Workshop on Improving the Governance of SOEs in Infrastructure Provision in the Energy Sector

5th Meeting of the SOE Network for Southern Africa
Promoting Responsible State-Owned Enterprises

26-27 November 2014
Taj Pamodzi Hotel - Lusaka, Zambia
Improving the functioning and efficiency of SOEs in infrastructure

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Reforming Energy SOEs in Turkey

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November 2014
Outline

- Energy sector in Turkey before the reform
- Reasons for the change
- Energy SOEs reform
- Recent developments
- Looking Forward
- Lessons Learned
Energy Sector In Turkey Before The Reform (1/2)

- **1963**: The Ministry of Energy and Natural Resources (MENR) was established.
- **1970**: Turkish Electricity Administration (TEK) was established.
- **1982**: Monopolistic structure of electricity generation was ended up.
- **1984**: TEK was restructured as a state-owned enterprise.
■ **1984**: Various private sector participation models were put into practice. (BOT, TOOR)

■ **1993**: TEK was incorporated into privatization plan and split into two separate SOEs (Turkish Electricity Generation Transmission Co. (TEAS) and Turkish Electricity Distribution Co. (TEDAS)).

■ **1994**: The Constitutional Court of Turkey decisions

■ **1999**: Build Operate and Own (BOO) Law was enacted.
Reasons For The Reform

- The rapid growth in electricity demand
- Fiscal problems
- Planning and operational inefficiencies
- Risk of monopoly abuse
- International Best Practice
Reform Steps

- **2001**: Electricity Market Law (EML, No. 4628)
- **2001**: Electricity Market Regulatory Authority (EMRA) was established.
- **2001**: Natural Gas Market Law (NGML, No. 4646)
- **2003**: Petroleum Market Law (PML, No. 5015)
- **2005**: Liquefied Petroleum Gas Market Law (LPGML, No.5307)
Electricity Market Law

- Restructuring

- Market Opening and Market Design
- Privatization
- Independent Regulator
Market Design Proposed in Law Nr. 4628

Production | Transmission | Wholesale | Retail Sale | Distribution 21 private companies

EÜAŞ HYDROS

PRIVATE COMPANIES

TETAŞ

PRIVATE RETAIL SALE COMPANIES

Consumers
Composition of Electricity Generation as of 2013

Electricity Generation as of 2013

- Autoproducers: 6%
- TOOR: 2%
- Other Private Generation Co.: 35%
- EUAS: 33%
- BO: 18%
- BOT: 6%

The Undersecretariat of Turkish Treasury
Composition of Electricity Wholesale and Distribution as of 2013

**Electricity Wholesale**
- TETAS: 47%
- Other private wholesale co.: 53%

**Electricity Distribution**
- Private: 100%
Energy Chain in Turkey

TTK, TKİ

Coal

Natural gas

EÜAŞ
(Hydros+ Thermal)

BOT
BOT
TOOR

Natural gas

Other private electricity generation companies

Natural gas

BOTAS

Electricity Market Balancing ve Settlement Mechanism

Distribution Companies (Private)

Captive (or non-eligible consumers) (< 4.500 kWh/year)

Retail Sale Companies (Private)

Eligible consumers (> 4.500 kWh/year)
Recent And Ongoing Regulation Studies Regarding SOE System In Turkey

- 2014 : Internal control and internal audit
- 2015 : Change in Decree Law (Draft)
  - Aims to Compliance with Guidelines on Corporate Governance of SOEs
- 2015 : Ownership policy document (Draft)
- 2015 : External audit
Looking Forward

- Contributing to decrease current account deficit by decreasing dependency on energy import
- Ensuring security of energy supply
- Enhancing competitive business friendly investment environment
- Increasing energy efficiency
- Increasing share of renewable energy resources in energy supply
- Increasing share of domestic energy resources in energy supply
Lessons Learned

- Ownership
- Well designed strategy and policy documents
- Good Corporate Governance Framework
- Restructuring of SOEs
- Independent regulatory authority
- Legal and institutional framework
Thank You For Your Attention!
IMPROVING THE FUNCTIONING AND EFFICIENCY OF SOES IN INFRASTRUCTURE

MR J. H. MUPAMHANGA
DEPUTY CHIEF SECRETARY
OUTLINE OF PRESENTATION

1. Background on SOEs Reform
2. Objectives of reform
3. Pillars of SOEs Reform
4. Initiatives Towards corporate governance reform
5. State of Infrastructure Provision
6. Infrastructure for Regional Integration and Economic Development
7. Country Experience on Energy Sector Efficiency Enhancement Reform
9. The Regulatory Framework for Bidding and Procurement in Infrastructure Sector
BACKGROUND ON SOEs REFORM

• Southern African economies need to undertake SOEs reform programmes that are aimed at improving the efficiency of these key economic enablers.

• Well performing SOEs are critical in the enhancement of the country’s overall economic competitiveness as well as in ensuring effective delivery of goods and services.
Zimbabwe has been implementing reform dating back to the 1994 under the National Planning Commission and other developmental agencies.

Currently the Corporate Governance and Delivery Agency and the State Enterprises Restructuring Agency (SERA) are the key Government Arms for SOEs reform.
Reform Objectives

• The objectives of reform were intended to achieve the following major results:

✓ A paradigm shift in corporate governance of SOEs;
✓ Capital for the recapitalization of SOEs;
✓ Access to globally competitive technology and expertise;
Reform Objectives

- Enhanced efficiency and effectiveness in the SOEs sector;
- Development of critical infrastructure projects through private sector participation;
- Wider indigenous participation in the economy; and
- Reduced burden on the fiscus.
PILLARS of SOEs REFORM


• Public Sector Reform.

• National Corporate Governance Policy Framework.
Constitution of Zimbabwe
Amendment (No.20) Act. 2013

• Section 9 of the Constitution stipulates the need for Good Governance in all institutions and agencies of Government and it provides for the:

✓ Adoption and implementation of policies and legislation to develop efficiency, competence, accountability, transparency, personal integrity and financial probity in all institutions and agencies of the Government
Constitution of Zimbabwe Amendment (No.20) Act. 2013

✓ Promotion and maintenance of high standard of professional ethics;

✓ Promotion of efficient, economical and effective use of resources must be promoted.
Public Sector Reforms

• The Government has outsourced experts in public sector reforms including SOEs corporate governance reforms.

• The Government has also established a Cabinet Committee on Parastatal Development (CCPD).

• To date initiatives towards corporate governances are being implemented in earnest.
INITIATIVES TOWARDS CORPORATE GOVERNANCE REFORMS

• The Government has affirmed its commitment to undertake corporate governance reform as evidenced through the:

  ✓ Proposed Codification of the Corporate Governance Framework;
  ✓ Corporate Governance and Remuneration Policy Framework for Chief Executive Officers of Parastatals, State Enterprises and Local Authorities;
  ✓ Code of Conduct for SOEs Board and Management;
INITIATIVES TOWARDS CORPORATE GOVERNANCE REFORMS

✓ National Monitoring and Evaluation Policy;

✓ National Code of Corporate Governance in Zimbabwe to be launched on the 17th of December 2014;

✓ Establishment of a Corporate Governance and Delivery Agency within the Office of the President and Cabinet to coordinate and monitor compliance with the Corporate Governance Framework and the National Code of Corporate Governance in Zimbabwe.
The Code of conduct for SOEs Board and Management provides for the following among others:

- Appointment of board of directors to reflect regional and gender balance as well as competence;
- Signing of performance contract between the Ministers and Board, and between Board and Management;
Code of Conduct for SOEs Board and Management

✓ Board meeting and annual general meetings;
✓ Establishment of critical board committees;
✓ Employment of CEOs on performance contract; and
✓ Determination of CEO conditions of services.
STATE OF INFRASTRUCTURE PROVISION

• The coverage and quality of the basic infrastructure of the country was among the best in the region in the early 1990s (African Development Bank, 2011);

• A protracted period of economic decline has however led to the deterioration of the key infrastructure assets.

• The country is in the process of rehabilitating the existing infrastructure assets and the recovery of utility services through the implementation of the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZimAsset).
INFRASTRUCTURE FOR REGIONAL INTEGRATION AND ECONOMIC DEVELOPMENT

• The need for quality infrastructure in Zimbabwe is a regional imperative.

• This against the background that any bottle neck in the provision of infrastructure by an SOE in the country will impact negatively to the socio-economic well being of our neighbors.

• Zimbabwe is a hub for freight both by rail and road to the SADC region through the Beitbridge border post.
• Regional cooperation in the power sector through electricity transmission network and its active role in the Southern Africa Power Pool.

• Zimbabwe through the National Oil Infrastructure Company has the capacity to hold in excess of 360 million liters of fuel and allow other SADC members to have access to cheaper and convenient supply.
COUNTRY EXPERIENCE ON ENERGY SECTOR EFFICIENCY ENHANCEMENT REFORMS

• Since 1985 to 2002, the Electricity Sector Industry (ESI) the Zimbabwe Electricity Supply Authority (ZESA) has been the sole power producer in the country.

• However, in 2002, two new Acts were enacted, namely, the Electricity Act (Chapter 13:19) and, Rural Electrification Fund Act (Chapter 13:20).
COUNTRY EXPERIENCE ON ENERGY SECTOR EFFICIENCY ENHANCEMENT REFORMS

• The Rural Electrification Fund Act, provided for the establishment of Rural Electrification Agency was established (REA) to implement the Rural Electrification Programme.

• The Electricity Act spearheaded the restructuring and unbundling of ZESA from into five (5) separate successor companies under ZESA Holdings.
COUNTRY EXPERIENCE ON ENERGY SECTOR EFFICIENCY ENHANCEMENT REFORMS

• The companies included: Zimbabwe Power Company (ZPC), Zimbabwe Electricity Transmission Company (ZETC), Zimbabwe Electricity Distribution Company (ZEDC), Powertel and ZESA Enterprises.

• The Transmission and Distribution Companies were later re-bundled/merged to form the current Zimbabwe Electricity Transmission and Distribution Company.
Objectives of Unbundling

• The unbundling of ZESA was meant to achieve the following objectives:

✓ Improve efficiency through creation of focused and specialized subsidiaries;

✓ Separation of core business from non-core business;
Objectives of Unbundling

✓ Creation of value for the ZESA group through pursuance of non-core, ventures that support the electricity industry;

✓ Promote private investment in Power Generation through Independent Power producers who would complement ZPC power generation efforts through creation of an Independent Regulator.
• Following the initial unbundling of 2002, ZPC was further split into ZPC Kariba and Hwange Thermal Power Stations.

• ZPC Kariba as a standalone entity has managed to generate profit.

• Government is now focusing on revamping Hwange Power Station through the EPC arrangement.
ENERGY SECTOR REGULATORY ENVIRONMENT

• The electricity and petroleum sectors are regulated by the Zimbabwe Energy Regulatory Authority (ZERA).

• ZERA was created in September 2011 following the promulgation of the Energy Regulatory Act (Chapter 13:23) which provides for regulation of the energy sector.
ENERGY SECTOR REGULATORY ENVIRONMENT

• The Energy Regulatory Act repealed some sections especially those related to the formation of the regulatory institutions in the Electricity Act (Chapter 13:19) and Petroleum Act (Chapter 13:22).

• This provision consequently led to the dissolution of the Zimbabwe Electricity Regulatory Commission (ZERC) which was created under the Electricity Act 0f 2000.
The Regulatory Framework for Bidding and Procurement in Infrastructure Sector

• The regulatory framework for bidding and Procurement for Infrastructure in Zimbabwe, is guided by the following statutes and instruments:

  ✓ State Procurement Act (SPB) (Chapter 22:14) which provides for tender procedures and award of contracts; and

  ✓ PFMA (Chapter 22:19) which provides for Loans, guarantees and other commitments.
The Regulatory Framework for Bidding and Procurement in Infrastructure Sector

• There is however need to reform the State Procurement Board (SPB).

• The process of reforming SPB have started in earnest and the funding have since been secured.
THANK YOU!!
Fifth meeting of SOE Network for Southern Africa
Promoting Responsible State-Owned Enterprises
improving the functioning and efficiency of SOE in Infrastructure
Kelvin Chitumbo
Taj Pamodzi Hotel, Lusaka, Zambia
27th November 2014
Ensuring Better Services and Fair Value

Main focus of regulator

- **Consumer satisfaction**
  - Access for all / poor
  - Minimum service level
  - No discrimination and excessive tariffs
  - Correct information
  - Promote awareness

- **Providers efficiency**
  - Can finance functions
  - Avoid unjustified costs
  - Promote efficiency gains
  - Respect standards
  - Optimised investments - no ill-considered etc.

- **Sector Development**
  - Avoid capital drain
  - Fight corruption
  - Avoid cartel building
  - Curb unjustified price-transfer
  - Promote investment
  - Promote competition

New rules after Decentralisation/Commercialisation/Privatisation

- Central and local Government: No interference in management of provider (public or private)
- Consumers: Private and Public have to pay for services to recover justified costs
- Providers: No subsidies from outside in the long run
The Water & Sanitation Sector
What is Happening

Induce Competition Cus & MD performance

Performance Incentives As a way of management

Develop Guidelines CG, NRW, Tariff

Regulation by incentives

Tariff setting process

Gross incompletion Suspension of licence

Ensuring Better Services and Fair Value

Nwasco
NATIONAL WATER SUPPLY AND SANITATION COUNCIL
Ensuring Better Services and Fair Value

Corporate Governance

Accountability beyond tenure
For neglect

Information management on
Asset management

Challenges

Asset management must be Multidisciplinary approach in implementation

Long term view (planning) of Asset management
Vs “emergency”

Coordination with other stakeholders

Ensuring Better Services and Fair Value
Boosting private sector participation in energy service provision

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PETROMOC, S.A.

BOOSTING PARTICIPATION IN ENERGY SERVICE PROVISION
PETROMOC: WHO ARE WE

- Incorporated May 01, 1977
- 80% owned by the State
- Core business: midstream & downstream
  - Largest supplier of liquid fuels in Mozambique (43% market share)
  - Owns and operates the largest storage network
  - Owns and operates the largest and widest retail network
- Our targeted market / product segments include:
  - Regional consumption and strategic reserve
  - Wholesale
  - Retail & B2B
  - Petroleum products ranging from gasoline, diesel and JET A1
- 2nd largest company by revenues (KPMG 100, 2013)
STRATEGIC FOCUS

Portfolio Diversification

- Development of unregulated markets in Storage, bitumen, lubricants, JET, etc
- Production and Distribution of Alternative Energy sources – bio fuels
- Development of new markets in the region

Focus on Midstream

- Develop infrastructure (storage, regional pipelines)
- Invest in GTL, Methanol, LPG
- Explore other opportunities in the petrochemical industry

Development our asset portfolio in core business areas to leverage the opportunities
PETROMOC’s POSITION IN THE MOZAMBICAN ENERGY SECTOR

**Importation**
- **IMOPETRO:**
  - Regulated Market
  - Restricted Domestic Importation (tender each 6 months–FOB med Italy)
  - Petromoc and other traders can import for re-exportation

**Production**
- Future activities (Potential)

**Transportation**

**Storage**

**Distribution**

**Exportation**
- Refined products - Actual Activity
- LPG, GTL, CTL, MTG and other Petrochemicals
- Future activities (Potential)

**Retail**

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**OIL AND GAS DOWNSTREAM**

- Ministry of Energy
- Equal treatment to all Majors
- Downstream Law 45/2012
- Regulation of petroleum operations 24/2004
- Tax incentives of mining and petroleum activities 13/2007

**Regulation**
- Petroleum operations 24/2004
- Tax incentives of mining and petroleum activities 13/2007

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**Future activities (Potential)**
CHALLENGES OF A ENERGY SOE IN THE SADC REGION

- Be a National Oil Company (NOC)- keep the country wet and policy objectives VS profitability

- Dependent on importation of refined products, and the need to generate substitutes, reduce trade deficits, increase energy security, reduce impact of market fluctuation on the local economy

- Access to sources of funding to support massive construction of critical infrastructure for the country – pipelines, storage, strategic reserves

- Exposed to Currency risks, and price volatility in the international market, yet, no changes on domestic prices. How to cope with challenging financial situation

- Skills, technology and knowledge to transform the energy sector and intensify industrialization
PARTNERSHIPS
The key for boosting private sector participation in energy service provision

Partnerships has been the key way for Petromoc to access the necessary resources, and also contribute to transfer technology, sharing skills, knowledge, experiences, and share markets and risks.

Several examples of what we have done in partnership:
Storage facilities. Fuel Transportation services. Biofuels production. Retail network. Regional penetration (Zimbabwe). Distribution and marketing of CNG. Cars Assembly
CHALLENGES TO SOE/PRIVATE partnerships

- Clear roles for each party, with clear synergies between the parties. Just like in any M&A, the partnership only works if the parties add value to each other

- Unmatched objectives between SOE and partner

- Unmatched calendars and timelines – SOEs look at the very long term Vs the short term profit requirements of private entities.

- Unbalanced skills and lack of common language – some private institutions lack knowledge of how SOEs function, and SOEs lack in general the entrepreneurial spirit and DNA of a private enterprise.

- Arrogance and overreliance on dominant position and government relations (by SOE) or arrogance and sense of inevitability and supremacy stemming from financial might (multinationals)

- No alignment between SOE stated objectives and Government objectives, making PPP difficult to develop and sustain. Add to that multiple subordination of the SOE, multiple shareholder representative and governance regime that complicates strategic clarity

- Untested Rule of law, infant institutional framework/weak institutional environment, that prevent strong PPPs with little interference and noise from political processes

- Fiscal and price regimes that are not conducive to good returns, and reduction of risks
LESSONS

- Strong cohesion between SOE and government – sharing, joint planning, agreeing.

- Clear, written mandate from Government in specific issues, making it easier for SOE to close deals. Eg: Government of Mozambique gave to Petromoc mandate to be Biofuels promoter

- SOE needs to be given full authority in its area of activity, operating with same freedom of strategic decision making as its counterpart in the private sector. Only this way can they close partnership's and make them happen.

- Government needs to give full support in terms of guarantees and others, required by private entities

- Government needs to be clear on the role it wants to play in the economy, and come to terms with the notion that PPPs are the best solution to infrastructure problems in Africa, and that even governments must be subject to the rule of law.

- Private entities need to understand the long term aspirations of the Government, and the SOE, and understand their decision-making processes, and their DNA

- SOEs need to master the instruments used by private entities, to ensure they talk the same language and share the same way of approaching difficult projects and issues

BUT ALL IN ALL, WE AFRICANS KNOW BETTER:
IF YOU WANT TO GO FAST, GO ALONE.

IF YOU WANT TO GO FAR, GO WITH COMPANY
(African proverb)

THANK YOU.
SADC PPP Network

PPPs in SADC

Kogan Pillay

Head: SADC PPP Network

SoE Network

Using the Private Sector to Enhance the Efficiencies of SoE’s

Lusaka, Zambia November 27th

SADC DFRC, Botswana
Substantial power supply limitations in South Africa
Currently massive load shedding all over the country
Conservative estimates show loss of investment of well over $4.5 billion since 2008
Eskom is not coping
Cost of power is increasing exponentially
Driving up inflation
Driving up cost of doing business
Driving losses to existing businesses
» IPP Renewable holds massive potential
» 10,000 GWH potential
» 3,725 megawatts currently required to stabilize energy supply
» IPP’s good for transfer of risk to private producers
» Cost of infrastructure generally borne by private finance and some DFI contributions to funding
» Government responsible for contracted upon megawatt production
» Government takes risk to pay for agreed upon megawatts through independent body
» Lessons: Introduction of competitive bidding
» Streamlining of procurement process
» Standardization of PPA’s prior to procurement – substantially lower bidding costs
» Short time to financial close
» Shorter time to megawatts becoming available to the grids
» Still single offtaker
» Creates room later for competition with SoE
» Is this a good thing? Discussion point!
For more information

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www.sadccpppnetwork.org
DEFINITION OF A PPP

• A PPP – A PUBLIC PRIVATE PARTNERSHIP – IS A CONTRACT BETWEEN A PUBLIC SECTOR ENTITY & A PRIVATE SECTOR ENTITY WHERE THE LATTER PERFORMS A PUBLIC ENTITY FUNCTION PER OUTCOMES-BASED SPECIFICATIONS, FOR A FEE, AND FOR A SPECIFIC PERIOD OF TIME.

• IT INVOLVES SUBSTANTIAL RISK TRANSFER TO THE PRIVATE SECTOR & THE PUBLIC SECTOR RETAINS A SIGNIFICANT ROLE AS EITHER THE PURCHASER OR ENABLER OF THE SERVICES BEING PROVIDED.
• VARIANTS OF PPPS
• • DESIGN–BUILD (DB)
• • DESIGN–BUILD–MANAGE (DBM)
• • DESIGN–BUILD–OPERATE (DBO)
• • DESIGN–BUILD–OPERATE–MAINTAIN (DBOM)
• • BUILD–OWN–OPERATE–TRANSFER (BOOT)
• • BUILD–OWN–OPERATE (BOO)
• • DESIGN–BUILD–FINANCE–OPERATE OR MAINTAIN (DBFO, DBFM, DBFO/M)
• • PUBLIC SOCIAL PRIVATE PARTNERSHIPS (PSPP)
• • SERVICE CONTRACTS
• • PUBLIC PRIVATE DEVELOPMENT PARTNERSHIPS (PDP)
• • MANAGEMENT CONTRACT
• • CONCESSION
• • DIVESTURE
• • COOPERATION BETWEEN PRIVATE FOUNDATIONS (EG. HIV–AIDS, TUBERCULOSIS, MALARIA, NEW AND RARE DRUGS ETC) & PUBLIC SECTOR
SERVICE CONTRACT

• THE PUBLIC ENTITY PAYS A FEE TO A PRIVATE ORGANISATION TO PROVIDE SPECIFIC OPERATIONAL SERVICES SUCH AS:

  • METER READING
  • BILL COLLECTION
  • GARBAGE COLLECTION

• TYPICAL DURATION – ONE TO THREE YEARS
OVERVIEW OF INSTITUTIONAL FRAMEWORK

- WE DO NOT SEEM TO HAVE A CLEAR INSTITUTIONAL FRAMEWORK IN MOST COUNTRIES

- GUIDED BY EXISTING LAWS

- TRANSPARENCY CHALLENGES
FORMS OF PPPS

• SERVICE CONTRACT
• MANAGEMENT CONTRACT
• LEASE CONTRACT
• CORPORATISATION
• CONCESSION
• BUILT OPERATE TRANSFER, BUILT OPERATE OWN TRANSFER
• FULL PRIVATISATION
MANAGEMENT CONTRACT

• A PRIVATE SECTOR ORGANISATION ASSUMES OVERALL RESPONSIBILITY FOR THE OPERATION AND MAINTENANCE OF A SERVICE DELIVERY SYSTEM, WITH THE FREEDOM TO MAKE DAY-TO-DAY MANAGEMENT DECISION.

• TYPICAL DURATION: 5 YEARS.
OUTSOURCING

• A TYPE OF MANAGEMENT CONTRACT WHEREBY THE PRIVATE SECTOR MANAGES AND OPERATES A PARTICULAR ACTIVITY AND IN ADDITION MAY BE TASKED TO PROVIDE CAPITAL INVESTMENT, IN EXCHANGE FOR A FEE BY WHICH IT IS COMPENSATED FOR ITS MANAGEMENT EFFICIENCIES AND BY WHICH IT RECOUPS ITS FINANCIAL INVESTMENT.

• DURATION: VARIES, BUT MINIMUM FIVE YEARS.
LEASE CONTRACT

• PRIVATE SECTOR ORGANISATION LEASES FACILITIES FROM A PUBLIC SECTOR ENTITY AND ASSUMES RESPONSIBILITY FOR OPERATION AND MAINTENANCE.

• LESSEE RESPONSIBLE FOR WORKING CAPITAL AND REPLACEMENT OF CAPITAL COMPONENTS.

• TYPICAL DURATION OF CONTRACT: 10 YEARS.
CORPORATISATION

• A DEPARTMENT OF A PUBLIC ENTITY BECOMES A RING–FENCED COMPANY, UNDER AN ACT OF PARLIAMENT – A PARASTATAL.

• PUBLIC ENTITY IS SOLE SHAREHOLDER.

• CORPORATE STATUS ENHANCES BORROWING CAPACITY.

• DURATION: UNLIMITED.
CONCESSION

• ORGANISATION HANDLES OPERATIONS & MAINTENANCE & FINANCES FIXED ASSET INVESTMENTS.

• PROJECT IS DESIGNED TO GENERATE SUFFICIENT REVENUES TO ALLOW INVESTMENT RECOUPMENT + OPERATING COSTS.

• DURATION: 15+ YEARS.
• PRIVATE SECTOR ORGANISATION FINANCES, BUILDS, AND OPERATES A FACILITY PROVIDING A PUBLIC SERVICE.

• PUBLIC ENTITY PAYS FEE, USUALLY ON A PER UNIT OF SERVICE BASIS -- MLS OF WATER TREATED.

• DURATION: 15+ YEARS.
FULL PRIVATISATION

• PUBLIC ENTITY SELLS OFF THE FACILITY TO THE PRIVATE SECTOR TO CONTINUE OPERATING AS IT SEES FIT -- OR EVEN TO DISCONTINUE THE OPERATION.

• DURATION: NA
OVERVIEW OF TYPICAL PPP PROJECT LIFE

- CONCEPTUALISATION
- INTERNAL RING–FENCING EXERCISE
- FEASIBILITY STUDY UNDER TREASURY RULES
- REQUEST FOR QUALIFICATIONS (RFQ)
- REQUEST FOR PROPOSALS (RFP)
- ADJUDICATION, NEGOTIATION, CONTRACT SIGNING.
- IMPLEMENTATION
CONCEPTUALISATION

- DRIVERS:
  - NEED CAPITAL
  - WANT TO SHED COSTLY, BUDGET-BUSTING ACTIVITIES
  - WANT TO ACCESS PRIVATE SECTOR EFFICIENCIES
  - WANT PRIVATE SECTOR EFFICIENCIES + CAPITAL

November 2014
STATUS QUO ASSESSMENT

- What do you have?
- What kind of shape is it in?
- What does it cost to operate?
- What will it cost to fix up?
NEEDS ANALYSIS

• WHAT DO YOU NEED?

• GAP ANALYSIS
• NEEDS RATIONALISATION — “RIGHT SIZING”

• WHAT WILL IT COST?
FINANCIAL ANALYSIS

- WHAT ARE YOUR AVAILABLE REVENUES?
  - CURRENT BUDGET
  - MTEF BUDGET
  - PROPOSALS/LIMITATIONS
  - OTHER REVENUE SOURCES
    - USER CHARGES
    - DONOR CONTRIBUTIONS
    - OTHER NATIONAL/PROVINCIAL SOURCES
  - COMING SOON TO PROVINCES -- TAXES
OPTIONS ANALYSIS

• THREE MAJOR ELEMENTS:
  • AFFORDABILITY.
  • VALUE FOR MONEY.
  • SUBSTANTIAL TRANSFER OF RISK.

• OTHER ELEMENTS
  • LABOUR’S LIKELY RESPONSE.
  • WILL THE PRIVATE SECTOR BE INTERESTED?
  • IS THERE POLITICAL WILL?
AFFORDABILITY

• MANY PUBLIC ENTITIES DO NOT KNOW THE COSTS TO PERFORM A PARTICULAR SERVICE.

• BUDGET ALLOCATION MAY NOT REFLECT ACTUAL COST.

• IMPORTANT TO DETERMINE WHAT THE ACTUAL COSTS ARE SO (A) THE PUBLIC SECTOR COMPARATOR CAN BE CONSTRUCTED, AND (B) PRIVATE SECTOR WILL KNOW WHAT IS EXPECTED.
VALUE FOR MONEY

• INTERESTING CONCEPT.

• BRIEFLY, IS A COMPARISON BETWEEN THE NPV OF WHAT IT COSTS THE PUBLIC ENTITY TO PERFORM THE SERVICE, AND THE NPV OF WHAT IT WILL COST THE PRIVATE SECTOR TO PERFORM THE SAME SERVICE.

• THE OTHER ELEMENTS OF AFFORDABILITY AND RISK TRANSFER ARE ALSO CONSIDERED.

• PUBLIC PERCEPTION (ARE WE PAYING MORE FOR LESS?)
RISK TRANSFER – KEY ELEMENT

• EACH PARTY SHOULD BEAR THE RISKS FOR WHICH IT IS BEST SUITED TO CONTROL.

• TYPICALLY MEANS THAT PRIVATE SECTOR MUST BEAR MOST OF THE PROJECT RISKS.

• PUBLIC SECTOR RISK SHOULD USUALLY ONLY BE TO PAY.
OPTIONS SELECTION

• CHOSE THE ONE THAT MEETS ALL THE CRITERIA.

• END IS POLITICALLY ACCEPTABLE.

• END BENEFITS EASY TO SHOW
TENDERING

- COMPETITIVE PROCESS

- TRANSPARENT
  - GOING TO TENDER
  - CLARITY ON THE SUBSTANCE AND PROCESS
  - ADJUDICATION PROCESS UNDERSTOOD BY THE PUBLIC

November 2014
MY RECENT EXPERIENCE

• MOSTLY IN ROADS SECTOR

• SOME EXPERIENCE IN THE AGRICULTURAL SECTOR

• WHAT DOES THE PUBLIC KNOW ABOUT THESE?
CHARACTERISTIC OF PPP

- The gains are easy to see but there is space for corruption.
- The costs are long term.
- The costing is fairly easy to be taken for a ride.
- We need PPPs now.
- We need a better framework for PPP implementation.