

South African Public Private Partnership Unit



Roundtable discussion with Cabinet
Ministers and High-Level Government
Officials - IMF and MINECOFIN

Kigali, Rwanda - Date: 27 October 2010



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“The diverse interests of different sectors can in fact, be harnessed for the collective good. (*i.e. need for service delivery, investment, socio-economic development, job creation and growth vs the profit motive*)

This is what PPPs are about.

The public gets better, more cost-effective services; the private sector gets new business opportunities. Both are in the interests of the nation.”

South Africa’s Minister of Finance, Trevor Manuel, August 2004



- **IT IS A PARTNERSHIP BETWEEN PUBLIC SECTOR / PRIVATE SECTOR for:**
 - The delivery of a service based on pre-agreed performance standards and remuneration
 - Principle of: “On-time and within budget”
 - **Performance is measured and penalised**
 - Long-term relationship
 - Fairly complex preparation and procurement
 - Contract management VERY important

CHOICE TO DO PPPs
and remember....
the HOW has
CONSEQUENCES



What is a PPP?

Degree of Risk Transfer

Outsourcing

- Capitalisation is for the Government Account
- Government buys specific services but retains risk
- Fixed and movable assets typically belong to Government

PPPs

- Private Party:
 - Finances (whole or most)
 - Designs
 - Builds
 - Operates
 - Transfers
- Government purchases complete service and/or enables business
- Fixed assets belong to Government

Privatisation

- State assets sold
- State liabilities dispensed
- Government has Regulatory function only

WHY A PPP (Not PRIVATISATION)

- PPP NOT **ONLY** a FINANCING TOOL AND **NOT** PRIVATISATION
- PART OF IT – will be able to access finance as part of package
- PPP IS A **TOTAL** SOLUTION FOR AN IDENTIFIED NEED
- BUT **NOT** THE TOOL TO SOLVE ALL PROBLEMS
- PPPs: Design, build, finance and operate (DBFOT) /BOT/BOOT etc.

Institutional Capacity

INCEPTION

IMPL & Mont



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1. Reasons for the PPP procurement option
2. Progress in South Africa / projects to date
3. Regulatory environment
4. The South African PPP Unit
5. Stakeholder involvement and management
6. Lessons learnt
7. Challenges
8. Conclusion

Reasons for undertaking PPP procurement

Why Use PPPs as a Procurement Option

- South Africa as a developing country needs major infrastructure investment in support of **economic growth** and **job creation** as well as **social development**
- Government realises its shortcomings and needs private sector participation
- Governments are good at building new but not so good at maintaining the old
- Therefore the Country needs P/S to support the delivery of sustainable infrastructure development and maintenance
- It eases the pressure on the budget - Medium Term Expenditure Framework (3-year rolling)

Reasons for undertaking PPP procurement

Why Use PPPs as a Procurement Option cont'd:

- Projects should be in alignment with the responsible Department's strategic objectives and needs
- A proper business case has to be developed through the mandatory feasibility study (not always the case with conventional procurement – although the National Treasury has a requirement for mega-projects)
- Allows more CAPEX roll-out with same budget – forward looking contingent liability
- Government gets regulated in the implementation of PPPs
- **Enhancement of service delivery to end-users – NB in South Africa**
- Leverage of private party capital and expertise (Provides an incentive for on-time, on-budget infrastructure delivery)



Reasons for undertaking PPP procurement

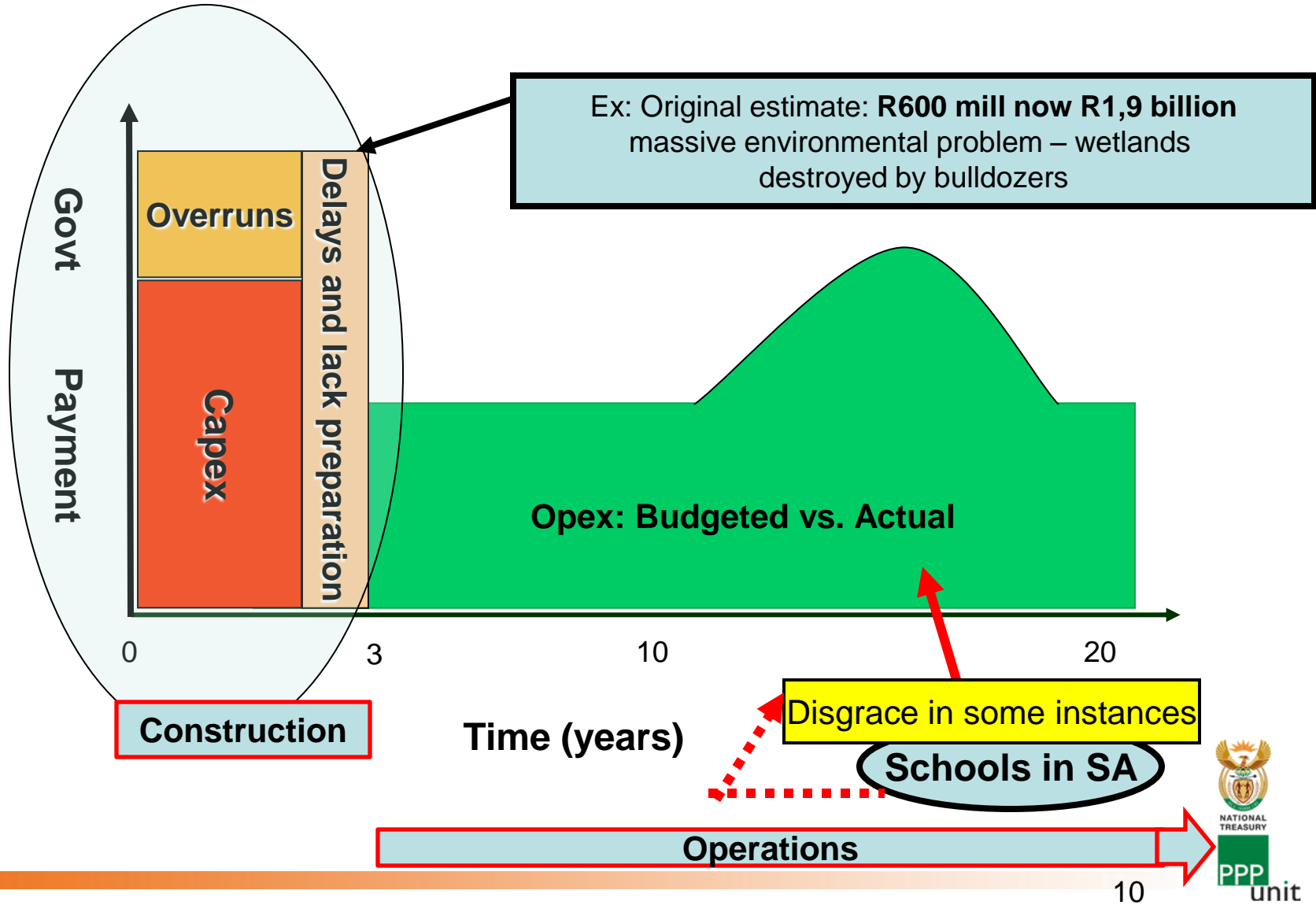
Why Use PPPs as a procurement option cont'd:

- Substantial project risk (financial, legal, technical, operational) to be transferred to the private party
- Transfer of risk is essential: demonstrates Value-for-Money – although has to be monitored throughout the life cycle of Project
- Alternative service delivery mechanism to the delivery of Economic and Social infrastructure - very important
- Enhance compliance with Black Economic Empowerment Codes (provide opportunities) and Local Economic Development i.e. job creation and small contractor development - **NB**
- Sustainable infrastructure delivery to support growth as well as ensure long-term maintenance of public infrastructure



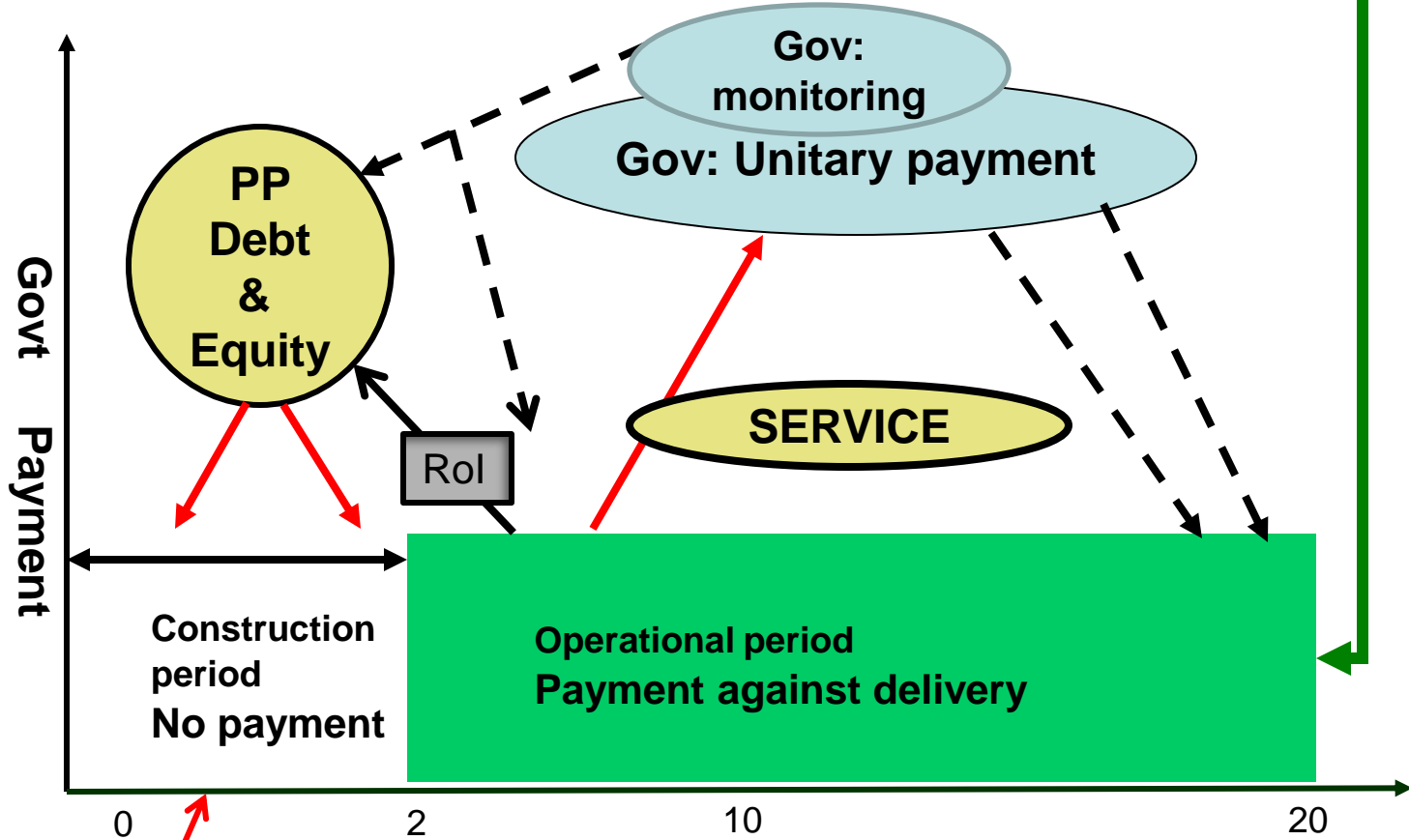
Reasons for undertaking PPP procurement

Cash flow: Conventional Gov planning procurement and maintenance



Reasons for undertaking PPP procurement

Cash flow PPP procurement - Unitary Payment example:



Within budget and time

OPEX: Cost overruns for Private Party



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South African PPP Project History and Progress to Date

- **Closed deals = 26 plus (incl of earlier deals)**
- **Investment ZAR 25 billion**
 - Health – hospitals and co-location = 6 deals
 - State vaccine = 1
 - Government Office Accommodation = 3
 - Toll Roads = 1 + 3
 - IT = 1
 - Prisons = 2
 - Water = 3 (2 distribution and 1 secondary treatment works)
 - Fleet = 4
 - Tourism = 4
 - Airport = 1
 - Etc.
- **The expected investment over next MTEF period (3 years) some R45 billion or more**



South African PPP Project History to Date

- Closed 25 PPP projects in the following sectors:
 - **Health Care**, including medical equipment installation, operation and maintenance, hospital co-location, provision of renal dialysis services, and hospital refurbishment, maintenance and operation at various hospitals
 - **Office Accommodation**, for the financing, design, construction, maintenance and operation of office accommodation facilities for government departments
 - **Toll Roads**, for commercial and tourism activities
 - **Social Grants**, for the distribution of social grants, including the accounting therefor



South African PPP Project History to Date

- Closed 25 PPP projects in the following sectors:
 - **Fleet Management**, for the provision and maintenance of motor vehicle fleets for government departments
 - **IT**, for the provision, maintenance and upgrading of IT equipment for government departments
 - **World Heritage Site**, for the design, construction, maintenance and operation of the Cradle of Humankind World Heritage Site in South Africa
 - **Rapid Rail**, for the partial financing, design, construction, maintenance and operation of a Rapid Rail system in Gauteng Province, South Africa

South African PPP Project History and Progress to Date

- **Current Pipeline:**

- Have **60** PPP projects in the pipeline (**focus for 2010/11 in red next slide**), at both the national/provincial level and the municipal level, including:
 - Office accommodation
 - Management of monies in trust – leakages a BIG problem
 - Airports
 - Correctional service facilities (prisons)
 - Emergency call centres
 - Fleet projects
 - Juvenile detention centres
 - Eco-tourism facilities
 - Public Transport (Roads and Rail)
 - Recapitization of Rolling Stock (ZAR40 Billion = USD6 billion)



South African PPP Project History and Progress to Date

- **Current Pipeline:**
- Focus for 2010/11:
- **Health sector**
 - **Clinical services**
 - **Pharmaceutical supply chain services**
 - **Hospital rehabilitation and revitalisation (5 tertiary hospitals 2011)**
 - **Secondary Hospitals, Nursing Training Colleges, Laundry and Linen, etc.**
- **Water**
 - **Municipal solid waste management**
 - **Municipal water services**
- **Energy**
 - **IPPs – Renewable Energy (15 = ZAR 40 Billion)**
 - Wind, Solar (PV and CSP), Biomass, Biogas, Landfill gas, small hydro



South Africa's Regulatory Framework for PPPs

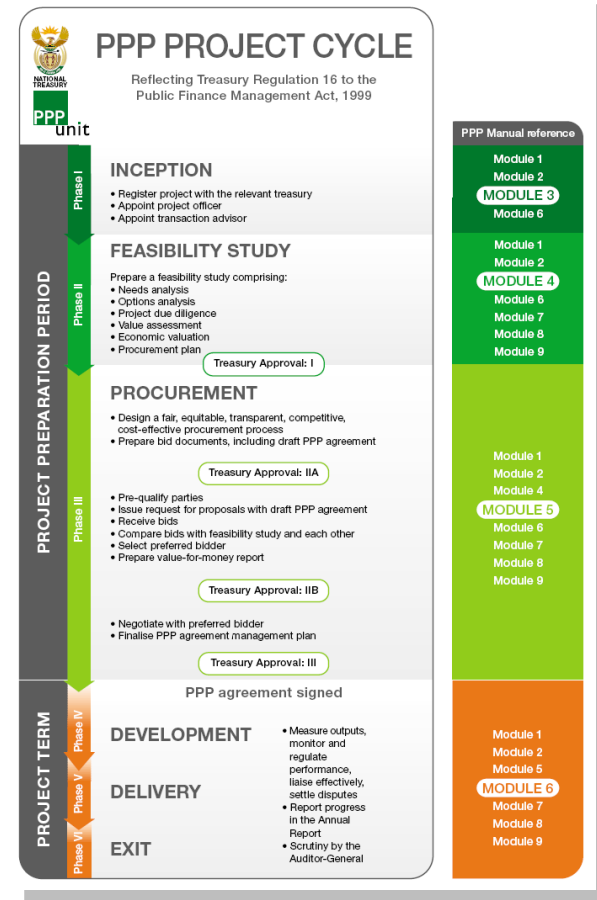
The South African Constitution provides:

- *“When an organ of state ... contracts for goods or services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective.”*
- **Public Finance Management Act**
 - PFMA Treasury Regulation 16
 - Public-Private Partnership Manual
 - Standardised Public Private Partnership Provisions
 - Public Private Partnership Toolkit for Tourism
 - Toolkit for Head Office Accommodation Projects
- **Municipal Finance Management Act**
- **Municipal Systems Act**
- Local Government: Municipal Systems Act
 - Municipal PPP Regulations
 - Municipal Service Delivery and PPP Guidelines
- **Electricity Regulations Act**



Key PPP Regulatory Features

- Three tests for a PPP:
 - **Affordability**
 - **Value for money**
 - **Appropriate risk transfer**
- Applied in a set PPP project cycle:
 - Inception
 - Feasibility
 - Procurement
 - PPP agreement management



PPP UNIT IN SA

- Pre 2000 -There were already PPPs being undertaken in a number of sectors
- Water, prisons and roads infrastructure as well as tourism – made BIG mistakes and learnt
- It has an impact on the contingent liability of the State Balance Sheet and ratings
- Absence of a policy and regulatory framework - government not deriving sufficient value for money outcomes
- Treasury not knowing the state of affairs and impacts on country rating, budget and Balance Sheet
- Strategically placed with the Ministry of Finance (National Treasury) where budgets are allocated and approved
- Also a central place to manage PPPs in the entire country



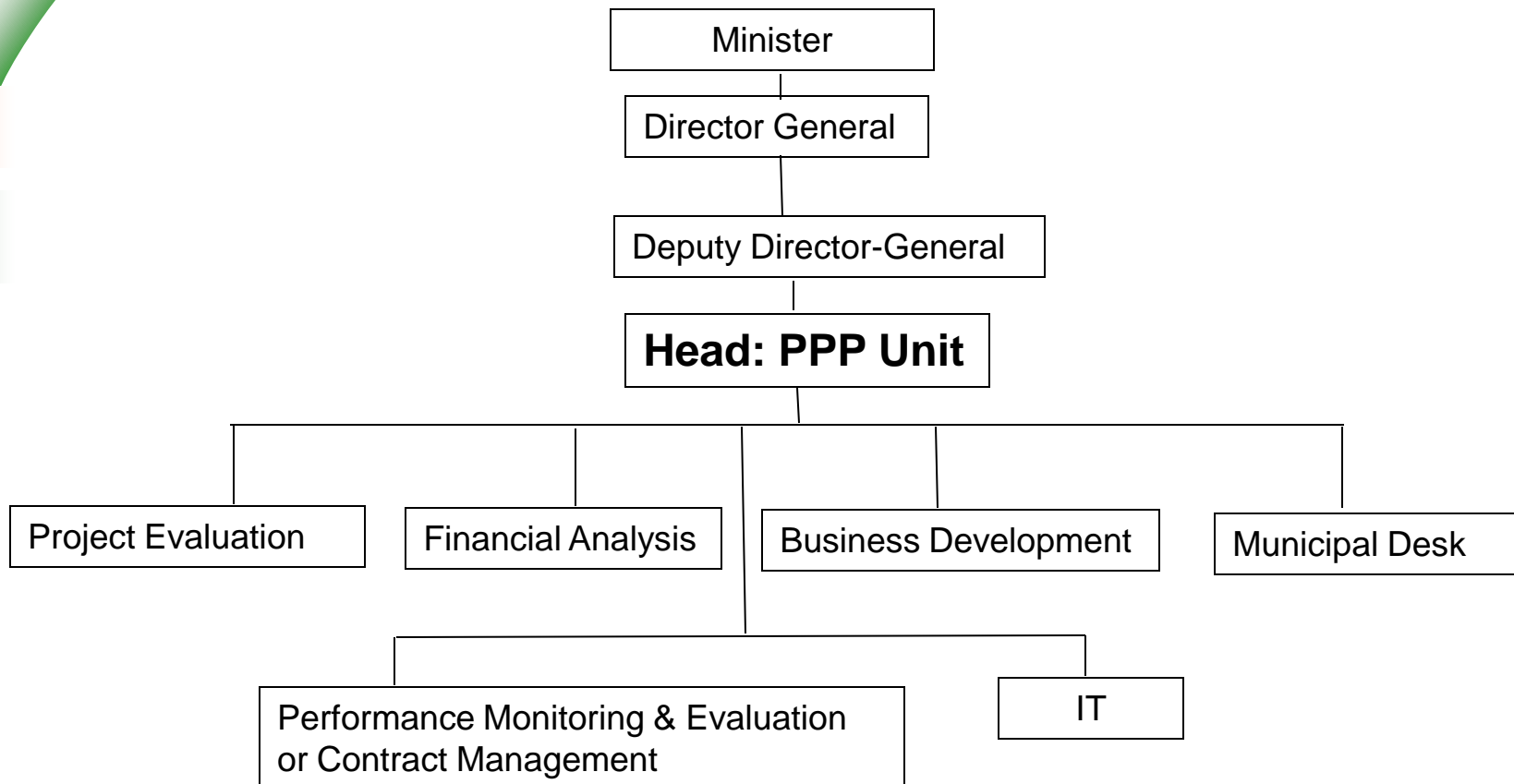
- Established by a Cabinet Memorandum in 2000
- Tasked with developing policy and amendments to the PFMA to regulate PPPs – REGULATORY FRAMEWORK NB
- Tasked to assist departments where a lack of capacity challenged infrastructure roll outs
- Key to prepare bankable projects for the market
- Reports through the Deputy Director-General: Budget Office to the Director-General and the Minister of Finance
- Head of PPP Unit is a Chief Director
- PPP Unit acts as enabler for PPPs at all levels of government by assisting departments to identify and prepare appropriate projects

PPP Unit in South Africa, cont'd

- Has both **Technical Assistance** and **Regulatory** Roles
- PPP Unit developed both the PPP policy and regulatory framework
- Developed private sector confidence in process
- Provides technical assistance on:
 - Procuring Transaction Advisors
 - Procuring Project Officers
- Support Department through project cycle
- Acts as a Regulator in terms of:
 - Approving feasibility studies to permit procurement as a PPP
 - The development and issuance of tender documents
 - The selection of the preferred bidder
 - Approving the execution of the negotiated PPP Agreement
 - Approving material variations and amendments to executed PPP Agreements
- Contract Management and risk mitigation

The PPP Unit in South Africa

Current Staffing



PPP Unit in South Africa

Interface with other stakeholders

- There is considerable, ongoing interface with other stakeholders (public **and private, MOST important**)
 - Within National Treasury
 - Public Finance, for the funding of national PPPs
 - Intergovernmental Relations for the funding of municipal and provincial PPPs
 - Development Finance Institutions
 - Budget Office – our “boss” for overall PPP Unit performance
 - The Director General, for high-level policy direction and reporting
 - The Minister
 - With other national departments
 - Many national departments are procuring head offices via PPPs
 - The Department of Public Works, which would otherwise undertake that role, is sometimes an uneasy participant
 - With State Owned Enterprises i.e. Eskom, Transnet, Water Boards



PPP Unit in South Africa

Interfaces with other stakeholders, cont'd

- With other national departments that have executed PPP agreements, to assist them with contract management issues as they arise and particularly in terms of *Variations*
- With other national departments that have service delivery responsibilities –
 - Department of Water Affairs and Forestry (water services)
 - Department of Environmental Affairs and Tourism (solid waste)
 - Department for Provincial and Local Government (local government service delivery, generally)
- With the nine (9) provinces—
 - Provinces have principal responsibility for health and education services
 - Two provinces desire to procure new legislative facilities via PPP
- With Municipalities
- **WITH THE PRIVATE SECTOR BANKS, SPONSORS AND etc.**

Lessons learnt to date:

- Regulatory Framework critical and solid legal agreements
- Political support – not privatisation i.e. asset transfer not happening – political champion
- Skilled core PPP unit – knowledge base - complex deals that takes long – BEST TEAM available
- Regulatory vs technical assistance – conflict of interest and independence
- Location of the support unit – must be strategically placed i.e. Treasury within the Budget Office
- Capacity building – i.e. long-term involvement – take advice



Lessons learnt to date:

- Pool of skilled people i.e. Project Officers – where located???
- Careful during election time – before and after
- Infrastructure evaluation Unit – Feasibility Study - Don't expect each project to end up as a PPP
- Unitary fee vs. tariffs or user fees – important to understand
- ALWAYS best team on your side – up against the P/S best teams – LARGE investment and long-term contracts
- All project should have a feasibility study
- Projects must be well-defined, well understood by all stakeholders



Lessons learnt to date:

- It is a combined effort of the Public and Private Sectors – a PPP fraternity is formed and should work together
- Understand each other - does not help to blame the other party – have to make it work
- Private and public sectors must be comfortable with the risk allocation and undertakings
- Private participants (advisors and sector participants) must increase its capacity as well – assumption that P/S has more capacity WRONG – they build capacity quicker than Public Sector
- DIVORCE catastrophic AND cost to the Country enormous – for better or for worst - positive outcome from Private Sector Involvement
- Contract Management and Contract Management Desk or Unit

Challenges to PPPs in South Africa

Challenges in South Africa

- Continuous political and top level support and leadership
- Public Sector understanding of PPPs and complexity thereof
- Capacity constraints both public (project officers; contract management) and private (advisors; sponsors)
- Timelines should be shortened – new ways of looking at the process
- Change the focus to sectors – basic services should be targeted i.e. water, electricity, health education, housing – MAKE A DIFFERENCE TO PEOPLE'S LIVES
- Competition in the funding of PPP – Debt Funding Competitions
- Increased deal flow and delivery



In conclusion:

- It is a **painful** but **very exciting** process **FULL of challenges – WORTH TRYING**
- IMPORTANT TO REMEMBER - 25% technical, 25% legal, 25% financial and 25% pure old-fashioned common sense
- Solution finding is like your daily bread and butter – problems are every where
- It contributes to the development of the Country aim in MTEF is 15% of infrastructure development
- Communicate and keep on finding the solutions to make the partnership **work**





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