generally a critical success factor. Similar budget also needs to be made available on the part of the potential implementer(s), in respect of their pre-project activities. A partnership approach between all involved on both sides of the fence will also assist in reducing the risks associated with the pre-project activities.

The choice of the project team is obviously a critical success factor. Use of organizations experienced in these alternative paradigms, as well as the use of appropriately experienced partners in an African and local context is critical.

A realistic, appropriate and achievable project and design solution must also be emphasised as a key success factor. Support implications (maintenance, training etc) must also be appropriate and achievable.

The implications around any business process reengineering and change management exercise must also not be underestimated, and project planning must take into account these realities.

CONCLUSIONS

The applicability of the PPP or concession type approach is just as appropriate to the technology based infrastructure project, as it is to "basic" infrastructure.

In addition, the project approach permits implementers to be more proactive than in the past, by not necessarily waiting for clients to conceive the project and/or the alternative approach, but to also make unsolicited proposals based on sound business principles – truly a proactive way of generating project opportunities.

The on-budget and aid-funding financial constraints faced by developing countries are going to be present for some time. Alternative project implementation models or paradigms are therefore an important way of ensuring that projects which would otherwise be delayed by financial constraints can be implemented. Companies wishing to grow their business in the infrastructure establishment and maintenance arena (including technology based infrastructure), in particular (but not only) in developing countries, are therefore also going to have to adopt these alternative

project paradigms, with the associated risk profiles, project obligations and skills requirements.

The risk management process is a critical success factor, as is sound and realistic project planning and the formulation of an appropriate project team with the necessary skills set. The project alliance paradigm, whereby a team with shared goals and rewards is created, can be a powerful tool in achieving this.

The risk transfer and sharing implications promote a partnering approach, and force a more thorough evaluation and management of viability, risks and planning, with resultant benefits in respect of enhanced likelihood of success and therefore reduced risk to project sponsors, financiers and clients.

These alternative project paradigms such as Public Private Partnerships, including BOT-variants and other Private Finance Initiatives, particularly for technology based "enabling" projects, are poised to be a key success factor in achieving the dream and goal of an African Renaissance.

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Contact details for Global Africa Projects

Tel: +27(0)12 6634804

Website: www.gafrica.com