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**FACTORS AFFECTING PUBLIC PRIVATE  
PARTNERSHIPS IN URBAN RENEWAL AND  
DEVELOPMENT PROJECTS**

**By**

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“Every prince needs allies and the bigger his responsibility the more allies he needs.”

- **Machiavelli**



## ABSTRACT

The South African urban renewal and development environments are facing a number of challenges. South Africa, like many countries around the world, is experiencing challenges delivering to its citizens, facilities, infrastructure and services, at a rate fast enough to satisfy the public demand. Public Private Partnerships (PPPs) are a possible solution to curbing the disparity between these levels of supply and demand. The field of urban renewal and development is no different in this regard. In fact, urban renewal projects act as an effective measure when gauging the success rate of PPPs within a country. This is due mainly to the sheer size of these projects, which by their very nature, demand a certain involvement from numerous parties.

While PPPs may act as an effective aid for government to increase procurement and service delivery, these initiatives are not without their problems, in fact these partnerships are often plagued with much uncertainty. This research aims to provide insight into factors affecting PPPs, both negatively as well as positively, and specific to the area of urban renewal and development.

The first stage of the research involved semi-structured interviews that were conducted with industry experts. This allowed for the next stage of research which involved surveying employees in the relevant industry through a structured questionnaire.

Based on the findings of this research, as well as knowledge garnered from a review of available literature surrounding this topic, a model was created to provide users with a clear consolidated view of factors affecting PPPs in general and specific to the urban renewal and development sectors.



## DECLARATION

I declare that this research report is my own unaided work. It is submitted in partial fulfillment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in this or any other University.

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# CHAPTER 1: INTRODUCTION TO RESEARCH PROBLEM

## 1.1 Definition of Research Problem

Public Private Partnerships (PPPs) are found, in one form or another, in most countries around the developed and developing worlds. Ahmad (2002) claims that, already, over two thousand PPPs have been formed worldwide. Countries where PPPs have been successfully implemented include: the United Kingdom (UK), Germany, the United States of America (USA), Australia, Canada and Argentina, to name but a few. This global drive for PPP implementation is mainly due to governments around the world focusing on the inadequacies prevalent in rendering services to their citizens.

Globalisation has also added to the disparity of access to services between the rich and the poor, creating an even more of an urgent demand for state services. This has resulted in tension between rich and poor in developing countries as well as within the developed world (Glatzer, 2002).

Widdus (2001) suggests that this awareness has been accompanied by a reassessment of the respective strengths and weaknesses of the public and private sectors, and a recognition that collaboration between the two is required, if these problems are to be solved. The South African Government has echoed Widdus' sentiment. This was confirmed by statements made in the 2002 and 2003 budget speeches, by Finance Minister, Trevor Manuel. Manuel indicated that the South African Government has

recognised the need to leverage risk, increase its budgetary capacity and gain desperately needed specialised skills, by partnering with the private sector. Donaldson (2003), claims that the South African Government has already entered into numerous contractual partnerships of this nature, worth billions of Rands. He suspects that this trend shall continue to increase over time.

However, certain international media reports suggest that not all PPPs are successful. The Times UK (2002), reports that certain PPPs in the UK are losing millions of pounds annually. They continue to suggest that these PPPs are seeking government assistance in the form of cash bail-outs. The Toronto Star (2002), reports that PPPs are more expensive in the long-run than alternative solutions. They suggest that more economical forms of government procurement and infrastructure building are available.

South Africa needs to ensure that it does not repeat mistakes that have already been made in other parts of the world. Landsberg (2003), suggests that PPP disasters in other countries should be a warning to governments around the world.

The research problem defined by the foregoing, questions what factors are affecting PPPs both internationally as well as locally and whether South Africa can gain from the lessons of other countries. It further questions whether lessons taken from failed PPPs

in developed countries have any real relevance to PPPs in the developing world and also questions the assumption that PPP failure slows down economic growth.

## **1.2 Research Scope and Objectives**

Johnson (2003) suggests that PPPs provide a market to a wide array of companies, from builders to healthcare operators. For the purpose of focusing this research, the researcher has selected to examine PPPs involved with urban renewal projects. This type of project, namely renewal and regeneration schemes, requires several organisations or institutions to work together. According to Hothi & Sorrell (2007) working together in unison is further required to provide remediation and infrastructure, develop land, fund the development or project and to ensure the long-term stewardship and management of the developed scheme. This suggests that urban renewal project PPPs epitomise the essence of a true PPP.

An objective of this research is to identify the major factors driving the need for PPPs in Urban Renewal and Development Projects. A further objective is to establish what barriers and promoters affect the outcome within these PPPs.

South Africa's PPP environment is made even more complex by government policies unique to the South African economic environment. An excellent example of this would be Black Economic Empowerment (BEE). Rennie (2003) says that PPPs are providing

a powerful tool for developing real and lasting empowerment business in South Africa. The Minister of Finance, Trevor Manuel (2003), was reported as saying that he wanted to see PPPs create impetus for BEE.

Coupled with this is a further complexity in the form of a need for the South African Government to bring a large portion of the previously disadvantaged population to the required skills level.

The third objective of this research is to examine the relationship between BEE and PPPs, and to note how the two initiatives have impacted one another. According to the FW de Klerk Foundation (2005), The Department of Trade and Industries defines BEE as an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa, and brings about significant increases in the number of black people that manage, own and control the country's economy. It further defines BEE as a means to achieving significant decreases in income inequalities.

This unique PPP environment, specific to South Africa, allows for the fourth objective to be researched. This objective involves assessing how South Africa compares internationally within the PPP spectrum and what elements of the South African PPP framework, if any, are exportable.

This research is intended to be indicative rather than comprehensive.

## **1.3 Research Relevance**

### *1.3.1 Relevance to Management in South Africa*

Private sector companies, across all sectors, have identified the huge opportunities that partnering with government could unleash. Companies are spending vast sums of money on attempting to become preferred bidders for certain government procurement contracts. This research report will attempt to offer the South African manager an insight into the limitations and opportunities surrounding PPPs

### *1.3.2 Relevance to Government and Public Sector Management*

This research report attempts to suggest a view of problems, limitations and inhibitors facing both parties when engaging commercially in a PPP. This research further attempts to offer government and the public sector an insight into performance of PPPs around the globe, in both developed and developing countries.

### *1.3.3 Relevance to the International Community*

The research to be carried out in chapters four and five of this report and concluded there upon in chapter six will offers the international reader an insight into the climate off PPPs in South Africa, specifically in urban renewal and development projects.

### *1.3.4 Academic Relevance*

This research offers, both international and local academics, an insight into the topics of: PPPs; urban renewal projects; disparity of service delivery between the rich and poor; PPPs in Africa; PPPs in South Africa; PPPs in emerging markets. Topics of further research will be suggested in chapter seven of this report.

### **1.4 Structure of Research Report**

This report begins with an in depth literature review in chapter two which examines the PPP concept and explores the PPP landscapes of South Africa and the world. In chapter three, research questions are formulated from the literature.

Chapter four provides detail regarding the research methodology selected by the researcher, in an attempt to collect data. This methodology includes both qualitative as well as quantitative methods of data collection. The collected data is disclosed in chapter five, through the use of tables and graphs, as well as direct quotations from industry experts. An in depth review of the findings is examined in great detail in chapter six. Here common themes and opposing opinions are explored more closely. Chapter seven concludes the research and offers proposed future research topics.

## **CHAPTER 2: LITERATURE REVIEW**

### **2.1 Introduction**

This review begins with an insight to what exactly a PPP is, in an international as well as South African context. The legal and general definitions of a PPP are then examined in more detail. This examination looks more closely at different types of PPPs and discloses partnership agreements which fall outside of the definition. PPPs are then more closely examined on an international and then local basis. The factors affecting urban renewal projects are then examined. This leads to further exploration of PPPs pertaining to these projects. Finally, BEE is examined in relation to PPPs. This knowledge is then utilised in the formulation of research questions relating to the research problem.

### **2.2 What is a PPP?**

According to Gerrard (2001) the International Monetary Fund describes a PPP in a global context, as the combination of the deployment of private sector capital and, sometimes, public sector capital to improve public services or the management of public

sector assets. He further goes on to say that by focusing on public service outputs, PPP's offer a more sophisticated and cost effective approach to the management of risk by the public, sector than is generally achieved by traditional input-based public sector procurement.

According to the second version of the South African National Treasury Department manual on PPP's (2001b), a PPP is defined as a contractual arrangement between a public sector entity and a private sector entity whereby the private sector performs a departmental function in accordance with an output-based specification for a specified, significant period of time. In return for performing this function, a benefit, which is normally in the form of financial remuneration is received by the private party. The manual states that It furthermore involves a substantial transfer of all forms of project life-cycle risk to the private sector. The public sector retains a significant role in the partnership project either as the main purchaser of the services provided or as the main enabler of the project.

### *2.2.1 Legal definition of PPP*

Further to the above definition, South African law defines a PPP as a contract between a public sector institution/municipality and a private party, in which the private party

assumes substantial financial, technical and operational risk in the design, financing, building and operation of a project. (South African National Treasury Department, 2007)

### *2.2.2 Types of PPPs*

Many different types of PPPs exist in countries around the globe. However, Rondinelli and Iacono (1996), suggest that within these projects four general types exist. The first type entails the transfer of ownership of state assets in their existing form to privately owned entities; The second enlists the aid of the private sector in the restructuring of state owned enterprises, which may then be retained or sold at some future date; the third type transfers management of public operations and/or services to the private sector; and lastly, the fourth type delegates the product or service delivery to the private sector or non-governmental organisations (Rondinelli & Iacono, 1996).

### *2.2.3 Types of PPP scenarios in South Africa*

In South Africa, two types of PPPs are specifically defined by the National Treasury (2007). The first describes the scenario where the private sector party performs an institutional/municipal function; the second type details a scenario whereby the private

party acquires the use of state/municipal property for its own commercial purposes. It is also not uncommon for a PPP to consist of a hybrid of these two types.

#### *2.2.4 Types of PPP payment scenarios in South Africa*

Payment in any scenario involves one of three possible mechanisms. The first scenario is described by the National Treasury Department (2007) as being a direct payment to the private party for the delivery of a service, paid across on once the delivery is completed. The second scenario occurs when the private party collects fees or charges, from users of the service. These fees are often collected on behalf of the public party. The third scenario is any combination of the first two scenarios (National Treasury Department, 2007). Payment scenarios are relevant here, as they often determine the choice of PPP type selected for a project.

### **2.3 What does not constitute a PPP?**

Some situations involving public and private sector interaction do not fall with-in the official PPP framework definition. National Treasury Department (2007) clarifies that a PPP is not a simple outsourcing of functions where substantial financial, technical and

operational risk is retained by the institution. It does not include transactions involving donations, State borrowing or privatizations of State owned assets

### *2.3.1 Public-Private Initiatives (PPIs)*

PPI is a term used to describe any interaction between public and private sectors. It specifically includes projects where financing is derived from private money markets. These are often referred to as Private Finance Initiatives (PFIs). The term PPI thus incorporates PPPs but is broader in its definition (Wadee et al, 2003).

## **2.4 Essential Roles of the Public and Private Sectors**

According to Gerrard (2001), The essential role of the public sector in All PPPs is to define the scope of business; specify priorities, targets and outputs; and set the performance regime by which management of the PPP is given incentives to deliver.

The essential role and responsibility of the private sector in all PPPs, insists Gerrard (2001), is to deliver the business objectives of the PPP on terms offering value for money to the public sector.

A central element of a PPP is that public organisations should import successful business techniques from the private sector in order to improve efficiencies (Box, 1999).

Critics suggest that management styles between public and private enterprises are too polarised to work synergistically (Boyne, 2002).

## **2.5 PPPs around the Globe**

Governments are increasingly focusing on the inadequacies prevalent in rendering services to their citizens. Of particular focus is the disparity of access to services between the rich and the poor. This inequity has gained greater attention with the advent of globalization (Dorfman, 2004). Widdus (2001) suggests that this awareness has been accompanied by a reassessment of the respective strengths and weaknesses of the public and private sectors, and a recognition that collaboration between the two is required if these problems are to be solved. While this thinking has been prevalent in the developed world for some time, the same cannot be said for the developing countries. Ridley (2001), proposes that a paradigm shift is slowly occurring in the developing world. This would result in a better balance of power and flow of resources between the two sectors.

PPPs are found in one form or another, in most countries around the developed world. Ahmad (2002) claims that over 2,000 PPPs have been carried out worldwide. The United Kingdom (UK) is often considered one of the leaders of PPP implementation, and as such is often utilised as a template for PPP creation elsewhere in the world (Johnson, 2003).

The UK founded the original PPP concept when they embarked on the Private Finance Initiative (PFI) in the early 1990s. It was launched in 1992 as a policy framework to enable the provision of public works and services by the private sector (Zhang & Kumaraswamy, 2001). Fourie and Burger (2000) say that some of the countries where PPPs have been successfully implemented include the U.K., Germany, the United States of America (USA), Australia, Canada and Argentina.

### *2.5.1 Factors Affecting PPPs around the Globe*

#### *2.5.1.1 Management and Control*

In moving to provide public service, using private sector companies, according to Baker (2003), it is essential that governments around the world exercise some form of ownership rights and control over the nature and pricing of the public services offered by these privatised companies. Baker continues to note that it is critical for the public regulatory to exercise proper control over the supply of the public service being rendered by the PPP.

#### *2.5.1.2 Risk Sharing*

The need for the State to spread risk appears to be a common theme across many countries. HM Treasury (2003) of the UK describes the sharing of risks as key to ensuring that the value-for-money benefits in PPPs are realised. What this suggests is

that the risk that the private party incurs, when engaging in a PPP, is incentive enough to ensure good performance and assuming of responsibilities.

Risk transfer and sharing appears to be a key driving factor in efficient service delivery. Ahwireng-Obeng and Mokgohlwa (2002), concur with this. They suggest that the greater a party's ability is to influence risk correlates directly to the cost of bearing the risk.

## **2.6 PPPs in South Africa**

The South African government has developed a regulated process for PPPs to facilitate projects what brings private parties into the performance of what are otherwise government institutional functions. This programme has effectively been used instead of more conventional privatisations, which the government does not favour (Janks 2006).

### *2.6.1 Regulatory Framework*

According to Zhang and Kumaraswamy (2001), a private enterprises willingness to participate in public concession infrastructure projects hinges mainly on the regulatory framework as well as the level of suitable legislation that exists in the relevant country.

Regulation 16 as per the National Treasury Regulations, insists that all PPPs occurring within South African law must comply to including an open and transparent prequalification process; as well as a competitive bidding process in only prequalified organisations may participate; and criteria to evaluate bid, to establish which bid offers the best value.

Both these above-mentioned prerequisites are evident in South Africa. This research will attempt to explore more deeply, whether this required legislation and framework is, in-fact, enabling or restricting South African PPPs.

### *2.6.2 The Need for PPPs*

The South African government has recognized that it cannot meet the socio-economic challenges facing the country alone (National Treasury Department, 2001b). In particular, the National Treasury has identified PPPs as one of the key methods to address inadequacies (National Treasury Department, 2001a). Finance Minister, Trevor Manuel (2001), specifically stated that government must complement its budgetary capacity with the mass of innovative and specialist skills available in the private sector.

There are several PPP initiatives currently running in various South African government Departments. According to Ray (2000), Ministerial and senior Civil servant discussions have concluded, which should now pave the way for a new unit within the South African Treasury department to pursue a coherent strategy on the Government's approach to the delivery of public services through the PPP financing method.

## **2.7 Urban Redevelopment Projects and PPPs**

In order for regeneration schemes to be successful, they generally require several organisations or institutions to work together. According to Hothi & Sorrell (2007) working together in unison is further required to provide remediation and infrastructure, develop land, fund the development or project, and to also ensure the long-term stewardship and management of the developed scheme.

House Finance International (2005), suggests that there is a causal link between housing demand, housing finance, financial sector development, and economic growth. Each nation's government must commit to make housing a priority sector. Low cost housing developments often fall within the category of urban renewal projects. Johnson (2003) points out that PPPs provide a market to a wide array of companies, from builders to healthcare operators. Business Monitor Online (2003), reports that PPPs in

urban renewal projects and regeneration schemes are having a massive, positive effect on the construction and engineering sectors in South Africa. They suggest that this positive effect will continue driving growth and establishing key players in these industries.

## **2.8 BEE and its Impact on PPPS**

### *2.8.1 Definition of BEE*

According to the FW de Klerk Foundation (2005), The Department of Trade and Industries defines BEE as an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa, and brings about significant increases in the number of black people that manage, own and control the country's economy. It further defines BEE as a means to achieving significant decreases in income inequalities.

Broad-based black economic empowerment (Broad-Based BEE) means the economic empowerment of all black people including women, workers, youth, people with disabilities and people living in rural areas (FW de Klerk Foundation, 2005).

South African President, Mr. Thabo Mbeki (2003) defines empowerment as a broad-based process encompassing a scorecard approach, covering ownership, management, employment equity, skills development, procurement, corporate social responsibility, investment and enterprise formation.

Rennie (2003) says that PPPs are providing a powerful tool for developing real and lasting empowerment business in South Africa. The typically long concession periods of PPPs, facilitates a sustainable level of economic participation by historically disadvantaged individuals (HDIs) or entities (HDEs). Targets can be set for minimum acceptable thresholds and rates of increase in black participation in equity, management, subcontracting or employment equity levels over the life of the contract.

Lund (2003) is proposing that every PPP contract should be governed by legislation, ensuring that HDI ownership of the private party is disclosed and compliant. Lund further suggests that day-to-day management as well as sub-contractors comply with HDI requirements. This compliance of all stakeholders will enable successful transfer of skills on many levels of the partnership.

This approach ensures that established businesses find empowerment partners who will participate in ever greater components of the project. The PPP contract is drafted so that failure to achieve the agreed progression targets may result in penalties and may ultimately lead to contract termination (Rennie 2003).

### *2.8.2 Why PPPs are good for Black Economic Empowerment*

According to the National Treasury Department (2007), there are numerous features of PPPs that make them inherently excellent for achieving BEE objectives. The long-term nature Of PPPs; the steady revenue stream from government; the opportunities for BEE compliant contractors; skills transfer; and job creation are to name but a few.

### *2.8.3 Government's Commitment to taking BEE in PPPs Forward*

The National Treasury's manual on code of good practice for BEE in PPPs (2004,Note 3; Pg 28) states:

“In recognition of the current challenges to BEE in PPPs, and the positive BEE impact that PPPs can achieve, and complementary to the commitments of the

financial sector charter, government undertakes proactively to pursue the following initiative: To establish a BEE PPP equity facility that lowers the cost of capital to black shareholders in PPPs; For such a facility to support independent financial and legal advice to Black Enterprises bidding for, negotiating and implementing PPP projects; To establish an internship programme to grow the number of experienced Black Transaction Advisors in South Africa's PPP market.

Together with the strong BEE measures articulated in this Code for BEE in PPPs, the implementation of these three steps will establish PPPs as leading contributors to South Africa's BEE over the coming years.”, (National Treasury Manual, 2004, Pg 28).

The impact that BEE has had and will continue to have on PPPs and *vice versa* is very apparent from the literature. This would make sense, as they are both government-driven initiatives. These two principles will, no doubt, continue to help define one another in a South African context.

## **2.9 Conclusion of Literature Review**

It would appear that PPPs definitely have a place and, in most cases, are urgently needed in South Africa and the rest of the world. PPPs, however, are not without their difficulties and complexities.

A specific complexity that the literature appears to make apparent is that for practical purposes, the National Treasury definition of what constitutes a PPP may be inhibitory. In fact, there are numerous inhibitors in the realm of PPPs, and urban renewal projects are no different in this regard. The legal frameworks surrounding PPPs are also highlighted by the literature as a potential area of concern. This research is intended to explore these limitations, as well as any other barriers, further.

The literature makes clear that a pertinent area for PPPs to play a major role in South Africa is in the building of infrastructure. This reassures the researcher that the area of urban renewal is a good focal point to establish the current climate of PPPs in South Africa and to further explore the factors affecting these partnerships.

PPPs are prevalent across the globe, as the literature suggests. This research intends to identify successful factors of South African PPPs, and explore the possibility of exporting this know-how to the rest of Africa and the world at large.

Finally, the literature covers the constantly expanding area around Black Economic Empowerment and PPPs. This is a massive growth area which appears to be a significant factor driving PPPs in South Africa. The research intends to examine this in more depth.

In chapter three the research question that have been exposed by the review of the literature, are formulated.



## CHAPTER 3: RESEARCH QUESTIONS

The following research questions have been derived from the literature:

### 3.1 Research Questions

Four research questions have been developed from the literature:

#### 3.1.1 Question One:

What are the major factors driving the need for PPPs in Urban Renewal and Development?

#### 3.1.2 Question Two:

How have BEE and PPPs impacted one another?

#### 3.1.3 Question Three:

What are the barriers and promoters affecting Urban Renewal PPPs?

#### 3.1.4 Question Four:

How does South Africa compare to the rest of the world, and which aspects, unique to our PPPs, are exportable?

## **CHAPTER 4: RESEARCH METHODOLOGY**

### **4.1 Introduction**

This chapter describes the research methodology that was used in this study. Research was divided into two separate phases:

*4.1.1 Semi-structured personal interviews;*

*4.1.2 Survey - containing a structured questionnaire and a semi-structured questionnaire.*

Different research perspectives and approaches were used in each phase.

### **4.2 Research Perspectives**

The first phase of the research lent itself more towards qualitative research. This research method exposed the multifaceted dimensions, perspectives and complexities surrounding PPPs in the urban renewal environment. Phase two of the research was conducted via questionnaire that contained both qualitative and quantitative questions. While some researchers seem chiefly concerned with the differences between the two approaches, Morgan (1997) suggests that the two approaches can be successfully combined. The approach used in this research, Morgan refers to as Quantitative

primary, quantitative first. This method begins with a quantitative approach as the primary method, using qualitative follow-up to evaluate and interpret the quantitative results.

#### ***4.2.1 Qualitative Research Paradigm***

Organizations, such as PPPS, are complex social systems that cannot be studied effectively with the same techniques that are used to study physical or biological systems. The preference of using qualitative research techniques over quantitative research techniques is about being directly involved in the partnership environment, and being able to use human senses to interpret phenomena which helps discover new knowledge. Qualitative perspective emphasises a phenomenological view in which reality inheres in the perception of individuals (Glatthorn & Joyner, 2005). McMillan (1996) claims that studies derived from this perspective focus on meaning and understanding. He continues to suggest that these types of research take place in naturally occurring situations.

Leedy and Ormrod (2001) concur with McMillan. They too suggest that qualitative research methods are focused on phenomena that occur in natural settings, involving the study of these phenomena in all their complexity.

### **4.2.2 Quantitative Research Paradigm**

“The quantitative perspective”, says Glatthorn and Joyner (2005, Pg 39), “derives from a positivist epistemology, which holds that there is an objective reality that can be expressed numerically.”

The quantitative perspective emphasizes studies that are experimental in nature; emphasize measurement; and the search for relationships (Glatthorn & Joyner, 2005).

## **4.3 Research methodology**

### *4.3.1. Phase One*

As indicated in the introduction, the research was conducted in two phases. Phase one involved conducting personal, semi-structured interviews with three experts in the field of Public-Private Partnerships, in the areas of municipality, urban renewal and city works.

#### *4.3.1.1 Unit of Analysis*

*The unit of analysis in this initial phase of the research was “industry expert”.*

#### *4.3.1.2 Sample size and method of identification.*

Initially five experts were identified. These experts were identified by the researcher through media review and discussions with associates employed in the above mentioned sectors. Two of the identified experts are employed by the Public sector, with the remaining three being Private sector employees.

Based on availability of time, and ease of contact, the final respondents were selected by the researcher. They were later contacted telephonically, and once agreed, interview times and locations were confirmed. Where possible, interviews were conducted in the respondent's work environment.

The most senior of the three selected industry experts and most widely experienced in the field of PPPs, was then identified. This respondent was interviewed first. The researcher believed this to be of vital importance so that any new insights gained from this interaction, that may not have otherwise been obvious from the literature, could be converted into points of discussion and focused on in the interviews with the remaining respondents.

#### *4.3.1.3 Research Instrument*

The instrument used in the first phase of the research was a semi-structured personal interview. Respondents were given *carte blanche* to discuss their thoughts and views around the following broad topics:

- The general landscape of PPPs in South Africa;
- Urban Renewal PPPs;
- Factors driving the need for PPPs;
- Barriers and promoters of successful PPPs;
- PPPs around the world;
- Black Economic Empowerment and PPPs.

#### *4.3.1.4 Data Collection and Processing*

The interviews were all digitally recorder via recording apparatus. This was carried out with the consent of the respondents. Post each interview, the recordings were analysed by the researcher and specific learnings, insights and quotes around each of the topics discussed were noted and captured. Content analysis (Leedy & Ormrod, 2001) was used to analyse the data. This entailed viewing the data in its entirety, after which the data was clustered into broad categories.

#### *4.3.2 Phase Two*

Phase two involved surveying individuals employed by companies and Government departments that were directly involved in PPPs in the area of Urban Renewal.

##### *4.3.2.1 Unit of Analysis*

The unit of analysis used in the second phase of the research was “employees directly or indirectly involved in urban renewal PPPs”.

#### *4.3.2.2 Sample Size and Method of Identification*

The researcher verified per discussion with the research supervisor, that the absolute minimum required number of responses to a survey of this nature, in order to give it the credibility it requires, would be fifteen. A sample size of fifty was set by the researcher based on the desired response rate.

Three organisations directly involved with PPPs in the urban renewal sector were identified. One of the three organisations is a government department – representing the public sector, while the remaining two organisations are proprietary limited, private sector companies. All three organisations had sufficient staff complements to accommodate the proposed sample size. The sampling was split between the three organisations as per the table below:

**Table 1: Sample split per organisation**

ORGANISATION	ENTITY TYPE	SECTOR	SAMPLE SIZE
Organisation One	Municipal government department	Public	10
Organisation Two	Proprietary limited private company	Private	20
Organisation Three	Proprietary limited private company	Private	20

The researcher established a contact person in each of the selected organisations. This contact person needed to be of appropriate seniority in order to gain access to the entire organisation, as well as to advise the researcher regarding which employees would add value to the survey based on their levels of experience. The contact person was used as a conduit to effectively distribute the research instrument (questionnaire) to the sample population and ensure the response rate thereof.

#### 4.3.2.3 *Research Instrument*

The instrument used in this area of the research was an electronic questionnaire. The questionnaire was divided into two distinct sections. The first section comprised

statements around PPPs that the respondent was requested to agree or disagree with accordingly. The second section was comprised of two open ended questions (Appendix A).

#### *4.3.2.4 Questionnaire Design (Appendix B)*

Relevance and accuracy, according to Zikmund (2003), are the two basic criteria a questionnaire must meet if it is to achieve the researcher's purposes. To achieve these ends, a researcher will be required to make several decisions in the order listed below:

- a. What should be asked?
- b. How should each question be phrased?
- c. In what sequence should the questions be arranged?
- d. What questionnaire layout will best serve the research objectives?

Phase one played a crucial role in the formulation of the questionnaire utilized in the second phase of the research. The line of questioning, as well as the areas explored in the survey were established based on certain responses and indications that were offered by the individuals interviewed in phase one.

The first section was comprised of twenty-one statements regarding PPPs in urban renewal projects, on which the respondent was asked to state their level of agreement.

.These statements were divided into four categories each relating to a different aspect of PPPs:

- General;
- Timing;
- Staffing;
- Empowerment.

The statements were worded and phrased as clearly and neutrally as possible. This was in an attempt to avoid ambiguity and slanting of opinions through leading the respondent.

Each statement presented a Likert scale. The scale was numbered from “1” indicating a strong disagreement, through to “5” which represented a strong agreement with the statement. The respondent showed their choice by marking the appropriate number with an “x”. A Likert scale is a type of psychometric response scale often used in questionnaires, and is the most widely used scale in survey research. It allows for easy administration of responses. When responding to a Likert questionnaire item, respondents specify their level of agreement to a statement (Zikmund, 2003).

The second section of the questionnaire comprised of two open-ended questions, the first of which related to crucial success factors in urban renewal PPP projects. The respondent was asked to list two factors. The second question related to barriers effecting PPPs in urban renewal projects. Once again the respondent was asked to list two barriers. The responses were limited to two points per question, in order to allow for efficient and more effective analysis thereof.

#### *4.3.2.5. Data Collection and Processing*

As with the first phase of the research, content analysis (Leedy & Ormrod, 2001) was once again used to analyse the data. This entailed viewing the data in its entirety. The data was then clustered into broad categories. These categories of data were then analysed in a bar-graph format. Averages and means were calculated and reviewed. Extreme outliers were also investigated. Chapter five of the research discloses this in detail.

#### **4.4 Reliability and Validity**

It is imperative to ensure that research is both valid and reliable. Leedy & Ormrod (2001) point out that validity can only occur if there is reliability.

Reliability is defined as the consistency with which a measuring instrument yields a certain result when the entity being measured hasn't changed (Leedy & Ormrod, 2001).

Validity refers to the accuracy, meaningfulness and credibility of the research project (Whittaker, 2003).

#### **4.4.1 Reliability**

The researcher conducted all the first phase interviews personally, in an attempt to maximize reliability. The researcher further insured that although the points for discussion within the first phase interviews were broad and open-ended, all the relevant topics were broached.

#### **4.4.2 External Validity**

External validity refers to the extent to which conclusions drawn from the research can be generalised to a broader context (Leedy & Ormrod, 2001). The level of external validity in this research may be questionable. This is predominantly due to the fact that the samples were extremely purposive. Qualitative research also may lack external validity.

#### **4.4.3 Internal Validity**

Internal validity is the degree to which the conclusions drawn from the data accurately reflect the relationships within the data (Leedy & Ormrod, 2001). Internal validity was enhanced by multiple sources of data being collected. Due to the uneven distribution of



survey responses between the public and private sectors, the researcher has ensured that this has been taken into account when analyzing the data.

## **CHAPTER 5: RESEARCH RESULTS**

### **5.1 INTRODUCTION**

This chapter details the results of the raw data collected from the interviews and surveys conducted in both phases of this research. This data will subsequently be used in chapter six to answer the research questions put forward in Chapter Three. The data is presented around the themes explored by the research questions. Sub sections have been used, where necessary, to disclose insights around the main research themes. For the purpose of clarity and transparency, the results have been divided according to the two research phases.

### **5.2 Interview Respondents**

The initial stage of the research entailed semi-structured interviews with three respondents. These respondents have requested to remain anonymous.

### *5.2.1 Respondent 1*

The first respondent boasts extensive experience with PPPs in both the public and private sectors. Respondent 1 has supervised and been directly involved in many of Johannesburg's urban renewal projects. The respondent currently holds a senior executive position with The City of Johannesburg, and is regarded as a leading authority on PPPs in South Africa.

### *5.2.2 Respondent 2*

The second respondent has had extensive direct involvement in many urban renewal projects taking place in the Johannesburg Central Business District (CBD) over the past six years. Respondent 2's point of view represents a purist private-sector opinion. This respondent is one of Johannesburg's most prominent entrepreneurs in the field of property development. He has had direct involvement in some of the city's larger PPP initiatives.

### *5.2.3 Respondent 3*

The third respondent has a background in operations and project management in the public sector. After ten years of direct involvement in numerous PPPs and other initiatives concerning urban renewal and regeneration, this respondent left the civil service to join the private sector. Respondent 3 now owns and manages an urban

consulting company, specialising in administering PPPs on behalf of Government and they also manage and maintain PPPs on a long-term basis.

### **5.3 What are the Factors driving the need for PPPs in Urban Renewal?**

This initial research question was used by the researcher to initiate the interview with all three of the respondents. This research question is fairly broad, which enabled the researcher to introduce the topic of discussion to the respondent and provided them the opportunity to begin their answer broadly and to taper it down towards a concise answer. All three of the respondents shared valuable insights in response to this question. The following direct quotes convey these insights:

- “Council uses partnering to spread their risks....There is no way that local government can possibly capacitate resources to a level that is necessary without the help of partners.....A partnership is about who can leverage off who..... BEE is a driving factor. Another is the need for government to secure a limited skill. So it’s driven by BEE but the decision to partner and with whom to partner, is driven by limited skills.” *–Respondent 1*

The need for Government to leverage risk and to acquire necessary resources and skills is clear from the above quotation. All this is encompassed by BEE which is also a driving factor.

- “...every aspect of our business is dealing with the Public sector in one way or another...I think the way, in which inner city development is moving, is at a massive rate. People think it’s taking too long, but you must realize, urban renewal in the Johannesburg CBD is only six years old!” *-Respondent 2*

Respondent 2 suggests that all aspects of private companies engaging in urban renewal projects involve government on some level. This incentivises these private companies to partner with government in order to better facilitate their operations. This respondent further suggests that the rate at which the CBD is converting and growing demands drives the need for PPPs.

- “...there is a social responsibility angle as well that’s driving the private sector to get involved in these projects, as well as the need to upgrade and protect existing assets.” *-Respondent 3*

Respondent 3 is suggesting that CSR initiatives and the need to protect existing assets are the driving force behind PPPs in urban renewal projects.

#### 5.4 How has BEE and PPPs affected one-another?

The second research question explores the relationship between BEE and PPPs. It is clear from the literature that BEE and PPPs have strong correlations with one another. These are both government initiatives and impact heavily on one another. The following direct quotes relate to this:

- “It’s through the procurement process and through the motion of partnerships and consortiums working together with government that has allowed for huge strides to be taken. BEE has contributed towards that....It’s a pleasure to see how companies have restructured legitimately to take-on emerging partners and how they are now fully integrated companies that can be used by government.”

*-Respondent 1*

- “We have empowerment partners. There is no point in even trying to play in this space unless you are an empowered organisation.” *-Respondent 2*

- “BEE, like in any other industry or sector, has a massive impact on PPPs in South Africa, but like with any partnership, the choice of who to partner with is vital.” *-Respondent 3*

Respondent 1 assures that it is acting as a great facilitator for government partnering to occur successfully. This is fuelling massive forward moving strides on the part of government.

Respondent 2 suggests that BEE is a prerequisite for PPPs, and is not optional but compulsory, whether formally legislated or not. Respondent 3 echoes this sentiment.

## **5.5 What are the barriers and promoters towards a successful urban renewal PPP?**

The third research question explores the factors that act to aid or hinder the PPP process. The following direct quotes relate to these factors:

### *5.5.1 Barriers to success*

- ““We don’t spend enough time and money on true consultation and solicitation of ideas....Often it is all about maturity, the maturity of being able to correctly structure the deals. It is something that we are not specialized in....Legal structuring of PPPs is a skill that is lacking in South Africa. This requires a different way of structuring a deal. It is not like a standard legal agreement. It has government involvement, which complicates things considerably. There is a lack

of knowledge around the legal framework of the deal. Knowing who is responsible for which damages, and who can sue which part of the consortium should the need arise, is vital. This will make or break the project in the long-run.”

*-Respondent 1*

- “Historically, development agencies’ roles were purely developmental for the public good. Since 2006, these agencies have changed their mandates to being profit seeking organisations. Their entire business model has changed. They have become asset bankers. The whole point of forming these development agencies was to facilitate the release of commercial land to the private sector...The National Treasury offers incentives to private developers, but often the window period of the incentive is too short” *-Respondent 1*
- “One of the biggest problems is the timing of procurement. Nowadays, everybody is using supply chain management. To follow government procurement policies takes 75 days. The private sector cannot work like this. This has become our biggest burden...Not enough skills transfer is taking place in the PPP environment, mainly because it is unclear who should be taking responsibility for the cost of transferring skills”. *-Respondent 1*
- “Entrepreneurial businesses like ours are run very differently to public sector organisations. Protocol for receiving and paying monies is different. The two are run within completely different frameworks.....When these projects are put into place, often certain bi-laws are not enforced, like controlling illegal street

hawking. This situation slowly decays and renders the project unsuccessful on a certain level.” -Respondent 2

- “...if government incentives are being offered, will they be paid in time? Poor government timing with paying these incentives is often the reason for many developers going insolvent....Our biggest challenge involves heavy, admin-reliant government functions and the time these things take. However, government is beginning to streamline certain processes. Things are definitely improving.”

-Respondent 3

- “Local government does not understand the true benefits that would accrue to them if they gave the private sector a real chance to act as partners...Government have been known to renege on deals. If the situation changes against their favour, they will risk the chance of litigation and back out of the arrangement.” -Respondent 3

- “Mistiming of budget cycles and project cycles between sectors is a huge crisis. The inability of government to deliver within a certain fiscal period is a huge hindrance towards a successful partnership....The private sector partner is responsible for the staffing of the PPP, but is given strict limitations by government around who may be employed...Timing is important. Often deals are negotiated and the terms are agreed upon, but many months later government has still not signed...Council spreads the risk by partnering with the private

sector, but should things go bad, the private sector partner carries most of the burden.” *-Respondent 3*

The following is a tabulation of findings from the three respondents regarding the barriers to success of PPPs. The tabulated points are unranked and equally weighted:

**Table 2. Barriers to Success of PPPs**

No	Barrier
1.	Lack of consultation from experts.
2.	Inability to correctly structure agreements.
3.	Poor legal frameworks.
4.	Change in the mandate of Development Agencies.
5.	Window periods for incentive schemes are too short.
6.	Government procurement procedures take too long (75 days).
7.	Insufficient amount of skills transfer.
8.	Misalignment between private and public parties operating procedures.
9.	Poorly enforced bi-laws.
10.	Poor government timing.
11.	Government renegeing on deals.
12.	Uneven sharing of risk burden.

### 5.5.2 Promoters for Success

- “From my experience, most successful PPPs are as a result of the assistance of a private sector conduit company. “ *- Respondent 1*
- “.....you now have independent companies offering urban management services. They manage these PPPs. That’s their core business. These people bridge the gap between the public and private sectors.” *-Respondent 2*
- “Foresight of dealing with potential legal liabilities when setting up a PPP is vital.” *–Respondent 3*

The respondents are suggesting that some promoters of a successful outcome in a PPP would include a sound legal framework and a conduit company to facilitate interaction between parties. Government incentive schemes are also an enabler to success according to respondent 1.

#### 5.5.2.1 Urban Redevelopment Zones

“National Treasury Department is formulating good policies regarding urban renewal such as the accelerated depreciation allowance. This is one of the best urban renewal tools ever put forward. What this effectively does is give the private sector an instrument

with which to invest in the inner city, in the form of Urban Redevelopment Zones. These Urban Redevelopment Zones offer developers triple the normal housing subsidies issued by government. That is a huge incentive for a PPP. This in effect is national government saying that these areas are compromised, the land is too expensive. If developers want to change the special arrangement of our cities, we need housing in urban areas. This is offering the private sector an opportunity for partnership and funding.”

*-Respondent 1*

#### **5.6 How does South Africa compare to the rest of the world regarding PPPs, and what elements (if any) of our PPP structure are exportable?**

The direct quotes which follow are extremely opinion driven. The researcher attempted to gauge the respondents' level of international focus to try gain an understanding of how vital an international perspective on PPPs is when focusing on local initiatives.

Below are some insights:

- “There is a very different culture of involvement in other countries. Remember that a country's tax regime determines, to a great extent, whether corporations are willing to donate, run corporate social responsibility (CSR) initiatives, or even partner with government, based on whether or not there is an offered incentive.”

*-Respondent 1*

- “A lot of emerging markets mirror what we are going through in South Africa. If you look at the ex-communist countries, for example, there are definite parallels to our situation. They had communism which ended; we had apartheid. In both cases you can expect an emerging middle class coming through. This emerging middle class puts massive strain on existing infrastructure. Governments need to act to accommodate this. The BRIC countries (Brazil; Russia; India; China) are all similar in this regard to South Africa... “Africa must be a monstrous opportunity”. *–Respondent 2*

- “PPPs happen in most countries across the globe in one form or another. Singapore and the United Kingdom seem to be world leaders. Singapore has the best planning and implementation policies worldwide, in my opinion. We should all take a page from their book...I would imagine that within all the emerging market countries, there is a massive need for partnering and massive opportunities for companies worldwide to get involved.”

*-Respondent 3*

It appears based on the above responses, that the respondents from the private sector focus more on international examples and similarities, in order to keep current in their respective industries. There also appears to be strong commonalities between South Africa and other developing economies.

### 5.6.1 What knowledge can we export?

“I see our CSR Initiatives as a huge positive. It takes up what government can't deliver. This is perhaps an exportable concept..... Our ability to structure parameters would be another exportable concept, such things as local employment charters and BEE. We lead in areas such as these because it's been a focused need for us. We also have a good ability to target their outcomes”. *-Respondent 1*

## 5.7 Conclusion - The Future of PPPs

- “Government needs a radical shift in mindset. The only way that successful regeneration schemes will happen, is through partnerships, partnerships with private sector, partnerships with other levels of government, and partnerships with NGO's.” *-Respondent 1*
- “I look forward to the day when we are resourced enough and mature enough to consider the role of local government to be to partner with every citizen. By treating the people with respect, they will in turn respect their environment and their government's authority. The fantasy would be that we could inculcate a sense of responsibility and obligation from both the government and the general public's perspectives, that every government action would be treated like a partnership with a citizen.....that would be the ultimate dream.”

*-Respondent 1*

## 5.8 Structured Survey Questionnaire

### 5.8.1 Sample and response rate

Figure 1. Make up of survey sample population per organisation

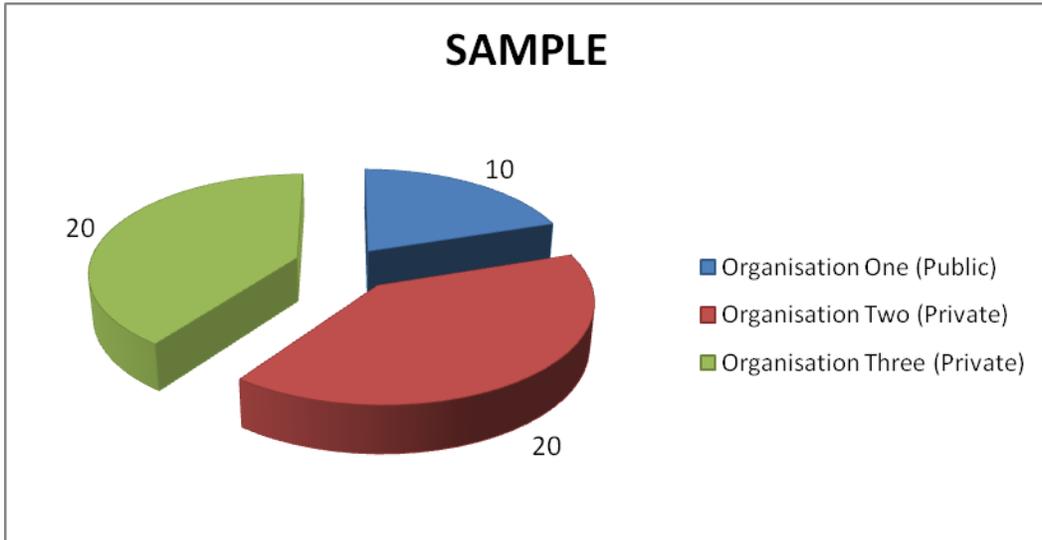
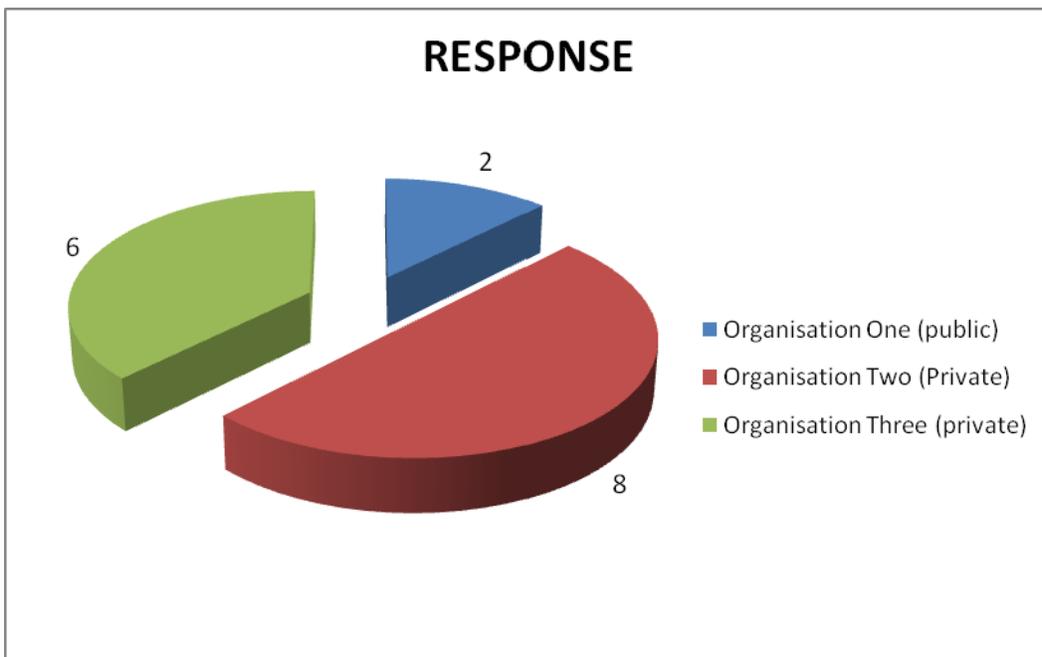


Figure 2. Rate of Response as per organisation



## 5.8.2 Results: Open-ended Survey Questions

### 5.8.2.1 Crucial factors for success of urban renewal PPPs

Respondents were asked to list the two most crucial factors affecting the positive outcome of a PPP. This question was open ended. All responses have been tabulated and ranked below:

**Table 3. Factors affecting a PPPs success**

<b>RANK</b>	<b>RESPONSE</b>	<b>TOTAL</b>
1	Good governance.	6
2	Project vision alignment.	5
3	Effective staffing.	4
3	Good project management.	4
4	Clear project outlines.	3
4	Adequate sharing of risk.	3
5	Adequate funding.	2
5	Clear contract stating responsibilities and liabilities.	2
6	Benefits to the City/Government.	1
6	The nature of the partnership.	1
<b>TOTAL</b>		<b>32</b>

### 5.8.2.2 The major barriers towards success of urban renewal PPPs

Respondents were asked to list the two most crucial barriers affecting the positive outcome of a PPP. This question was open ended. All responses have been tabulated and ranked below:

**Table 4. Barriers affecting a PPPs success**

<b>RANK</b>	<b>RESPONSE</b>	<b>TOTAL</b>
1	The length of the procurement process to engage with the public sector (75 days).	6
1	Lack of skills.	6
2	Project objectives misalignment between sectors.	4
2	Succession of PPP management.	4
2	The State's definition of a PPP.	4
3	Lack of accountability.	2
3	Poor relationship between partners.	2
3	Financial constraints.	2
4	Unequal benefit to parties.	1
4	Lack of private sector funding.	1
<b>TOTAL</b>		<b>32</b>

### 5.8.3 Results: Structured survey Questions

#### 5.8.3.1 What are the major factors driving the need for PPP's in the Urban Renewal sector?

Certain major factors affecting PPPs were established per the literature. These factors were more deeply explored through this survey. These factors are namely: Alternatives to PPPs; Risk spreading; PPPs as procurement; Skills transfer; and Employment creation.

**Figure 3. PPPs as an option for urban renewal**

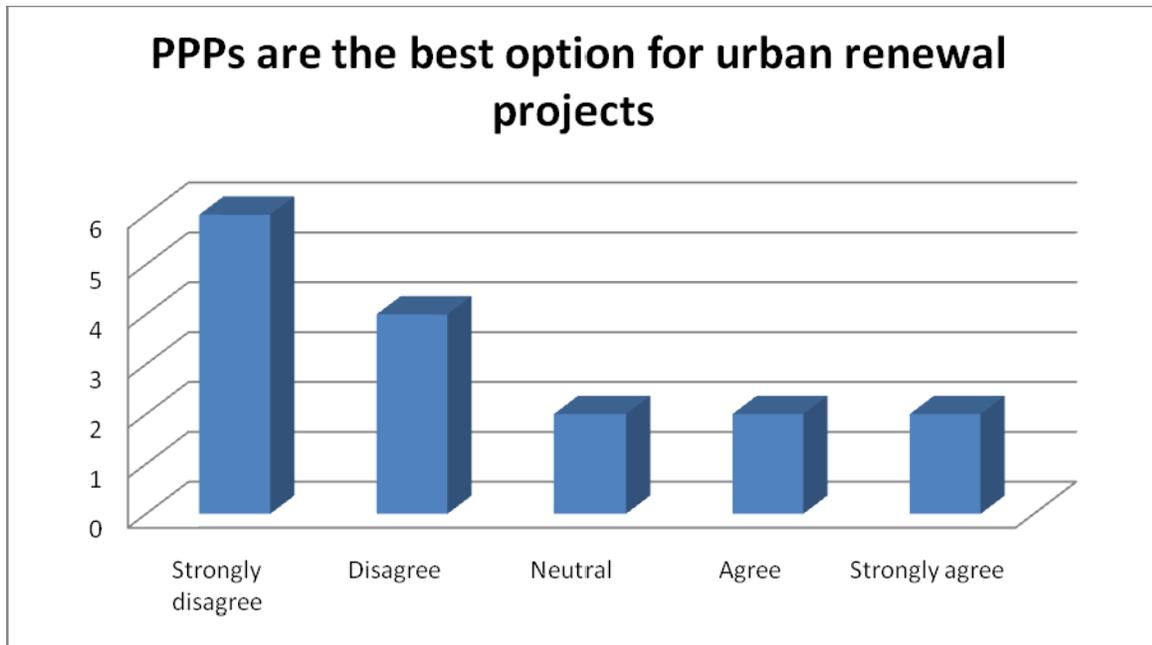


Figure 4. PPPs as a method of spreading risk

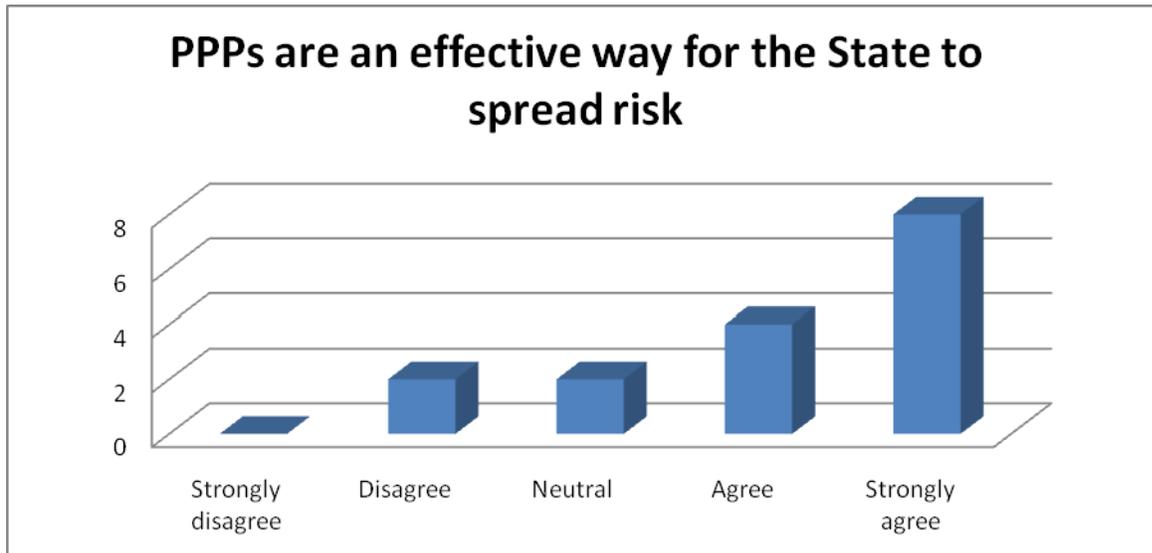


Figure 5. PPPs as a form of procurement

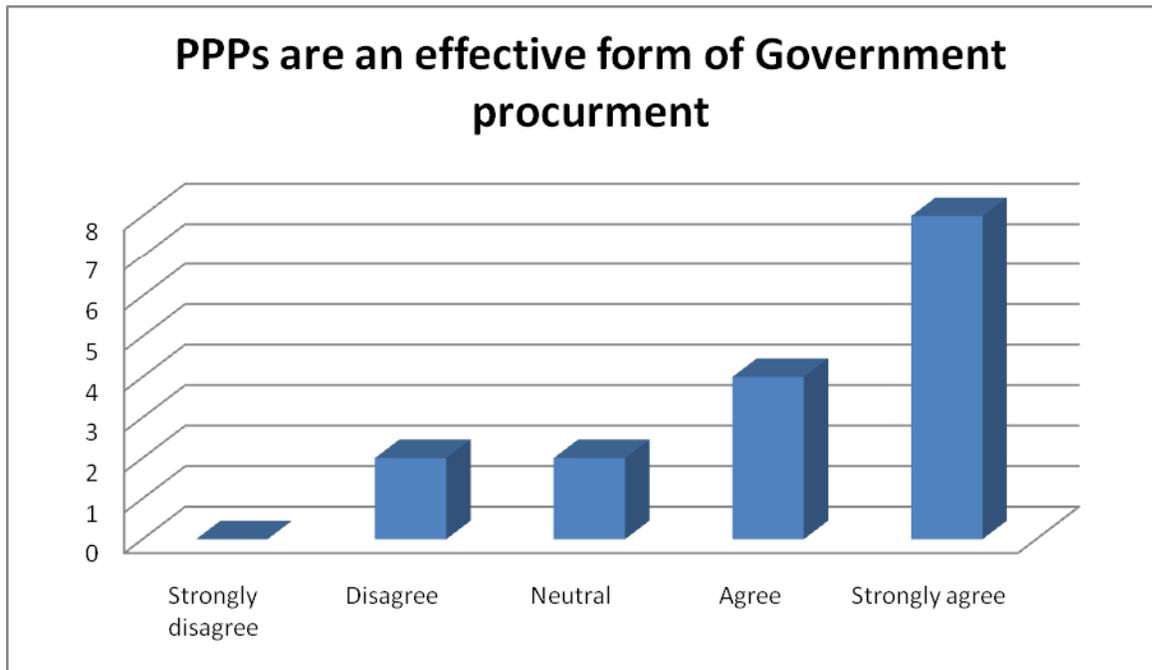


Figure 6. PPPs and skills transfer

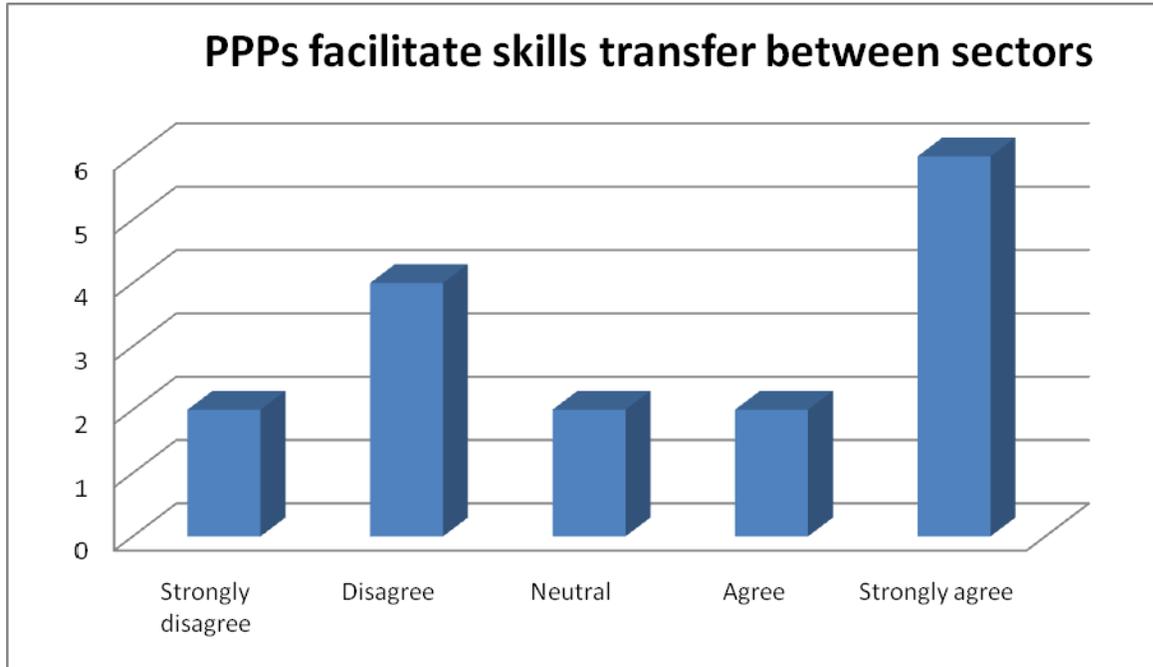
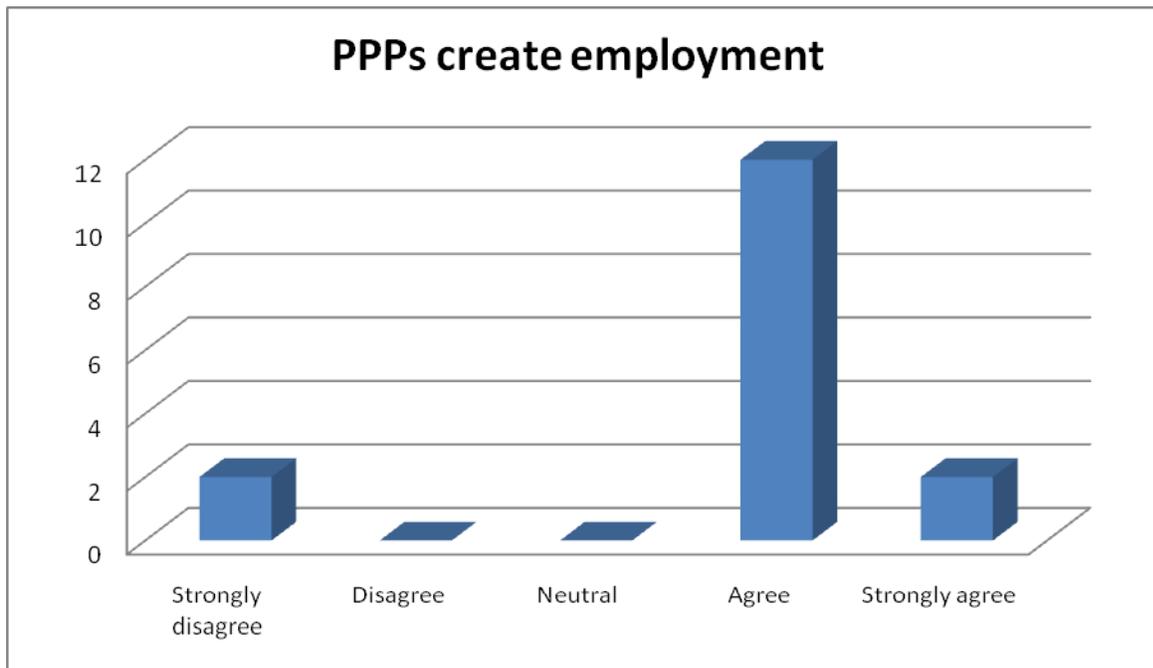


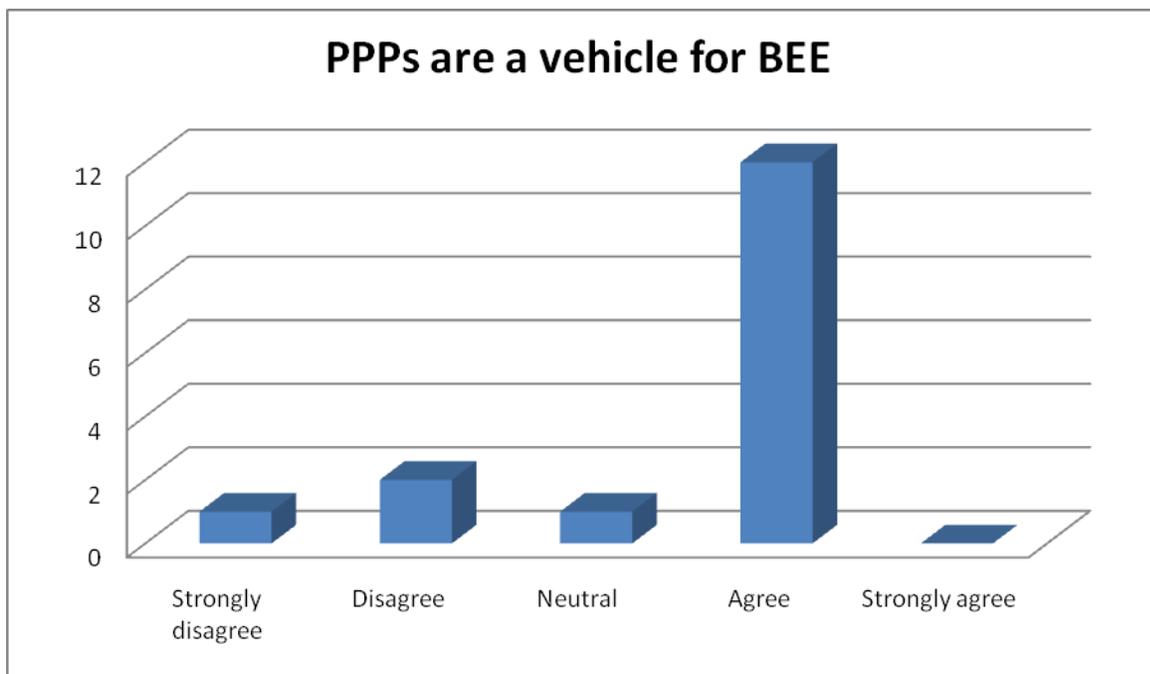
Figure 7. PPPs and employment creation



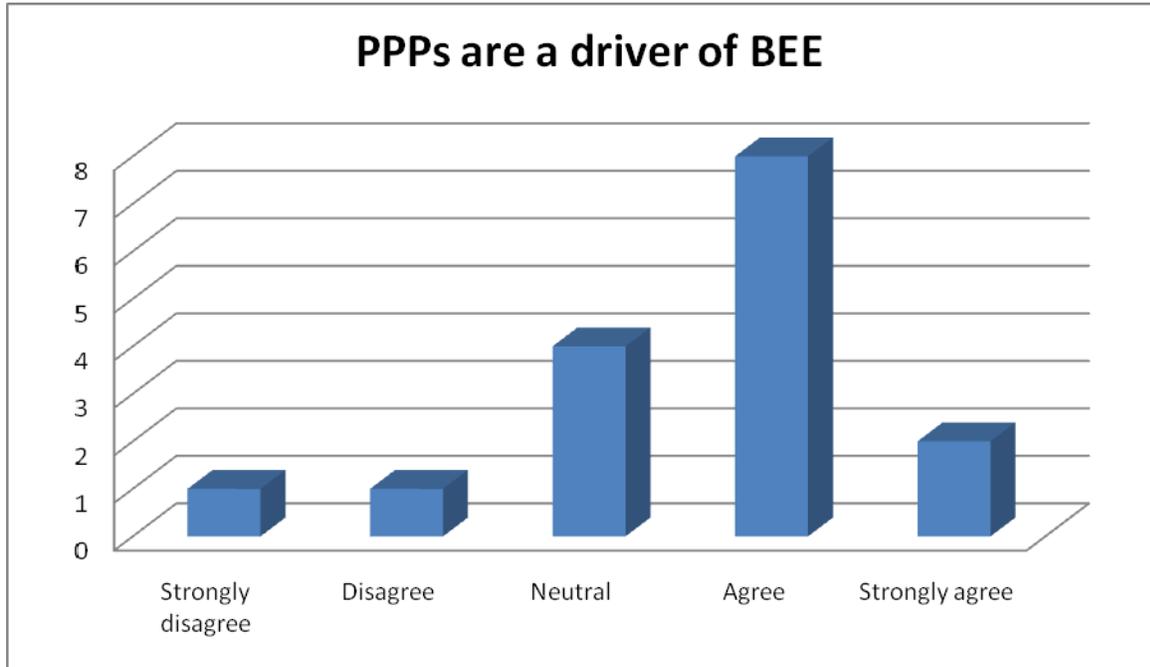
### 5.8.3.2 How has Black Economic Empowerment affected PPPs?

Two statements were put forward to the respondents regarding the relationship between BEE and PPPs as per the questionnaire. The first suggested that PPPs are a good vehicle for BEE. The second suggested that PPPs create opportunities for BEE, which would otherwise not exist. The results are displayed as per the following figures:

**Figure 8. PPPs as a vehicle for BEE**



**Figure 9. PPPs as a driver of BEE**



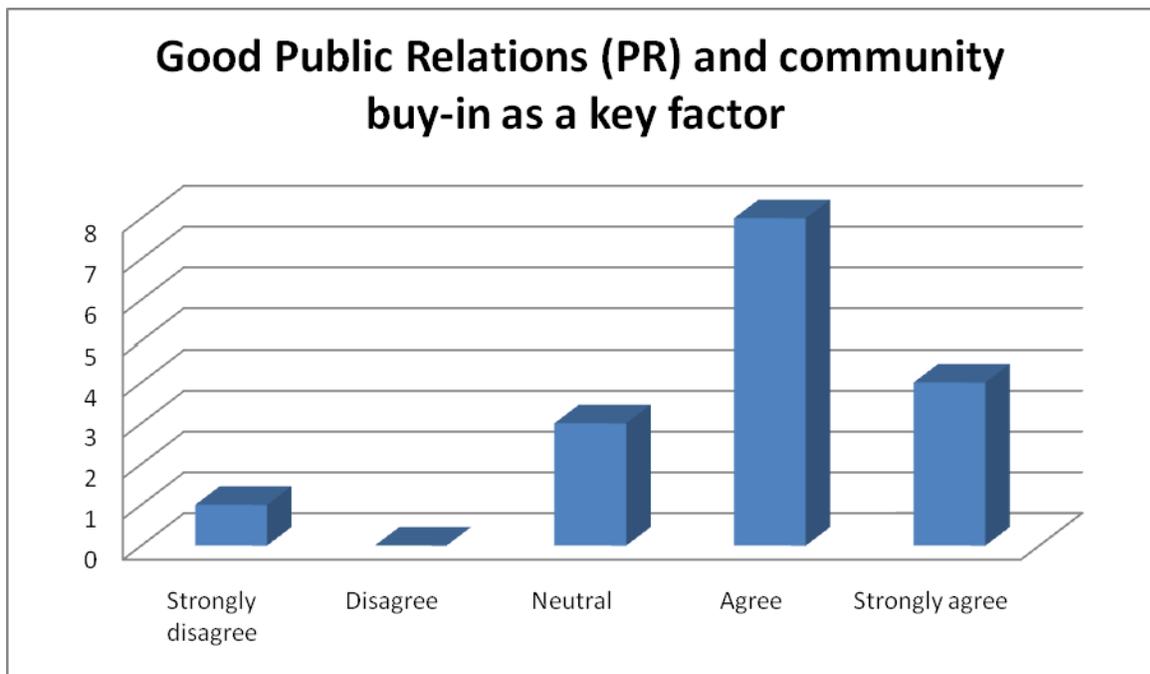
*5.8.3.3 What are the barriers and promoters affecting urban renewal PPPs?*

The barriers and promoting factors of PPPs in urban renewal projects appear to have an adverse relationship to one-another. Poor promoters act as barriers, while weak barriers act as promoters. The following figures display the respondents' opinions around these barriers and promoters:

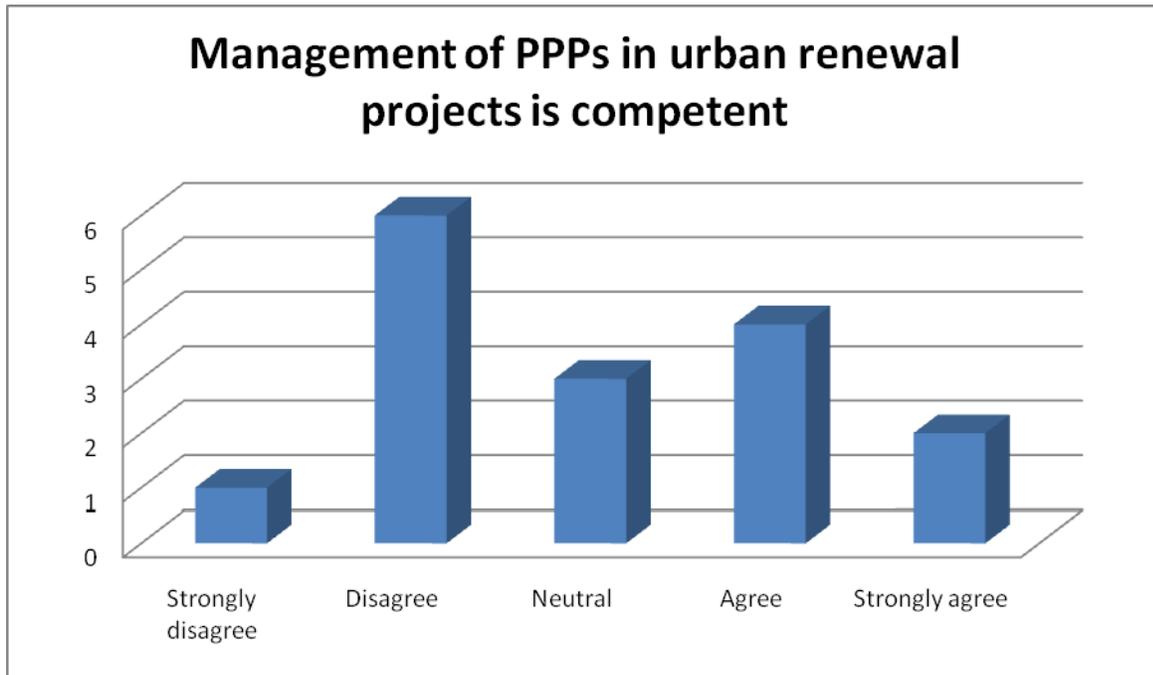
**Figure 10. Clear Objectives for Stakeholders**



**Figure 11. Public Relations and Community Acceptance**



**Figure 12. Management Competency Level**



**Figure 13. Project Management Skills**

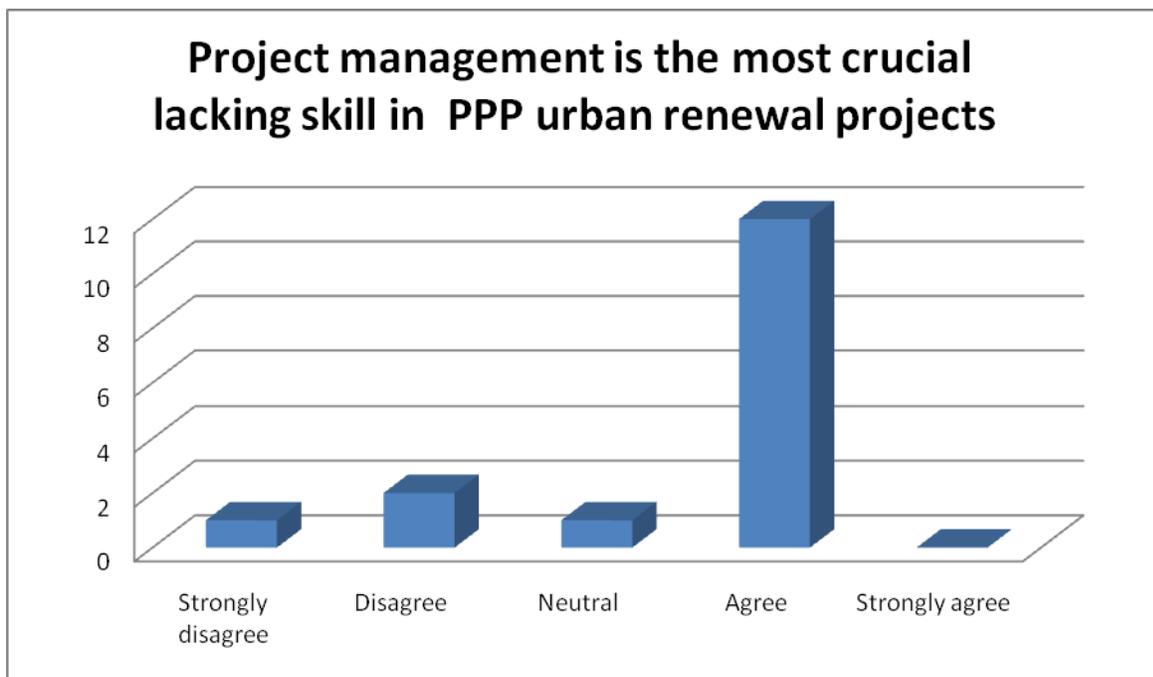
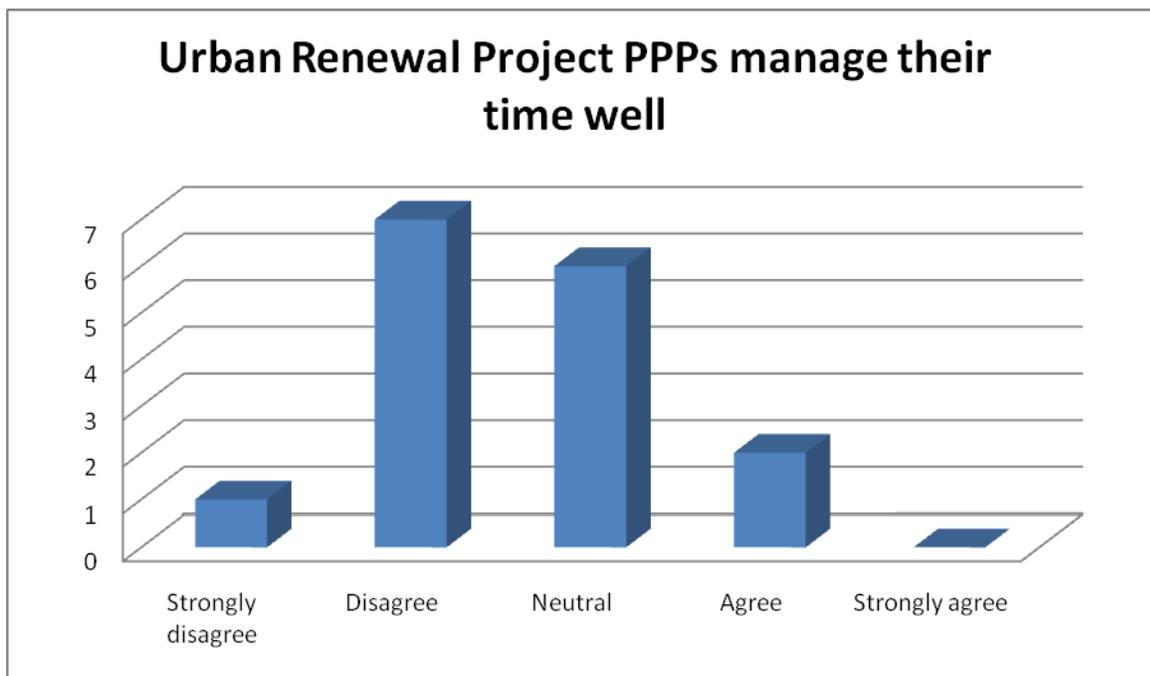




Figure 14. Time Management



## CHAPTER 6: INTERPRETATION OF RESEARCH RESULTS

### 6.1 Introduction

This chapter analyses the results presented in the previous chapter. Interpretation was facilitated by insights gained and concepts developed in the literature review. The analysis was then used to answer the research questions put forward in chapter three. Furthermore, relevant comments made during the interview process are highlighted and were also utilised as an aid to both interpretation of the data as well as to assist in answering the research questions.

### 6.2 Factors driving the need for PPPs in Urban Renewal Projects?

#### *6.2.1 Transfer of Skills*

Specialised skills, especially in the areas of project management and general management appear to be in short supply in the South African PPP environment. Box (1999) suggests that the central element of a PPP is for the public organisation to import successful business techniques and limited skills from the private sector in order to improve efficiencies. Respondent 1 says: “BEE is a driving factor. Another is the need for government to secure a limited skill. So it’s driven by BEE but the decision to partner and with whom to partner, is driven by limited skills”. Transfer of skills as a driving factor

was further confirmed by the survey questionnaire, where fifty six percent (56%) of the respondents agreed that the need for skills transfer was a driving factor for PPPs.

### *6.2.2 Spreading of Risk*

In most PPPs, the financial investment required is substantial. An investment of this magnitude is not without huge risk. HM Treasury (2003) of the UK describes the sharing of risk as key to ensuring that the value-for-money benefits in PPPs are realised. Risk transfer and sharing appears to be a key driving factor in efficient service delivery (Ahwireng-Obeng & Mokgohlwa, 2002). Respondent 1 confirmed that the municipal councils use partnering to spread risk. Eighty one percent (81%) of the survey respondents agreed with this suggestion.

### *6.2.3 Means of Procurement*

Government desperately needs to increase the supply of facilities and services to its citizens. The National Treasury has identified PPPs as one of the key methods to address inadequacies (National Treasury Department, 2001a). According to Hothi & Sorrell (2007) working together in unison is further required to provide remediation and infrastructure. During the interview phase of this research, Respondent 1 said “...There is no way that local government can possibly capacitate resources to a level that is necessary without the help of partners”. Seventy five percent (75%) of survey respondents also agreed that governments need for procurement is driving PPPs.

## 6.3 The Mutually Beneficial Relationship between BEE and PPPs

### 6.3.1 PPPs Compliance with BEE Regulation

PPPs and BEE go hand-in-hand in enabling economic growth in South Africa. Lund (2003) proposes that every PPP contract should be governed by legislation, ensuring that HDI ownership of the private party is disclosed and compliant. Lund further suggests that day-to-day management as well as sub-contractors comply with HDI requirements. This compliance of all stakeholders will enable successful transfer of skills on many levels of the partnership. “It’s a pleasure to see how companies have restructured legitimately to take-on emerging partners and how they are now fully integrated companies that can be used by government.”, (*Respondent 1*). Eighty percent (80%) of survey respondents felt that PPPs are a good vehicle for driving BEE compliance.

### 6.3.2. PPPs are a Leading Contributor to BEE

“Together with the strong BEE measures articulated in this Code for BEE in PPPs, the implementation of these three steps will establish PPPs as leading contributors to South Africa’s BEE over the coming years.”, (National Treasury Manual, 2004, Pg 28).

According to respondent 1 from the research interviews, it’s through the procurement process, the motion of partnerships and consortiums working together with government

that has allowed for huge strides to be taken in BEE”. Our survey respondents echo this sentiment. Seventy five percent (75%) felt that PPPs are driving BEE.

## **6.4 Barriers and Promoters affecting Urban Renewal Project PPPs**

It is important to note that barriers and promoters have an adverse relationship to one-another. Poor promoters act as barriers, while weak barriers act as promoters.

### *6.4.1 Legislature and Regulatory Framework*

A need for substantial legal and regulatory frameworks is a vital factor for a successful PPP, according to the literature. According to Zhang and Kumaraswamy (2001), a private enterprises’ willingness to participate in public concession infrastructure projects hinges mainly on the regulatory framework as well as the level of suitable legislation that exists in the relevant country. As per the interviews in chapter five, respondent 1 feels that legal structuring of PPPs is a skill that is lacking in South Africa. “PPPs require a different way of structuring a deal. It is not like a standard legal agreement. It has government involvement, which complicates things considerably. There is a lack of knowledge around the legal framework of the deal. Knowing who is responsible for which damages, and who can sue which part of the consortium should the need arise, is vital. This will make or break the project in the long-run.”, (*Respondent 1*). Respondent

3 agrees with this opinion. “Foresight of dealing with potential legal liabilities when setting up a PPP is vital” (*Respondent 3*). The interview respondents further suggested that although the government has defined strict criteria to define initiatives by, such as the PPP definition, in an attempt to help regulate this area, the definition more often than not acts as an inhibitor more so than a promoting factor. In the research survey, the need for good governance was ranked first out of ten promoters for successful PPPs.

#### *6.4.2 Duration Period for Government Procurement*

The time necessary to carry out government procurement according to government regulations is 75 days. This period is substantially longer than private sector procurement procedures. This unacceptable duration for procurement was emphasised in the interviews conducted. “One of the biggest problems is the timing of procurement. Nowadays, everybody is using supply chain management. To follow government procurement policies takes 75 days. The private sector cannot work like this. This has become our biggest burden” (*Respondent 1*). The length of the government’s procurement process was ranked first out of ten barriers listed, affecting successful PPP outcomes per the research survey.

#### *6.4.3 Misalignment of operating Procedures and Timing between public and Private Parties*

Poor timing and misalignment between parties is a barrier to success within the PPP environment, as well as in most partnership environments. “Mistiming of budget cycles and project cycles between sectors is a huge crisis. The inability of government to deliver within a certain fiscal period is a huge hinderance towards a successful partnership.....Timing is important. Often deals are negotiated and the terms are agreed upon, but many months later government has still not signed” (*Respondent 3*). Misalignment between parties was ranked third out of the ten barriers to successful PPPs listed in the survey results in chapter 5.

#### *6.4.4 Use of Conduit Companies*

Two of the three experts interviewed in the research confirmed that the use of a facilitator or conduit is a strong promoter for success in PPPs. “...you now have independent companies offering urban management services. They manage PPPs. That’s their core business. These companies bridge the gap between the public and private sectors.” (*Respondent 2*).

#### *6.4.5 Ineffective Staffing and Lack of Skills*

The survey questionnaire results, as per chapter five, ranked lack of skills and ineffective staffing second and third, respectively. These were ranked out of ten factors affecting positive outcomes of PPPs.

## 6.5 South Africa and the Rest of the World

### 6.5.1 Developed and Developing Countries

The literature suggests that there is a common thread between developed and developing countries. This common thread, according to Dorfman (2004) is that all governments are increasingly focusing on the inadequacies prevalent in rendering services to their citizens. Of particular focus is the disparity of access to services between the rich and the poor. This inequity has gained even greater attention with the advent of globalisation. Respondent 2 from the interviews in chapter five, suggest a definite commonality between emerging markets - “A lot of emerging markets mirror what we are going through in South Africa. If you look at the ex-communist countries, for example, there are definite parallels to our situation. They had communism which ended; we had apartheid. In both cases you can expect an emerging middle class coming through. This emerging middle class puts massive strain on existing infrastructure. Governments need to act to accommodate this”. Respondent 1 from the research interviews feels differently regarding this suggested commonality - “There is a very different culture of involvement in other countries. Remember that a country’s tax regime determines, to a great extent, whether corporations are willing to donate, run CSR initiatives, or even partner with government, based on whether or not there is an offered incentive”. The conclusion is therefore that South Africa’s PPP environment does share some similar traits to international environment, but also displays some extremely unique characteristics, such as BEE.

### *6.5.2 CSR initiatives and BEE*

In the results from the research interviews, Respondent 1 says “I see our CSR initiatives as a huge positive. It takes up what government can’t deliver. This is perhaps an exportable concept... Our ability to structure parameters would be another exportable concept, such things, for example, as local employment charters and BEE. We lead in areas such as these because it’s been a focused need of ours. We also have a good ability to target their outcomes”. This suggests that due to our ability to structure parameters well, a skill we have learned in South Africa out of necessity, we may be able to offer other countries this intellectual capital.

## **6.6 Conclusion**

In some respects the research findings differed from the literature review. This is not entirely unexpected given the uniquely South African context of the research. Most of the findings, however, confirm that which the literature suggests. A model has been created using the findings of this research which, in tandem with a set of recommendations, aims to give stakeholders a means with which to better understand and approach a PPP project. These elements are dealt with in detail in Chapter Seven.

## CHAPTER 7: CONCLUSION OF RESEARCH

### 7.1 Research Questions

The purpose of this research report has been to determine the factors affecting and driving the use of PPPs in urban renewal projects. The answer to this was pursued through four research questions:

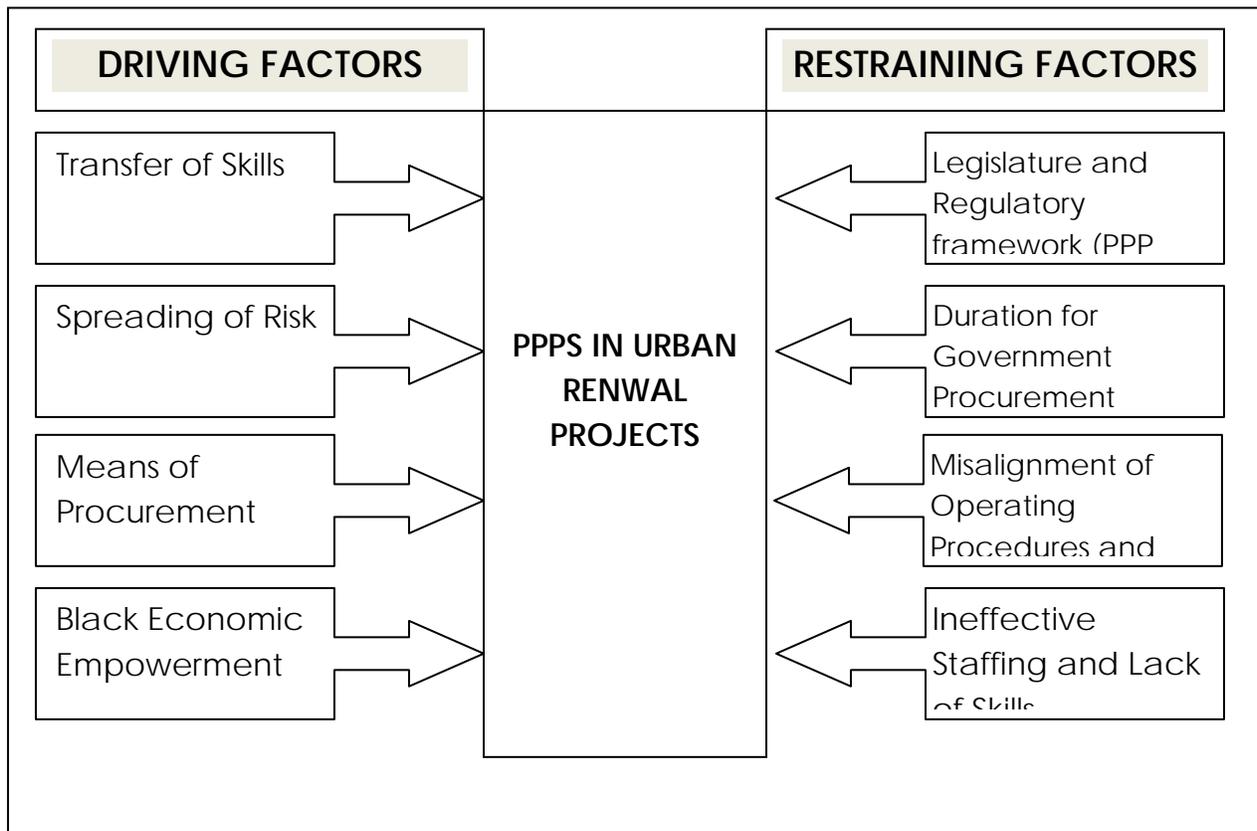
- What are the major factors driving the need for PPPs in Urban Renewal Projects?
- How has BEE and PPPs mutually impacted one another?
- What are the barriers and promoters affecting urban renewal PPPs?
- How does South Africa compare to the rest of the world, and which aspects, unique to our PPPs, are exportable?

### 7.2 Force Field Analysis

According to Bass (2005), Qualitative change will always be opposed by restraining forces that are either too comfortable with the status quo or are afraid of the unknown. In a competitive global market where constant innovation and continuous improvement are the driving forces that keep businesses running, identifying those forces in order to assess the risks involved becomes an imperative (Bass, 2005). The Force Field Analysis is a managerial tool used for this purpose.

The researcher has selected the Force Field Analysis model to accurately display the different forces PPPs are subjected to, within the turbulent environment in which PPPs operate. The model attempts to address the main purpose of the research, namely : what factors affect and drive PPPs in urban renewal projects.

**Figure 15. Force Field Analysis**



### 7.3 Conclusion

The model above shows a fairly even balance between the driving and restraining forces influencing urban renewal and development PPPs. I certain aspects,

government seem to be their own worst enemy. Legislation and frameworks are put into place in an attempt to guide parties through the PPP process. More often than not, these frameworks create a hinderance, due to slowing down the process and misaligning the parties objectives and operating procedures.

## **7.4 Recommendations to Stakeholders**

### *7.4.1 Public Sector*

Government needs to relax the legislation around PPPs. This will allow for more involvement from the private sector, and will also increase the speed of efficiency at which PPP transactions and deals are conducted. Furthermore, Government needs to alter its procurement policy, to enable a faster transaction time. Lastly, the shortage of specialised skills required for PPP success needs to be seriously addressed.

### *7.4.2 Private Sector*

Private enterprises need to realise the long term benefits of partnering with the public sector. The ripple effect of improving the commercial infrastructure in South Africa will have far reaching effects. Private companies and individuals should take note and advantage of the serious skills shortage that prevails in the PPP environment, and seek future business opportunities based on providing these skills.

## 7.5 Future Proposed Research Topics:

1. Is the concept of BEE exportable to the international community?
2. What is the true merit and worth of PPPs in Urban renewal and Development?
  1. How are different PPP decisions made in different areas of the public sector, and what are the effects of these decisions?
  2. Is the governments PPP definition a hinderance to economic development?
  3. Do new models for PPPs exist and what do they entail?
  4. Factors contributing to a mutual gains relationship between the public and private sector partners

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## APPENDIX A: INTERVIEW WITH INDUSTRY EXPERTS - QUESTIONS AND POINTS FOR DISCUSSION

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### Introduction

- Career history and professional background
  - The definition of a PPP
1. Are PPPs working in South Africa?
  2. Are PPPs working in urban renewal?
  3. What are the major factors driving the need for PPPs in urban regeneration?  
South Africa?
  4. Are PPPs working in the rest of the world?
  5. Is our PPP model exportable to other parts of the globe?
  6. What is your opinion on PPPs as a vehicle to drive BEE?
  7. Are PPPs sometimes implemented solely for BEE purposes?
  8. Is a PPP the best option for urban renewals?
  9. Are our PPPs adequately staffed and resourced?
  10. What are the biggest problems affecting PPPs in urban regeneration in your opinion?
  11. What are key factors for a successful PPP?
  12. What is the future of PPPs?

**APPENDIX B: SURVEY QUESTIONNAIRE**

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**PUBLIC-PRIVATE PARTNERSHIPS QUESTIONNAIRE: URBAN REGENERATION**

Please answer ALL questions. This questionnaire should take you approximately 5-10 minutes to complete.

**A: FACTORS OF PUBLIC-PRIVATE PARTNERSHIPS (PPP)**

Please indicate your score out of 5 (1 = strongly disagree, 5 = strongly agree) mark with an “x”

<b>GENERAL</b>	1	2	3	4	5
The project objectives of PPPs in urban renewal are made clear, upfront to all stakeholders.					
Regarding projects in the area of Urban renewal, PPPs are too inflexible to adapt to the latest circumstances.					
Currently, PPPs are the best option regarding Urban Renewal projects.					
Generally, the management of Urban Renewal PPPs are competent					
PPPs are a very effective way for the State to spread risk.					
Good public relations and buy-in from the general public is key to a successful PPP					
Hidden costs are a part of every Urban Renewal project					
PPP is another form of government procurement					
<b>TIMMING</b>					
Most South African PPPs in the area of urban renewal stick to time lines and time check points.					
Most South African PPPs in the area of urban renewal are completed before or within the allotted timeframe.					
Time overruns are the responsibility of the private sector partner					



The cost involved with time overruns is the responsibility of the public sector					
<b>STAFFING</b>					
Staffing is the responsibility of the private sector partner in a PPP					
Urban renewal PPPs are generally under-staffed.					
Staffing requirements for urban renewal PPPs are the responsibility of the private sector partner					
PPPs allow for skills transfers to take place between the public and private partners					
PPPs are effective for creating more employment and new jobs					
Project management skills are the most crucial skills in a successful urban renewal PPP.					
Urban Renewal PPPs lack in administration, IT and accounting skills.					
<b>EMPOWERMENT</b>					
Public-Private Partnerships are a good vehicle for Black Economic Empowerment in South Africa					
PPPs create opportunities for BEE consortiums that they otherwise would not have had.					



## B. SUCCESS FACTORS RELATING TO PUBLIC-PRIVATE PARTNERSHIPS

1. What in your opinion are the two most crucial factors relating to a successful outcome of a PPP in urban renewal?

1.1

1.2

2. What in your opinion are the two most crucial barriers towards a successful PPP in urban renewal?

2.1

2.2