

South African Public Private Partnership Unit



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“The diverse interests of different sectors can in fact, be harnessed for the collective good. 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.”

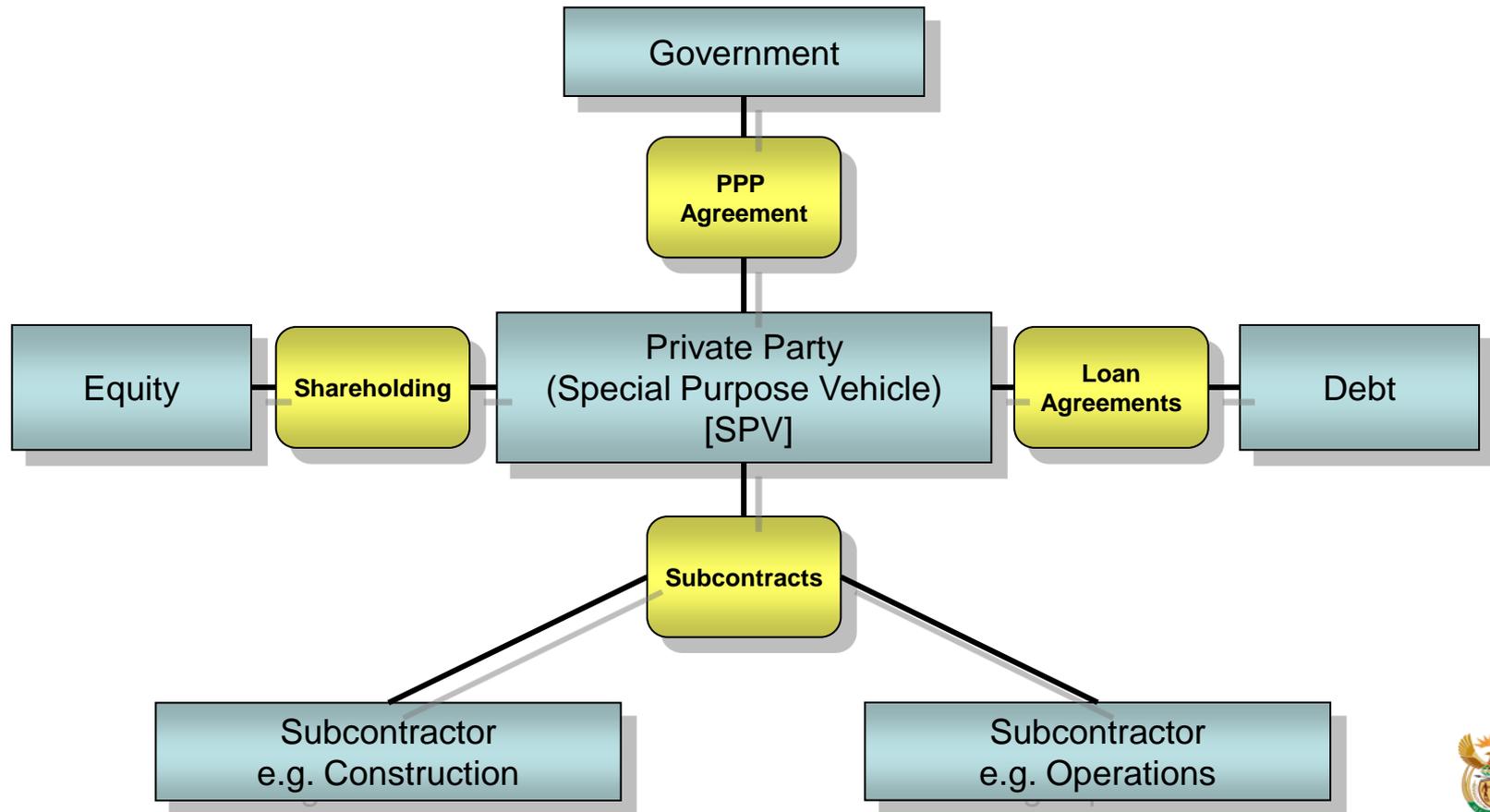
South Africa’s Minister of Finance, Trevor Manuel, August 2004

- What is a PPP
- South African Regulatory Environment
- Why PPPs
- The South African PPP Unit
- Challenges
- Projects to date
- Going Forward

A PPP is defined in South African law as:

- A contract between government institution and private party
- Private party performs an institutional function and/or uses state property in terms of output specifications
- Substantial project risk (financial, technical, operational) transferred to the private party
- Private party benefits through: unitary payments from government budget and/or user fees

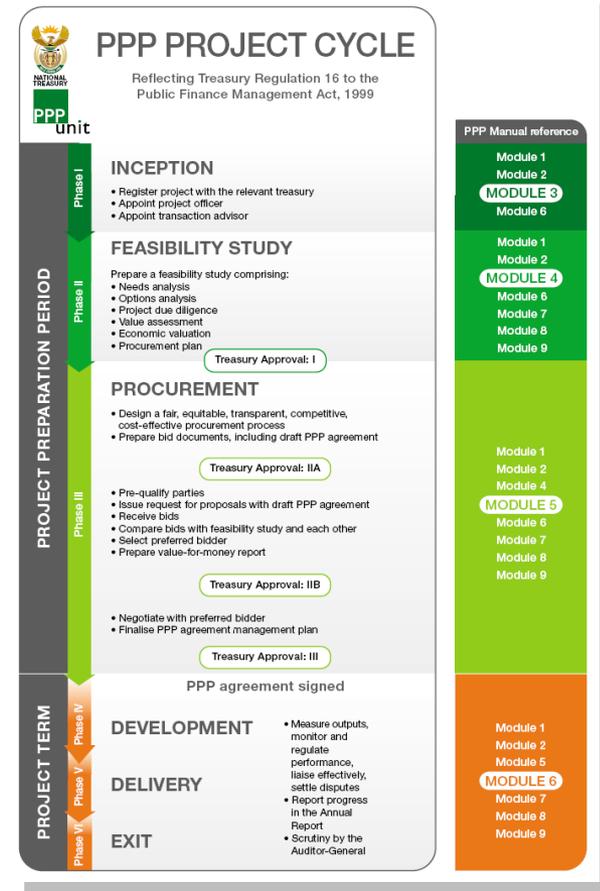
Generic Project Finance Structure for PPPs



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



Why Use PPPs as an infrastructure procurement option?

- Leverage of private party capital and expertise (Provides an incentive for on-time, on-budget infrastructure delivery)
- **Not because you don't have capital budget** (Affordable)
- Substantial project risk (financial, technical, operational) transferred to the private party
- Transfer of risk is essential: demonstrates Value-for-Money
- **Better service delivery mechanisms**
- **Long-term maintenance of public infrastructure**



Why Use PPPs as a Procurement Option cont'd:

- Ease of budgeting through South Africa's Medium Term Expenditure Framework
- Proper business case developed through the mandatory feasibility study
- Alignment with Department's strategic objectives
- Ability to act as **manager** for service delivery by private sector
- Measurement of *Outcomes* not inputs
- Enhanced service delivery to end-users
- Compliance with Black Economic Empowerment Codes



Lessons learnt to date:

- Don't expect each project to end up as a PPP
- Projects must be well-defined, well understood by all stakeholders
- Private sector must be comfortable with the undertaking
- All projects are subject to a feasibility study
- Private sector must increase its capacity as well
- Refers to both Advisors and Bidders for PPPs (Consortia also local)
- It is a combined effort of the Public and Private Sectors
- We want a positive outcome for Private Sector Involvement



South Africa's Regulatory Framework for PPPs

- 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

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.”**
- **Preferential Procurement Framework Act**



Why a PPP Unit in South Africa?

- There were already PPPs being undertaken in a number of sectors
 - Water, prisons and roads infrastructure
 - Absence of a policy and regulatory framework-government not deriving sufficient value for money outcomes
 - 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
 - Tasked with developing policy and amendments to the PFMA to regulate PPPs
 - Tasked to assist departments where a lack of capacity challenged infrastructure roll outs
- Key to prepare bankable projects for the market



PPP Unit in South Africa

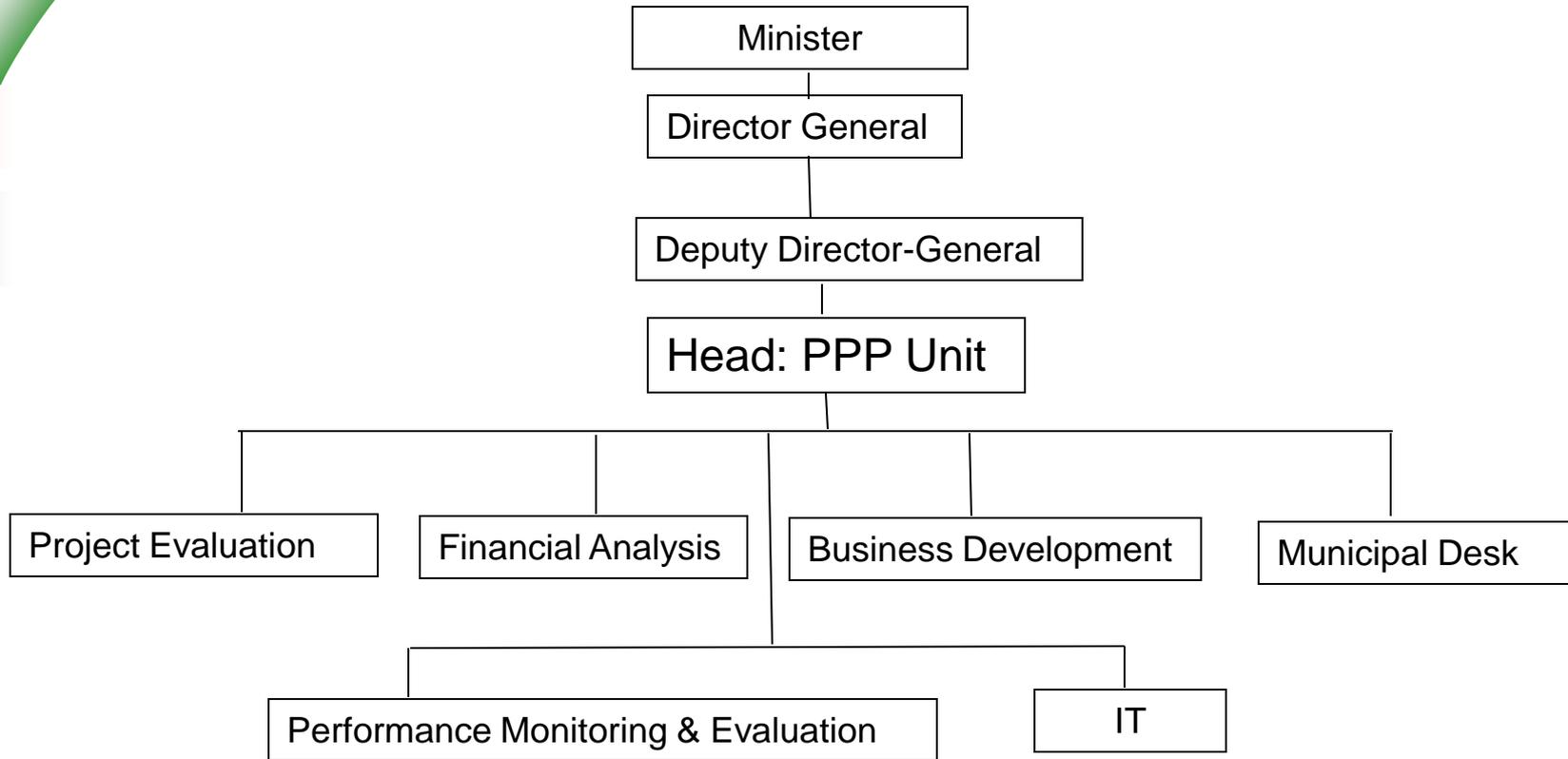
- Established by a Cabinet Memorandum in 2001
- A division of the Budget Office Directorate in National Treasury
- Reports through the Deputy Director-General: Budget Office to the Director-General and the Minister of Finance
- Head of PPP Unit is a Chief Director
- PPP Unit acts and enabler for PPPs 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 policy and regulatory framework for PPPs –Developed private sector confidence in process
- Provides technical assistance on:
 - Procuring Transaction Advisors
 - Procuring Project Officers
- 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

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
 - 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



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



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Challenges to PPPs in South Africa

- Political and top level support
- Public Sector understanding of PPPs
- Capacity constraints both public (project officers; contract management) and private (advisors; sponsors)
- Competition in the funding of PPP – Debt Funding Competitions
- Increase deal flow



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Challenges – Financial crisis

- Impact of the financial crisis on projects in procurement.
 - SA banks protected to a certain extent
 - Syndication market contracted
 - Shorter tenors
 - Liquidity cost higher
- NT Response
 - Government willing to take more risk to drive value for money
 - Reduce underwriting requirements
 - Debt Funding Competitions for non underwritten portions
 - Shorter tenors
 - Compulsory Refinancing – government risk vs. benefits
 - Floating vs. Fixed pricing until commercial close
 - Reset of prices allowed within validity periods - except credit margin
 - Approaching development financing institutions to provide support at municipal and provincial level e.g. DBSA
 - Providing significant capital grants or contributions to public sector PPP sponsors to reduce the amount of debt in deals



PPP Project History to Date

- By the end of 2008, the South African PPP Unit had some 60 PPP projects in the pipeline, at both the national/provincial level and the municipal level, including:
 - Office accommodation
 - Management of monies in trust
 - Clinical services
 - Airports
 - Correctional facilities (prisons)
 - Emergency call centres
 - Fleet
 - Pharmaceutical supply chain services
 - Hospital rehabilitation
 - Juvenile detention centres
 - Provincial legislature
 - Eco-tourism facilities
 - Public Transport and Roads
 - Municipal solid waste management
 - Municipal water services



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PPP Unit in South Africa

Prospects for the future

- Prioritising service delivery projects and key sectors such as health and education; water and sanitation
- There will be elections for a new President of South Africa this year, which could affect the way forward
- In late 2008, the PPP Unit received an award from *African investor* magazine for the Infrastructure Regulation Initiative of the Year, which has highlighted our efforts in terms of promoting PPPs.

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