

# RESEARCH REPORT

By

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*Together in Excellence*  
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## DECLARATION

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**GASTER SHARPLEY**

## **DEDICATION**

The late Collen Dorkin



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## ACKNOWLEDGEMENTS

Special thank you to our Lord who created us and blesses us daily

Thank you to my supervisor, Isioma Ile, for your guidance and effort.

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# TABLE OF CONTENTS

## ABSTRACT

### CHAPTER ONE: INTRODUCTION

|     |  |   |
|-----|--|---|
| 1.1 | BACKGROUND.....                        | 1 |
| 1.2 | PROBLEM STATEMENT.....                 | 2 |
| 1.3 | RESEARCH OBJECTIVE.....                | 2 |
|     | 1.3.1 General objective                |   |
|     | 1.3.2 Specific objectives              |   |
| 1.4 | SIGNIFICANCE OF THE RESEARCH.....      | 3 |
| 1.5 | ASSUMPTIONS.....                       | 3 |
| 1.6 | DEFINITION OF TERMS.....               | 4 |
|     | 1.6.1 Community                        |   |
|     | 1.6.2 Sustainable development          |   |
|     | 1.6.3 Municipality                     |   |
|     | 1.6.4 Public Private Partnership (PPP) |   |
|     | 1.6.5 Accountability                   |   |
| 1.7 | LIMITATIONS.....                       | 7 |



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|     |                      |   |
|-----|----------------------|---|
| 1.8 | DELIMITATIONS.....   | 8 |
| 1.9 | CHAPTER OUTLINE..... | 8 |

## CHAPTER TWO: LITERATURE REVIEW

|      |  |    |
|------|--|----|
| 2.1  | INTRODUCTION.....  | 9  |
| 2.2  | THEORETICAL FRAMEWORK.....                                   | 10 |
| 2.3  | PUBLIC PRIVATE PARTNERSHIPS: THE CONCEPT.....                | 13 |
| 2.4  | THE GOVERNMENT APPROACH TO PPPS.....                         | 15 |
| 2.5  | TYPES OF PPPS.....   | 16 |
| 2.6  | SOME EXPERIENCES..... <i>Together in Excellence</i> .....    | 19 |
| 2.7  | THE CHALLENGES.....  | 20 |
| 2.8  | LESSONS FROM FAILED PPPS.....                                | 21 |
| 2.9  | EXAMPLES OF SUCCESSFUL PPPs.....                             | 24 |
| 2.10 | COMMON MISCONCEPTIONS ABOUT PUBLIC PRIVATE PARTNERSHIPS..... | 25 |
| 2.11 | INSTITUTIONALISING PRIVATE SECTOR INVOLVEMENT.....           | 28 |



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## CHAPTER THREE: RESEARCH METHODOLOGY AND DESIGN

|     |                                     |    |
|-----|-------------------------------------|----|
| 3.1 | INTRODUCTION.....                   | 30 |
| 3.2 | PERMISSION TO CONDUCT RESEARCH..... | 31 |
| 3.3 | RESEARCH DESIGN.....                | 35 |
|     | 3.3.1 Questionnaire                 |    |
|     | 3.3.2 Literature Study              |    |
|     | 3.3.3 Interviews                    |    |
| 3.4 | POPULATION AND SAMPLE.....          | 33 |
| 3.5 | DATA ANALYSIS PROCEEDURE .....      | 34 |



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### CHAPTER FOUR: PRESENTATION AND ANALYSIS OF DATA

|     |   |    |
|-----|---|----|
| 4.1 | INTRODUCTION.....   | 35 |
| 4.2 | THE MANAGEMENT CONTRACT BETWEEN KSD<br>AND UMTHIZA JOINT VENTURE..... | 35 |
|     | 4.2.1 The contract  |    |
|     | 4.2.2 Key informant interviews  |    |
| 4.3 | THE IMPACT ON SERVICE DELIVERY.....                                   | 38 |
| 4.4 | KEY THEMES.....   | 39 |

|       |  |    |
|-------|--|----|
| 4.4.1 | Community awareness and knowledge of PPP's   |    |
| 4.4.2 | Quality of service delivery                  |    |
| 4.4.3 | Payment for the service                      |    |
| 4.4.4 | Future desirability of PPP's                 |    |
| 4.5   | FINANCIAL BENEFIT FOR THE MUNICIPALITY ..... | 46 |
| 4.6   | CONCLUSION.....                              | 47 |

## CHAPTER FIVE: FINDINGS AND RECOMMENDATIONS

|     |   |    |
|-----|---|----|
| 5.1 | INTRODUCTION.....                               | 48 |
| 5.2 | CHALLENGES WITH THE INVOLVEMENT OF UMTHIZA..... | 48 |



5.2.1 The management contract

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|       |   |    |
|-------|---|----|
| 5.3   | BENEFITS OF INVOLVING THE PRIVATE SECTOR..... | 51 |
| 5.3.1 | Improved service                              |    |
| 5.3.2 | Increased revenue                             |    |
| 5.3.3 | Decrease in by-passing                        |    |
| 5.4   | RECOMMENDATIONS.....                          | 53 |

5.4.1 Establishment of a Municipal Entity

5.4.2 Contract development

5.4.3 Consultation

5.4.4 Pre-paid meters

5.4.5 Communication

5.5 FURTHER RESEARCH.....55

BIBLIOGRAPHY.....56

ANNEXURES.....60 - 90

A - Data collection instrument

B - Permission to do research

C - 2000 contract between the Municipality and Umthiza

D - Project proposal from Umthiza

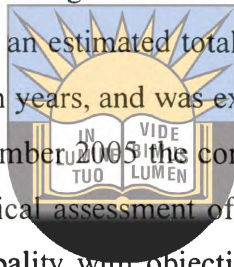


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# ABSTRACT

In 1995, the King Sabata Dalindyebo (KSD) municipality inherited an institution from the apartheid government created homeland that was in financial crisis, this entailed a fifteen million rand overdraft and a thirty two million rand outstanding account with the bulk electricity supplier, Eskom (KSD Municipality minutes, November 1995). In a bid to address the crisis, in 1997 the municipality engaged a private sector consortium called Umthiza Joint Venture to be the managing agent for the electricity supply to consumers.

The consortium was given a five-year management contract (Contract document, 1997). The involvement of the Umthiza Joint Venture resulted in the change from a billing system to a pre paid system. The city had 9 300 households with electricity out of an estimated total of 12 500 households (DBSA.2000). The contract has been operating for the past seven years, and was extended in 2003 for an additional two years after the five year agreement ended. In December 2005 the contract was coming to an end. This research therefore, is aimed at coming up with a critical assessment of the contract deliverables and the findings thereof are anticipated to assist the Municipality with objective information that can be utilized in the process of determining the future of the electricity supply contract.



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This research was conducted against the backdrop of a range of PPP arrangements being concluded in the country in a bid to finding alternate methods to provide services to address the backlogs. However, issues of legitimacy and accountability remain the cortical concern from the side of government as this research will show.

The qualitative data explores the views of the various stakeholders and the expectations or the partnership, and more importantly the outcomes which formulate the findings of the research.

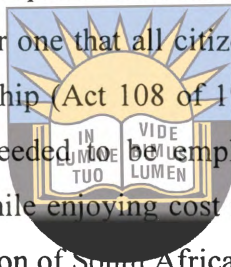
## CHAPTER ONE

### INTRODUCTION

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#### 1.1 BACKGROUND

In 1961 Dr H Verwoerd the then Prime Minister of South Africa formalized a system of government called apartheid that had been in practice since 1652, that granted privileges to the white minority of the population. The post apartheid government of 1994 had to address service backlogs in the country created by apartheid. The urgency to face the challenge was intensified by the adoption of the new constitution in 1996 which states in the founding provisions of chapter one that all citizens are equally entitled to the rights, privileges and benefits of citizenship (Act 108 of 1996). This stretched the resources of the state and innovative ways needed to be employed to offer equal opportunity to services for all South Africans while enjoying cost recovery for the service. The change to democracy and the transformation of South Africa into an anti – racist society, together with the transformation of local government, created the opportunity for local governments to reconstruct their organizations in a scientific manner for more effective and efficient government and administration (Gildenhuys, 1997:43).



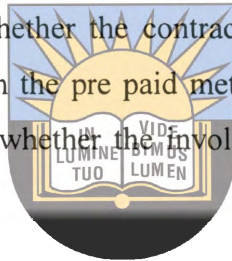
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The White Paper on Local Government (1998:48) recognizes that there are a number of services and activities, which must be undertaken by local government. Poverty alleviation and sustainable development requires good planning, good governance, sound administration, technical proficiency and financial discipline (Mpendu, 2002:82). One of the creative methods used was the involvement of the private sector through Public Private Partnerships (PPPs). The private sector would offer the technical expertise, cutting edge technology and financial resources to deliver the service. It is common practice for municipalities to contract with specialist private companies to provide services. Specialist companies can sometimes provide economies of scale and specialist expertise and experience more efficiently than in – house capacity (White Paper on Local Government, 1998:98)

## 1.2 PROBLEM STATEMENT

The value of private sector participation in service delivery is undermined by perceptions which stem from inadequacies of accountability, quality assurance and job security. This is also entrenched by the view that government should not relegate its responsibility for service delivery to the private sector. Experience has shown that many PPP arrangements have resulted in job losses, poor accountability practices and the delivery of expensive services to poor communities.

While there was very little resistance in the KSD Municipality for the PPP arrangement, there have been concerns raised regarding the private sector involvement. In particular, the question has been raised, whether the contract with the private sector resulted in improved revenue collection with the pre paid meters or not (City Press, 23 November 2003)? It is important to assess whether the involvement of the private sector met the expectations of the Municipality.



It was therefore imperative for this research to assess the effectiveness and if there has been an improvement in revenue accrued, after seven years of using the private sector. The research question is therefore, to what extent has KSD succeeded in achieving an improvement in service and revenue within the framework of the PPP concept.

## 1.3 RESEARCH OBJECTIVE

The research has introduced objective information that can give guidance to similar contracts involving the private sector. This has been determined by evaluating both the improvement of the service and the increase in revenue.

### 1.3.1 General objective

- To assess/evaluate the impact of the private sector role in the delivery of electricity in KSD.

### 1.3.2 Specific objectives

- To assess the KSD Electricity management contract,
- To explore the impact of the contract on service delivery.
- To assess the financial benefit of involving the private sector in the delivery of a public service.

### 1.4 SIGNIFICANCE OF THE RESEARCH

The study offers reliable and objective information on the status of the PPP agreement with the private sector in order to make an informed decision on the future of the electricity supply. This investigation assists to evaluate the private sector involvement objectively in public services.



There is a growing need for a balanced view on the impact of PPP contracts on the future of government accountability. While the economies of scale are strong in favour of bringing in additional capital into the public service delivery, there is always a political tradeoff regarding accountability. The investigation and research into the KSD electricity pre-paid meter project presents a true reflection of the impact of a PPP on that community.

### 1.5 ASSUMPTIONS

For the contract to have lasted seven years, it is assumed that there have been levels of achievement in the electricity supply. It is also assumed that the contract is unique to the KSD area and was not imported from another municipality. Finally, it is assumed that the community did not really fully accept the private sector or understand the nature of their involvement.

## 1.6 DEFINITION OF TERMS

### 1.6.1 Community

According to Dreyer (1998:4) the term 'community' refers to an aggregate of people who have shared identity or have formed a sense of solidarity on the grounds of common characteristics such as shared beliefs, frequent social interaction, close ties or residence. De Beer and Swanepoel (1998:18) argue that no general agreement of 'community' exists. Nevertheless, community can best be conceptualized and understood as a cultural notion people use so as to give reality and form to their social actions and thought. And when people live together and show signs of 'community', outsiders often assume that there is social unity (Dreyer 1998:5)

For the purpose of this study the term 'community' relates to all residents of the KSD urban area that reside there.



### 1.6.2 Sustainable development

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Swanepoel & De Beer (1997:30-31), in an attempt to define sustainable development, argue that there is broader interpretation of sustainable development. According to them, "...sustainable development means to sustain the economy as well as social and ecological systems. Culture occupies an important place in this interpretation." This interpretation implies that sustainable development also means that a space is created for different cultures and knowledge systems as well. A further implication, according to them, is that development should first and foremost be ecologically sound and sustainable, and the rest of the issues should be subject to this.

Lele (1991:608) claims that sustainable development literally means development that can be sustained for a definite or an indefinite period. Brundtland (1987) in Swanepoel & De Beer (1997: 31) tries to provide a workable definition of sustainable development when he says, "...Sustainable development is development that meets the needs of the

present without compromising the ability of future generations to meet their own needs.” For the purpose of this research this definition explains best the intention for using the term sustainable development.

### 1.6.3 Municipality

According to Plummer (2002), the term ‘municipality refers to the local level of urban government. However, in South Africa municipality refers to the third sphere of government as described in the diagram below;



Source: Flusk (2000:11)

South African government is divided into three spheres as shown in the diagram above, which are distinctive, interrelated and interdependent. At the local sphere there are three categories of government that are called municipalities, namely;

- A – Metropolitan municipality which is an urban area that administers its own activities. There are six in South Africa.
- B – Local municipality is a town or city, however, due to the ‘wall to wall municipality system in South Africa that includes all areas into a municipal

boundary, rural areas are included in this category. KSD is regarded as a local municipality.

- C – District municipality is an area that covers a number of local municipalities. The district municipality serves the local municipalities with bulk services and essential services such as primary health care.

#### **1.6.4 Public Private Partnership (PPP)**

According to Plummer (2002), the term ‘PPP’ is used in various ways in various contexts. Frequently it implies some form of private investment and transfer of risk to the private sector; but in other countries the stress lies with the concept of partnership and not with the contract or the investment.



This research uses the term PPP to describe the contract between Umthiza Joint Venture and the KSD municipality. The contract was for the management of the electricity supply and did not carry a risk element for the private sector.

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#### **1.6.5 Accountability**

There are various types of accountability relationships, namely, hierarchical accountability which is based on superior subordinate relationships. In professional accountability, individuals have to answer to questions about whether or not their performance is consistent with professional norms and values. In legal accountability relationships, there are established performance mandates like legislative and constitutional provisions which have to be adhered to. Political accountability relationships stress the responsiveness of political office bearers to public needs.

The expansion of public-private partnerships poses a threat to accountability as private sector partners are not subject to normal legislative scrutiny as public agencies. Private companies are ultimately accountable to the interests of their shareholders and not to

residents. The backlog of services makes it impossible for municipalities to handle this challenge alone. It thus requires municipalities to enter into partnerships with government, private sector, community-based organizations (CBOs) and non-governmental organizations (NGOs).

These partnerships pose a threat to accountability because private sector partners are not subject to normal legislative scrutiny and supervision as is the case with public agencies. It is not always possible to monitor the interaction and negotiation between government executives and business managers and to determine whether or not joint ventures are made in favour of private organizations at the expense of public interest (Haque 2000:609). Armstrong & Lenihan (1999:57) concur that in collaborative partnerships, lines of accountability tend to be blurred. It is imperative that clear lines of accountability are identified and observed.



## 1.7 LIMITATIONS

The following limitations and weaknesses of conducting the research:

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- The results cannot be tested against a national trend and therefore cannot represent the national status of management contracts involving the private sector.
- While the available literature may be useful, there is the risk of it being biased towards the private sector. It was therefore a challenge to find objective information on PPPs as the debate is fueled by emotions of win and loose mentality.
- Access to adequate information from Umthiza Joint Venture was a challenge for the study because the company is a private entity, and it is not obligated to share information publicly.

## 1.8 DELIMITATIONS

The study was limited only to the KSD municipality which is located in the O.R Tambo District Municipality of the Eastern Cape Province. The study has no bearing on the current status of electricity supply in the country through the Regional Electricity Distributors (REDS). The findings also do not suggest a trend or reflect on the national position of management contracts.

## 1.9 CHAPTER OUTLINE

- **Chapter one – Introduction**

The first chapter of this research report explains the background to the study and also the significance. From a single general objective, there are three specific objectives that underpin the research. This chapter also

- **Chapter two – Literature review**

This chapter explores the broader PPP concept and the types of PPPs are explained. This places the research into context in the PPP arena. There are also examples of failed PPPs that offer a balance to the more pro- PPP literature that is available.

- **Chapter three – Data collection**

The data collection instrument is unpacked and reflects the scientific reasoning for using both qualitative and quantitative data.

- **Chapter four – Presentation and analysis of data**

This chapter unpacks the 2000 people interviewed and also the interpretation of the partnership by the stakeholders. The aggregate scoring method was used to establish the quantitative data.

- **Chapter five – Findings and recommendations**

The findings focused on the need for the service and the benefit to the municipality while exploring the issue of accountability and the public expectation for the municipality to supply the service.



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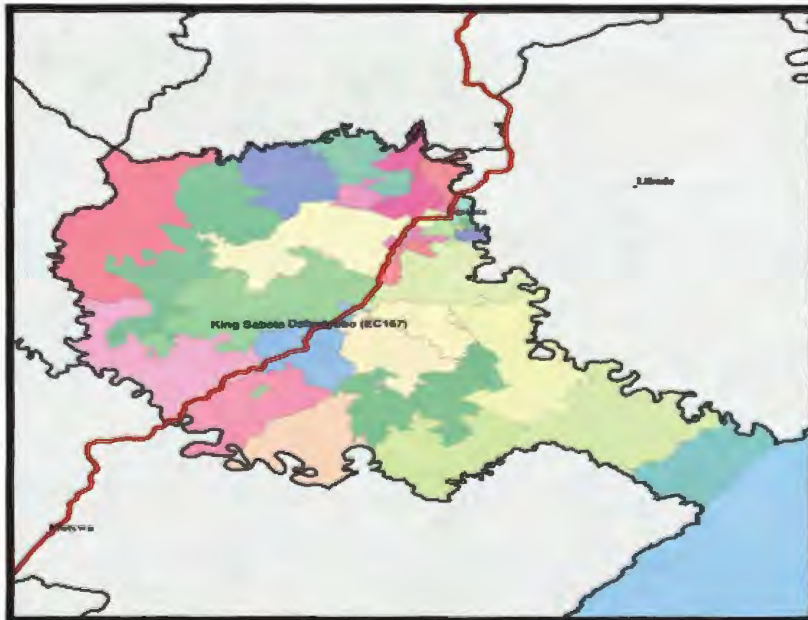
## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 INTRODUCTION

This chapter reviews literature in order to place the case study into context and begins with the definition of the concept. Of importance in this chapter is the explanation of the different types of PPPs and also the impact on service delivery. The chapter also shares examples of failed PPP projects and some successes.

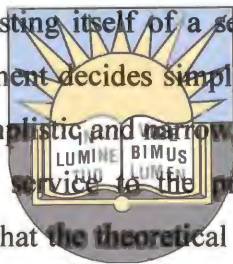
The case study in KSD is a management contract that is placed into context of the PPP environment. It is also against the backdrop of a need for the improvement in revenue collection. KSD is a category B municipality in the eastern part of the Eastern Cape known as the Transkei. According to Statistics South Africa, the Transkei region is the poorest in the country and lack basic infrastructure such as clean water and electricity. The case study is focused on Mthatha, which is a city that served as the capital of a South African government established homeland. The map below shows the municipal boundary according the demarcation board.



([www.demarcation.org.za](http://www.demarcation.org.za))

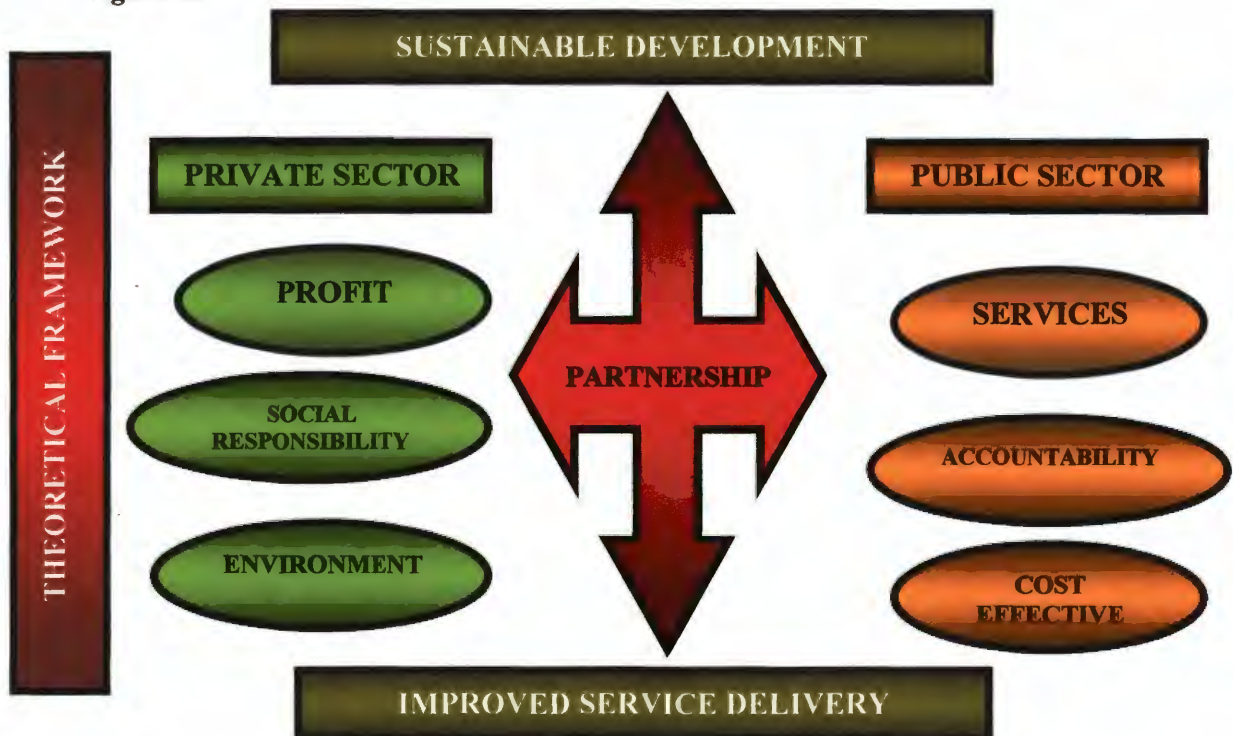
## 2.2 THEORETICAL FRAMEWORK

Inter-organisational relations are the point of reference for the theoretical framework. This expresses the way in which organizations relate to each other. There are established principles internationally that organizations use to effect relationships with each other. According to Plummer (2002:6), privatization implies the transfer of ownership to the private sector. In South Africa, however, there has been a preference to collaboration with the private sector for mutual benefit rather than absolute privatization. This has developed the concept of PPPs. According to Craytorne (2003:175), he describes privatization as a government divesting itself of a service and leaves it to the private sector to provide, or that a government decides simply not to provide that service. This view can be challenged as being simplistic and narrow, due to the fact that a government, even though it may hand over a service to the private sector, will always remain accountable. This therefore means that the theoretical framework must focus on the role of the two main role players, namely, the private sector and the public sector as displayed in the diagram below;



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Figure 1.



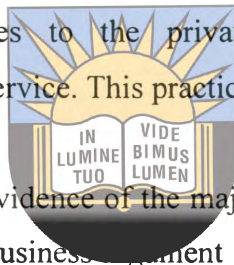
Scholars of PPPs have also been focused into two distinct influences, namely; the first being those who find value in PPPs as an alternative to public sector service delivery and secondly those who motivate for the public sector to remain responsible for the provision of services. The research is from a theoretical framework that acknowledges the critical role that the environment and the need for an approach to be used that is sensitive to the local area. Over the past ten years PPPs have emerged as one of the favoured tools for sustainable development.

This has been influenced by the idea that the private sector has the technical knowledge, experience and financial resources to assist government in cost recovery practices for public services. Countries such as the United Kingdom in the seventies sold off government assets and services to the private sector relinquishing the states accountability for providing the service. This practice has been called privatization.

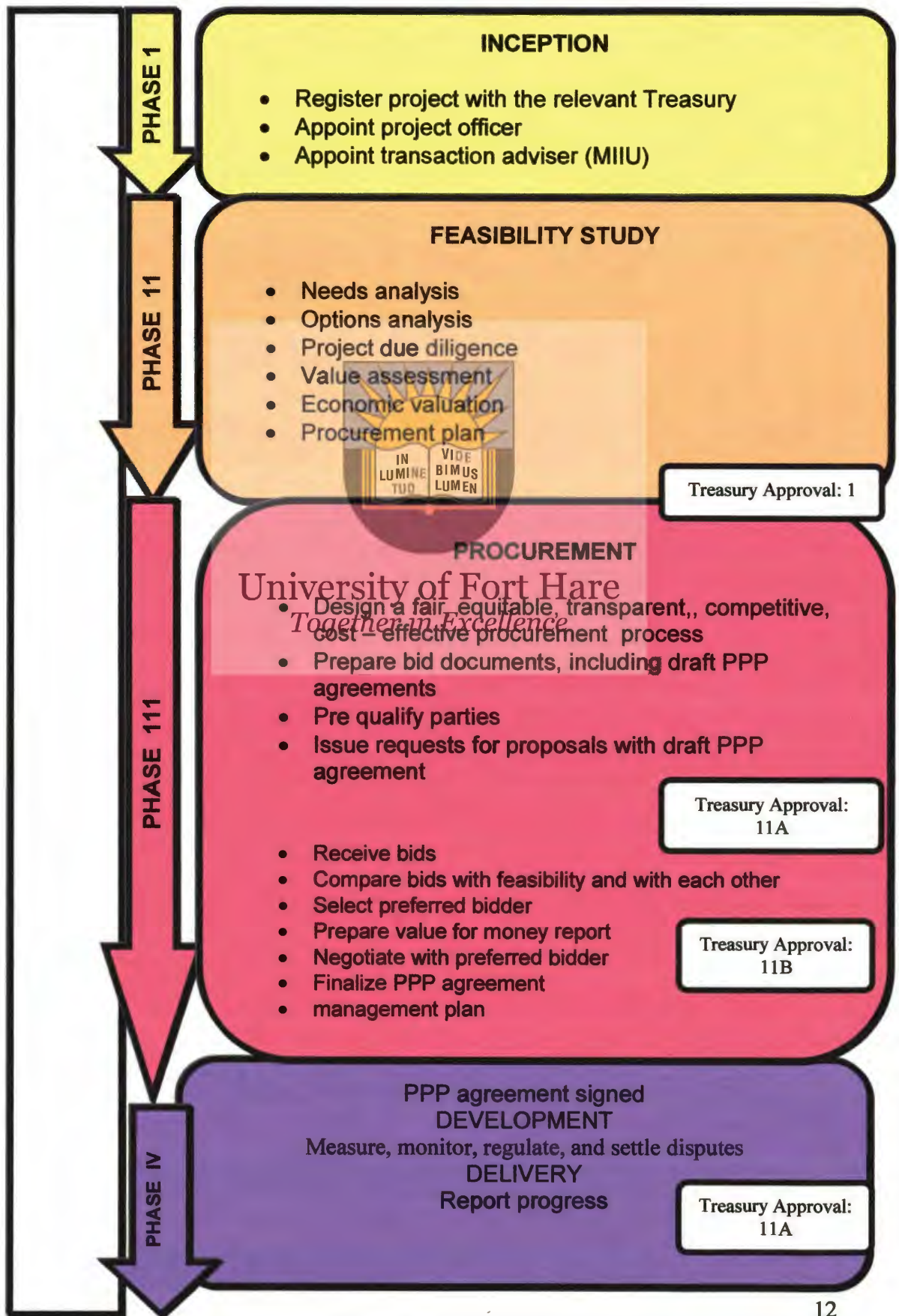
The socialist approach uses the evidence of the major problems with the Privatization of state assets in Britain while the business argument is based on the limited resources that the private sector has to adequately deliver services. This therefore means that there is a need for a more direct academic exploration and research into PPPs.

From the government perspective in South Africa, National Treasury's PPP Unit issued a manual that serves as practice notes issued in terms of the Public Finance Management Act (MFMA) which displays the project cycle of a PPP that can be viewed as a theoretical framework. This framework addresses the governments' perspective and the need for contracts to be managed in a professional manner.

This public sector theory is based on the premise that governments, even though may need the finance and expertise of the private sector, still need to ensure that the contracts are managed effectively. The table below is the PPP framework used by the PPP Unit in National Treasury in South Africa;



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This framework is based on the need for public services to improve the community. On the part of the private sector, the focus has been on the 'bottom- line' being profit, however, in the past decade; the focus has shifted to the 'triple bottom – line approach'. This has moved the focus to PROFIT, ENVIRONMENT and SOCIAL RESPONSIBILITY on the part of the private sector.

Studies by the World Bank (1994) on the relationship between infrastructure and economic development conclude that efficient infrastructure creates employment, develops human capital, promotes local and foreign investment and trade, fuels business productivity and expansion, raises standards of living, and improves access to critical services. (Loew. J& McLindon. M. www.IP3. org. 14/10/05). This theoretical framework supports the government view of improved services at the best possible price.

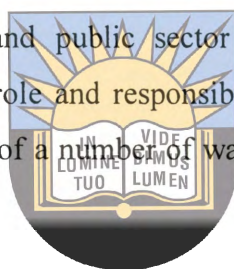
Haque (2000:602) believes that the role of governance in promoting economic growth poses certain challenges to public accountability. When the public sector provides goods and services based on socio-economic programmes and projects, its activities are more tangible and measurable and easier to monitor. Encouraging and facilitating the private sector to deliver goods and services is intangible and immeasurable. It is possible to hold public organizations accountable for tangible functions like the quantity and quality of services they provide directly but it is not always possible to hold them accountable for their intangible functions like making business deals and monitoring service contracts.

### **2.3 PUBLIC PRIVATE PARTNERSHIPS: THE CONCEPT**

According to Plummer (2002:6), privatization implies the transfer of ownership to the private sector. In South Africa, however, there has been a preference to collaboration with the private sector for mutual benefit rather than absolute privatization. This has developed the concept of PPPs. They are arrangements between government and private sector entities for the purpose of providing public infrastructure, community facilities and related services. Such partnerships are characterized by the sharing of investment, risk,

responsibility and reward between the partners. The reasons for establishing such partnerships vary but generally involve the financing, design, construction, operation and maintenance of public infrastructure and services. The underlying logic for establishing partnerships is that both the public and the private sector have unique characteristics that provide them with advantages in specific aspects of service or project delivery. The most successful partnership arrangements draw on the strengths of both the public and private sector to establish complementary relationships.

The roles and responsibilities of the partners may vary from project to project. For example, in some projects, the private sector partner will have significant involvement in all aspects of service delivery, in others, only a minor role. While the roles and responsibilities of the private and public sector partners may differ on individual servicing initiatives, the overall role and responsibilities of government do not change. Public private partnership is one of a number of ways of delivering public infrastructure and related services.



It is not a substitute for private sector governance and decision making by government. In all cases, government remains responsible and accountable for delivering services and projects in a manner that protects and furthers the public interest.

According to Adamolekun (1999:131), one problem with private sector provision of services, especially in poor countries, is the possibility that they might exclude the poor through their pricing mechanisms. But a study into various forms of service provision forms in African cities showed that urban residents, including the poor, have been effectively forced to rely on private sector providers of services such as water supply, refuse disposal, public transport, housing, because of the failure of public institutions to provide them. In some cases these public institutions were monopoly providers, their failure created a vacuum that private providers promptly filled. (Stren 1989; see also Wekwette 1997:56). According to the PPP Unit in South Africa, a public private partnership agreement is an agreement between an institution and a private party in terms of which:-

- The private party undertakes to perform an institutional function on behalf of the institution for a specified or indefinite time;
- The private party receives a benefit for performing the function, either by way of
  - Compensation from a revenue fund;
  - Charges or fees collected by the private party from users or customers of a service provided to them; or
  - A combination of such compensation and such charges or fees
- The private party is generally liable for the risks arising from the performance of the function; and
- Depending on the specifics of the agreement, state facilities, equipment or other state resources may be transferred or made available to the private sector (Government Gazette No. 21249 – 31 May 2000).



## 2.4 THE GOVERNMENT APPROACH TO PPPS

Through the Department of Provincial and Local Government (DPLG) and the Development Bank of Southern Africa (DBSA), the Municipal Infrastructure Investment Unit (MIIU) was established. This Unit offers Municipalities funding for the feasibility study before a PPP arrangement is agreed to. The Unit also sends out experts to advise municipalities on what form the PPP should take. The argument is that the Unit should first ask the question; “...will the service be improved and will the project enjoy cost recovery, if it is not run by the Municipality?”

There is also an abundance of institutions that advocate for PPPs such as the National Business Initiative’s (NBI), National Treasury PPP Unit, DBSA and MIIU. The National Treasury established a PPP Unit to facilitate PPP arrangements. This Unit and the NBI issue a publication quarterly relating to PPPs, called PPP Quarterly, which serves as the anchor resource for literature on the subject matter. In a nutshell PPPs are critical for dealing with public sector fiscal constraints and skills shortage and also fast-tracking service delivery and transformation.

## 2.5 TYPES OF PPPS

A continuum of PPP options can be identified, ranging from relatively basic service contracts to very complex concession arrangements. An increase in size and duration of contract, risk, legal complexity and sophistication of the procurement process can be seen along this continuum. It is important to undertake feasibility studies, appoint professional advice and structure tendering procedures in line with the complexity of the contract. According to Fourie and Sindane (2000:26), the key options for PPPs are as follows:

- **Service Contract**

Service contracts are usually of a short duration, such as 1-3 years. The contractor/external service provider usually receives a fee from the government for performing the service. Examples include the provision of services such as security, laundry, catering, cleaning, etc.



- **Management contract**

The external service provider manages the operation of a government (public) service. The government pays a fee for the service and a performance-based incentive. Management contracts are generally of a medium-term of between 3-8 years. Examples include managing government operations such as Bus Services, Fresh Produce Markets, Regional Water Supply management or management of a water utility.

- **Leases**

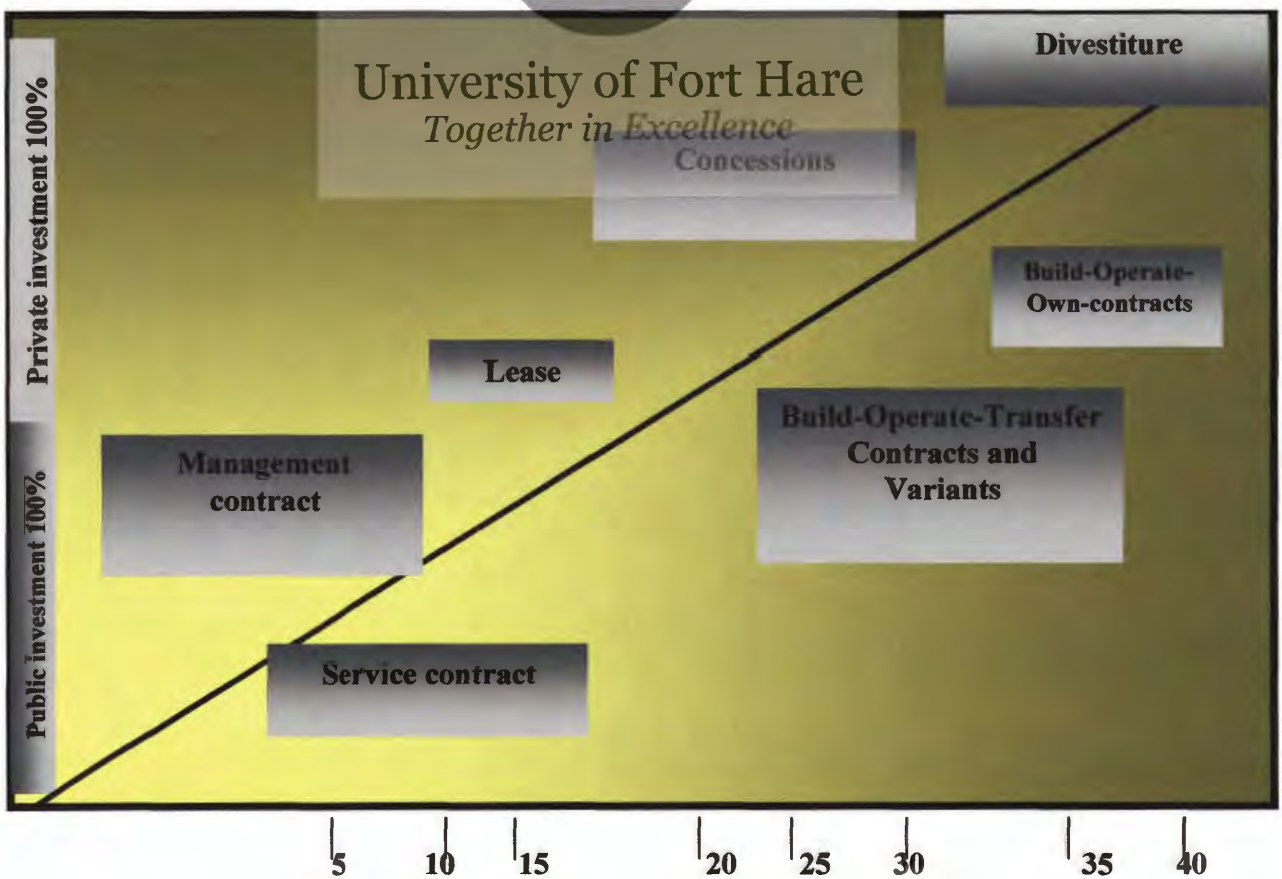
Under Leases, the service provider manages, operates, repairs and maintains a government service to a specified standards and output. The operating assets of the municipality are leased to the service provider/contractor. The service provider receives all revenues, fees, or charges from consumers for the provision of the service, but pays the government rent (lease fee) for the facility. Examples of lease contracts include caravan parks, water systems, etc. These contracts are generally of a long-term nature such as between 8-15 years.

- **Concession**

Under a concession, the service provider manages, operates repairs, maintain and invest in public service infrastructure to specified standards and outputs. The service provider receives all revenues from the consumers for the provision of the service. However, the service provider pays a concession fee to the government and may assume existing debt. The government still remains the owner of any existing facilities operated by the concessionaire/service provider, and the ownership of any new facilities constructed by the concessionaire is transferred to the government at the end of the concession period. The general duration of concession is between 15-30 years. Examples of concession contracts could be found in the following sectors; water, airports, roads, telecommunications, ports etc.



The options for PPP arrangements can be explained by the diagram below.



(Adopted from Loew. J &McIindon. M. www.ip3.org.2005).

The KSD case is an example of a management contract. The contract was awarded to Umthiza Joint Venture and they were tasked with the responsibility to meet the following terms of reference;

- The consortium would receive a monthly management fee of eight percent not less than R176 000 of revenue collected during the implementation of the project and seven percent of turn over thereafter. This is explained in the contract of 2000.
- The consortium would police tampering on behalf of the municipality and implement a fine as agreed in the contract signed in 2000. This fines for tampering were;
  - Domestic consumers - R1,500.00
  - Commercial single phase consumers - R3,000.00
  - Commercial three phase - R6,000.00

Eighty percent of the revenue generated from the fines was given to the municipality while twenty percent was kept for Umthiza

- Umthiza would train community members to be vendors. This was intended to be an empowerment strategy; however, the vendors were established businesses.
- Local electricians to be trained for the installation and developed into independent contractors.
- The tariff would be increased by ten percent in order to recover the arrears that the consumers owed. Some households had arrears of up to thirty thousand rand.
- That the revenue collected would be deposited into the municipality monthly with interest.
- Bulk meters would be installed and the consortium billed monthly on the reading less agreed loses like robots, streetlights, etc (Agreement between Umthiza and KSD Municipality, 1998).

Umthiza was made up of the following companies;

Siemens - to provide the technical support including the pre-paid instruments

Public Service Utility (PSU) - to provide a billing systems and the operations of the supply such as vending stations and the back office support

PAS - Empowerment company



## 2.6. SOME EXPERIENCES

In South Africa, indications are that partnerships could in fact result in job creation, given the extent of the services and infrastructure expansion needed to address historical backlogs. While the old system of segregated local authorities tended to employ sufficient workers to cater for a minority of the community, the majority communities had to make do with skeletal staff, particularly in the number of blue-collar workers. The amalgamation of these local authorities following the 1995 local government elections combined with the current redrawing of local authority boundaries point to a future increased demand on building of infrastructure and extension of services. More workers might thus need to be employed, reminiscent of other emerging economies.

In 1990, the Queenstown municipality embarked on a process to mobilize private sector participation in municipal service provision. A comprehensive consultative process took place with stakeholders, including civic associations and organized labour. A 25-year concession agreement was concluded in June 1992 in terms of which Water and Sanitation Services South Africa (SAS) took full responsibility for the provision of water and sewerage services in Queenstown (DBSA, 2000:18).



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During 1994, the Springs Transitional Local Municipality appointed the First National bank to conduct a feasibility study to assess the viability of its bus service. The study showed that the municipality was running the service at a loss. The revenue lost was R2 million per annum. The study also confirmed that this service was not a core function of the municipality. In 1995, the municipality took a decision to privatize the bus service. A contract was signed which allowed a company named Springs Bus Service to take over municipal bus service. All the buses, equipment and the depot were sold to the private company (DBSA, 2000:32).

Prior to 1998, the KSD Transitional Municipality was experiencing problems in recovering monies owed for electricity consumed by domestic users. While efforts were made to bill consumers on time, a culture of non-payment prevailed and the majority of

the people did not pay their electricity bills on time or at all. As a result, municipality had difficulties in meeting its liabilities. Besides not being in a financial position to manage the project, the municipality did not have any technical skills and there was no electrical engineer employed at the time. Umthiza came forward with a proposal to manufacture and supply pre-paid electricity meters (DBSA, 2000:29).

From the foregoing paragraph, it can be deduced that the KSD case study has been documented and considered one of the examples of a PPP in the country. However, it is important to research the impact of the partnership, given the fact that it has been in existence for the last seven years.

## 2.7. THE CHALLENGES



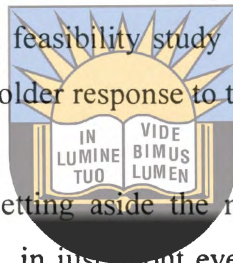
According to Armstrong & Lenihan (1999:53) "... collaboration partnerships involve a formal agreement to plan and work together in specific ways to promote specific outcomes. The commitment may be fairly limited in scope, like a partnership agreement to work together to provide increased business information services or it can extend to the co-management of an entire policy field". Sigler (2004) states that initially, civil society used to play an advocacy role which encouraged communities to take part policy development. The role has extended to include facilitating agreements, cost recovery in municipalities, provision and promotion of health and hygiene, monitoring and evaluation of projects as well as building local ownership of government programmes.

The question whether PPPs are the way to go for South Africa continues to be debated nationally. Major opposition to the PPPs is from organized labour. The Congress of South African Trade Unions (COSATU) has categorically stated that all PPPs are a form of privatization with its major concern is the loss of jobs. On the COSATU website the following statements are made;

*The state has embarked upon a programme to privatize state assets, enterprises, services and undertakings. Closely associated with this is the restructuring of state enterprises,*

*undertakings and services carried out by the state in ways that give the private sector considerable control and the state's opening up of industries or sectors in order to provide for competition. COSATU is obviously not opposed to restructuring in itself, but the state's restructuring process forms part and parcel of the broader privatization programme, which it certainly opposes (www.cosatu.org.za).*

From the sentiments of COSATU it is clear that the implementation of PPPs will be closely monitored. However, the union position is stated from an ideological stand and therefore does not offer the credibility, as it would have if it was from a practical view based on evidence. In the first draft guidelines for Municipal Service Partnerships in December 1998 the government stressed the importance for Municipalities to pursue MSP contracts after conducting a feasibility study that will inform the municipality on the best option and also the stakeholder response to the idea.



The feasibility study assists in setting aside the notion of motive in the partnership. According to Steward (1999:162), in just about every situation where two firms or two groups of people do business together, a hidden, covert agenda operates alongside the overt one. In the case of PPPs the agenda is clear, the private sector wants to make money while the public sector wishes to provide a better service.

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## **2.8 LESSONS FROM FAILED PPPS**

Kathleen Slattery of the Institute for Public Private Partnerships in an article on the IP3 website writes of three cases that produced a failed PPP.

- **Manila**

In 1997, the government of the Philippines entered into two PPP arrangements for the provision of water services in Manila. A 25-year concession agreement was signed between the Metropolitan Waterworks and Sewerage System (MWSS) and Maynilad Water Services Incorporated (MWSI) for services to approximately six million

consumers in the western area of Manila. Maynilad is owned 59% by the Philippines-based Lopez family's Benpres Holdings (which wholly owns Manila Electric Co.) and 40% owned by the French water giant Odeo.

The agreement was terminated on February 7, 2003 and responsibility for the water services reverted to MWSS. Per the terms of the concession agreement, the termination procedure initiated on December 9, 2002 when Maynilad issued a "Notice of Early Termination" citing MWSS' serious breach of its obligations under the contract and giving 60 days' notice.

Although Maynilad cited numerous factors behind its decisions to terminate the contract, including severe droughts caused by the El Niño weather phenomenon, the effects of the Asian financial crisis, and the delays in the completion of a river basin project, the primary reason for termination was MWSS refusal to implement a rate adjustment that would have enabled Maynilad to recover large foreign exchange losses. Maynilad's bid for the concession, was mounted just prior to the 1997 Asian Financial crisis, was based on the assumption that the currency would depreciate no more than 2% to 3%. To compensate for the significant change in exchange rates, the bid included a provision for the recovery of foreign exchange losses throughout the term of the concession via an extraordinary price adjustment mechanism.

The experience with PPP in Manila's west zone has still not ended. Maynilad and MWSS agreed to arbitration proceedings to determine exactly how and under what terms the contract will be terminated. Meanwhile, Manila Water continues to provide services in the east zone of Manila under its long-term concession. (Slattery. K. 2003:12)

- **Buenos Aires**

According to Slattery, in May 1993, the government of Argentina awarded a 30-year concession for the provision of water and sanitation services in the City of Buenos Aires to the Aguas Argentinas consortium. Aguas Argentinas is 46% owned by the French Firm

Ondeo (with the Spanish Firm Aguas Barcelona and the UK's Anglian Water holding minority shares), 37% Argentine-owned, and 17% employee owned. Under the arrangement, Aguas Argentinas provides drinking water and sewerage services to residents in the greater Buenos Aires area. In late 2001 and early 2002, the Argentine economy came crashing down and a financial crisis ensued when the peso was de-pegged from the dollar. The combined effect of the peso and effect of tariffs and the devaluation of the peso in 2002 was a drastic decrease in Aguas Argentinas contractual ability to service its mostly U.S. dollar denominated debt.

The outcome of the financial crisis and its ultimate impact on the success of the PPP arrangement in Argentina is still unknown. Recently, Ondeo released a statement saying that it was invoking the terms of the French-Argentine bilateral agreements that required the Government to compensate French Firms for any investments they have made (in other words, Ondeo is not entitled for either a tariff increase or sum other recourse to collect the funds to cover its investment date plus a reasonable return).



- **Atlanta** **University of Fort Hare**  
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In the same study, Slattery states, that in January 1999, the City of Atlanta awarded a much – heralded 20-year management contract with United Water. The form of contract employed in Atlanta- an “Operations and Maintenance Agreement” or management contract-is typically used where the primary goal of the contracting party is to improve the quality of management and realize efficiency improvements in the effective provision of service. Often, the main “efficiency improvements” is actually cost savings accrued through increased revenues and decreased operating expenses. The contract in Atlanta is fundamentally unusual in that its duration is 20 years. The typical management contract lasts from three to ten years and is then re-bid in order to realize the savings that can be achieved through a regular competitive bidding process. Just four years into the 20-year arrangement the City of Atlanta and United Water agreed to terminate the contract. One of the reasons United Water sites for its mixed performance relates to the inaccuracy of system data available at the time of the bid. To measure the effectiveness of the

contractor's progress under a management contract, the contracting authority must have defined baseline data that can be used to judge incremental improvements in performance. In the case of Atlanta, such data was in many cases either not available or inaccurate. All firms that bid on the contract in Atlanta were aware, prior to submitting their bids, of the obvious deficiencies in the data. Arguably, United Water should have factored this in to its bid.

In the end, the City of Atlanta and United Water agreed to amicably terminate the PPP management arrangement and the City has resumed control of water services and announced plans for the control of tariffs and increase staffing in the water department.

## 2.9 EXAMPLES OF SUCCESSFUL PPPs

In 1990, the Queenstown municipality embarked on a process to mobilize private sector participation in municipal service provision. A comprehensive consultative process took place with stakeholders, including civic associations and organized labour.



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A 25-year concession agreement was concluded in June 1992 in terms of which Water and Sanitation Services South Africa (WSSA) took full responsibility for the provision of water and sewerage services in Queenstown (DBSA, 2000:18).

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The study also confirmed that this service was not a core function of the municipality. In 1995, the municipality took a decision to privatize the bus service. A contract was signed which allowed a company named Springs Bus Service to take over municipal bus service. All the buses, equipment and the depot were sold to the private company (DBSA, 2000:32).

## 2.10 COMMON MISCONCEPTIONS ABOUT PPPs

Given the numerous forms of public private partnership potentially available to local government, there is some confusion as to what constitutes a public private partnership. Public private partnerships are often not considered due to erroneous information based on misconceptions. The most common of these misconceptions are:

- **Private partnerships are the same as privatization**

Only one form of public private partnership, known as Build-Own-Operate (BOO) can be described as coming close to privatization. All other forms require an ongoing partnership between the private and public sectors. Even Build-Own-Operate involves a form of partnership in that the public sector can place conditions and regulations on the private partner. One of the key reasons for considering public private partnership is the ability to introduce competition in the provision of local government services, either between private firms or between the private and public sectors. Full privatization merely transforms a public monopoly to a private monopoly such that the benefits of public private partnership are not realized.



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- **By entering into a public private partnership, local government loses control over the provision of services**

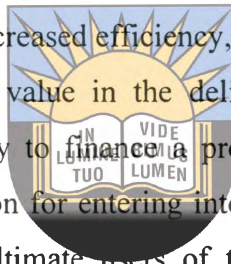
By entering into a public private partnership, local government does **not** give up its ability to implement its policies or regulate the provision of services. The local government establishes the ground rules and has the ability to shape the public private partnership to reflect its own objectives, policies and regulations. It can be argued that the local government actually has more control, in that it has well-defined contractual remedies in a public private partnership arrangement that it may not have with its own management and staff.

- **Public private partnerships apply only to infrastructure projects**

Public private partnerships can be an effective and innovative way of delivering a range of local government services and facilities. While large infrastructure projects tend to capture the most public attention, public private partnerships can also be used to deliver services that do not involve capital projects. Examples include provision of data services, refuse collection and road maintenance.

- **The principal reason for local governments entering into public private partnerships is to avoid debt**

The principal reasons for local government becoming involved in public private partnerships are to benefit from increased efficiency, shorter implementation time, greater innovation and ultimately better value in the delivery of services brought about by increased competition. The ability to finance a project so that the debt is "off book" should not be the prime motivation for entering into a public private partnership in that the local government and the ultimate users of the service are still responsible for servicing the debt in one way or another. The emphasis should be on structuring creative and cost-effective ways of delivering services, not on creative accounting.



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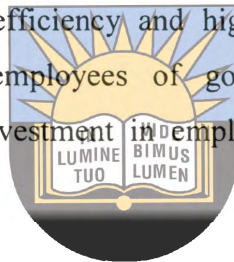
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- **The quality of service will decline under public private partnerships**

Quality of service does not depend on whether the service is delivered in a traditional manner or through public private partnerships. The local government has the ability to stipulate the quality of service to be provided and ensure it can enforce provisions of the contract dealing with quality control. The nature of public private partnerships suggests that the quality of service would not only be maintained, but enhanced. It is in the private partner's interest to invest in the service, become more efficient, and enhance the quality of service to attract more customers or provide additional services to customers.

- **Local government staff will lose under public private partnerships**

Both union and non-union staff sometimes fear public private partnerships because of potential job loss or reduced wages and salaries. In British Columbia, labour laws provide for the succession of labour contracts. Any public private partnership agreement will need to reflect the labour laws of the province and existing collective agreements. Often, the labour representatives are invited at an early stage of the process to discuss options for service delivery. Most partnership agreements that have been negotiated in Canada require the private partner to take on public staff and guarantee job security and salary levels. Any changes in staffing levels are generally consistent with labour contracts and occur through attrition rather than layoffs. Many of the benefits of public private partnerships, such as increased efficiency and higher quality of service, have been accomplished through former employees of government. Reasons for increased productivity include increased investment in employees through training, technology transfer and skill diversification.



- **The cost of service will increase to pay for the private partner's profit**

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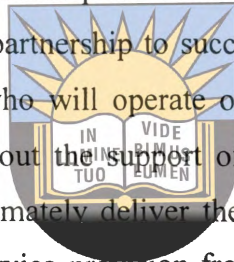
Governments sometimes resist public private partnerships because they believe that the cost of providing the service will increase to reflect the profits the private partner must realize to stay in business. While the private partner will need to make a profit, the profit must be earned within the existing or a lower price for the service. Presumably, the local government would only enter into a public private partnership if the price of providing a given service was lower than if provided by the local government, or if a higher level of service could be provided for the same price by the private partner. (This assumes that the local government is not subsidizing the cost of providing the service.) The private partner's profit can only be realized through increased productivity or expansion of service, not through higher prices.

- **Local government can finance the cost of services at a lower cost than the private sector**

By borrowing through the Municipal Finance Authority, local government can often finance projects at a lower cost than the private sector can. However, this may not always be the case. The objective of local government should be to focus on the overall advantages of the public private partnership arrangement.

- **There are only two partners in a public private partnership**

From the narrow perspective of the public private partnership contract, there are only two partners. In reality, there are additional parties and interests that need to be on board as "partners" for the public private partnership to succeed. These include the customers of the service and the employees who will operate or deliver the service. Public private partnerships cannot succeed without the support of the end user of the service or the agreement of those who will ultimately deliver the service. A four-way partnership is required to successfully move service provision from the public sector to a partnership arrangement.



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## **2.11 INSTITUTIONALISING PRIVATE SECTOR INVOLVEMENT**

In South Africa, the national government created an institutional arrangement to support the interest and activity in PPPs. This was done through the creation of the PPP Unit in the National Treasury Department that was founded in 1999 and serves as an information center for investors and government officials, a source of training and promotional activities for infrastructure initiatives, and an organization charged with overseeing the development of policies and procedures for award of contracts for privately funded infrastructure development projects.

Jamaica has established an Office of Utilities Regulation (OUR) is a multi-sector regulator responsible for the regulation of telecommunications, electricity, water, sewerage and transportation by road, rail and ferry. The OUR falls into the category of

what has become known all over the world as independent regulatory institutions. Although the notion of independent is sometimes hard to define., in the context of OUR it is perhaps best illustrated delineating some of the operational features of the Office and important provisions of its governing statute. (Hewitt.A.2005). In the Philippine's, the President, in her state of the nation address said, ... "In focusing on infrastructure, we will harness the private sector via the build-operate-and-transfer (BOT) law.

The Coordinating Council for Private Sector Participation (CCPSP) is the government's central body responsible for promoting private sector participation (PSP) in infrastructure development through the use of the Build-Operate-and-Transfer (BOT) Law. (CCPSP.2005) Governments across the globe realize the need to regulate the involvement of the private sector in service delivery. The challenge is to ensure that the regulatory framework is in a way that does not limit the possible investment of the private sector, yet protects the public interest. Kariuki (2000:5) states that the regulatory framework should be fair, transparent and predictable.



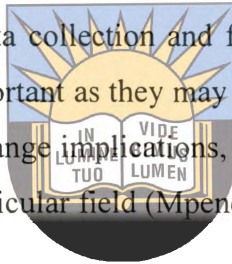
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## CHAPTER THREE

### RESEARCH METHODOLOGY AND DESIGN

#### 3.1 INTRODUCTION

Rubin & Babbie (1998:79) defines research design as a blueprint and detailed plan of conducting research from the beginning until the end. An informed decision has to be made as to which research method to follow. There has been an incorrect perception that case studies are easy to carry out and that they do not necessarily require comprehensive strategies like other types of research. However, Baker (1994: 304) disputes this assertion as being unfounded and incorrect. As she puts it: "... they (case studies) require forethought, careful planning, data collection and final preparation for reporting". Case studies, continues Baker, are important as they may come up with theoretical conclusions that have widespread and long –range implications, both politically as well as in terms of theoretical developments in a particular field (Mpendu, 2002:85).



Gillham (2000:11), in his book, *Case study research methods* defines a case study as the following;

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- a unit of human activity embedded in the real world;
- which can only be studied and understood in context;
- which exists in the here and now; and
- that merges in with its context so that precise boundaries are difficult to draw.

The research was informed by the qualitative and quantitative paradigms. According to Creswell (1994:108), the quantitative approach to research is viewed as, "... the traditional, the positivist, the experimental, or the empiricist tradition established by such authorities as Comte, Mill, Durkheim, Newton, and Locke". Bless & Higson-Smith (2000:156), describe quantitative research as research conducted using a range of methods which use measurement to record and investigate aspects of social reality. It deals with data that is principally numerical.

Contrary, the Qualitative paradigm is termed, “...the constructivist approach or naturalistic (Lincoln & Guba, 1985:219), the interpretative approach (Smith, 1983), or the post positivist or post modern perspective (Quantz, 1992:78)”. It began as a counter movement to the positivist tradition in the late 19<sup>th</sup> century through such writers as Dilthey, Webber, and Kant (Smith, 1983:173).’

It is critical to follow a scientific methodological approach in this study in order to address the perceptions relating to the KSD project.

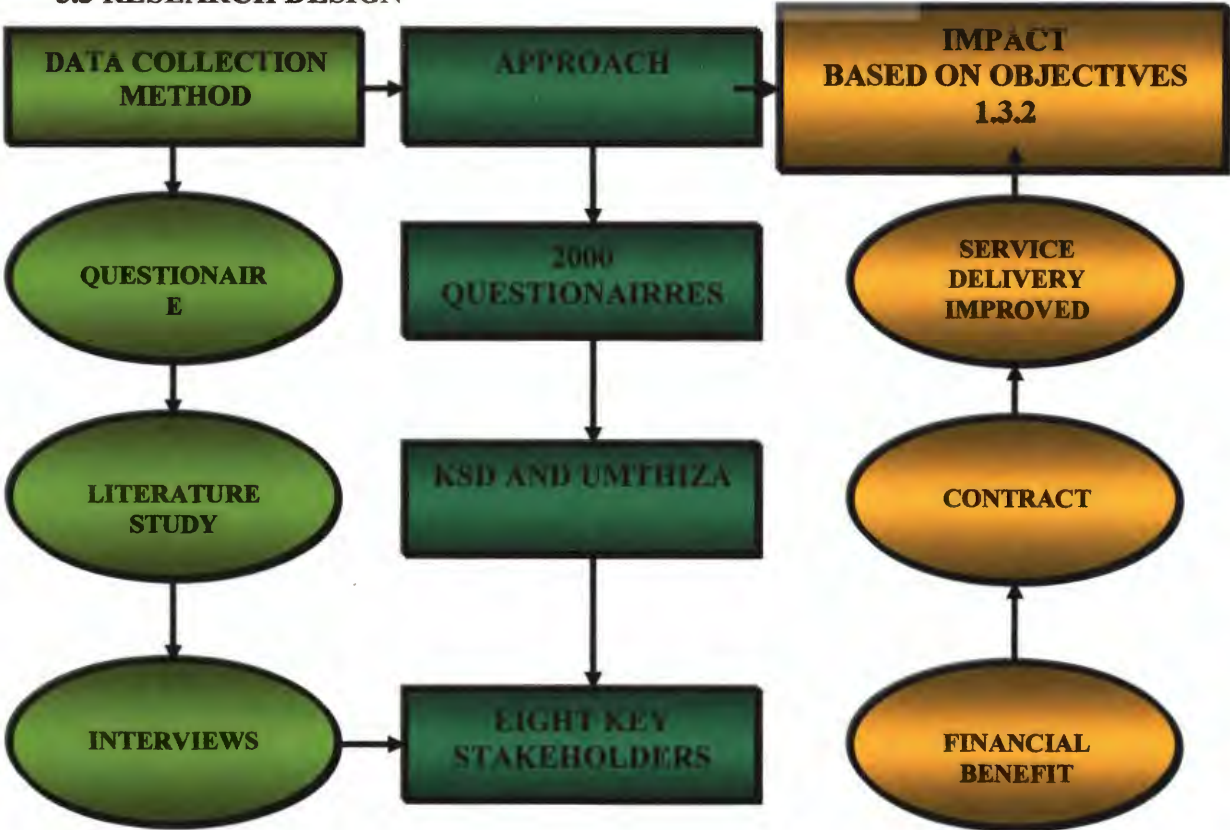
**3.2 PERMISSION TO CONDUCT RESEARCH**



Permission was granted by the Municipal Manager of KSD Municipality, Professor Gumbi, for the research to be conducted. Permission was also obtained from PSU and a confidentiality agreement signed relating to the records of the private companies role in Umthiza.

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**3.3 RESEARCH DESIGN**



In order for the research to have value, it needs active participation of people with an expression of views to direct individual realities of interpreting the facts into one arguable view for presentation as a case study. The following approaches have been utilized:

### 3.3.1 Questionnaire

According to Bless and Higson (2000:156), a questionnaire is an instrument of data collection consisting of a standardized series of questions relating to the research topic to be answered in writing by participants.

A questionnaire was prepared and given to the operational staff of the management contract. In this method, the questionnaires were filled out by in the homes of the respondents. The data collectors are employed by Umthiza and therefore understand the system and its challenges. An incentive of sixty cents per form was given to the data collectors which motivated them to ensure there was a quick return of the data.

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The advantage of this method is that the respondents completed the questionnaires in the presence of the collector. The method was also time effective on the part of the data collectors since they completed the questionnaires on routine visits to the homes to assess tampering. The respondents also had an opportunity to ask for clarifications from the data collectors.

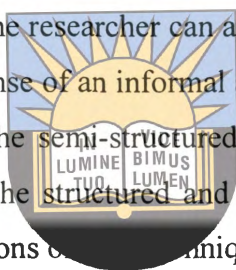
### 3.3.2 Literature Study

The research also made use of the document analysis technique. A variety of literature material, in particular books, magazines, government documents and websites on PPPs was reviewed. Information gathered informed the conceptualization as well as determining best practice approaches to PPPs. The literature study also relied heavily on the reports, contracts and other information available from the case study from both KSD and the private sector company.

### 3.3.3 Interviews

The research also made use of the semi-structured interview technique. In this type of an interview, the researcher was interested in getting a clear picture of a participant's beliefs, perceptions and account of the electricity service. This allowed a participant to give a clear picture of his or her perception or opinion on the provision of the service.

According to De Vos (2002:172), the semi-structured interview possesses elements of the structured and unstructured interview methods. Thus, the researcher, can be in possession of a set of predetermined questions at hand, yet he or she can digress and ask questions which are not on his or her list, in order to capture the scope and progress of the interview. Under this technique, the researcher can also switch between topics and issues, in order to create or maintain a sense of an informal atmosphere, for the respondent not to be intimidated. The strength of the semi-structured interview technique lies in the fact that it is a combination of both the structured and unstructured interviews. It therefore shares the advantages and limitations of both techniques.



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### 3.4 POPULATION AND SAMPLE *Together in Excellence*

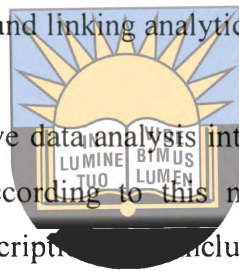
One of the popular scientific methods utilized to assess the views of a select community is by taking a sample of that community that will reflect the general view of the total population. In order for a sample to be considered as being reliable, it must consist of a reasonable number of people. The purposive sampling technique will be used which (Marshall & Rossman 1995: 55). Explains as being characterized by identifying access points or settings where subjects could be more easily reached and by selecting especially knowledgeable subjects. The target population comprised of households that benefited from the project in the Mthatha area of the KSD municipality. Of the 9300 households with pre-paid meters, 2000 random households have been questioned and filled in the questionnaire. This sample size is deemed representative enough to warrant a fair reflection of the views of the community.

Key informants directly involved in the project were also selected and interviewed. This sample consisted of management representatives and operational staff from Umthiza Joint Venture and from KSD municipality.

### 3.5 DATA ANALYSIS PROCEDURE

Huberman and Miles (1994) define data analysis as three linked sub processes: data reduction, data display, and conclusion drawing and verification. They describe data reduction in terms of data selection and condensation. Data is reduced in anticipatory ways as conceptual frameworks are chosen and as instruments, cases, and questions are refined. Dey (1993) offers a not dissimilar view of qualitative data analysis, describing it primarily in terms of identifying and linking analytic categories.

Dey (1993) also breaks qualitative data analysis into three related processes: describing, classifying, and connecting. According to this model, the analysis must first offer thorough and comprehensive descriptions and include (where appropriate) the context of action, the intentions of the social actor, and the processes in which the social action is embedded. Wolcott's (1994) description of what analysis means presents a rather different way of thinking about how we explore and interpret qualitative data. Wolcott uses the term transformation to describe a variety of strategies. He restricts the word analysis to a more specialized meaning. Wolcott argues that qualitative data can be transformed in different ways and to different ends. He also breaks up these methods into three types: description, analysis, and interpretation. The data in the case of this research will need to accept these definitions with a favour for the transformational approach to the data based on the use of the research as a practical driver to a future decision.



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## CHAPTER FOUR PRESENTATION AND ANALYSIS OF DATA

### 4.1 INTRODUCTION

The data analysis and presentation is done with the view of ensuring that it reflects the objectives of the study. It looks at the impact of the project. The question is whether the contract has had positive or negative results. A sample of 500 households was used for questionnaires and key stakeholders interviewed. In September 2005 the Municipality gave the private sector company thirty days notice with the view of converting the partnership into a Municipal Entity. All the staff of Umthiza have been retained by the Municipality and currently operating the system on their own.

### 4.2 THE MANAGEMENT CONTRACT BETWEEN KSD AND UMTHIZA JOINT VENTURE



#### 4.2.1 The contract

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It can be argued that the fundamental for success in a PPP contract is that it can be viewed as being of mutual benefit to the parties concerned. The contract signed between the Umtata TLC (KSD) and Umthiza Joint Venture in May 2000, was evaluated and the following gaps identified;

- **Control over the provision of service**

In a management contract the public sector transfers its obligation to provide the service to the private partner. This transfer is evident by the risk that the private sector carries to ensure that the service is delivered. In section three titled Financial in the agreement between KSD and Umthiza the private sector is entitled to 7% of the revenue collected. While this should have

- **Accountability**

As indicated in 1.6.5 of this research, it is not always possible to monitor the interaction and negotiation between government executives and business managers and to determine whether or not joint ventures are made in favour of private organizations at the expense of public interest (Haque 2000:609). The political argument for most governments with regards to PPP contracts is whether the accountability will remain with the public sector. It is generally acceptable for the responsibility to be transferred to the private sector and not the accountability. However, without accountability, the private sector does not carry any risk. This was the case with the Umthiza contract. The private sector did not carry any risk. The management fee covered the basic costs for the private sector and Umthiza also enjoyed the added advantage of receiving a percentage of turn-over which ever was the greater.



- **Cost of service**

With the involvement of the private sector there was a perception that the cost of service would increase not withstanding that electricity was regulated from a national level. This perception was influenced by the fact that the community was forced to pay for the service before use.

- **Ownership control**

In the contract the private sector should have deposited the revenue into a separate account operated by the Municipality. This did take place, however, the bank account was practically operated by the private sector. This raised the question of control of the revenue. This question of control was brought out strongly in the interview with the General Manager Infrastructure who said, ... "My first concern with Umthiza, was that on their contract there were many loose paragraphs, where you can see the contract was not watertight. That's what I discovered in the sense that the Municipality didn't view or didn't have measures to check how much has been collected by Umthiza monthly.

#### 4.2.2 Key informant interviews

Interviews were conducted with key informant interviewees who were in a position to comment on the contract. The confidential interviews were conducted in Mthatha and focused on ensuring balance information. The questions asked firstly established the role of the interviewee and also their interest in the Umthiza contract. All individuals interviewed shared information freely and were willing to discuss the contract, however, have been reflected as being anonymous.

#### **QUESTION: What are some of your concerns relating to the contract?**

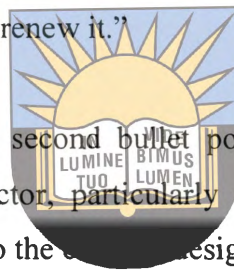
The first individual interviewed and the above question posed stated, “My first concern on Umthiza, was that on their contract there were many *loose* paragraphs where you can see the contract was not watertight. That’s what I discovered in the sense that the Municipality didn’t view or didn’t have measures to check how much has been collected by Umthiza monthly. Umthiza would pay the Municipality two million for that month, and even next month two million, even that month two million, and only to get that Umthiza has collected more than that and the payment of Umthiza – it was not through Council.”

However, interviewee two presented a counter argument which was in support in of the contract and said, “I think it was a contract that was drawn up, you know, by the Legal Advisors or the Legal Department of the TLC and it was ... I think it was reasonably, you know, fair between the two. It was designed obviously to protect the interest of the Municipality, which is fair and correct and it certainly sort of outlines some service level agreements between us as a service provider and the Municipality in terms of our obligations and responsibilities towards meeting the requirements of the Municipality. So I think it was fair.” The third interviewee responded to the question by stating, “One area could be for instance, that the management was structured to be a percentage of actual electricity received. Now the infrastructure – the people had to be converted to pre-paid electricity meters, the Municipality provided that infrastructure and what-what.

Now at the time when a person goes to buy electricity from a vending station there are no cause or no action completely warranted, so on that particular receipt that should come purely to capture, but the contract was structured that even if I move here to buy electricity from a vending station or the Municipality, Umthiza must still get something out of that.

The fourth interviewee that held strong views regarding the question said, “The initial contract was bias towards Umthiza because we paid them for what they do just on a percentage basis and on what they collect. I think Umthiza made a fortune and had no commitment to the project. How many electricians did they train? It wasn’t a full-proof contract it had loopholes, which your service provider actually took advantage of. That’s one of the reasons why we didn’t renew it.”

As discovered in 4.2.1 and the second bullet point, the interviewees questioned the accountability of the private sector, particularly the benefits that derived from their involvement which were linked to the design.



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### 4.3 THE IMPACT ON SERVICE DELIVERY *Intelligence*

A perception survey questionnaire was conducted on 2000 households of the KSD Municipality with the aim of assessing the community perception of the project. To evaluate the questionnaire, the aggregate score formula was used with a confidence level of 80. This figure is a standard value used in statistical analysis for qualitative research to assess perception (SPFSS.2000) The following formula was applied during data analysis:

Confidence Level = 80.

$$\text{Aggregate score} = (X_1 * 25) + (X_2 * 50) + (X_3 * 75) + (X_4 * 100)$$

---


$$\sum (X_1 + X_2 + X_3 + X_4 + X_5)$$

Where X is the frequency (count), and

The weights are distributed as follows;

| NO | NOT SURE | MAYBE | YES |
|----|----------|-------|-----|
| 25 | 50       | 75    | 100 |

(Source: adapted from the Statistical Package for Social Sciences 2004)

This therefore means that values generated over or below the 80 aggregate score will either be deviating positively or negatively respectively from the standard. A positive showing can be interpreted as confidence and approval for the issue under consideration whereas a negative showing would indicate inadequacies, challenges or room for improvement in the delivery of the service.



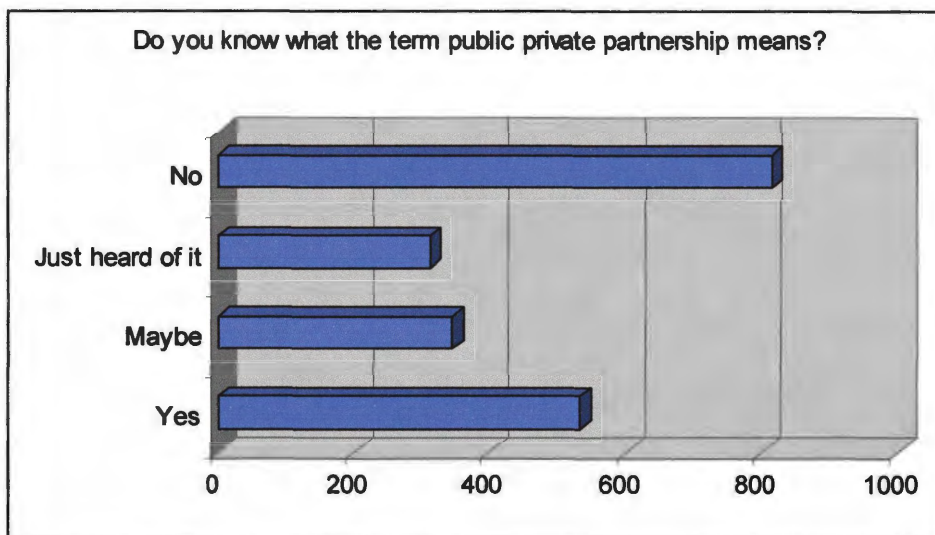
#### 4.4 KEY THEMES

##### 4.4.1 Community awareness and knowledge of PPPs

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The pressure on government to provide services for all its inhabitants with limited resources allows for alternative solutions to be sort. The popular route is to involve the private sector due to their expertise, experience and resources. In the survey conducted, the researcher wanted to ascertain public knowledge of the PPP approach to service delivery, and the following graph summaries the findings.



As can be seen from the graph, there are variations of understanding of PPPs, with only 532 respondents having an understanding of the concept.

In order to determine the community's knowledge of PPPs using the aggregate scoring technique, the following calculation was considered;

$$\text{Aggregate score} = \frac{(812 \times 25) + (312 \times 50) + (344 \times 75) + (532 \times 100)}{2000}$$

Aggregate score = 57.45

The aggregate score of 57.45 *vis a vis* a confidence level of 80 implies that the majority of people in the KSD do not have sufficient awareness and knowledge of PPPs, which in turn impacts on the government mandate to 'consult' and 'inform' the citizen about service delivery options on a continuous basis.



The above is a reflection on the obvious absence of a feasibility study and lack of information relating to alternative delivery modes such as PPPs. As part of the contract with Umthiza, the municipality expected that ongoing community information sharing sessions would be held which would have included the understanding of PPP arrangements.

Further to the knowledge, the researcher wanted to ascertain public awareness of the public private partnership between the Municipality and Umthiza. The table below indicates the respondents' awareness of the private sector involvement.

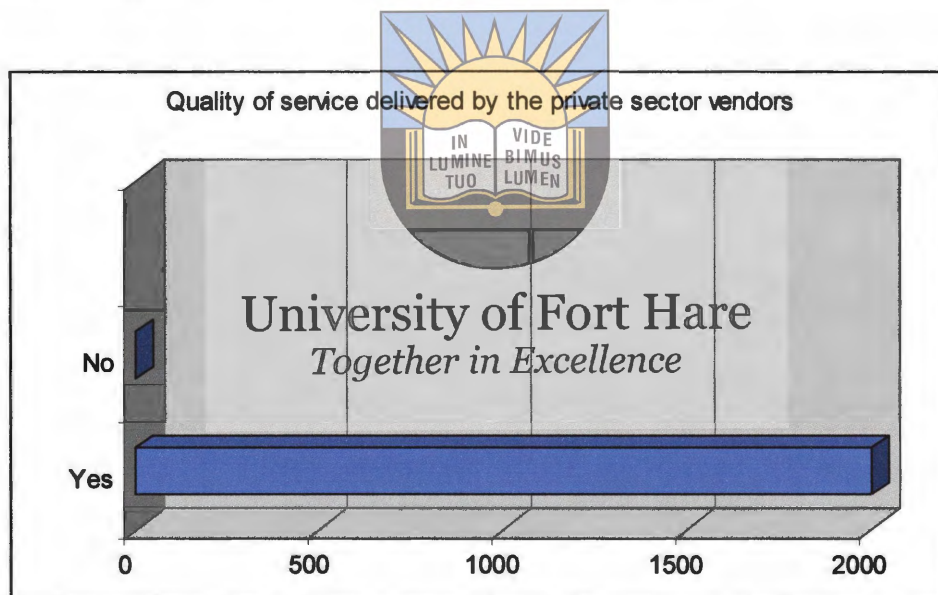
| Have you heard of the Umthiza joint venture | Yes  | No |
|---|------|----|
|   | 2000 | 0  |

It is clear from the table that all the respondents were aware of Umthiza, but could not satisfactorily link the organization to the concept of PPPs. It can also be concluded that

the awareness could be attributed to the fact that Umthiza was the sole vendor of electricity in the Municipality.

#### 4.4.2 Quality of service delivery

Given the challenges the community faced with the billing system prior to the inception of pre-paid meters, there has been an overall acceptance of the pre-paid system even though it means paying for the service upfront. The survey conducted revealed the following findings around the quality of service delivered by Umthiza.

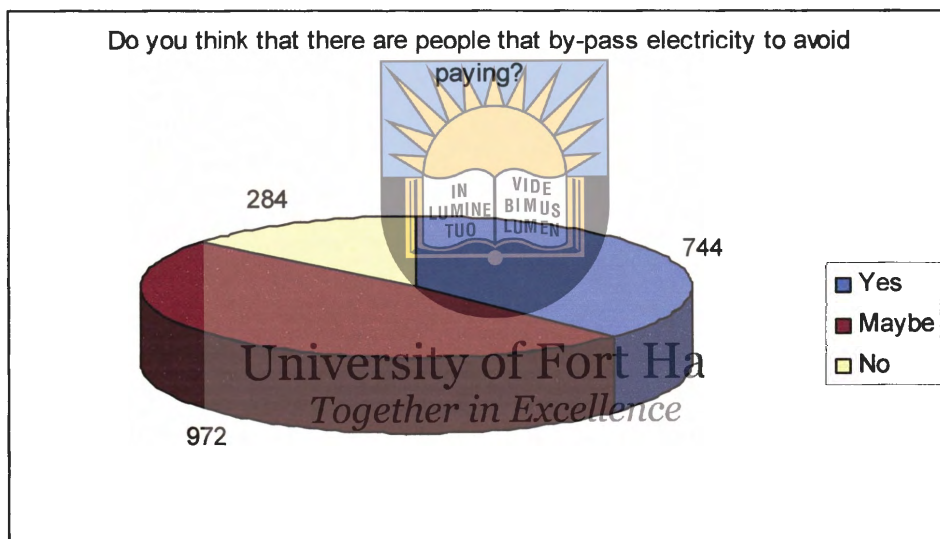


As can be seen from the graph, all the respondents were positive about the quality of service delivered by Umthiza. The high confidence level is despite the fact that Umthiza the bulk supplier of electricity, which is supplied by Eskom, remains unreliable with regular outages experienced. The response was influenced by the following factors;

- Accessibility of vending stations,
- Effective response to queries,
- Ability for consumers to purchase only the amount of electricity they needed, and
- No more use of municipal bills that were inaccurate.

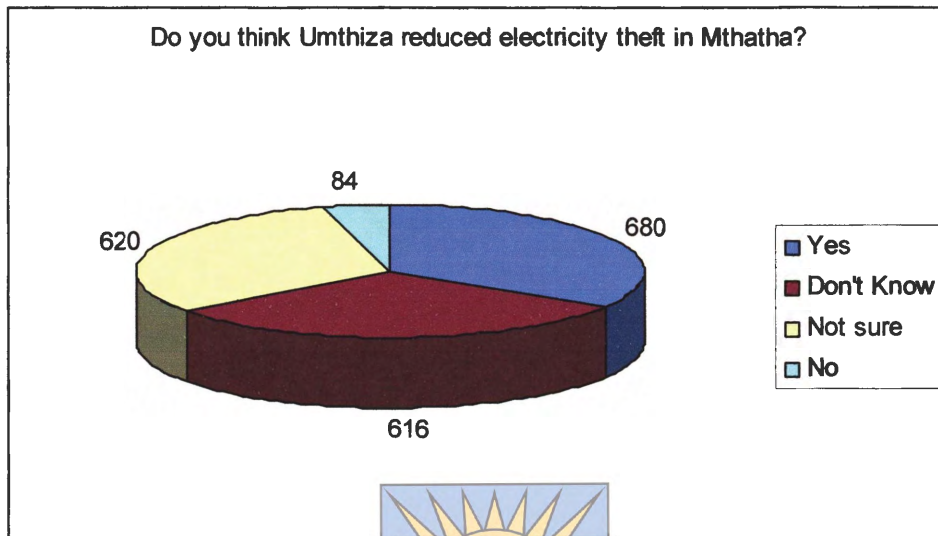
#### 4.4.3 Payment for the service

There has been a rapid increase in electricity theft over the years in South Africa. The KSD Municipality is no exception and suffered revenue losses due to theft. This was compounded by the fact that some of the illegal connections were being done by the Municipal employees. The survey confirmed that the majority of the respondents were aware that illegal electricity connections were taking place as reflected in the diagram below.



The issue of by-passing of electricity is further confirmed by the interviewees. For example, one of the key informants revealed that, "...since Umthiza came in the by-pass rate was reduced – before Umthiza came in the by-pass rate was quite high." It is also revealed in the 2000 situation analysis that, "...approximately 26% of power consumed is unaccounted for. Of the remaining 74% of power which is accounted for and billed, it is estimated that only 55% of the billed consumption is recovered from consumers."

The survey also revealed that the reduction in electricity theft in the Municipality could be attributed to the involvement of Umthiza. This can be illustrated in the diagram below.



Using the Aggregate scoring technique, the statistical analysis is as follows;

$$\text{Aggregate score} = \frac{(84 \times 25) + (616 \times 50) + (620 \times 75) + (680 \times 100)}{2000}$$

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Aggregate score = 73.7

An aggregate score *vis a vis* a confidence level of 80 implies that the reduction in electricity could be attributed to involvement of Umthiza. It can be concluded that prior to Umthiza's involvement, the billing system implemented by the Municipality was ineffective and the engagement of the organization resulted in a culture of paying for services. The implementation of a pre-paid system by Umthiza offered to main advantages namely;

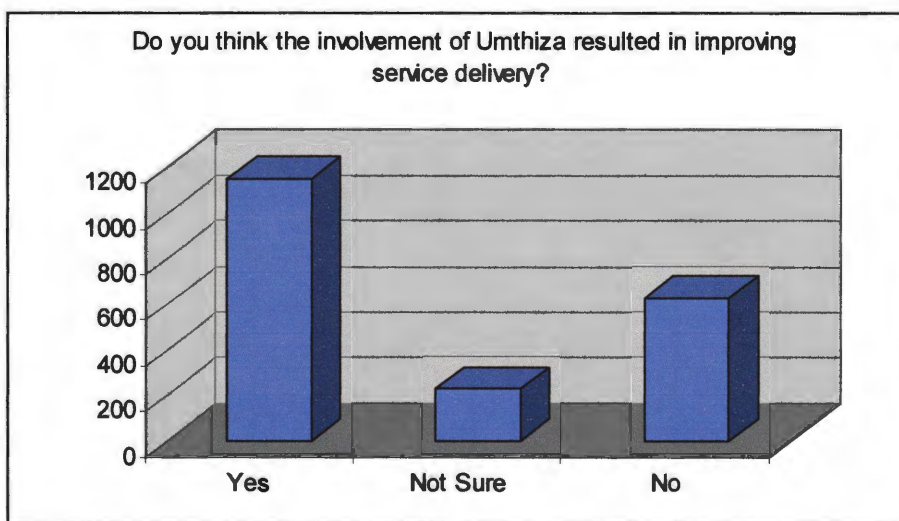
- the consumer paid for electricity up-front; and
- the levels of consumption could be monitored.

The success of Umthiza in reducing electricity theft can be attributed to its ability to monitor consumption levels, through the purchasing of electricity by the consumers. This effectively means that if a consumer bought less than the average monthly consumption,

in all probability, the consumer could be by-passing. During the survey, it was also discovered that the pre-paid meters had tamper-proof seals. Moreover, according to the Contract of 2000 (section 4.11), it could also be established that severe penalties of R1 500 (domestic consumers), R3 000 (commercial single phase) and R6 000 (commercial three phase), were imposed for by-passing electricity.

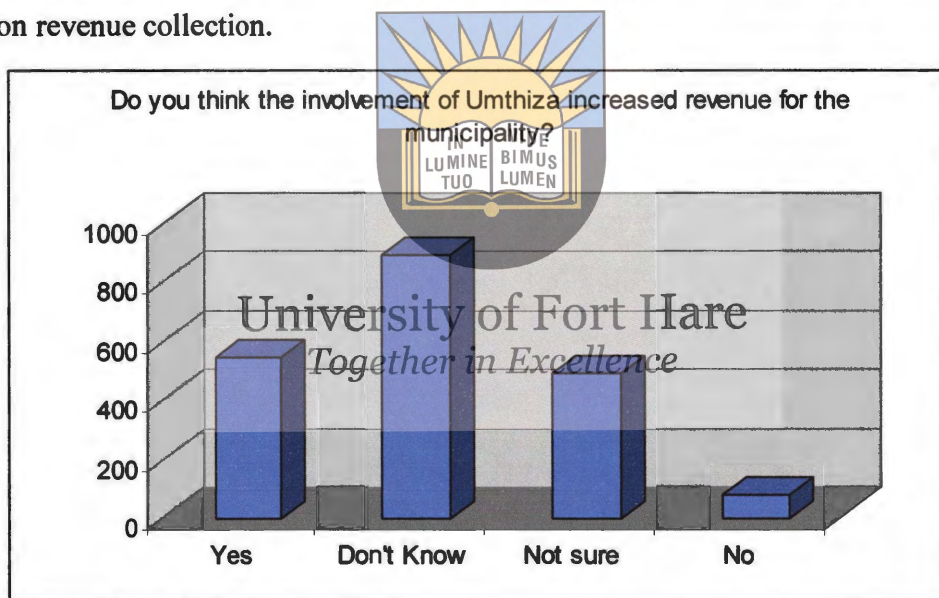
#### 4.4.4 Future desirability of PPPs

Notwithstanding the negative perceptions relating to PPPs, this research has revealed that there are definite benefits when the public sector partners with the private sector. However, it should be noted that the focus must be on the delivery of the service and the best possible solution sort rather than just involving the private sector as an alternative. This is supported by the fact that the public sector must remain accountable for the service and cannot delegate this accountability rather the responsibility. In schedule 4 part B of the Constitution of the Republic of South Africa (Act 108 of 1996), it sets out the competencies of Local Government and the provision of electricity is one of them. In the survey conducted, the researcher wanted to determine whether the involvement of Umthiza resulted in the improvement of service delivery in the provision of electricity in the Municipality. The following graph demonstrates the public perception on the level of service.



As indicated in the graph, the majority of the respondents expressed confidence that Umthiza improved electricity service delivery in the Municipality. This indicator must be viewed against the backdrop of a dysfunctional billing system experienced by the residents before the introduction of the pre-paid system.

According to the survey, the improvement of the service does not necessary result the improvement in revenue for the Municipality. This is due to the fact that the community associates the increase in revenue with the improvement of other services such as roads, refuse collection, water and sanitation. The following diagram reflects the respondents' views on revenue collection.



A statistical analysis of the respondents' views in the diagram above is as follows;

$$\text{Aggregate score} = \frac{(80 \times 25) + (488 \times 50) + (888 \times 75) + (544 \times 100)}{2000}$$

Aggregate score = 68.7

An aggregate score of 68.7 vis a vis a confidence level of 80 implies a level of skepticism from the respondents about the financial impact of the PPP in as far as revenue increase in the Municipality is concerned.

It can therefore be deduced that there is a desirability to engage the private sector in the provision of public services. However, in the case of Umthiza, had the service been ring-fenced, the financial benefit would have been more obvious to the community. It should be noted that the desirability for private sector involvement in the provision of services is impacted by the inability of the public sector to render the service effective. This is concluded and supported by the respondent's comments relating to accountability in the interviews.

#### 4.5 FINANCIAL BENEFIT FOR THE MUNICIPALITY

One of the primary objects of Local Government as enshrined in the Constitution is to ensure the provision of services to communities in a sustainable manner (Section 152). However, due to the demand for the service against the available resources coupled with the capacity constraints, Municipalities often seek alternatives to achieve this mandate. While the core business of the Municipality is service delivery it is critical that the services are offered in a sustainable manner that offers financial benefit to the institution.

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In depth interviews were conducted with the respective financial controllers in the two institutions in order to determine the financial benefit for the Municipality. A summary of the interviews is as follows;

#### **QUESTION: Did the involvement of Umthiza increase revenue?**

The first individual interviewed when asked the question above stated, "It did increase the revenue of the Municipality because of some debt like Eskom that was paid off what owed." The second interviewee concurred with this response by saying, "We were able to pay our thirty million rand debt off, and we have been able to pay the month-to-month bill of Eskom." Another interviewee also echoed the responses by saying, "I would say they did collect more money." As can be seen from the responses it can be deduced that the contract lasted so long due to the financial benefit. This is supported by the proposal

for a renewal of the contract in 2000 (see annexure A) in which revenue collection increased from around R200 000,00 per month to R1,270,000,00 per month.

According to the same document the Municipality collected only 55% of the billed consumers while with the private sector involvement consumers paid for electricity up front.

#### 4.6 CONCLUSION

Even though the contractual arrangement between the Municipality and Umthiza had shortfalls, this chapter has displayed evidence of the general satisfaction with the service and also with the convenience of the service. The challenges highlighted in the chapter expose the need for Municipalities to review the manner in which they engage the private sector. The partnership and relationship must be based on mutual benefit with the key success factors being;



- quality service
- value for money
- accessibility;
- and sustainability

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The following chapter will be focused on using this information to draw conclusions, generalizations and recommendations relating to the provision of services in a PPP arrangement.

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## CHAPTER FIVE FINDINGS AND RECOMMENDATIONS

### 5.1 INTRODUCTION

The establishment of a competency in the National Treasury Department to assist Municipalities with PPPs has gone along way to offer reliable information and training to Municipalities on how to address the need to improve services.

The discourse on whether partnerships should be used for the provision of core public services rather than simply the building and maintenance of physical assets and related ancillary services typically generates great passion but little understanding.

Whether or not PPPs improve the quality of service for citizens or result in financial benefit for Local Government often gets lost in discussions of the danger of profiteering, the threat of privatization, and the prejudice against the public private sectors.

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The purpose of this chapter is therefore to derive research conclusions and generalizations about the experience of KSD Municipality in a PPP arrangement with Umthiza. The chapter will also be devoted to drawing recommendations to offer lessons on the critical success and shortcomings of the partnership, with the aim promoting sustainable service delivery through partnerships.

### 5.2 CHALLENGES WITH THE INVOLVEMENT OF UMTHIZA

#### 5.2.1 The management contract

It is clear from the research that the understanding of the legal arrangement was not on the same level between the public and private sector. The contract should have been based on a mutually acceptable understanding of the expectations from both parties. The main issues of concern from the contract are;

- **Feasibility study**

The provision of electricity is a basic service; however, the billing system in KSD was failing. Although there was a need for an alternative to manner in which the service was being implemented, the solution should have been based on an in depth feasibility study. This study could have been championed by an institution such as the Municipal Infrastructure Investment Unity (MIIU) which is established to assist Municipalities with feasibility studies.

Also observing the process for the establishment of a PPP in section 2.2 of this report developed by the PPP Unit in National Treasury, the KSD Municipality did not follow this process.



- **Business risk**

It is expected that in a PPP arrangement, there is a transfer of risk to the private sector; however, in the PPP arrangement between the Municipality and Umthiza, the risk remained with the Municipality. The contract revealed that an 8% management fee was paid to the private partner from turn-over. With the pre-paid meter system in place and consumers purchasing electricity before use, the private sector was guaranteed a constant income and only needed to control its overheads based on the cash flow projections.

- **Revenue collection**

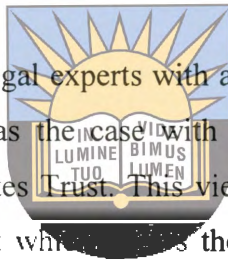
Although Umthiza opened a separate banking account for the collection of revenue as prescribed in the contract of 2000 (section 3.2), the research revealed that the funds were actually being controlled by Umthiza. The contract gave the Municipality power over the bank account, but in practice, Umthiza were the only party that had full access to the account. This implies that, the Municipality had no direct control over the revenue raised during the partnership. They only relied on transfers from Umthiza as and when they

requested this to be done, thereby belittling their oversight role in the administration of the partnership.

- **Contract management**

The contract should have had a joint committee evaluating progress and ensuring that changes are made when necessary, as per section 3.4 of the contract which states that, “...the above expenditure shall be managed by a technical committee which, shall be controlled by Umtata TLC and shall comprise representatives from Umthiza, Umtata TLC and Engineering Representative.” However, this was not the case and the oversight role of the Municipality was compromised.

It was also necessary to involve legal experts with an understanding of PPPs rather than using electrical consultants as was the case with the contract of 2000 designed and developed by Taylor and Associates Trust. This view is further emphasized by the fact that in section 4.6 of the contract which assigns the consultancy to serve a role in the administration of the contract. Their further role compromised the independence in as far as Contract Jurisprudence is concerned.



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- **Illegal connections**

The research revealed that the PPP resulted in a reduction in electricity theft. This can be attributed to the various innovative management techniques that were employed by Umthiza. For example in section 4.11 of the contract, they introduced punitive tampering fines to discourage illegal connections. This was effective due to the inspections conducted by Umthiza.

- **Arrears**

At the time of the involvement of Umthiza, only 55% of electricity actually billed was being collected. This meant that the arrears were accumulating. Umthiza was tasked with

the responsibility to recover the outstanding debt. According to the proposal of 2000 it was reported that Umthiza did not recover any debt and it resulted in confusion and disappointment in the Municipality. In a nutshell Umthiza was lacking in the recovery of outstanding debt.

- **Contract termination**

In September 2005, Umthiza was given notice by the Municipality effectively terminating their relationship. The reason for this action on the part of the municipality was based on the fact that the current contract with Umthiza did not result in from a tender process that was in compliance with Chapter 11 of the Municipal Finance Management Act (Act 56 of 2003). While this was the explanation given, the relationship between the two parties had drifted away from original intentions in the contract.



### **5.3 BENEFITS OF INVOLVING THE PRIVATE SECTOR**

#### **5.3.1 Improved service** University of Fort Hare *Together in Excellence*

With the majority of people saying that the involvement of the private sector did improve services, it is clear that the project enjoyed the support of the community in this regard. The improvement can be related to the following;

- **Conversion to pre-paid meter system**

Prior to the switch to pre-paid meters the community was billed by the Municipality for electricity. The billing system was not accurate and statements issued late. Moreover the bills would be for a month or even several months meaning that the community would not afford to pay. However, with the pre-paid system, the community can buy electricity for the value desired and had access to the service immediately.

- **Convenience**

With the billing system the community needed to visit the Municipal offices to pay for the electricity service, however, with the pre-paid system vending stations were established close to the community and accessible all hours.

### **5.3.2 Increased revenue**

The progress reports from Umthiza indicate a major improvement in the revenue collection. This is supported by the interviewees consulted in this study. The increase can also be attributed to the fact that many households who had not been billed in the past now had received pre-paid meters and paid for the service.

### **5.3.3 Decrease in by-passing**



The research revealed that electricity was a challenge and that this was being addressed by the private sector through the fine system as indicated in the contract of 2000. The severe fine coupled with the inspections conducted by Umthiza, served as a deterrent for electricity theft.

The implementation of pre-paid meters also opened up the opportunity for the Municipality to conduct a meter audit for the city. This audit resulted in the households that were not being billed, to pay for the service.

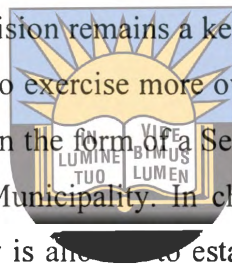
## 5.4 RECOMMENDATIONS

### 5.4.1 Establishment of a Municipal Entity

With the termination of the Umthiza contract, it is opportune for the Municipality to consider an alternate vehicle to deliver the service. The following options are available;

- re-advertise for a private partner
- the service reverts back to the electricity department of the Municipality
- establish a Municipal Entity

Given the fact that electricity provision remains a key competence of Local Government, there is a need for Municipalities to exercise more ownership control. An alternative to a PPP would be a Municipal Entity in the form of a Service Utility which would safe guard direct ownership control of the Municipality. In chapter 10 of the Municipal Finance Management Act the Municipality is allowed to establish a Municipal Entity which is a form of out sourcing yet retaining ownership of the service.



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In the case of KSD Municipality, it is recommended that prior to the establishment of the Municipal Entity to replace Umthiza, the Municipality conducts a thorough feasibility study on the sustainability of the service. It must be stated that the success of an Entity relies heavily on its leadership and the clarity in its terms of reference and therefore the Municipality should consider this option as a business alternative rather than an extension of the Municipality.

### 5.4.2 Contract development

Even with a Municipal Entity it is necessary for the Municipality to prepare and workshop with relevant stakeholders an agreement that will regulate the relationship between the two bodies. This agreement is in the form of a By-Law or Service Level

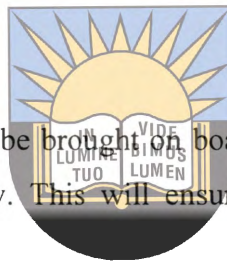
Agreement. This agreement will protect the independence of the Entity and also regulate the expectations from the Municipality.

### 5.4.3 Consultation

The results of the Umthiza project show that the Municipality will need to share information on its intention to form a new Entity to provide electricity. This consultation process should include the following;

- Understanding the role of the Entity
- The standard of service
- The need for the service

It is critical for the community to be brought on board with the change from the private sector provider to the new Entity. This will ensure that the service can be provided without obstruction.



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### 5.4.4 Pre-paid meters

The study shows that the installation of pre-paid meters increased revenue for the Municipality. This system should be maintained and vending stationed increased for greater accessibility. A feasibility study should be conducted to assess whether this system could be used in the provision of other services such as water.

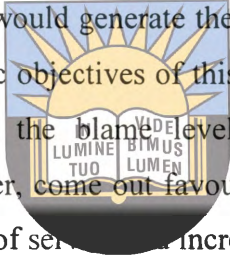
### 5.4.5 Communication

For any relationship to function effectively there is a need for communication beyond the wording of the agreement. This ensures that there is a common understanding of the expectations from the relationship. Effective communication is opium to avert organizational conflict. It enables intra and inter – organizational dissemination of information and it promotes more transparency and accountability.

## 5.5 FURTHER RESEARCH

With the establishment of a municipal entity which draws its mandate from section 92&93 of the Systems Act as amended in 2003 and the Municipal Finance Management Act (MFMA) of 2003, the provision of the service that Umthiza rendered by such entity creates the platform for additional study and research. The focus of such investigation would be a comparison between the new entity and the former private sector partner, Umthiza.

This study has resulted in research that supported the decision for the separation of the service in order to increase revenue, however, this relates to Umthiza and cannot be used as evidence that a municipal entity would generate the same revenue and also provide an accessible service. From the specific objectives of this study, Umthiza performed poorly with regard to the contract with the blame leveled at the private sector for its shortcomings. Umthiza has, however, come out favourably with regard to the other two specific objectives, namely; quality of service and increase in revenue.



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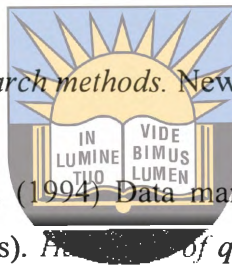
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[www.demarcation.org.za](http://www.demarcation.org.za) (05/01/2006)

[www.dbsa.org.za](http://www.dbsa.org.za) (15/04/05)

[www.ip3.org](http://www.ip3.org) (20/08/2005)

[www. Ip3.org](http://www.Ip3.org).

[www.nbi.org.za](http://www.nbi.org.za) (03/01/05)

[www.miiu.org.za](http://www.miiu.org.za) (11/04/05)

[www.mcaaws.gov.bc.ca/lgd/pol\\_research/MAR/PPP/](http://www.mcaaws.gov.bc.ca/lgd/pol_research/MAR/PPP/) - 10k (03/10/2005)

[www.treasury.gov.za](http://www.treasury.gov.za) (19/12/2004)



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**DATA COLLECTION INSTRUMENT**

**University of Fort Hare**

**MASTER OF PUBLIC ADMINISTRATION**



**Gaster Gilbert Sharpley**  
**University of Fort Hare**  
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**Student number 200434551**

## 1. POPULATION AND SAMPLE

The targeted population comprises of 2000 households in KSD municipality who are direct beneficiaries of the electricity supply service. The questionnaire will be given to random households.

A sample of eight key stakeholders will be drawn and interviews will be conducted. This sample will consist of management representatives, four from KSD municipality and the other four from Umthiza Joint Venture.

## 2. SPECIFIC OBJECTIVES OF THE RESEARCH REPORT

- 
- To evaluate the KSD Electricity management contract,
  - To explore the impact of the contract on service delivery.
  - To assess the financial benefit of involving the private sector in the delivery of a public service.

In order for the research to have value and be useful to the KSD Municipality, it needs active participation of people with an expression of views to direct individual realities of interpreting the facts into one arguable view for presentation as a case study. The following methods will be utilized:

### 2.1 Questionnaire

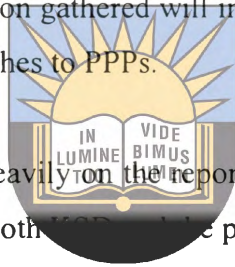
The attached questionnaire shall be prepared and given to the operational staff of the management contract. In this method, the questionnaires are to be delivered by hand to various respondents and later on collected. The researcher and the respondents will agree on the date for collection.

The advantage of this method is that the respondents will complete the questionnaires at their own time and pace, and will not be in a hurry to finish. The method is also time effective on the part of the researcher since he or she does not have to wait for the questionnaires to be completed. The respondents also have an opportunity to ask for clarifications on the researcher's return date.

## 2.2 Literature Study

The research is also going to make use of the document analysis technique. A variety of literature material, in particular books, magazines, government documents and websites on PPPs will be reviewed. Information gathered will inform the conceptualization as well as determining best practice approaches to PPPs.

The literature study will also rely heavily on the reports, contracts and other information available from the case study from both the public and the private sector company.

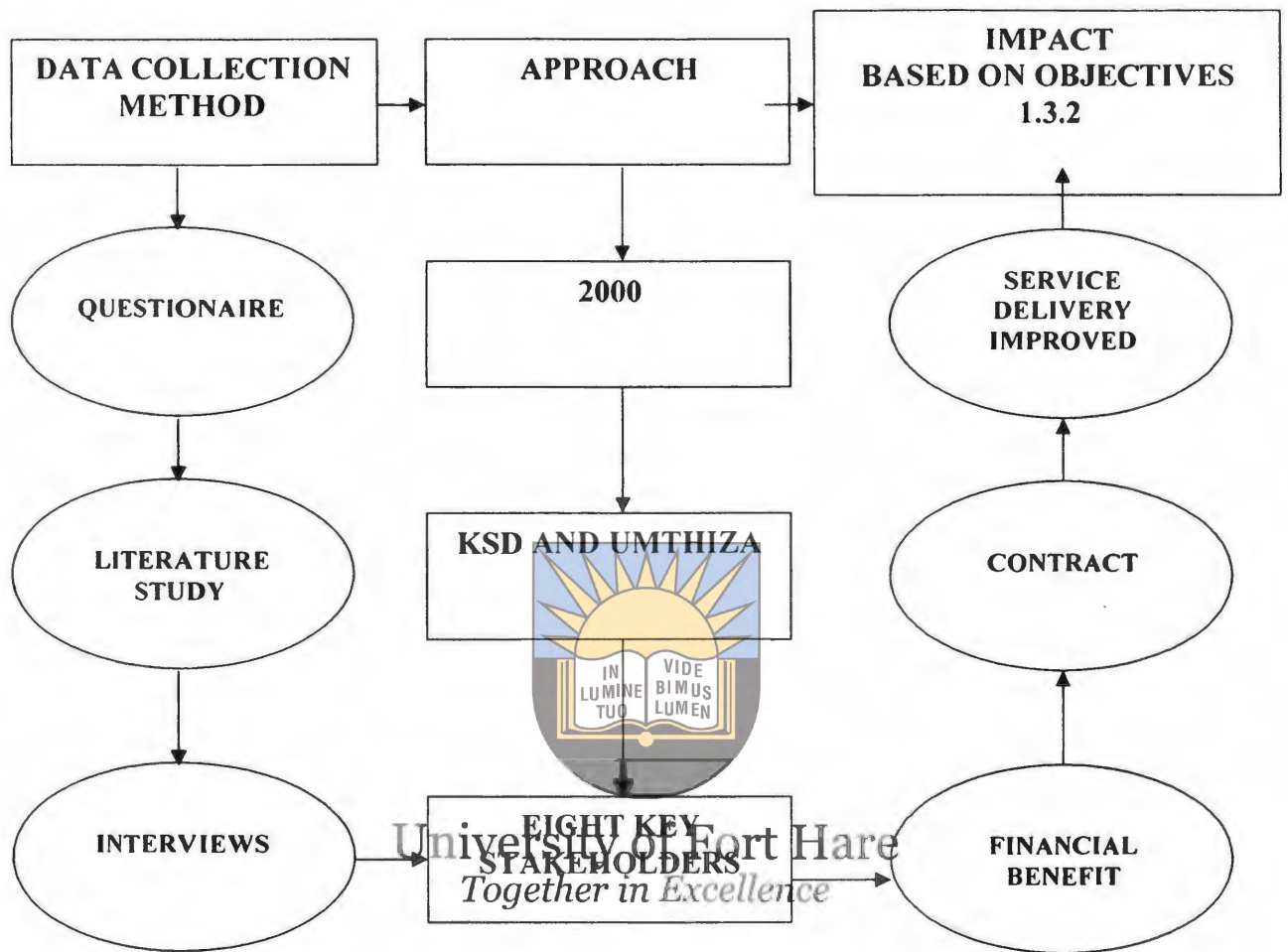


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## 2.3 Interviews

The research will also make use of the semi-structured interview technique. In this type of an interview, the researcher will be interested in getting a clear picture of a participant's beliefs, perceptions and account of the electricity service. This will allow a participant to give a clear picture of his or her perception or opinion on the provision of the service.



### Unpacking the objectives

To evaluate the KSD Electricity management contract

#### Main considerations

1. Was a feasibility study conducted?
2. What is a management contract?
3. What is expected from a management contract?
4. What is the duration of a management contract?
2. Who was involved in the contract design?
3. What made the Municipality outsource the service?
4. Did the private sector carry any risk?
5. Was the environment conducive for contract?
6. Did the parties uphold their part of the deal?

### **Main sources of research information**

- Municipal Infrastructure Investment Unit (MIIU)
- National Business Initiative (NBI)
- Electricity Contract document
- Reports
- Correspondence

### **Instrument**

Literature study

### **To explore the impact of the contract on service delivery.**

#### **Main considerations**

1. Is the community aware of the contract?
2. Is there an understanding what the term public private partnerships means?
3. How does the new system of pre-paid metering differ from the old billing system?
4. Is the community familiar with Umthiza?
5. What are the perceptions regarding the theft of electricity?
6. What is the role of the government in service delivery?



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### **Main sources of research information**

2 000 questionnaires

### **To assess the financial benefit of involving the private sector in the delivery of a public service.**

#### **Main considerations**

1. What did the project implementation cost and who paid?
2. What did the private contribute?
3. What was the income at the time of the inception of the contract?
4. What is the current income?
5. What did the private sector benefit from the project?

### **Main sources of research information**

Interviews with the following stakeholders;

- Umthiza;

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**MASTER OF PUBLIC ADMINISTRATION**  
**Gaster Gilbert Sharpley (200434551)**  
**Questionnaire**  
**The questionnaire is for research purposes only.**

1. Please state your name, surname, and address?

.....  
 .....

2. Do you know what the term public private partnerships means?

|     |  |       |  |                  |  |    |  |
|-----|--|-------|--|------------------|--|----|--|
| Yes |  | Maybe |  | Just heard of it |  | No |  |
|-----|--|-------|--|------------------|--|----|--|

3. Do you have a prepaid meter?

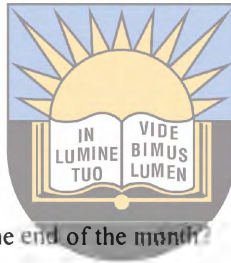
|     |  |  |  |  |    |  |
|-----|--|--|--|--|----|--|
| Yes |  |  |  |  | No |  |
|-----|--|--|--|--|----|--|

4.a) Have you heard of Umthiza joint venture?

|     |  |  |  |  |    |  |
|-----|--|--|--|--|----|--|
| Yes |  |  |  |  | No |  |
|-----|--|--|--|--|----|--|

b) Do you know what Umthiza did?

|     |  |  |  |  |    |  |
|-----|--|--|--|--|----|--|
| Yes |  |  |  |  | No |  |
|-----|--|--|--|--|----|--|



5. Do you prefer prepaid or an account at the end of the month?

|     |  |  |  |  |    |  |
|-----|--|--|--|--|----|--|
| Yes |  |  |  |  | No |  |
|-----|--|--|--|--|----|--|

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6. Is it convenient to buy electricity from private sector vendors or would you prefer going to the Municipality to buy electricity?

|     |  |  |  |  |    |  |
|-----|--|--|--|--|----|--|
| Yes |  |  |  |  | No |  |
|-----|--|--|--|--|----|--|

7. Do you think that there are people that by-pass electricity to avoid paying?

|     |  |       |  |  |    |  |
|-----|--|-------|--|--|----|--|
| Yes |  | Maybe |  |  | No |  |
|-----|--|-------|--|--|----|--|

8. Do you think Umthiza has reduced electricity theft in Mthatha?

|     |  |            |  |          |  |    |  |
|-----|--|------------|--|----------|--|----|--|
| Yes |  | Don't know |  | Not sure |  | No |  |
|-----|--|------------|--|----------|--|----|--|

9. Do you think that the involvement of Umthiza increased revenue for the Municipality and been an added cost?

|     |  |            |  |          |  |    |  |
|-----|--|------------|--|----------|--|----|--|
| Yes |  | Don't know |  | Not sure |  | No |  |
|-----|--|------------|--|----------|--|----|--|

10. Why do you think the Municipality involved Umthiza in the distribution on electricity?

|            |  |          |  |                 |  |
|------------|--|----------|--|-----------------|--|
| Don't know |  | Not sure |  | Improve service |  |
|------------|--|----------|--|-----------------|--|

Any other comments.....  
 .....

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**Gaster Gilbert Sharpley (200434551)**  
**INTERVIEW GUIDELINES**  
**The questions and answers are for research purposes only.**

1. Please state your name, surname, and address?
2. What is your understanding of public private partnerships?
3. What is your involvement with the contract?
4. What is your impression of the relationship between the Municipality and the private sector?
5. What has been your greatest concern regarding the relationship?
6. What has been the reaction of the community to the project?
7. Do you think that there are people that by-pass electricity to avoid paying?
8. Do you think Umthiza has reduced electricity theft in Mthatha?
9. Do you think that the involvement of Umthiza has increased revenue for the Municipality and been an added cost?
10. Why do you think the Municipality involved Umthiza in the distribution on electricity?
11. What is your impression of the content of the contract between the Municipality and the private sector?
12. In your opinion, should the private sector continue to be involved in the delivery of electricity?  
Any other comments.



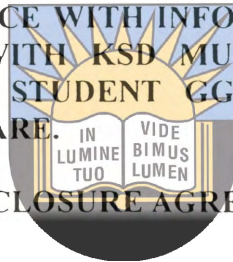
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25 August 2005

Mr Gaster Sharpley  
P O Box 13330  
Vincent  
EAST LONDON  
5217

Dear Gaster

**FORMAL REQUEST FOR ASSISTANCE WITH INFORMATION REGARDING UMTHIZA JOINT VENTURE'S CONTRACT WITH KSD MUNICIPALITY TO BE USED IN A RESEARCH THESIS BY MASTER STUDENT GG SHARPLEY STUDENT NUMBER 200434551, UNIVERSITY OF FORT HARE.**



**NON DISCLOSURE AGREEMENT**

Our discussions in this regard refer.

**University of Fort Hare**

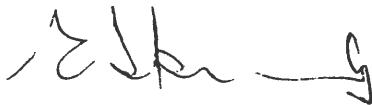
We maintain a very strict confidential ~~customer-client relationship~~ **Together in Excellence**

We have no objection to you having sight of confidential information and documentation such as the contract between KSD municipality and Umthiza provided you undertake not to disclose any of the information made available to you for the purposes of your research, to any other body or person without our specific permission.

Please signify your agreement to the above conditions by appending your full name and signature in the space provided below.

We wish you every success in your studies.

Yours sincerely



**ERROL SPRING  
REGIONAL MANAGER**

I, Gaster Sharpley, hereby undertake to keep confidential and not to disclose any of the information relating to the contract between the KSD Municipality and the Umthiza Joint Venture, made available to me for the purposes of research in the preparation of a thesis leading to a Masters Degree through the University of Fort Hare.

Signed at East London on the 25<sup>th</sup> day of August, 2005



Gaster Sharpley



University of Fort Hare  
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# KASABATA DALINDYEBO MUNICIPALITY



## MEMORANDUM

TO: Mr. Gaster Sharpley  
From: Municipal Manager KSD Municipality  
Prof M.A.Gumbi  
Date: 03 October 2005

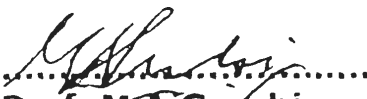


**SUBJECT: REQUEST FOR PERMISSION TO CONDUCT RESEARCH**

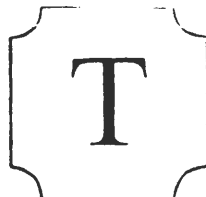
Permission is hereby granted to conduct research as requested. Please feel free to contact anyone of

On behalf of KSD Municipality, may I wish you all the best for embarking on your research, which will be of benefit to you and KSD Municipality Community and other involved stakeholders.

I thank you

  
Prof. M.A.Gumbi  
Municipal Manager





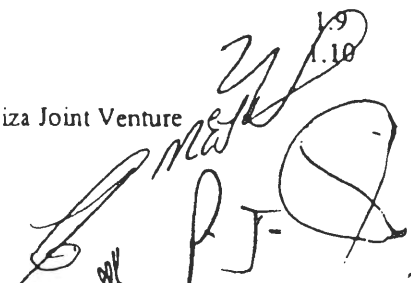
# MANAGEMENT OF THE ELECTRICITY METERING AND ELECTRICITY REVENUE COLLECTION FOR ALL ELECTRICITY CUSTOMERS OF THE UMTATA TLC

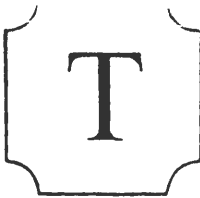
## CONTENTS

| PART | DESCRIPTION  | PAGE      |
|------|--|-----------|
| 1    | Contract Agreement<br>The Conditions of Contract used in this document are the General Conditions of Contract for use in connection with Electrical and Mechanical Engineering Works First Edition 1985. | 1.2 – 1.4 |
| 1A   | Special Conditions of Contract - Augmentation of the General Conditions  | 1.5       |
|      | Definitions  | 1.5       |
|      | Languages  | 1.5       |
|      | Law  | 1.5       |
|      | Precedence of Documents  | 1.5       |
|      | Time for Completion  | 1.5       |
|      | Performance Bond or Surety Programme   | 1.5       |
|      | Contractors Equipment  | 1.5       |
|      | Fencing, Lighting and Guarding   | 1.5       |
|      | Electricity, Water and Gas   | 1.5       |
|      | Employer's Lifting Equipment   | 1.5       |
|      | Limit of Liability   | 1.5       |
|      | Insurance of the Works   | 1.5       |
|      | Import Permits   | 1.6       |
|      | Labour - Other Conditions  | 1.6       |
|      | Delay in Completion  | 1.6       |
|      | Bonus for Early Completion   | 1.6       |
|      | Defects Liability Period   | 1.6       |
|      | Ownership of Plant   | 1.6       |
|      | Contractor's Equipment   | 1.6       |
|      | Advance and Progress Payments  | 1.6       |
|      | Payment Conditions   | 1.6       |
|      | Interest on Delayed Payment  | 1.6       |
|      | Payment in Foreign Currencies  | 1.6       |
|      | Rate of Exchange   | 1.6       |
|      | Notices  | 1.6       |
|      | Contractor's Domicilium Citandi  | 1.6       |
|      | The Employer's Domicilium Citandi  | 1.6       |
|      | The Engineer's Domicilium Citandi  | 1.6       |
|      | Default of the Employer  | 1.7       |
|      | Changes in Cost and Legislation  | 1.7       |
|      | Customs and Import Duties  | 1.7       |
| 1B   | Additional Special Conditions of Contract  | 1.8-1.10  |
|      | General  | 1.8       |
|      | Contractual  | 1.8       |
|      | Financial  | 1.9       |
|      | Administration   | 1.9       |
|      | Reports  | 1.9       |
|      | Variation Orders   | 1.9       |
|      | Audit Process  | 1.9       |
|      | Key Performance Indicators   | 1.9       |
|      | Arrears Recovery   | 1.10      |
| 2    | Proposal for Revenue Management of Electricity Metering by Umthiza Joint Venture   |           |



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 [Handwritten signatures and initials]



prescribed in this AGREEMENT.

5.

This AGREEMENT constitutes the whole agreement between the Parties as to the subject matter hereof and no agreements, representations or warranties between the parties other than those set out herein are binding on the Parties

6.

No Party to this AGREEMENT is bound by any representations made of whatever nature by any of the Parties to one another or by or through their respective agents, except if such representations are included in this AGREEMENT.

7.

No addition to or variation, consensual cancellation or novation of this AGREEMENT and no waiver of any right arising from this AGREEMENT or its breach or termination shall be of any force or effect unless reduced to writing and signed by all Parties hereto or their duly authorised representatives.

8.

8.1 The Parties hereby choose as their domicilium citandi et executandi for all purposes under this AGREEMENT at the address as set out opposite their respective names hereunder :

COUNCIL : Munitata  
Municipal Building  
UMTATA  
5100



CONTRACTOR : 77 Nelson Mandela Drive  
**University of Fort Hare**  
UMTATA  
*Together in Excellence*  
5100

8.2 Any notice to either of the Parties shall be addressed to it as its domicilium aforesaid and either sent by hand or prepaid registered post or delivered by hand.

8.3 In the case of any notice:

8.3.1 Sent by prepaid post, it shall be deemed to have been received, unless the contrary is proven, on the 3<sup>rd</sup> (third) day after posting;

8.3.2 Delivered by hand, it shall be deemed to have been received, unless the contrary is proven, on the date of delivery, provided such date is a business day or otherwise on the next following business day;

8.3.3 Either Party shall be entitled by written notice to the other, change its domicilium to another address in the republic of South Africa, provided that the change shall only become effective FOURTEEN (14) days after service of the notice in question;

8.3.4 For the purpose of this AGREEMENT, "business day" means any day other than a Saturday, Sunday or public holiday.

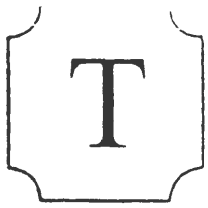
WITNESS whereof the Parties hereto have set their hands in the presence of the subscribing witnesses:

AT Munitata ..... for and on behalf of UMTATHA JOINT VENTURE (the contractor)

On this 9<sup>th</sup> ..... day of May ..... 2000

Signature: \_\_\_\_\_  
Capacity: DIRECTOR

WITNESS :  
1. \_\_\_\_\_  
*[Handwritten signatures and initials]*



Address: P O Box 15075 2 AlEkoqung?  
BEACON BAY 5205

AT Umtata for and on behalf of UMTATA TLC (the City Council of Umtata)

On this 24th day of May 2000

Signature: [Signature] WITNESS: [Signature]

Capacity: Director legal & Property 1. [Signature]

Address: Munitata Building 2. [Signature]  
Umtata



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[Handwritten signatures and initials]  
ME.  
P.T.



PART 1

CONTRACT AGREEMENT (CONTRACT NUMBER L2 / 2000)

THIS AGREEMENT MADE AND ENTERED INTO BY AND BETWEEN:

THE CITY COUNCIL OF UMTATA

herein represented by ALBERT MAX BLUHM, as Director : Legal and Property Services (duly authorised thereto), and hereinafter called "the EMPLOYER" and

UMTHIZA JOINT VENTURE

represented by FRANK EDWARD CURRIE, as Director (duly authorised thereto)

(hereinafter called "the CONTRACTOR") of the other part.

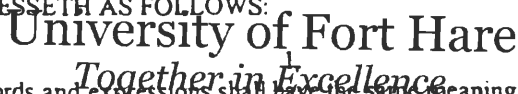
(In the event of a Company, Close Corporation, Association, etc. the resolution by Directors to be attached.)

WHEREAS the EMPLOYER is desirous that certain WORKS should be performed viz.:

"MANAGEMENT OF THE ELECTRICITY METERING AND ELECTRICITY REVENUE COLLECTION FOR ALL ELECTRICITY CUSTOMERS OF THE UMTATA

(hereinafter referred to as the "WORKS") and has agreed to be performed by the CONTRACTOR for the WORKS.

NOW THIS AGREEMENT WITNESSETH AS FOLLOWS:



1.1 In the AGREEMENT the words and expressions shall have the same meaning as are respectively assigned to them in the complete tender document hereinafter referred to.

2.

2.1 The completed tender document (attached) including any alterations, quotations and any other document attached here to, shall be deemed to form part of the AGREEMENT and shall be deemed as read and construed as part thereof.

2.2 The parties to this agreement as envisaged by Section 37(2) of the Occupational Health and Safety Act No. 85 of 1993 as amended, hereby acknowledge that the CONTRACTOR is an EMPLOYER in its own right with duties as prescribed in the Occupational Health and Safety Act No. 85 of 1993 as amended and agreed to ensure that all work will be performed or machinery and plant used in strict accordance with the provisions of the said Act and the CONTRACTOR furthermore agrees to comply with any and or all requirements of the EMPLOYER as contained in this contract and or documents attached hereto and to liaise with the EMPLOYER should the CONTRACTOR for whatever reason be unable to perform in terms of this agreement.

2.3 Clause 2.2 will be applicable to any agent, contractor, sub-contractor or the like, and the CONTRACTOR to the agreement will ensure that any of the aforementioned will comply strictly to the terms as envisaged by Section 37(2) of the said Act.

2.4 The CONTRACTOR declares herewith that he is familiar with the provisions of the said Act and in particular Sections 1 (one) to 50 (fifty).

3.

3.1 In consideration of the payments to be made by the EMPLOYER to the CONTRACTOR as hereinafter mentioned, the CONTRACTOR covenants with the EMPLOYER to perform, execute and maintain the WORKS in conformity with the provisions of this AGREEMENT.

3.2 Notwithstanding anything to the contrary in the tender, it is an express, not negotiable condition of the Contract that the CONTRACTOR shall be liable for the forward cover of imports and that no tender shall be considered or accepted if such tender is subject to import forward cover.

4.

The EMPLOYER hereby covenants to pay the CONTRACTOR for the WORK such amounts at the times and manner



## 7 CONTRACT

---

A draft contract has been prepared by Messrs Taylor and Albrecht in consultation with the Umtata TLC Director Legal and Property. This contract will supercede any existing contracts between the Umtata TLC and Umtiza and will commence from the time of appointment for a period of 5 years. The contract may be renewed thereafter through mutual agreement.



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