

Evaluation of Public Private Partnership Projects in Somalia: Case in Mugadishu Airport and Seaport Managed by Turkish Favori and Albayrak Companies

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Abstract

The main objectives of this study are to examine the role of public private partnership projects on infrastructure development and economic growth and explore the challenges facing public private partnership projects managed Turkish companies in Somalia. A descriptive research design was used; the study population was the employees of airport and seaport and merchants in Mogadishu and a sample size of 87 were drawn. A self administered questionnaire was employed to collect the data from respondents and then analyzed by using descriptive statistics with the aid of SPSS. The findings indicated the role of public private partnership played a significant role on the social and infrastructure developments. Establishment of joint ventures under government and privates boosted economic growth significantly through investment and employment creation in Somalia. Finally, the challenges included not only less knowledge to public private partnership undermined and delayed the implementation of these projects directly and it affected on the infrastructure developments currently and in the long run but also inefficiency from the government intervention and its fragile administration causes delays in the projects' implementations. Therefore, the study underlined public private partnership could be fruitful if the awareness is promoted as well as government refrains from improper involvements.

Keywords: Public Private Partnerships, Albayrak and Favori

INTRODUCTION

A public private partnership (PPP) was first introduced in the United Kingdom in 1992 as a method of private finance initiative to enhance and procure public infrastructure by getting a private sector in order to finance, build and operate under contracts getting end 25 to 30 years (Tiemann, 2003). Public private partnership (PPP) can be defined as a long-term contract which based on service outputs where there is significant risk transfer to the private sectors. In general, it is long-term contract obligation which involves designing major procurement, operation of a facility along with the stipulation of significant private finance (Wilson, Pelham, & Duffield, 2010). Hurst & Reeves (2000) have also defined public private partnership (PPP) as a dynamic relationship among diverse actors which is based on mutual agreed objectives.

Public private partnership is an institutionalized form of collaboration of public and private actors, with their own indigenous objectives and work together towards a joint target, while leveraging joint resources and capitalizing on the respective competences and strengths of the public and private sectors (Jamali, 2007). It is contractual agreement between a public agency and a private sector entity, through this agreement, the skills and assets of each sector are shared in delivering for service used by the general public. In addition to the sharing of resources, each party shares in the risks and rewards potential in the delivery of facility

(Keynes, 2007). Infrastructure development, such as roads, bridges, airports and seaports and public utilities and services, water, energy, health and education, neither government nor the private sectors could achieve alone and public-private partnership (PPP) allows government and private sectors to learn from each other and creates synergistic effects for both parties (Alfen, 2003).

Somalia is situated in east and horn of Africa and lies along the Indian Ocean and Gulf of Aden, bounded by Ethiopia in the west, and Kenya in the southwest, Djibouti in the northwest. The area of Somalia is almost 40,000 square kilometers. The population, in which 66 percent and 34 percent live in rural and urban areas respectively, is estimated to be around 13 million in 2015 with a density of about 51 persons per square kilometer.

The economy of Somalia depends on agricultural production, where sugarcane, bananas and cereals are grown which is the Gross Domestic Production is expected to be about 7 billion US dollars as of 2015 with per capita income of 550 US dollars and the livestock heavily. According to the Central Bank of Somalia (2013), Somalia has preserved a vigorous informal economy based largely on money transfers; telecommunication and livestock. It is hard to estimate the growth of the economy due to a shortage of formal government statistics. The CIA estimated the GDP at \$3.3 billion in 1994, \$4.1 billion in 2001 and estimated that the GDP had grown to \$5.731 billion and it was expected real growth rate of 2.6% in 2009. About 64 percent of the Gross Domestic Product is accounted for agricultural production followed services production including with communication services, transports and hotels second in ranking.

In northern part of Somalia, public private partnership managed by Hargeisa slaughterhouse is practiced as a tool for applying meat food safety standards and principles to public health hazard prevention which requires consideration of social issues such as attitudes toward meat producing animals and slaughter facilities, cultural and religious mores, and individuals' willingness and capability to adopt and comply with prevention practices of good hygiene practices and strategies throughout the meat production chain (Kinyanjui, 2012). In addition Eastern part, the PPP was organized to provide utility services like electricity, water and sanitation when the central government has failed to provide such services.

The approach of supplying public goods and services by private companies is growing in importance not only where there is failure or the inability by public entities to deliver services, but also due to recognized advantages and benefits of private sector participation in public private partnerships.

Now public private partnership (PPP) projects relating to rehabilitation of the devastated infrastructure such as the roads, hospitals, seaports and airport have started in Somalia. Hospitals, seaports and airport of Mogadishu were reconstructed and managed by two Turkish companies: FAVORI and ALBAYRAK under the contract of PPP.

Turkish government engaged with the Somali government for public-private partnership since 2011. Aden Adde International Airport having a modern and standardized terminal of 15,000 square meters intended for the flights was opened lastly its doors to travelers. The terminal was equipped with the climate controlled air conditioners, security camera and finger print sensitive door, the glass walls, the seats and finest paints. The public private partnership was FAVORI and the Somali federal government signed public private partnership contract which gives FAVORI full control of the airport for the coming 15 years or 5 years more. This project has incurred a cost of US\$20. Both sides agreed on revenue ratio 55:45 that means 55 per cent for

Favori and rest for the government (Bora, 2015). Albayrak is a second Turkish company that manages the port in Mogadishu for almost a year. Albayrak modernized the port and brought equipment for improving port activities in a way the government revenue is increased.

Although, the concept of public private partnership projects seem to be new in Mogadishu yet this study will evaluate the public private partnership projects in Mogadishu as case study of the seaport and airport now managed by Turkish private sectors as well as infrastructure rehabilitation. This study tries to achieve the following objectives:

1. To find out the role of public private partnership projects on infrastructure development in Mogadishu, Somalia.
2. To investigate how public private partnership projects participate economic growth in Mogadishu, Somalia.
3. To explore the challenges facing public private partnership projects in Mogadishu, Somalia.

LITERATURE REVIEW

According to UK government defined public private partnerships as joint work between the public and private sectors for a long term for mutual benefits, which covers various types of partnerships. Public private partnership is defined as a co-operative venture between the public and the private sectors, built on the expertise of each partner that best meets clearly defined public needs through the appropriate allocation of resources, risks and rewards (Millones, 2010).

Public-Private Partnerships is a general name that is applied to numerous different types of contractual agreements between the government and the private sector for the aim of public infrastructure development and services provision. A long time provider of goods and services to the government through traditional methods of procurement and privatization, public private partnership sees the private sector progressively more taking on activities previously considered the exclusive responsibility of the State, as the State becomes the “buyer” rather than the supplier of services. As the word “partnership” suggests, the aim is to create an infrastructure “dream team” by the combination of the best capabilities of the public (legislation, regulations, social concern) and private (innovation, efficiency, finances) sectors to find an elucidation to infrastructure-related public needs. Public private partnership therefore describes the structure of the relationship between the two parties and both contribute to optimal public services methods (Colverson, 2012).

A public private partnership is defined as a temporary organization of stakeholders each with competing goals and objectives and utilizes the financial, technical, managerial and commercial strengths of private enterprises to attain a win-win situation amongst the government, the business sector and end-users (McGeorge, 2009). In other words, it is a collaboration of the public and private sectors in order to finance and develop transportation, communication, and infrastructure. This phenomenon has been regarded as the new economic paradigm globally (Oyedele, 2012).

There are a various forms of public private partnership. These include build-own-operate transfer, build-transfer operate, buy-build-operate, build-operate transfer, build-lease operate transfer design-build-finance; finance only, operation and maintenance contract, design-build and Operation License (Colverson, 2012).

Build-Own-Operate-Transfer (BOOT): the private sector is responsible for the design, construction and operation of the infrastructure over the project term, with ownership and control returning to the public sector at contract's end.

Build-Own-Operate (BOO): the private sector retains complete ownership of the infrastructure after completing the design and construction phases and also continues to operate the facility, essentially replacing the government as provider of public services for the length of the contract term.

Build-Transfer-Operate (BTO): the public sector assumes ownership of the infrastructure on completion of the design and builds phases, leasing it back to the private sector for operation.

Buy-Build-Operate (BBO): transfer of a public asset to a private or quasi-public entity usually under contract that the assets are to be upgraded and operated for a specified period of time. Public control is exercised through the contract at the time of transfer.

Build-Operate-Transfer (BOT): The private sector designs, finances and constructs a new facility under a long-term contract, and operates the facility during the term of the concession after which ownership is transferred back to the public sector if not already transferred upon completion of the facility. In fact, such a form covers BOOT and BLOT with the sole difference being the ownership of the facility.

Build-Lease-Operate-Transfer (BLOT): A private entity receives a franchise to finance, design, build and operate a leased facility for the lease period, against payment of a rent.

Design-Build-Finance-Operate (DBFO): The private sector designs, finances and constructs a new facility under a long-term lease, and operates the facility during the term of the lease. The private partner transfers the new facility to the public sector at the end of the lease term.

Finance Only: A private entity, usually a financial services company, funds a project directly or uses various mechanisms such as a long-term lease or bond issue.

Operation & Maintenance Contract (O & M): A private operator, under contract, operates a publicly owned asset for a specified term. Ownership of the asset remains with the public entity.

Design-Build (DB): The private sector designs and builds infrastructure to meet public sector performance specifications, often for a fixed price, turnkey basis, so the risk of cost overruns is transferred to the private sector. (Many do not consider DB's to be within the spectrum of public private partnerships and consider such contracts as public works contracts.)

Operation License: A private operator receives a license or rights to operate a public service, usually for a specified term.

The theory adopted in this study was transaction cost theory which was developed by (John & Janssen, 2010). According to John and Janssen (2010), the theory highlights that it is extensively important because it often explains the trend towards more sourcing, with organization costs falling due to the use of new technologies. Transaction cost theory also results from the transfer of property rights between parties and exist because of friction in economic systems and it is argued that the main reason to set up a business is to avoid some transaction costs with the aim of asset specificity, in which assets are specific to each other, as the main reason for the existence of firms (John & Janssen, 2010).

It is a model that has been adopted for the purpose of achieving wider public policy objectives such as developing social services (Hurst & Reeves, 2004). When adequate funding is needed to construct the requisite infrastructure and public agencies have experienced chronic budget shortages, the public private partnership is encouraged as a means of innovative financing (Ranjan Agrawal, 2010). Therefore, it is a government-sponsored scheme which involves the use of private finance to finance infrastructures, education, water, and health services with the aim of improving and promoting the services of the community (Overy, 2012).

The infrastructure has great influence on economic development because it promotes economic growth, expands trade, and reduces poverty (Reungsri, 2010). In other words, Infrastructure includes highways, railways, ports, bridges, hydraulic structures, power plants, tunnels, municipal facilities like sanitation and water supply, and other facilities serving public needs. Consequently, the infrastructure may play a vital role in supporting a high standard of living. So that the public private partnership is a vehicle used to enhance the economic development. In the provision of public services, the private sector plays an important role and it is expected to decrease the pressure on government budgets and result in efficiency and quality (Grotenbreg, 2014).

Various literatures showed that the term public private partnership refers an institutionalized form of collaboration of public and private sectors, with their own objectives and work together towards a joint target, while leveraging joint resources and capitalizing on the respective competences and strengths of the public and private sectors. The main findings indicated that public private partnership have a significant effect in economic growth, infrastructure development. On the other hands, less knowledge to public private partnership, long term of project cycle, huge costs, inappropriate public sector policies and regulation, and negative externalities that the private sector will not take fully into account are major challenges that face them.

RESEARCH METHOD

Research Design

This study adopts descriptive design. The purpose of descriptive research is to describe an accurate profile of persons, situations or events. In addition to, this study uses quantitative approach in which data collection technique or data analysis procedure that generates or uses numerical data. The study also uses a survey questionnaire that contains four sections: first part (A) profile of the respondents; part (B) research objective one; part (C) research objective two; and part (D) research objective three.

Research Population And Sampling Procedure

Population refers to the entire group of people that the researcher wishes to investigate (Sekaran, 2003). The study population is 111 employees working at Mogadishu seaport and airport. The employees consist of HRM Managers, heads of departments, Operational officers, Office staffs, and Merchants. These are selected because they work under public private partnership.

Sample Size

From the target population of 111 employees, the researcher selected 87 respondents as the sample size. The key respondents comprised of 10 HRM managers, 15 head departments, 10 operations officers, 20 office staffs 32 merchants; and. Table below shows the distribution of the sampling respondents.

Table: Showing Categories of Respondents & Sample Size

Category of Respondents	Population	Sample size
HRM managers	15	10
Head departments	20	15
Operational officers	16	10
Office staffs	25	20
Merchants	35	32
Total	111	87

The researcher used Slovene’s formula to select the respondents of the study from the population; using the following formula:

$$n = \frac{N}{1 + N(e)^2}$$

Where n is the required sample size, N is the target population size and e is the standard error or level of significance, which is popularly known to be =0.05 or 5%. For this study, N = 111 and so the sample size was calculated as follows:

$$n = \frac{111}{1 + 111(0.05)^2} = 87$$

Sampling Procedure

The sampling procedure of this study is used non-probability sampling procedure particularly convenience sampling. Convenience sampling involves selecting haphazardly those cases that are easiest to obtain for your sample.

RESULTS

Demographic Information

The table 1 shows respondents’ profiles in four separate categories. The data constitutes male and female 89.7% and 10.3% respectively. This shows that the male is more than the female in public private partnership projects in Mogadishu, Somalia. 96.6% of the respondents are at the age of 20-39 years; 3.4% are at the age of 40-59. This shows that majority of respondents’ ages is between 20 and 39 years. Finally, 80.5% of the respondents were master holders, 19.5% were bachelors, whereas as secondary did not take part in the study.

The Role of Public Private Partnership on Social Development

The first objective of the study which comprised four questions with four point Likert scale examined the role of public private partnership projects on social development in Mogadishu, Somalia. The results of its overall mean scores and standard deviation indicate (2.88) and (0.89) respectively. Therefore, the public private partnership (PPP) plays a significant role on social development and emphasizes the respondents’ satisfaction. So collaboration between public and private sectors promote the smooth running of services, such as health programs, education and sanitation for the society.

Table 1 Profile of Respondent

Category	Frequency	Percentage
Sex		
Male	78	89.7%
Female	9	10.3%
Age		
20-39	84	96.6%
40-59	3	3.4%
60 above	0	0
Educational Qualifications		
Secondary	0	0
Bachelors	17	19.5%
Masters	70	80.5%

Table 2 Descriptive analysis of public private partnership on social development

No.	Statements	Mean	Standard deviation
1.	Public private partnership is an important modern strategy of increasing social development.	2.91	1.158
2.	Private sectors drive economic growth through investment, employment and business creation	2.80	.587
3.	Public private partnership is increasing as social development provision of goods and services to improve the development of the society.	2.61	.932
4.	Public private partnership enables the society to achieve economic development through mutual collaboration.	3.21	.878
Grand mean		2.88	0.89

Source: Primary data, 2015

The Role of Public Private Partnership (PPP) on Infrastructure Development

The second objective of the study investigated the function of public private partnership on infrastructure development. It also contained four questions with a four point likert scale. The end result shows the grand mean score (2.88) and standard deviation (0.67). This implies that majority of the respondents agreed that public private partnership is a new strategy which promotes infrastructure development and improves economic growth through investment and employment creation to the society. So that the public private partnership upgrades social development programs and the government alone could not be able to accomplish.

Table 3 Descriptive analysis of role of PPP on infrastructure development

No.	Statements	Mean	Standard deviation
1.	Expansion and improvement of seaport is significant for economic growth.	3.31	.919
2.	It facilitates the loading and unloading of exported and imported goods and reduces delays and inaccuracies.	3.90	.306
3.	Roads which are major means of transport for both passengers and freights reduce transaction costs.	2.91	.844
4.	Public private partnership improves hospitals, schools, and roads which are very important to services to the society.	3.18	.604
Grand mean		2.88	0.67

Source: Primary data, 2015

How Public Private Partnership Projects Contribute Economic Growth

The third objective of the study investigated how public private partnership projects contribute the economic growth. Public private partnership (PPP) with the grand mean score (2.88) and standard deviation (0.67), influences the economic growth. Majority of the respondents indicated that public private partnership contributes the economic growth of the society. The public and private sectors form joint venture that develops the economic growth through.

Table 4 Descriptive analysis of how public private partnership projects contribute economic growth

No.	Statements	Mean	Standard deviation
1.	Private sectors contribute the economic growth of the society through public private partnership.	2.89	.958
2.	Public private partnership is a tool used by government to benefit its citizens in order to enjoy economic growth.	3.22	.868
3.	Public private partnership is a means of rehabilitating the service of the society such as airports, ports, hospitals and roads.	2.80	1.098
4.	Public private partnership is a ways that prevents transaction costs.	2.91	.542
Grand Mean		2.95	0.87

Source: Primary data, 2015

Challenges Facing Public Private Partnership

The fourth objective of the study explored the challenges (lack of knowledge and inefficiency) that face public private partnership projects. The mean score of respondents towards less knowledge is 2.84 and the standard deviation variance is 0.89. Many of the respondents agreed less knowledge to public private partnership undermined and delayed the implementation of PPP projects directly and it affected on the infrastructure development in the long run. A

fragile administration and levying improper taxes PPP projects rendered the public private partnership projects not to be implemented. Therefore, they underlined public private partnership could be fruitful if the awareness is promoted. Consequently, the awareness contributes the positive effect on public private partnership implementation in Mogadishu, Somalia.

The inefficiency is a second major challenge that hinders the public private partnership projects. The research result found mean of respondents is 2.94 and the standard deviation variance is 0.75. Most of the respondents indicated that government intervention brings inefficiency of resource allocation which lastly causes development delays. In addition to government regulations and deregulations also induce inefficiency as well as improper taxes, and tariffs discourage the development of the society. Public partners with private sector contribute to infrastructure rehabilitation as well as mutual benefit of public and private sectors. The private involvement enhances the quality and efficiency of public service to promote the society.

Table 5 Descriptive analysis of challenges facing public private partnership (PPP)

No.	Statements	Mean	Standard deviation
Lack of knowledge			
1.	Lack of knowledge of public private partnership may hinder the adoption of public private partnership projects	3.21	.891
2.	Weak public administration may become constraint to the implementation of projects through public private partnership.	2.91	.948
3.	Infrastructure provision shows an economic deficiency owing to the lack of knowledge of public private partnership contracts.	2.69	.797
4.	Lack of knowledge of public private partnership may have negative impact on social development.	2.53	.926
Grand mean		2.84	0.89
Inefficiency of Public Private Partnership			
1.	Government intervention brings inefficiency of resource allocation which lastly causes development delays.	2.60	1.039
2.	Inefficiency arises when there are factors which may have negative impact on operation such as untested technology and lower capacity.	2.90	.529
3.	Public private partnership provides services which may take long period contracts and make them great deal of uncertainty.	2.99	.785
4.	Private involvement enhances the quality and efficiency of public service to promote the society.	3.29	.645
Grand mean		2.94	0.75

Source: Primary data, 2015

DISCUSSION

Existing literatures agreed on contribution of public private partnership can have on infrastructure improvement particularly roads; hospitals, seaport and airport managed by Turkish private sectors in Somalia. The infrastructure did not meet as required since Somalia is under a conflict of more than two decades. The research showed that public private partnership projects constructed hospitals, main roads, seaport and airport and majorly improved infrastructure of Somalia, particularly Mogadishu. The findings of this study are in line with Olufemi A. Oyedele's (2012) study, which public private partnership is considered as collaboration between public and private sectors finance the infrastructure. So the public private partnership played significantly the economic growth of the country. Prabir K. Bagchi and Seung-Kuk Paik (2001) came to the conclusion that public private partnership contributed the development of the roads, ports as well as seaport which consequently improved the economic growth of many countries in the world.

CONCLUSION

The study concluded that first of all, the public private partnership played a significant role on social development and emphasized the respondents' satisfaction. Therefore, collaboration between public and private sectors promote the smooth running of services, such as health programs, education, sanitation, economic infrastructure. Secondly, the study found that public private partnership is a strategy which promotes infrastructure and subsequently improves economic growth through investment and employment creation to the society. So that the public private partnership upgraded social development programs and the government alone could not be able to accomplish. Third, Establishment of joint ventures under public private partnership by government and privates boosted economic growth in Somalia. Finally, many of the respondents agreed less knowledge to public private partnership undermined and delayed the implementation of PPP projects directly and it affected on the infrastructure development in the long run. A fragile administration and Levying improper taxes on PPP projects rendered the public private partnership projects not to be implemented. Therefore, they underlined public private partnership could be fruitful if the awareness is promoted. The inefficiency-government intervention brings inefficiency of resource allocation which lastly causes delays in the projects- was another major challenge that hindered the public private partnership projects for implementations.

RECOMMENDATION

The study recommends that the government must encourage the private sectors to participate in reconstruction of the country and then, they employ the local citizens to enhance the economic growth. The government is also advised to have a negotiation with more privates instead of small number of privates, to compete for the projects required to be implemented throughout contracts based on public private partnership. Finally, the public and private sectors should comply with the rules and regulations of the country in order to avoid interest of conflict.

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