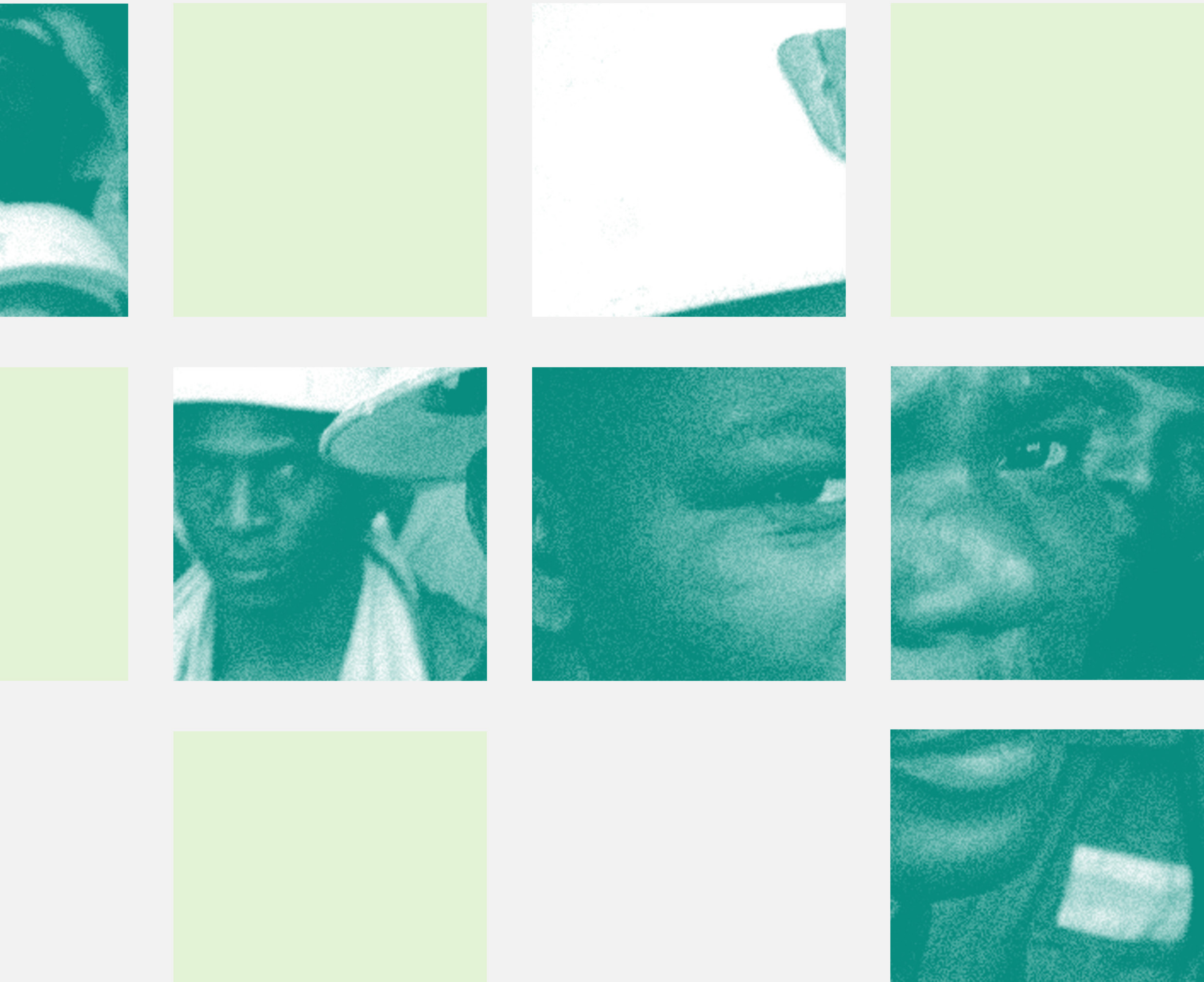
CASE STUDY

6 The State of PPPs in Zambia and Zeroing in on the Lusaka-Ndola Road

Gershom Kabaso, Jr., Zambia Social Forum



Introduction

Despite the mounting debt being incurred by the government of Zambia, it continues to promote public-private partnerships and the construction of large infrastructure projects, such as the Lusaka-Ndola Road. The road project was implemented with financing coming from its private sector partner, Macro Ocean Investment Consortium, with public financing extracted from pension funds and workers' compensation funds. While the Lusaka-Ndola Road promises to contribute to economic development and faster travel time, the imposition of toll fees burdens the public while amassing profit for its corporate partner.

Country Context

In light of the debt distress faced by Zambia, in November 2020, the country defaulted on its foreign debt. After this, the government signed a USD 1.3 billion loan from the International Monetary Fund (IMF), under its Extended Credit Facility (ECF), which aims to "restore macroeconomic stability and foster higher, more resilient, and more inclusive growth."[1] In the name of 'fiscal sustainability', the IMF required the government of Zambia to implement policy conditionalities, which included the promotion of public-private partnerships to finance development projects and forwarding amendments to related policies on PPPs in order to manage risks.

In line with debt restructuring programs, the Republic of Zambia released its Eighth National Development Plan (8th NDP), Socio-economic Transformation for Improved Livelihoods. Under this plan, the government identified the private sector as the main driver for economic transformation and job creation. With this, the plan details how the government will provide an enabling environment for businesses to prosper, through the adoption of policies and construction of necessary infrastructure. The plan also details that the sectors of agriculture, manufacturing, mining and tourism are prioritised to drive economic growth. These initiatives would also be supported by an investment in the energy, transport, technology, water, infrastructure, and skill development sectors. Aside from the private sector's potential role in providing jobs, businesses are increasingly seen as the government's partners to fund and implement infrastructure development in the country.

With this, there has been a stress on the use of public-private partnerships (PPPs) in financing development projects. Under the Public-Private Partnership Act No. 14 of 2009, the government of Zambia has strengthened the legal framework for PPPs in regard to the construction of infrastructure projects, with the aim to ensure the proportionate management of risks between the government and its private sector partners. Along with this new regulation is the establishment of various bodies responsible for approving and monitoring projects under PPPs, such as the Public-Private Partnership Department under the Ministry of Finance. This department is responsible for facilitating, administering, coordinating, and monitoring PPP projects.

[1]International Monetary Fund African Department. (2022). Zambia: Request for an Arrangement Under the Extended Credit Facility-Press Release; Staff Report; Staff Supplement; Staff Statement; and Statement by the Executive Director for Zambia. https://doi.org/10.5089/9798400218224.002.

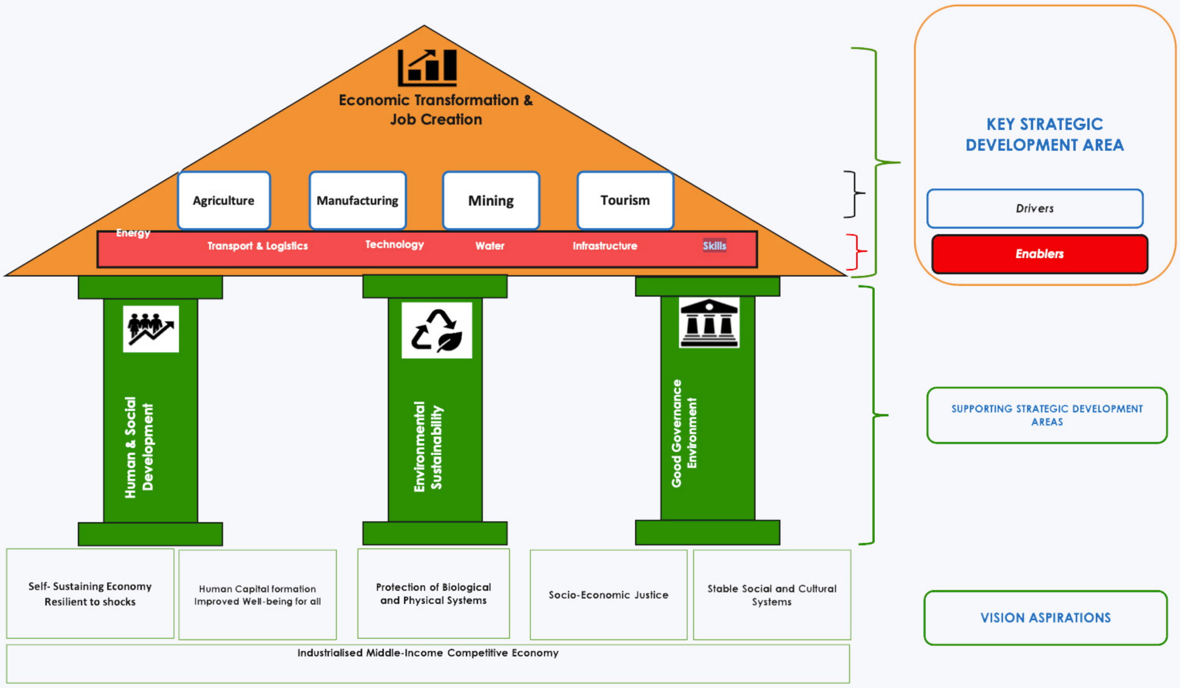


Figure 1. Eighth National Development Plan & Vision 2030 Strategic Development Matrix. Source: Eighth National Development Plan, 2022-2026

The use of PPPs has been further promoted by the International Finance Corporation (IFC) under the World Bank Group. The IFC supported the foundation of the Public-Private Dialogue Forum (PPDF), a national dialogue mechanism for the delivery of development cooperation reforms. Through PPPs, the forum aims to expand Zambia's private sector markets and optimise its potential for investment, in order to promote economic growth and development. The forum has several sector-based technical working groups composed of representatives from the government, private sector and civil society.[2]

[2]Public Private Dialogue Forum. (2023, April 6). https://ppdf.org.zm/.

Upgrading to the Dual Carriageway of the Lusaka-Ndola Road, including the Rehabilitation of the Luanshya-Fisenge-Masangano Road

Overview

One of the projects pursued under a PPP framework is the upgrade of the Lusaka-Ndola road and the rehabilitation of the Lunashya-Fisenge-Mansangano road.

About the project

The project provides for the upgrade of the longest dual carriageway of the Lusaka-Ndola road, rehabilitation of the Luanshya-Fisenge-Masangano roads, construction of the Kabwe and Kapiri Mposhi bypasses, construction of two weighbridges, and the expansion of existing bridges.

The Lusaka-Ndola road, spanning a total of 327 kilometres, facilitates in-country and cross-border trade in the Southern Africa Development Community (SADC), the regional economic community in the continent. It is used by 10,000 vehicles daily and transports mineral exports from the Copperbelt region, or the mineral-rich provinces in Zambia, to a port in Tanzania.[3] These roads also connect Lusaka, Zambia's capital, to the Democratic Republic of Congo.

However, the road has deteriorated leading to delayed cargo, loss of goods and traffic accidents. The upgrade of these road networks claims to reduce travel time, address traffic congestion and enhance road safety. The rehabilitation and construction of these roads aim to facilitate commerce and the trade of goods and services within and beyond Zambia.

Modality	Finance-design-build-operate-maintain
Instrument	Concessional loan
Program Type	Public-private partnership

[3]Mushinge, G., & Jalloh, A. (2023, April 6). Controversy surrounds Zambia's divided highway project. Deutsche Welle. https://www.dw.com/en/controversy-surrounds-zambias-divided-highway-project/a-65224867

Duration	Start date: 2023 25 years concession period (3 years construction, 22 years operations and maintenance)
Budget	USD 649.98 million (USD 577.38 million for construction, USD 1 million working capital, USD 1.85 million finance cost, USD 69.74 million interest during the construction period)
Sector	Infrastructure, transport
Development Partner(s)	National Pension Scheme Authority (NAPSA), Worker's Compensation Fund Control Board
Type of private sectors engaged	Large multinational corporation
Private sector partners	Macro Ocean Investment Consortium (MOIC), which consists of AVIC International Project Engineering, Zhenjiang Communication Construction Group and China Railway Seventh Group
Other dev't partners	Stanbic Bank Zambia Limited
Role of partners	The project financing will come from the government partner, the National Pension Scheme Authority (NAPSA) and the Worker's Compensation Fund Control Board, while the construction, operation, maintenance, and management will be under MOIC. NAPSA will be providing USD 300 million, the Board will be financing another USD 100 million, and the Stanbic Bank Zambia Limited will provide a loan of USD 200 million.[4] Macro Ocean Investment Consortium will only be responsible for the design, construction and maintenance of the road networks, but will own the assets for 25 years, from which it will gain profit from the transport fees with the use of the roads. Meanwhile, the government will receive a 15% share of the revenues and additional income from the toll taxes during the concession period, which will amount to USD 1.172 billion.
Monitoring	The Zambian government shall have the privilege to audit all the revenue that will be collected by the concessionaire, and all the risks associated with the project shall be borne by the concessionaire.
Results framework	No information available
Results	No information available
Evaluation	No information available

[9] Lusakatimes.com. (2023, March 2). Zambia : New Lusaka-Ndola dual carriage way: a PPP or a scam? Emmanuel Mwamba weighs in. https://www.lusakatimes.com/2023/03/02/new-lusaka-ndola-dual-carriage-way-a-ppp-or-a-scam-emmanuel-mwamba-weighs-in/

Adherence to the Kampala Principles

Kampala Principle 1: Inclusive Country Ownership

The project is aligned with Zambia's 8th National Development Plan that put emphasis on public-private partnerships for economic growth and development. PPP initiatives are also monitored and regulated under the Public Private Partnership Act No. 14 of 2009. The project will also be regulated by the Tolls Act No. 14 of 2011, which oversees the operation and management of toll roads. These plans and regulatory frameworks underwent public consultations, but legislative bodies to regulate PPPs lack representatives from civil society. Furthermore, these policies are heavily influenced by the IMF, as these are part of the structural reforms required by the bank for the government for its debt restructuring.

These policies have further facilitated the entry of the private sector in development in the country, especially in financing and implementing infrastructure projects. It can be seen that the majority of Zambia's construction projects have been pursued with Chinese-owned companies and financed by Chinese loans, contributing to the worsening debt distress in the country.[5] The dependence on Chinese corporations and financing has been questioned by the public as to how PPPs could have been undertaken with domestic corporations, rather than foreign ones.

Kampala Principle 2: Results and Targeted Impact

The government claims that the project, under a PPP modality, will be able to create additional jobs and foster economic growth. With this, private capital will be used to fund infrastructure development and the efficient provision of services. Under the PPP law, private sector partners are required to give 20% of the work to Zambian contractors. The government claims that during the construction period, the project will be able to generate 3,000 direct jobs, along with other indirect jobs and business opportunities.[6] However, since the project is just starting, this still has yet to be seen.

Kampala Principle 3: Inclusive Partnership

There are concerns that the road rehabilitation will be unbankable since it will be challenging to anticipate the road traffic and projected income from the operation of the toll roads. With this, private sector investors have a longer concession period where they can gain their investment back. While there was public concern that the management of the roads by MOIC was too long, the government contends that the concession period of 25 years is suitable to claim affordable toll fees and provide high-quality roads.

The privatisation of the construction and maintenance of infrastructure has only burdened the public with additional toll fees and transport costs, while amassing profit for MOIC.[7] Computations show that the corporation only needs 12 years to gain back its investment from the road network and for the remaining ten years of its operations,

[5] Orr, B. W. (2020, December 14). The Curse of the White Elephant: The pitfalls of Zambia's dependence on China. Global Risk Insights. https://globalriskinsights.com/2020/12/the-curse-of-the-white-elephant-the-pitfalls-of-zambias-dependence-on-china/
[6] Fcca, S. I. N. M. (n.d.). The Lusaka - Ndola Dual Carriageway PPP: Opportunities, risks, and rewards. https://www.linkedin.com/pulse/lusaka-ndola-dual-carriageway-ppp-opportunities-susiku-i-
[7] LusakaTimes.com. (2023, March 11). Zambia : The analysis on Lusaka-Ndola Dual Carriage Way under PPP model. https://www.lusakatimes.com/2023/03/11/the-analysis-on-lusaka-ndola-dual-carriage-way-under-ppp-model/

it will earn an excess of USD 1.5 billion. Civil society has raised that this additional profit could have been used to invest in the provision of social services and goods.[8]

Kampala Principle 4: Transparency and Accountability

The existing policies for private sector engagement lack the necessary frameworks and processes to ensure transparency and accountability of the government and private sector entities. CSOs have also noted the lack of transparency on how PPPs are negotiated with private sector partners, with members of civil society being left out of these processes. It also remains unclear how the toll road fees are going to be collected and used.[9]

While the government assures that it has the capacity to audit the bank accounts where the revenue will be deposited, there is no clear process to ensure the transparency and accountability of both the public and private sector. The government claims that it can earn a total of USD 1.172 billion over the 25-year concession period, coming from the project's taxes.[10] However, these are still to be materialised as the project is still ongoing.

Kampala Principle 5: Recognising, sharing and mitigating risks for all partners

Experiences in the global South have long highlighted the adverse impact and risks brought about by public-private partnerships. While PPPs have increasingly been used to fund infrastructure and service projects, the use of this modality puts further strain on public resources and the people, as the government shoulders the risks of investment and implementation. Furthermore, PPPs are more susceptible to corruption and undemocratic processes due to the lack of transparency and accountability surrounding these agreements.[11]

This proves to be true in the Zambian case, as the financing for the road rehabilitation will be coming from the country's pension funds and worker compensation funds, but its operations will be privatised with MOIC overseeing the maintenance and operation of the roads. It has also been estimated that the government will lose around USD 38 million once the roads are in operation and will make transport fees more expensive for the people while raking in profit for MOIC.[12]

Photo from Noel Wasamunu via Xinhua

[8]Mushinge, G., & Jalloh, A. (2023, April 6). Controversy surrounds Zambia's divided highway project. https://www.dw.com/en/controversy-surrounds-zambias-divided-highway-project/a-65224867
[9]ActionAid Zambia. (2023, March 7). Press Statement - Public Private Partnership Should Benefit Zambians. https://zambia.actionaid.org/stories/2023/press-statement-public-private-partnership-should-benefit-zambians
[10]Ministry of Infrastructure and Urban Development. (n.d.). On the Upgrading of Lusaka-Ndola Dual Carriageway. https://www.parliament.gov.zm/node/10947
[11]Eurodad. (2022). History RePPPeated II: Why Public-Private Partnerships are not the Solution. https://assets.nationbuilder.com/eurodad/pages/3071/attachments/original/1671445992/01_history-rePPPeated-2022-EN_19dec.pdf?1671445992
[12]Daily Nation Zambia. (2023, June 12). State to lose K750 million. https://dailynationzambia.com/2023/06/state-to-lose-k750-million/.

Conclusion and Recommendations

In light of Zambia defaulting on its debt and being subjected to IMF restructuring, the government has pursued public-private partnerships as a modality for development projects. While PPPs are being promoted as a means to mobilise additional financing and to facilitate the implementation of development initiatives, the construction of the Lusaka-Ndola road and other affiliated networks have only contributed disproportionate risks to the public sector, while amassing profit for corporations. With this, there is a need for:

- **Donors and international financial institutions (IFIs) to end policy conditionalities that promote further private sector intervention in development.** Furthermore, in the face of increasing debt distress, donors and IFIs must cancel all debts and provide more financing in the form of grants, rather than loans.
- **Abandon PPPs as a modality if it presents disproportionate risks to the government and the people.** The stress on privatisation has allowed the government to abandon its role in providing necessary services and goods while transferring the burden to the people and ensuring profit for private sector partners. The government should not abandon its obligation to provide social services and programs to the people.
- **The government must exercise transparency and accountability over its partnerships with the private sector.** Details regarding deals, agreements, and partnerships must be available to the public. It must also exercise significant oversight over its private sector partners, especially with how public finance is utilised, ensuring that their interventions are aligned with the Kampala Principles, as well as international human rights and labour norms and standards.
- **In engaging the private sector for development initiatives, prioritise partnering with micro, small and medium enterprises (MSMEs), social enterprises and local entrepreneurs, rather than multinational corporations (MNCs).** MNCs have historically violated people's rights and destroyed the environment with their business activities. Working with MSMEs and social enterprises can contribute to job creation and domestic development, towards self-reliance and genuine sustainable development.