Feasibility of Public-Private Partnerships in Tribal Areas of Botswana: Evidence from Mongala Shopping Mall

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Abstract

Economic downturn and the resultant financial constraints has for many years forced various tiers of government around the world (federal, state and local) to look into the advantages derivable from partnering with the private sector in the context of developing its much needed infrastructure. Botswana is not an exception in this drive for new initiatives in infrastructure delivery where her two tiers of government, central and local government are initiating public-private partnership development projects. The objective of this paper was to examine the feasibility of Public-Private Partnership in the Tribal Areas of Botswana. The paper presented a general overview of the concept and practice of Public-Private Partnership from a world-wide perspective and proceeds to examine the theoretical framework relating to the use of Public-Private Partnership in procurement and the selection of appropriate contracts thereof. The survey showed that the project was executed through Build – Own - Operate and Transfer (BOOT) at the end of the sub-lease contract which was done through open bidding criterion. The shopping mall is to be transferred to the district council after it has been operated by Time Projects for a sub-lease period of 45 years. The implementation of the project was devoid of cost and time overruns. It was concluded that the Public-Private Partnership arrangement was a successful way of transferring both project financial and quality risks to the private sector. The construction of this mall will thus leave a long standing footprint in Kanye in terms of the socio-economic development of the area.

Keywords: Feasibility, Public-Private Partnerships, Mongala Shopping Mall, tribal areas, Botswana.

Introduction

It is apparent that the phenomenon of Public-Private Partnerships (PPP) and its application worldwide, as a solution to the challenges faced by public sectors in service delivery has gained popularity at a very increasing rate. Ahadzi and Bowles [1] opined that PPP concept is increasingly being embraced by many countries around the world and it is being supported by a number of international institutions highlighting its prominence among countries such as United States of America, United Kingdom, Canada, Australia, South Africa, Japan, Turkey and other large economies. The same notion was shared by Tennyson [2] who revealed that PPPs have become the solution to service delivery problems in most governments recently for infrastructure, and that they are embraced by a wide range of constituencies across political parties and throughout the world. Governments have been investigating massively in implementing projects using PPP as a procurement system or method, shifting away from the conventional procurement, particularly of infrastructure projects. Figure 1 shows a representation of the number of projects and total investment commitments for Greenfield PPP projects in low and middle-income countries worldwide between 1990–2013 (World Bank PPI Database, 2014).

![Figure 1: The number of projects and total investment commitments for Greenfield PPP projects worldwide, 1990 – 2013 Source: World Bank PPI Database (cited by [3])](image-url)
Despite its perceived increase in the number of projects implemented worldwide, not all regions have experienced the same degree of growth. While there has been prevalence in PPP projects and the amount of investments in Africa still lags behind most regions in the world.

![Figure 2: Total investment commitments for Greenfield PPP projects by region, 1990–2013 Source: World Bank PPI Database [3]](image)

Clearly, the use of public private partnership as an alternative procurement method to traditional methods of delivering public sector projects has been adopted in most developed countries such as the United Kingdom, the United States and even in South Africa. It has, in past couple of decades gradually spread worldwide to become an effective approach to projects procurement, specifically for large and complex infrastructure constructions.

This notion is shared by Akintoye et al. [4] who states that “in most countries, public private partnership arrangements have been aimed at overcoming broad public sector constraints in relation to either a lack of public capital; and/or a lack of public sector capacity, resources and specialized expertise to develop, manage, and operate infrastructure assets. He further argues that projects procured using PPP system have much greater certainty of timely delivery, increased customer focus and success in transferring risk associated with the cost of construction and operation.

Forrer and Kee [5] explain that in traditional procurement, government dictates the terms and conditions and defines what it needs, specifies the constraints and specifications to the contractors without a bidder’s involvement in the design specifications, financing, or operations of the project. On the contrary, public private partnership contracting take varying degrees of private sector involvement in the procurement process and that could be including design, build, and operate; build, own, operate, and transfer; and design, build, finance, and operate of a public sector project.

However, there exists literature by various scholars and practitioners against public private partnership contracts. Typically, Reeves [6] argues that public private partnership contracts are characterized by complexity in relation to aspects such as the number of parties involved (for example, contractors, sub-contractors, financiers and service users), as well as the extensive documentation in PPP contracts.

As is the case for many developing countries in Africa, the Government of Botswana faces challenges in the delivery of public infrastructure services including new constructions and maintenance of existing infrastructure such as roads, hospitals and airports among others. Such problems hinder the effectiveness in delivery of public services to a greater number of the population.

As pointed out by “in order to deliver such needed capital investments whilst maintaining sound fiscal policies, the Government requires alternate means of financing such investments including the use of public private partnership”. He asserts that internationally, PPPs are used effectively as a means of providing economic assets, such as roads and railways, government accommodation and social assets, such as schools and hospitals.

Sharma [7] opined that privatization has been widely promoted as a means of improving economic performance in developing and transition economies. Upon the establishment and adoption of
privatization policy by the Botswana Government in the year 2000, which aimed at, among other objectives, relieves the financial and administrative burden of government in undertaking and maintaining a constantly expanding network of services and investment in infrastructure [8]. A key driver for establishment of the privatization policy was the obligation on Government to improve efficiency and effectiveness in public services delivery by creating opportunities for greater private sector participation in the economy. This subsequently prompted a complementary initiative by the Government to develop a policy that would provide guidelines on partnership with the private sector.

In the year 2009, the government of Botswana through its Ministry of Finance and Development Planning launched a policy termed “Public-Private Partnerships Policy and Implementation Framework” [9]. The policy was developed as a part of recommendations of a PPPs feasibility assessment that had been successfully undertaken by the Government with association of Public Enterprises Evaluation and Privatization Agency (PEEPA) and SADC Banking Association with financial support of the Canadian International Development Agency (CIDA) [10].

A notable aspect recognized by this policy was that entering into PPP enhances the delivery of a public service infrastructure by means of accessing the private sector’s financial, managerial, professional and technical expertise. In describing the context in which PPP shall be developed and executed locally, the policy defines PPP as “contractual arrangement between a governmental institution and a private party whereby the private sector party provides public infrastructure and/or infrastructure related services”. The selection of such PPP would be restricted to satisfy the following conditions:

- Based on measurable output (end result) specifications;
- Governed by a payment mechanism that provides payment only on delivery of services at required standards;
- Accompanied by a transfer of financial and operational risks with consequential financial effects; and
- Demonstrates value for money to Government.

The policy outlines among other things; funding arrangements, contract provisions, scopes of PPPs and procurement requirements. The policy describes arrangements and Regulations used to govern the conceptualization, procurement and implementation of PPP projects. Notably, each PPP project will be governed by an actual PPP contract signed, in terms of the required contract management plan and based on international norms for PPP contracts but in the Botswana context [9].

The purpose of this paper was to examine the feasibility of Public-Private Partnership in the Tribal Areas of Botswana.

Literature Review

Public Private Partnerships have been adopted in developed and developing countries as the effective procurement strategy in recent years. Jefferies et al [11] observed that the past two decades have seen the evolution of private public partnerships, mainly used as the alternative method to traditional procurement strategy in procuring and delivering public infrastructure and services. Jefferies et al. [11] Noted that PPPs gained popularity in the UK in the early 90s and have since been accepted worldwide as a meaningful method of delivering infrastructure. African states have also resorted to implementing PPP for the provision of both economic and social infrastructure and services. South Africa is the leading SADC country in the number of public services delivered through partnership with the private sector [12].

stated that the country has over 50 projects at national level and well above 300 partnerships at municipal level since 1994. Republic of Botswana [9] stated that the country is among the countries which accepted the idea of public private partnerships early, in 2002 through the 2002/2003 budget speech the government declared its commitment to procure and finance infrastructure projects using PPP agreements to facilitate sustainable investment and manage the budget deficit to sustainable levels.

PPPs take a diverse form and can be used in various sectors. Every single PPP project requires a unique contract influenced by the
nature of the project. Among the core features that separate the contracts applied in public private partnerships comes in the form of the bundling activities of the contract and the responsibility of the parties. PPP schemes can be realized through different contractual arrangements with broad role and participation of private sector. Tamova and Palicka [13] emphasized that the main types of PPP contracts are management contracts (MC), Leasing (L), rehabilitate, operate and transfer (ROT), rehabilitate, lease/rent and transfer (RLRT), Merchant (M), build, rehabilitate, operate and transfer (BROT), build, own and transfer (BOT), build, own, operate and transfer (BOOT), build, lease, own (BLO), build, own and operate (BOO) and partial privatization (PAPR).

Williams and Falch [14] observed variants of PPP similar to the above mentioned. They stated that PPPs are commonly implemented through concessionary models such as, but not limited to: build operate transfer (BOT), build transfer operate (BTO), build own operate (BOO), build own operate transfer (BOOT), build lease transfer (BLT), design build finance operate (DBFO) and design contract manage finance (DCMF). The common feature of the contracts is that they are a bundle make up of two and more activities which all include building, operating and transfer as the core arrangement of the agreements. Duffield [15] argued that schemes such as build own operate (BOO), build operate transfer (BOT) and build own operate transfer (BOOT) are among the first contractual agreements used to procure PPP projects and the most commonly used.

Khanom [16] stated that most of the contracts used in PPP projects are mostly in infrastructure building which mostly include BOT (build Operate Transfer), BOOT (build own operate transfer, and BOO (build own operate, but the most common is the BOO model. Mannathoko [17] observed that the above mentioned variants of PPPs can be used for renovation, construction, operation, maintenance, or management of a facility or system.

Farlam [18] observed the use of the build, operate and transfer (BOT) in the construction of the N4 toll road from Witbank South Africa to Maputo Mozambique. The contract was for 30 years and at the time the contract was worth R3 billion.

The BOT concession was between the South African, Mozambican government and a private consortium Trans African Concessions (TRAC). Grimsey and Lewis [19] were of the view that PPPs are not a once-off interaction where a private consortium provides goods or services in a commercial arrangement: instead PPPs emphasis long term contracts and strict performance regimes such as build, operate and transfer (BOT) and design, build, finance and operate (DBFO) under a concession with revenues according to services provided. Grimsey and Lewis [19] cited the Brussels North Waste Water treatment in Belgium was delivered through a BOOT contract. The use of the different contractual structures is widely used across the world in various sectors as evidenced by the BOT, BOO, BLT schemes in Philippines for the procurement of many projects which include vertically integrated water supply and sanitation for east and west manila.

A variety of important selection criteria have been identified through a literature review of PPP experts and practitioners. Zhang [20] identifies four key evaluation packages for PPP projects in general, these being; financial, technical, (3) safety, health, and environmental, and (4) managerial. The proposed list of projects for screening must be provided with accompanying information and data.

According to Ahadzi and Bowles [1] the contracts of PPPs are not without their problems. The contractual challenges experienced with contracts such as Build, Operate and Transfer (BOT), are the problems associated with the tendering and negotiation of the contracts between the public sector clients and private sector providers.

The core problems come in the form of high bidding costs and pre-contract time overruns due mainly to the protracted nature of the negotiations. Cruz and Marques [21] noted that PPP contracts are based on projections and assumptions on the main macro-economic variables (inflation, capital costs etc). The assumptions lead to demand forecasts and cost estimates which at times have proven to be less accurate.
Other problems associated with the contracts arise from the long term nature of the schemes ranging from 10 to 50 years which exposes the arrangements to opportunistic behaviours by concessionaires.

Public-private partnerships provide a cooperative and collaborative platform for the public sector and private institutions to work together for a common goal hence the inclusion of the word ‘partnership’ to symbolize union of the two parties. Republic of Botswana [9] defined a public private partnership as an agreement which necessitates a contractual agreement between a government institution and a private party whereby the private party provides infrastructure and related services to the government institution based on clearly defined terms and economic benefits.

The terms and benefits cited range from output specification, payment policy, value for money and transfer of financial and operational risk. Mannathoko [17] explained that a public private partnership is a contractual agreement between the public sector and private sector (firms, foundations etc) sharing assets, risk and revenue attain a common shared goal. Jamali [22] argued that the appeal for PPPs lies in their expected benefits, such as access to private finance to expand services, clear objectives, new ideas, flexibility, better planning, and improved incentives for competitive tendering and greater value for money for public projects.

With the discovery of diamonds in Botswana in 1967, the birth of PPP projects came into being. At the time, the concept of PPP projects and its framework were not known. However, the Government of Botswana managed to enter into a PPP concession agreement with De Beers (Pty) Ltd to mine the diamonds. Botswana Government was providing the mineral and the private sector was providing the expertise, experience and technology required. This is the Public Private Partnership that led the country from being one of the poorest countries in the world into the ranks of upper middle-income status. In 2012 (as per Axis Consulting Botswana Country Report for 2013), Botswana’s GDP per capita was (US$) 9,398.

It was only in the early 2000 that the Botswana Government started adopting the use of PPP in its development strategy. The Government announced first time in the 2002/2003 budget speech and in the National Development Plan 9 its commitment to make more use of Public Private Partnerships (PPPs) as means of procurement and financing of infrastructure projects (Ministry of Finance and Development Planning (MFDP), PPP Policy and Implementation Frame work, 2009).

Public Enterprises Evaluation and Privatisation Agency (PEEPA) were then tasked to perform an environmental assessment for PPPs and thereafter, develop the PPP Policy and implementation Framework to govern PPPs in Botswana. This was as per the recommendation of the environmental assessment, with the view to support and enable PPPs in Botswana. The PPP Policy was approved by the cabinet in 2009.

At the time of approval of the PPP Policy and Implementation Framework, the PPPs were viewed as a lifesaver from the economic recession which started in 2008. The expected benefits from the policy by the government were:

- Acceleration of infrastructure provision through making use of private sector financial resources as well as their expertise;
- Reduce Government responsibility as it would focus on providing the required regulatory oversight.
- Reduce the constraints on Government to implement projects
- Improved yield sustained efficiency benefits in infrastructure service delivery.

The Government looked to the private sector for the following reasons:

- Impose budgetary certainty
- Develop local private sector capabilities
- Knowledge and skills transfer
- Creating diversity in the economy
- Increase competitiveness
- Increased infrastructure base
- Supplement limited public sector
- Extracting long term Value for Money through appropriate risk transfer to private sector over the life of the project.
Research Methodology

This study made use of a single case study as the research strategy. Yin [23] defines a case study as an empirical enquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident.

Njie and Asimiran [24] stated that case study research "consists of a detailed investigation, often with data collected over a period of time, of phenomena, within their context with the aim being to provide an analysis of the context and processes which illuminate the theoretical issues being studied. They further pointed out that the purpose of a case study is to get in-depth details as much as possible about an event, person, or process. The case study is essentially an intensive investigation of the particular unit under investigation.

According to Kothari [25], the three major advantages of case studies are:

- The researcher can use one or more of the several research methods under the case study method depending upon the prevalent circumstances. The use of different methods such as depth interviews, questionnaires, documents, and study reports of individuals, letters, and the like is possible under the case study strategy. This study will employ a triangulation of interviews, questionnaires and documents for data collection.

- This strategy makes possible the study of social changes. On account of the minute study of the different facets of a social unit. The researcher can well understand the social change then and now. This also facilitates the drawing of inferences and helps in maintaining the continuity of the research process.

- Case studies enhance the experience of the researcher and this in turn increases his analysing ability and skill. The researcher will develop vital research skills from the case and intends to undertake further research in future to contribute to the project management body of knowledge.

This research therefore adopted the use of case study strategy to conduct an in-depth study on the PPP contract used for the construction of Mongala Mall, at Kanye under the Southern District Council using interview and document analysis as research instruments.

Results and Discussion

The forgoing results and discussions are based on the literature review, document review, field survey and interview conducted.

Mongala mall gets its name from Batho-Boora-Mongala after due consultation with the family to name the mall after them since they were relocated to give way for the development. The main goal of the development was to reduce unemployment and poverty while creating opportunities for other development projects. The mall covers 6500 square meters of land with 40 shops and 30 kiosk.

The mall is anchored by Spar supermarket which covers 1800 square meters and is the first of its kind in Kanye village. Mongala mall has brought more than 20 new franchise stores in Kanye village. The mall was constructed through partnership between Southern District Council and Time Projects which is a private company.

According to the market survey conducted by Southern District Council, business operators in Kanye expressed different reactions towards the new Mongala mall with some arguing it will increase shoplifting and burglary incidences upon its opening. Since many clothing shops like Edgars, Mr. Price and Ackerman’s, to mention a few, will be opening at the mall, Woolworths felt they may encounter losses as many customers will prefer them because of their affordable prices. The mall would benefit the community in many ways such as:

- No need to travel far to shop, e.g Mafikeng and Gaborone, therefore saves costs
- Existing shops like Choppies will upgrade their customer care to remain competitive
- Kanye residents would have such a big development coming to their village and many jobs will be created and the building will give the village a better outlook.

The Southern District Council then invited the private sectors to a partnership to finance the development of a shopping mall in Kanye. The requirements for the partnership were on the ability of the private sector to fully
facilitate the development, design and finance the mall. The contract between SDC and Time Projects is the Ground Rental Lease Agreement (GRLA) which stipulates the following:

- The land belongs to SDC
- SDC sub-leased the land for 45 years to Time projects to develop at their own expense. When the lease period lapses, all developments on the plot will revert to the council.
- Tenancy at the shopping complex will be leased out by Time Projects.
- Once the project is complete, the council will earn five percent of the gross monthly income. Revenue of the project is expected to finance council developments and activities.
- Time Projects shall build and operate the infrastructure and transfer ownership to SDC following the Design-Build-Operate and Finance (DBOF) contract arrangement.

Major highlights of the condition of contracts were that:

- Time Projects shall not use the property as security for mortgage or bonds purposes.
- In case of liquidation of the company, the mall shall not be used as security to pay debts.
- Where Time Projects wishes to sell over its sub-lessee rights, it should notify the council and the incoming sub-lessee shall abide by the terms of the initial agreement with Time Projects
- Sub Lessor reserves the first priority for the sale and if it rejects and a third party is preferred, the amount should be the same with the one offered to the council

The council relied on benefiting from the partnership from the following angles:

- Source of revenue generated from the ground rentals from Time Projects which are a percentage of the gross tenant fees paid to Time Projects and shall increase annually
- Tenants of the mall shall pay the council to acquire business licensing services
- Promotion of the socio-economic development of the Kanye and the district at large. Particularly from:
  - creation of employment opportunities in the district.
  - aiding entrepreneurial development
  - adding new Infrastructures
  - improved skills and knowledge development in delivering partnership based projects.

The response provided during the interview sessions with the SDC Senior Housing and Real Estate Officer revealed that the mall was procured through an open tender which was floated and to which different property development companies expressed interest. The company was awarded the tender after an extensive evaluation and adjudication by the council.

Time Projects as the main contractor was responsible for the design and construction of the project with approvals by the council. The agreement stipulated that the bearer of the risk associated with construction, maintenance, draw of the contract would be Time Projects. The contract terms further stipulated that SDC shall not be accountable for any risk and shall not be part of any works at the project other than to monitor compliance and offer regulations.

A project manager from Time Project remarked that as the principal owners of the project the management of risk by both parties was highly monitored and prioritised to avoid any extra costs. Therefore the delivery of Mongala mall did not incur cost or time overruns.

**Conclusions and Recommendations**

Implementation of a public-private partnership is a means by which the objectives of developing the Mongala Shopping Mall were realized. The mall tends to improve the social-economic situation of the tribal environment through various benefits which shall manifest as increase in employment and consequent decrease in poverty; increased revenue generation for more development projects in the district; opening up of the rural area to the outside world as a result of increase shopping activities more so when it is strategically located along the Trans-Kgalagadi highway
and attracting improved amenities from the federal government in a bid to upgrade Kanye village to the status of a town. The concession period for the contract was 45 years during which Time Projects would have recouped its expenses with an amount as profit after which ownership is transferred to the council.

The type of contract between SDC and Time Projects was Build-Own-Operate-Transfer (BOOT) currently allows Time Projects to operate the mall, receive all financial benefits and pay SDC 5% of the gross monthly income.

Even though there was no clear cut risk management mechanism put in place for the project, it was completed on time and on budget of P63 million which marks a very effective and efficient public-private partnership arrangement between Southern District Council and Time Projects.

The population of Botswana still hovers around two million people and this might be a constraint to attracting public-private partnership for complex infrastructure projects that could be financed through PPP. Botswana is known to have effectively implemented only one PPP project at central government level. However, non-complex initiatives like Mongala Shopping Mall and other endeavours could be step up in all other districts and at the level of central government to further enhance the social economic life of the people.

References


