Constraints for Successful Implementation of Public Private Partnership (PPP) for Tourism Infrastructure Projects

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Abstract

The article argues that government can and should adopt a Public Private Partnership (PPP) model in implementing infrastructure projects in the tourism sector. Through proper development of tourist products and its promotion, a PPP model can be successfully implemented in tourism infrastructure projects. This however requires the knowledge and skills of the labour force in the public sector in partnering with the private sector so that success may be attained. Ensuring practicable, long-term economic operations, and providing needed socio-economic benefits for all stakeholders that are equitably distributed, together with steady employment and income-earning opportunities are critical. Equally vital is the provision of social services to local communities, and efforts to reduce poverty. Government should thus strive to make it easier for the private sector as a partner, to participate in the PPP transactions. There are however several challenges in the implementation of PPP model for public infrastructure projects. The purpose of this research paper was to identify the PPP constraints for public infrastructure projects. The researcher adopted qualitative methods and secondary data analysis of the literature was also conducted and emerging themes were identified. The research identified several constraints including the following; planning, skilled labour force, participation of all parties during the initial stages of the project to enhance decision-making and risk allocation, and practical PPP policies. The private sector’s role as a partner in creating and maintaining sustainable tourism projects should not be underestimated.

Keywords: Tourism, Public infrastructure projects, Public Private Partnership, Constraints, models.

Introduction

The South African government has invested a lot in public infrastructure projects through its state-owned enterprises. These projects if delivered on time, and within budget, could lead to a favourable economic growth. The delay in public infrastructure projects does impact on the economic growth of the country. Most of the public infrastructure projects in South Africa are structured such that the government has full control and accountability over them. In the event where there is a skill shortage, a partner is appointed to provide management oversight. This is a problem in that the risk of project being delayed still lies with the government. In other areas a public private partnership (PPP) is encouraged such that the risk allocation is shared between the parties (public and private). The choice of a contract type has a bearing on the successful completion of public infrastructure projects. While PPP was successfully implemented in government entities such as Correctional Services and tourism infrastructure projects such as SanParks, it has failed on other large-scale infrastructure projects.

The variance between PPPs and traditional government infrastructure projects is described as:

A PPP is defined as a contract between a public-sector institution and a private party, where the private party performs a function that is usually provided by the public sector and/or uses state property in terms of the PPP agreement.
Most of the project risk (technical, financial and operational) is transferred to the private party. The public sector pays for a full set of services, including new infrastructure, maintenance and facilities management, through monthly or annual payments. In a traditional government project, the public sector pays for the capital and operating costs, and carries the risks of cost overruns and late delivery. The Public Finance Management Act (1999) regulates national and provincial PPPs (Treasury Regulation 16). All institutions undertaking such partnerships require approval from the National Treasury in four phases (feasibility study, procurement, value for money and final PPP agreement). All PPPs also go through regulatory tests to check compliance before they are implemented. These three tests assess value for money, affordability and risk transfer. (Public Private Partnerships - Treasury, 2018: 153)

This research focuses on the constraints for effective implementation of PPP for tourism infrastructure projects. Effective implementation of PPP will likely enhance economic growth. The tourism sector is one of the fastest growing industries globally and promoting tourism can most likely enhance economic growth (Zhidkoblinova, Stavbunik & Spanova, 2016). The current measure of growth considers mostly things that are in operations (such as production, mining, manufacturing etc). The effect of the current public infrastructure projects that are either in the planning stages or in the construction phase are not being factored into. This research paper thus focuses on the constraints for successful implementation of PPP to boost economic growth for a developing country.

**Literature Review**

PPP model facilitates a special relationship between a state and a business with the aim of bringing together the experience, skills and resources of partners complementing each other in executing a public-sector project (Zhidkoblinova, Stavbunik & Spanova, 2016; Wilson, Nielson & Buultjens, 2009; Singh & Khan, 2014; Peric & Dragicevic, nd). A PPP model has several benefits. Financially, the PPP model can leverage on the funding from the private sector and subsidies from the government which relieve other funding constraints such as marketing (Heeley, 2011). Operationally, a PPP model can improve efficiency and innovation of the PPP project (Heeley, 2011). The private sector will maintain profit-taking or value creation of the PPP project and the public sector will also benefit from the buy-in of the private sector in to stated public sector objectives (Cheuk et al., 2010). PPP in tourism can promote investment in public infrastructure projects, efficiency in the delivery of the services after the completion of the project, cost-effectiveness, performance-based contracts and appropriate risk-allocation (Sigh & Khan, 2014). Appropriate risk allocation during the planning stages will assist the parties in the PPP transaction to choose suitable PPP models for the implementation of the infrastructure projects. Implementation of a PPP project will be effective for a tourist area and the focus should be on the development of specific tourist offerings (Khakimova & Fattakhova, 2016). Thus, PPP if planned and managed properly will probably benefit both parties in terms of achieving their respective objectives.

**Model for PPP**

PPP projects can be implemented through various funding models including the following: Buy-Build-Operate (BBQ), Build-Own-Operate (BOO), Build-Own-Operate-Transfer (BOOT), Build-Operate-Transfer (BOT), Build-Lease-Operate-Transfer (BLOT), Design-Build-Finance-Operate (DBFO), Finance Only, Operation & Maintenance Contract (O&M), Design-Build (DB) and Operational License (Das & Ghosh ,2014; Singh & Khan, 2014; Aggarwal & Suklabaidya,2017). The choice of each model depends on the risk profile for each project. The adoption of each model requires a governance structure that will enforce effective contracts.
management and performance (Aggarwal & Suklabaidya, 2017). According to the authors, the requirement for monitoring and contracts management should be fully understood and addressed for each concession.

Poor enforcement of contracts can lead to undesirable disputes and failure of the PPP arrangement as was the case with the failure of well-known Seal Rocks PPP (Frost & Laing, 2018). Seal Rocks is a small coastal settlement in the Mid-Coast Council local government area, in the Mid-North Coast region of New South Wales, Australia, 275 kilometres north-north-east of Sydney. It is very famous for its many premier surfing beaches. In 1998, the Seal Rocks Sea Life Centre opened on Phillip Island, Australia. “This was a public–private partnership, with a privately funded tourist attraction built on a government-owned protected area. Almost immediately it was beset by problems and court action found in favour of the private developer, who was awarded $A37 million in damages, with ownership of the centre returning to the state” (Frost & Laing, 2018). This–private partnerships was an unsuccessful venture.

Table 1: Characteristics of PPP models

<table>
<thead>
<tr>
<th>PPP Type</th>
<th>Characteristics of PPP Type</th>
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<tbody>
<tr>
<td>Buy-Build-Operate (BBO)</td>
<td>• Private sector buys the tourism assets outright.</td>
</tr>
<tr>
<td>Buy-Conserve-Operate (BCO)</td>
<td>• Private sector buys the tourism assets outright.</td>
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<td>• Strict requirements of maintenance and conservation standards.</td>
</tr>
<tr>
<td>Build-Own-Operate-Transfer (BOOT)</td>
<td>• The agreement empowers the concessionaire to use public assets for building projects, empowers it to levy and collect user charges.</td>
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<tr>
<td>Build-Lease-Operate-Transfer (BLOT)</td>
<td>• When the terms of lease are fulfilled, ownership is transferred back to the public sector.</td>
</tr>
<tr>
<td>Build-Operate-Transfer (BOT)</td>
<td>• Government always remains responsible and accountable</td>
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<td>• for delivery of service to the users.</td>
</tr>
<tr>
<td>Design-Build-Finance-Operate (DBFO)</td>
<td>• Applicable to large scale projects where private sector is responsible for construction or additional of new structures and the financing and operation of both.</td>
</tr>
<tr>
<td>Conserve-Build-Finance-Operate (CBFO)</td>
<td>• Projects funded directly by private sector or uses long-term leases or bonds.</td>
</tr>
<tr>
<td>Finance Only</td>
<td>• Private or third party operates a service under contract or license for a fixed term, but the asset remains in government ownership.</td>
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Source: Aggarwal & Suklabaidya, 2017

Table 1 above provides a summary of the characteristics of each PPP model. It is clear from the definition of each of the models that the risk profile of each project should be determined during the planning stage of the PPP project. It is at this stage whereby a decision should be made on which of the models is appropriate for the implementation of a PPP project. It is also important that all parties to the PPP transaction should participate during the planning stages. However, one of the major constraints identified in the literature, is a lack of skilled labour in decision-making and implementation of PPP projects.

**Contracting Strategy**

There are different contracting strategies for implementing public infrastructure projects. Government can manage public infrastructure projects through its own public enterprises. However, lacking skills and expertise in PPP implementation, and political interference, could affect the completion of the project and the project costs. According to Byoun & Xu (2014),
political and financial risks of a country have substantial impacts on the contract choice as well as public-private governance structure in project finance. The private sector can contribute to public infrastructure projects by (Winston, 2014):

- Purchasing infrastructure facilities from the government and operating them efficiently.
- Developing technological innovation that the public sector could implement to improve current infrastructure performance.
- Making technological advances that can hopefully improve the operation of infrastructure facilities that use the infrastructure.

Involving the private sector in implementing public infrastructure projects will significantly reduce the risk of project delays and cost overruns. One way of involving the private sector in project implementation is through public private partnership (PPP). In a PPP environment, the local authority or government enters into a long term contractual arrangement with the private supplier for delivery of some services (Iossa & Martimort, 2009). The supplier takes responsibility for building infrastructure, financing the investment and managing and maintaining the facility (Iossa & Martimort, 2009). According the Iossa and Martimort (2009), the PPP features the following:

- Tasks bundling which involves the bundling of design, building, finance and operation of the project which are contracted out to the private sector.
- Transfer of risk and giving fully responsibility to the contractor.
- Long term contracting, typically 20-25 years.

The PPP model was successfully implemented in Singapore for infrastructure projects of more than S$50 million. Most of the PPP projects are risk intensive and risk management is critical for both public and private parties in a PPP projects to attain their objectives (Hwang et al., 2013). The authors identified that the top three critical success factors for the PPP projects are: well-organised public agency, appropriate risk allocation and sharing, and strong private consortium. The relative importance of the positive factors that influences the attractiveness of the PPP projects in Singapore were: better value for money, improved risk profile and “facilitated creative, innovative and cost-effective solutions” (Hwang et al., 2013). Meanwhile negative factors for PPP projects in Singapore were: “lengthy delays in negotiations”, “high participation costs”, “confusion on government objectives and criteria evaluation”, and “lack of experience of appropriate skills” (Hwang et al., 2013).

The same negative sentiment is facing Sub-Saharan Africa whereby lack of capacity and policy direction, inconsistence in policy, mistrust among government implementing agencies, policy bias against PPP, high participation costs, low technology, socio-cultural and macro-economic issues, delay in negotiations, and poor performance are among the challenges affecting the implementation of PPP in sub-Saharan Africa (Sanni & Hashim, 2014).

The successful implementation of the PPP for the public infrastructure projects is dependent on appropriate risk sharing and risk allocation to the parties involved in the PPP. Project governance which will provide a structured mechanism to identify and address risks as they occur (Gue et al., 2014).

**Funding mechanisms for Public Infrastructure Projects**

Many infrastructure projects in the developing countries tend to be financed by the state, either through private funding or from the equity. The problem with this type of funding arrangement is the political interference by the state. Government is supposedly more involved in protecting public interest (Xu & Byoun, 2014).
Private funding can ease the burden of public infrastructure projects. A case in point is the implementation of the PPP in Spain where access of private capital and support for legal guarantees has led to the delivery of many capital projects with a value close to EUR 11,100 million between 1993 and 2010 (Cabrera et al., 2015). Specific to tourism, South African National Parks (SanParks) has successfully implemented several PPPs since 2000 and they have contributed to more than R100 million in revenues since the inception of PPP in South Africa in 2000 (SanParks Annual Report, 2016).

According the South African National Treasury, 2017 budget review, 20% of the PPP projects are attributed to tourism. In terms of public infrastructure projects, PPPs in general contributed about 1.7% of public-sector infrastructure estimates (National Treasury, 2017). The PPP projects include hospitals, transport and roads, tourism and head office accommodation, and they were funded through a combination of equity, debt and government capital contributions (National Treasury, 2017). Some of the projects were successfully implemented while others experienced various challenges from start to completion.

**Public Infrastructure Capital and Economic Growth**

Government tends to focus on public infrastructure projects to stimulate economic growth. Warner (2014) investigated whether big infrastructure public capital accelerates economic growth in low income countries. He found that there is a small positive and instantaneous association between public investment booms and economic growth, the positive association occurs immediately and not in the long-run or subsequent years. Infrastructure project expenses are higher during the first few years of execution.

This is caused by the high price of capital required for procurement of equipment and higher labour costs. For the subsequent years’ there is a funding gap. This could be due to an underestimation and over commitment on funds. Cash-flow becomes a problem and this affects the overall performance of the project. Planning and adequate risk management is required for successful execution of public infrastructure projects.

**Causes of Public Infrastructure Project delays**

The project management body of knowledge recommends a proper management of the triple constraints of a project (scope, cost and time). If these constraints are not properly managed, then there is a strong possibility of project delays. Catarelli et al. (2010) identified cost overrun as the leading cause of infrastructure project delay. Causes of cost overruns are associated with technological, economic, psychological and political factors (Catarelli et al., 2010). According to the authors’ political interference is the most dominant cause of cost overruns.

While a PPP may not always be the superlative tool for every condition, its strategic use of can contribute meaningfully to the development of a sustainable tourism programme, and a PPP can then be a dynamic tool for enabling tourist access and improving a destination experience for tourists. For the construction of the public infrastructure projects the main source of risk usually comes from project delays and cost overruns (Cabrera et al., 2015). Proper risk allocation between public and private partners will ensure successful implantation of public infrastructure projects. This could be implemented by developing a risk matrix and risk allocation at the contract design stage (Cabrera et al., 2015). Successful partnership in the PPP model should be viewed as a business relation whereby partners involved in the transaction share risks, rewards and responsibility whether the project succeeds or not (Peric & Dragicevic, nd) The allocation and sharing of risk plays a role in reducing project delays and cost overruns. Therefore, risk management plan should be implemented throughout the project life cycle.
Methodology

This research employed qualitative research methods. The qualitative methodology is relevant for this study in that it provided the researcher with the opportunity to uncover key problems and obstacles that affect the successful implementation of PPP. Qualitative methods also provided the researcher with the processes to focus on analysing the data and interpreting it in the form of creating themes to answer the research problem posed. The research used secondary data in the form of thematic synthesis of literature review for the barriers affecting successful implementation of PPP for infrastructure projects associated with tourism.

Findings

Successful implementation of PPP in tourism infrastructure projects requires all parties involved in the transaction to be accountable and take responsibility for risk allocation. Khakimova and Fattakhova (2016) identified the following barriers for active development of domestic tourism:

- Poorly developed supporting infrastructure of tourist facilities;
- Poorly developed tourist infrastructure;
- Lack of available credit to potential investors;
- Lack of professional staff;
- Insufficient promotion of tourist product in the domestic tourism market.

In their research for PPP in heritage management, Aggarwal and Suklabaidya (2017) identified the following barriers:

- Understaffing,
- Simultaneous focus on many projects under one jurisdiction,
- Delays in approvals linked with developmental plans resulting in vandalism, encroachments and deteriorating condition of the monument,
- Low visitor footfall at the site both for domestic and foreign tourist.
- Non-availability of interpretation material other than signage, resulting in dissatisfaction with the visitors.

The above barriers were due to lack of funding (Aggarwal & Suklabaidya, 2017). No appropriate PPP model was selected in managing the risk associated with funding.

The barriers could be addressed by adopting PPP with the functions and responsibilities as suggested by (Franco & Estevao, 2010):

<table>
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<th>Table 2: Roles and Responsibilities of partners in the PPP</th>
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<tr>
<td><strong>Public Sector</strong></td>
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<tr>
<td>Vision for tourism</td>
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<tr>
<td>Favourable environment for tourism – to allow capital</td>
</tr>
<tr>
<td>budgeting and investment for private sector</td>
</tr>
<tr>
<td>Proper infrastructure and their maintenance</td>
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<tr>
<td>flexible transportation</td>
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<tr>
<td>Sufficient market conditions to stimulate sustainable</td>
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<td>development of tourism</td>
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Consideration for PPP requires parties involved in the PPP transaction to maintain a balance between value of the asset to the investors and the cost of developing the project (Nelson et al., 2012). Maintaining balance requires that all parties should be involved in all stages of the project. Cheuk et al. (2010) evaluated the role of private and public-sector interests in the context of tourism planning and development. The authors found that the private sector has less participation in the decision-making process to determine the direction of tourism development and tourism planning.

The public sector remained dominant in the planning stage and only involved the private sector in the execution stage. This is problematic if the projected tourist numbers do not match with the numbers planned. This is evident in the case for Seal Rock whereby the project was fast-tracked during the planning stage (Frost & Laing, 2018). The business plan and contract for Seal Rock was not shared among parties involved in the transaction and this lack of transparency led to a dispute on this project (Frost & Laing, 2018). This case highlights the role played by contracts management in ensuring transparency in the PPP model. In their study on the contribution of PPP adaptation in tourism, Wong et al. (2012) found that certain levels of trust to parties in the PPP transaction should be established to ensure mutual benefit and goals should be set at the beginning of the PPP transaction. The author also established that government must take full responsibility to formulate transparent and practical PPP policy. This is required to manage political risk as one of the barriers in implementing PPP.

Enhanced value of PPPs

Uplifting communities is of necessity duty bound to be a primary consideration in public-private partnerships (PPPs) in South African tourism, as well as in the SADC region. An ability to finance tourism infrastructure projects will certainly assist in meeting the development needs of especially rural populations, heritage, cultural tourism and ecotourism are rising areas of interest. This the finance mechanism of a PPP, in which governments collaborate with the private sector to achieve certain development goals’ is critical. South Africa has various PPPs, and the National Treasury regulates these partnerships and in any case, South African law defines a PPP as “a contract between a public-sector institution/municipality and a private party, in which a private party assumes substantial financial, technical and operational risk in the design, financing, building operation of project” (Luthuli, nd.). So as to promote equality in the country, PPPs are often tied to black economic empowerment (BEE) and then such an obligation to economic upliftment is part of corporate social investment (CSI) (Luthuli, nd.) When there is bidding for projects or a quest for strong partnerships with the public sector, companies are appraised on their promise to help government achieve its growth plan, as laid out in the National Development Plan.

It is essential that government links up with private entities who will assist and share the burdens through socio-economic programmes, while still able to make some profit. For example, a private company could help cultural arts and crafts manufacture for tourist consumption, or ecotourism activities by providing skilling of young black entrepreneurs. The socio-economic development strategy participation of black people, in the things created for the project via the avenues of learnerships and mentorship, and the participation of black empowerment entities and small, medium and micro-sized enterprises in procurement and sub-contracting, is vital to
success. PPPs can also subsidize to the inclusive ideal of creating a free and fair society based on equality, which links up with government’s black economic empowerment (BEE) goals. PPPs may also provide substantial subcontracting prospects for black enterprises, where cash-flow benefits can be derived.

Conclusions

Successful implementation of the PPP depends largely on the political environment and a clear government policy on practical implementation of the PPP projects. Some African countries are moving away from the PPP due to several barriers in its implementation. This research has identified several key constraints for a successful implementation of PPP. One of the key barriers in implementing the PPP model is the shortage of skills and labour in the public-sector part of the partnership. Furthermore, the skills transferring the labour force from public sector to the private sector for the duration of the PPP is subject to labour laws considering the labour is unionised.

The challenge for the private sector is the management of non-performance on the resources dedicated to the PPP. It would be ideal for the public sector to develop labour expertise in PPP. Involvement of all parties at the planning stage was highlighted as the most important factor in risk sharing and allocating responsibilities from the onset. This will also serve to encourage transparency from each partner in the PPP. Lack of transparency leads to confusion from the stakeholders’ perspectives, more especially if the benefit of the project could not be realised. This will also promote accountability for each partner in the PPP transaction in managing risk. Parties to the PPP transaction should also adhere to their respective roles and responsibilities in managing each party’s objectives in the PPP transaction and in the stakeholders’ expectations. Stakeholders would want to benefit from the completed infrastructure project. For tourism infrastructure projects, the benefit should focus on tourism product and how it will be promoted to bring revenue for the completed infrastructure. Finally, the government as the shareholder of the public section needs to ensure a conducive environment for PPP implementation. This requires a clear PPP policy and directive.

Limitations

The limitation of this research paper is the research methodology which uses the thematic synthesis of the constraints of PPP. It is also qualitative in nature and the finding might not be generalisable. To strengthen the findings, the study originally intended to review quantitative data based on a few cases of PPP in tourism as well as the qualitative information from the literature or the cases themselves. This could be the focus for future research.

References


