

# THE DEDICATED PPP UNIT OF THE SOUTH AFRICAN NATIONAL TREASURY<sup>1</sup>

by

Philippe Burger<sup>2</sup>

After the first democratic election in South Africa in 1994, the South African government set about reforming the approach of government towards the management of state assets. It did this in a manner that can best be described by what Flinders (2005:216) calls the increasing use of institutional hybridity and a move from *government to governance*. This approach towards state assets is broader than just privatisation (Department of Public Enterprises 2005a). It includes (Department of Public Enterprises 2005b):

- Concessions;
- Strategic equity as well as management partnering;
- Public-Private Partnerships;
- Privatisation (partial and full);
- Flotation of SOEs (initial and secondary); and
- Securitisation.

Thus, the restructuring and management of state assets also includes the use of Public-Private Partnerships (PPPs). At the heart of the South African PPP structure is the National Treasury's PPP Unit constituted in 2000. This dedicated PPP unit plays a key role particularly in the creation of PPPs where it has the final authority in the approval of PPP agreements. It has this authority even though the initiative and ultimate management of PPP agreements originates and rests with individual government departments and provinces. This paper explores the role of this unit in the South African context. It commences with a discussion that highlights the theoretical rationale for PPPs and in particular for having a dedicated PPP unit. This is

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<sup>2</sup> Department of Economics, University of the Free State, South Africa.

followed by a brief history of PPPs and the dedicated PPP unit in South Africa, whereafter the discussion turns to the role and operation of the unit itself as well as its future challenges.

## **1) The rationale for PPPs**

Though the PPP concept is often confused with privatisation proper, it shares a commonality with privatisation in that PPPs also entail the introduction of private sector management and/or ownership of what traditionally has been the sole preserve of government. A PPP is an institutional and contractual partnership arrangement between government and a private sector operator to deliver a good or service to the public, with as distinctive elements (Fourie and Burger 2000):

- A true partnership relationship (i.e. alignment of objectives through the alignment of the incentive structures facing the public and private partners); and
- A sufficient amount of risk transfer to the private operator to ensure that there are sufficient incentives for the private operator to operate efficiently. This entails that risk is allocated to the party best suited to carry it.

The main rationale to use PPPs is the perceived efficiency of the private sector and inefficiency of the public sector. In terms of economic literature three kinds of efficiency can be distinguished: allocative efficiency (i.e. the use of resources so as to maximise profit and utility), technical efficiency (i.e. minimum inputs and maximum outputs), and X-efficiency (i.e. preventing the wasteful use of inputs) (Fourie and Burger 2000:697). The perceived efficiency that the private sector brings to a PPP agreement refers especially to technical and X-efficiency. Companies are driven to be technically and X-efficient by the technical, operational and financial risk that they carry. These are mostly supply-side risks. The perception that private sector participation brings improved efficiency seems to be vindicated by experience in, for instance, the UK where Hodge (2004:38) cites studies that indicate that

government departments that implemented PPPs registered between 10% and 20% in cost savings. In addition, Gosling (2004:232) notes that according to the UK's National Accounting Office 76% of PFI deals are constructed on time, while in the case of projects completed under conventional procurement it is only 30%. In terms of projects constructed to budget the figures are respectively 78% and 27%. Also in South Africa PPP projects in general are constructed in time and early indications are that these projects yield the expected cost-saving and value for money benefits (Dachs 2006).

Instead of fully privatising the delivery of a good or service, government could enter into a PPP agreement if the good or service to be delivered is a public good or a good characterised by an externality. Public goods or goods characterised by externalities suffer from the free-rider problem, which means that demand is not fully revealed, causing private companies not to be able to estimate the future demand for the good. As such, government may need to estimate the full social demand, so as to either supply in the demand itself, or to reveal it to a private producer who then supplies to government. Through this action government is supposed to improve the allocative efficiency of the goods or services delivered. If government uses a private producer to deliver the good or service, it usually pays the private operator who delivers the service fully or augments the user fee that the private operator levies by an additional amount. Note that in the absence of a free-rider problem, when the good is a private good, demand is fully revealed, enabling a private company to estimate demand and subsequently, to carry the demand risk involved. In such a case privatisation instead of a PPP may be the best mode of delivery.

In the case where a good is a public good or a good characterised by an externality (so that demand-side risk is present), the choice between delivery through a PPP or by government itself, depends first on the ability of government to transfer sufficient supply-side risk to the private operator, and secondly on the level of competition or contestability facing a private operator (Grimsey and Lewis 2005:347; Hodge 2004:39-40; Fourie and Burger 2000:708-14). These two conditions ensure that the private operator behaves technically and X-efficient. In the absence of these two conditions, private

sector delivery may not necessarily be more efficient, whereas its costs, such as interest cost and the profit it has to pay to its shareholders, may cause the cost of delivery through a PPP to exceed that of government delivery (cf. Fourie and Burger 2001:159-60 and Grimsey and Lewis 2005:351). Indeed, Hodge cites the UK study of Anderson and LSE Enterprise of 2000 that indicates that 60% of cost saving in the PFI projects it examined took place as a result of risk transfer, while for six of the 17 cases examined value for money depended completely on risk transfer.

However, one exception where a PPP is used instead of full-blown privatisation is where effectiveness, in contrast to efficiency, is also an aim of government policy. A policy is effective if the level of service that government planned to deliver is delivered, irrespective of whether or not this has been done in an efficient manner. Effectiveness becomes important with issues such as equity where for instance poverty levels prevent the poor from making an effective demand for a good or service, even when the need is large.

A further exception noted by Flinders (2005:232) and Fourie and Burger (2000:718) is those services that government considers as so important to the public interest that it does not want the private sector to deliver them. These are services that may be said to have an 'inelastic social demand', so that both the public and government considers their delivery as so essential that government does not want to run the risk of a private operator failing in their delivery.

## **2) The rationale for a dedicated PPP unit**

Several reasons exist for the creation of a dedicated PPP unit. First, the danger exists that departments do not appreciate fully the budgetary implications of PPPs due to the off-budget nature of PPPs. In particular, a department or province may reason fallaciously that because in most cases a private operator is responsible for the initial capital outlay, government spending is reduced, thereby allowing government to spend more on other categories of expenditure (Fourie and Burger 2001:147). The existence of this

type of fallacious reasoning generates the fear that lack of knowledge about the financial intricacies of PPPs may lead government departments to over commit financially. That such fear still exists is also clear from Gosling (2004:231) who notes that in resource-constrained departments the off-balance sheet nature of the capital acquisition component of a PFI/PPP creates a clear advantage in favour of going the PPP route. As such, Gosling (2004:234) states that the off-balance sheet nature creates a potential bias in the policy environment. This bias highlights the importance of ascertaining the affordability of a project in terms of the current and the expected future budgets of a department *prior* to exploring whether to use either the conventional procurement route or a PPP. A dedicated PPP unit is the ideal instrument to monitor and judge the affordability of a project, in particular since it acts as a regulatory body within government, but at an arm's length from the department that wants to implement the PPP.

Secondly, where departments do fully appreciate the budgetary implications of PPPs, there may nevertheless be the further danger of a principle-agent and free-rider problem between an individual department, only responsible for its own budget, and the national treasury that is responsible for the overall budget. More specifically, an individual department knows that government as a whole is ultimately responsible for any agreement that the department may conclude, including the payment obligations emanating from such agreement. Therefore, since it knows that central government will have to make good on the agreement, a department may commit to an agreement even though it cannot afford doing so in terms of its allocated budget. A dedicated PPP unit could eliminate such a free-rider problem by still leaving the initiative to initiate a PPP, as well as the ultimate day-to-day management of the contract, to the individual government department, while the unit, situated in the treasury, has the authority to judge and approve the ability of an individual department to afford the PPP agreement. Such approval will then constitute a precondition for the final conclusion of the PPP agreement.

Thirdly, a dedicated PPP unit may be established to create a centre of knowledge and expertise that can provide individual departments with

technical assistance during the creation process of a PPP and keep a watchful eye on departments through its regulatory approval mechanism. This is the main reason for its creation in South Africa. A dedicated PPP unit that serves as a centre of expertise also increases the confidence of potential private sector partners. In this respect Ahadzi and Bowles (2004:976) notes:

*“...it is not surprising that the private sector is more concerned to see an established PPP unit within the client organization. A PPP unit suggests an experienced and able client team that has the power and authority necessary for an effective negotiation process. The absence of such a team may raise concerns about the public sector’s project management strengths. This will be particularly pertinent where the functions of the public sector client are fragmented across a number of departments.”*

### **3) A brief history of PPPs and the PPP unit in South Africa**

PPPs have a relatively short history in South Africa. In April 1997 cabinet approved the appointment of an interdepartmental task team to develop policy, legislation and institutional reforms to enable the use of PPPs. From 1997 to 2000 government operated six pilot projects. These are (PPP Unit 2005):

- SA National Roads Agency: N3 and N4 toll roads;
- Department of Public Works and Correctional Services: Two maximum security prisons;
- Two municipalities: Water services; and
- SA National Parks: Tourism concessions.

The Strategic Framework for PPPs was endorsed in December 1999, while the National Treasury issued regulations for PPPs in April 2000. By mid 2000 a PPP unit was established in the National Treasury. In terms of the legislation, PPPs on national and provincial level are regulated in terms of Treasury Regulation 16, issued in 2004 to the Public Finance Management

Act (1999). Government has also, in terms of the Public Finance Management Act, issued a series of National Treasury PPP Practice Notes. These notes constitute a PPP manual and standardised practice notes that government departments and provinces use to guide them through the project life cycle of a PPP. Municipal PPPs operate under the Municipal Public-Private Partnership Regulations, issued in 2005 in terms of the Municipal Finance Management Act of 2003.

**Table 1 – PPP projects agreements concluded**

PROJECT	GOVERNMENT INSTITUTION	PPP TYPE	CONTRACT DURATION, DATE CLOSED
1. Fleet Management	Northern Cape Dept Transport,Roads and Public Works	DFO	5 years November 2001
2. Inkosi Albert Luthuli Hospital	KwaZulu-Natal Dept Health	DFBOT	15 years December 2001
3. Eco-tourism	Limpopo Dept Finance, Economic Affairs, Tourism	DFBOT	30 years December 2001
4. Universitas and Pelonomi co-location	Free State Dept Health	DFBOT	16,5 years November 2002
5. Information Systems	Systems Department of Labour	DFBOT	10 years December 2002
6. Chapman's Peak Drive toll road	Western Cape Dept Transport	DF(part)BOT	30 years May 2003
7. State Vaccine Institute	Dept Health	Equity partnership	4 years April 2003
8. Humansdorp District Hospital	Eastern Cape Dept Health	DFBOT	20 years June 2003
9. Fleet Management	Eastern Cape Dept Transport	DFO	5 Years August 2003
10. Head Office Accommodation	Dept of Trade & Industry	DFBOT	25 Years August 2003
11. Cradle of Humankind Interpretation Centre Complex	Gauteng Dept Agriculture, Conservation, Environment and Land Affairs	DBOT	10 years October 2003
12. Social Grant Payment System	Free State Dept Social Development	DFO	3 years April 2004

PPP type indicated by combination of private party risk for: **D**: design; **F**: finance; **B**: build; **O**: operate; **T**: transfer of assets back to government  
Source: PPP Unit (2006)

Since 1997 the creation of PPPs in South Africa on national and provincial level occurs at roughly two per annum. The main reason for this rather slow roll out is the lack of skilled staff capacity in individual departments and provinces to develop a PPP and take it through its project life cycle. Between

March 2000 and March 2006 only 12 project agreements were signed, with the signing of one further project (the Gautrain – a high-speed train service in Gauteng province) that is imminent. Fifty-two projects are still in the pipeline. Table 1 contains the details regarding the PPPs that have been approved since the implementation of the Strategic Framework and acceptance of the Treasury regulations.

Table 1 also shows the duration of the individual PPP agreements, as well as the dates on which they were concluded in addition to the nature of the project and the government institution responsible for their enactment. What is also notable from this list is that nine of the 12 projects are provincial projects, with only three on national government level. (Details on projects in the pipeline, as well as information on the private parties involved in the concluded agreements, can be found in the PPP Quarterly (PPP unit 2005).)

Of the 45 projects that were in the pipeline in December 2002, five were concluded successfully and now form part of the 12 signed agreements, while a further 15 are still in the pipeline at the time of writing (almost four years later). The remaining 25 never reached the contract signing stage and were deregistered. In addition, though the services of these 25 projects are now not provided through PPPs, many are also not provided through the conventional procurement process. In short, many of these 25 projects disappeared altogether. Again, the main reason for the deregistration of these projects (as well as their non-delivery altogether) is not so much that these proposed projects fail the tests of affordability, value for money or insufficient risk transfer, but rather the absence of capacity in departments and provinces.

Although the legal and regulatory framework for PPPs in South Africa is quite advanced, the country has a long way to go in the rolling out of PPPs. Though one should be careful to compare like with like, this becomes particularly clear when its record is compared with that of the UK where PPP legislation enabled the creation of Private Finance Initiatives since 1992. In September 2004 the number of PFI/PPP projects signed or close to signing in the UK stood at 208 (Coulson 2004:154). In total 64 of these projects were in

education and a further 69 in health. Hodge (2004:37) notes that in 2004 the Blair government had some £100 billion committed to 400 PFI contracts for the following five years. In Australia the amount of private finance that could flow into public assets was AUD\$20 billion, also for the five years following 2004. In South Africa the Net Present Value (NPV) of benefits to government for six of the projects for which this data is available, never exceeds R100 million,<sup>3</sup> with the exception of one (the Chapmans Peak Drive toll road where the NPV equals R450 million). For all the other projects the value to government (in terms of the NPV of the unitary charge) ranges between R18.9 million to R4.5 billion (only two have a value that exceeds R1 billion). However, it should also be said that even though the roll out of PPPs in the UK has been significantly more extensive than in South Africa, even in the UK it remains a small proportion of total public investment. Gosling (2004:230) notes that PFI constitutes no more than 11% of total public service investment in any given year. Though the South African government has still a long way to go before reaching it, the view is held in the PPP unit that investment through PPPs in South Africa should not exceed 20% of the total public service investment in any given year (Dachs 2006).

#### **4) The role of the South African dedicated PPP unit**

The main function of the South African PPP unit is to ensure that all PPP agreements comply with the legal requirements of affordability, value for money and sufficient risk transfer. By fulfilling these functions the PPP unit must guide government departments and provinces to follow international best practice that will ensure the successful creation of PPPs. Several authors (cf. Grimsey and Lewis 2005; Gosling 2004; Hodge 2004; Fourie and Burger 2000, 2001) have indicated that a successful PPP is characterised by affordability, value for money and sufficient risk transfer. These authors also discussed the interrelationship between affordability, value for money and sufficient risk transfer, as well as their prerequisites. Grimsey and Lewis (2005:347), as well as Fourie and Burger (2000:712-14) argue that the main

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<sup>3</sup> Roughly £1 = R13.

drivers of value for money and efficiency is risk transfer and competition. In addition, risks must be allocated between the public and private partners in such a manner that the value for money is maximised. Lastly, Grimsey and Lewis emphasise that the comparison between publicly and privately funded options should be fair, realistic as well as comprehensive. This implies the use of a Public Sector Comparator (PSC).

A further prerequisite to ensure value for money is affordability. Gosling (2004:231,234) questions whether a proper appraisal of value for money can take place if a department knows that, due to budget constraints, the PPP route is the only route to obtain the finance needed for the project. This refers to the balance sheet bias discussed above. In addition, Grimsey and Lewis (2005:254) note that one of the assumptions made when using a PSC – the instrument used to ascertain value for money – is that the capital funds needed for the up-front investment are available. Thus, not only could the balance sheet fallacy cause departments to engage in PPP agreements that they cannot afford, but it could also affect the level of seriousness with which they approach the value for money assessment. Therefore, a government department should only consider the use of a PPP when it has a real choice in terms of financial capacity between the PPP route and the conventional procurement route.

To fulfil the abovementioned function the PPP unit in the National Treasury has two broad tasks:

- 1) To provide technical assistance to government departments, provinces and municipalities who want to set up and manage PPPs, and
- 2) To provide National Treasury approvals during the pre-contract phases of a PPP agreement.

Though focusing primarily on the pre-contract period, the PPP unit provides technical assistance throughout all the phases of the PPP project life cycle. The life cycle comprises six phases:

- 1) Inception
- 2) Feasibility study
- 3) Procurement
- 4) Development
- 5) Delivery
- 6) Exit

Phases 1-3 represent the pre-contract- or project preparation period, while phases 4-6 represent the contract- or project term.<sup>4</sup> During the inception phase departments and provinces must inform the PPP unit of their intent to set up a PPP. They also need to inform the PPP unit of their available expertise and appoint a project officer and team. The availability within a department or province of capacity and skills to create and manage a PPP is of fundamental concern to the PPP unit. The unit registered many PPP projects in its early years, but many of these projects were later deregistered due to departmental or provincial capacity and skill shortages. To prevent a repeat of such large-scale deregistration and the accompanying waste of resources, the PPP unit is currently busy developing a checklist that departments will need to complete in the inception phase. This checklist will serve to weed out early on projects that are not feasible, thereby saving time and cost.

The inception phase is followed by a feasibility study. This study must clarify the function that the private party will perform and include an analysis of the needs that will be addressed and the options available to government. The feasibility study must pass the three regulatory tests of affordability, value for money and risk transfer. The PPP unit applies these tests in what is called Treasury Approval:I, which takes place after the feasibility study has been completed. This approval is needed before the department or province may proceed with the procurement phase. The feasibility study entails several

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<sup>4</sup> These phases correspond broadly with the four main stages of the PPP procurement process identified by Ahanzi and Bowles (2004:968). The stages are 1) the planning and feasibility stage, 2) the bidding and negotiation stage, 3) the construction stage and 4) the possible transfer/renegotiation stage.

stages (see National Treasury PPP Manual, Module 4). First the department or province must ascertain the need for the service they contemplate delivering. This is done prior to the decision whether the conventional method or a PPP will be used to deliver the service. Subsequent to the needs analysis the department or province must consider the various options through which the service can be delivered. These options may include a PPP, but also the conventional procurement method. Affordability constitutes a key aspect of this stage. Subsequent to ascertaining the various options a project due diligence and value assessment must be made. The value assessment is a very rigorous process that includes the compilation of a public sector comparator (PSC). First a base PSC and then a risk-adjusted PSC are compiled, followed by the compilation of a PPP reference model and a risk-adjusted PPP reference model. The PPP unit is not prescriptive with respect to the discount rate that a department or province must use in compiling the PSC and PPP reference models. However, it recommends that a department or province uses the rate of a government bond of which the term corresponds with that of the PPP agreement. Furthermore, all values are nominal, including the discount rate. In addition, the risk-adjusted PSC and PPP reference models do not adjust the discount rate to cater for risk, but rather prefer to cater for it in the expected (probability-weighted) cash flows. After the construction of these models a sensitivity analysis is performed. Following these stages a budget must already exist for the project. This budget is then analysed to ascertain affordability and value for money. In addition, those projects that either are greenfield or capital projects, or projects with externalities must also submit to an economic valuation. The department or province must furthermore submit a procurement plan as part of the feasibility study. The feasibility study is then submitted for approval by Treasury Approval:I.

During the procurement phase two more treasury approvals take place. The procurement phase starts with the government department or province preparing the procurement documentation. The documentation also includes a draft contract. In what is called Treasury Approval:IIA the PPP unit approves this documentation, whereafter the department can proceed with the

procurement process. Procurement takes the form of a bidding process, which has as key elements accountability, responsiveness and openness in the decision making process of the department or province. Throughout the bidding process all bidders must have an equal chance. After the bidding process, the department or province needs to evaluate the bids. Before the department or province can appoint the preferred bidder it needs to submit a report to the PPP unit that demonstrates that in its evaluation of all the bids it applied the criteria of affordability, value for money and substantial risk transfer. It must also demonstrate how the preferred bidder fulfils these criteria. This report forms the basis for Treasury Approval:II B. Competition in the bidding process forms a key element of this phase given its importance as a driver of value for money. Should only one bidder emerge, the PPP unit considers the possibility that the low turn out of bidders is the result of a contract design that fails to attract bidders. However, given the small size of some markets in South Africa, only a small number of companies may possess the capacity and skill to undertake a project. In such cases the PPP unit follows a second-best strategy where the bidder competes against the PSC to ensure value for money.

Following Treasury Approval:II B the department or province finalises the detail of the contract, draws up a management plan to manage its part in the PPP and completes a due diligence on all the parties concerned to establish their competence and capacity to enter the agreement. However, before the contract can be signed, the PPP unit needs to issue Treasury Approval:III in which it approves that the contract meets the requirements of affordability, value for money and substantial risk transfer. Treasury Approval:III also must approve the capacity, mechanisms and procedures of the department or province to manage the contract successfully. After the contract is signed no further approvals must be obtained from the PPP unit. However, should any party contemplate any significant changes to the agreement after it has been concluded, the PPP unit must approve the changes. The management of the agreement, once it is signed and the pre-contract period is over, rests with the individual department or province and is not the responsibility of the PPP unit. Nevertheless, the PPP unit still provides technical assistance where needed.

For the 12 projects for which contracts have been concluded, the length of the pre-contract period in South Africa is roughly 8-18 months. This compares well with the UK. Ahadzi and Bowles (2004:967-8) note that in the UK there are excessive time overruns in the pre-contract stages, resulting in large advisory cost overruns. They reviewed 42 UK projects spanning health, education and civil engineering projects (Ahadzi and Bowles 2004:971). Of these, 98% had time overruns of between 11%-166%. The overruns for the schools were the highest, while those for the civil engineering projects were the lowest. Total negotiation time scales were also considered high, with some close to 50 months.<sup>5</sup> Therefore, though the scale of PPPs in South Africa is much smaller than in the UK, those that were concluded were finalised within a year and a half. One exception will be the Gautrain, to be concluded later in 2006. However, in the case of the Gautrain the complexity and scale of the contract required more time. Notwithstanding these relative successes, the discussion above also indicated that there are several projects that were in the pipeline in 2002 that are still in the pipeline in 2006.

In the UK the time- and cost overruns are largely due to the different perceptions of the public and private sector about the relative importance of public and private party attributes such as the importance of communication and the ability and willingness to accept risk. For instance, Ahadzi and Bowles (2004:972-6) argue that in the UK, compared to the private sector, the public sector attaches more importance to open and frank communication, the willingness of the private party to accept risk and to commit to earlier negotiated terms. The public sector also attaches more importance to the ability of the private party to commit equity for a long period of time. In addition, relative to the private sector, the public sector attaches less importance to the private party's previous experience. The private sector, in turn, is more concerned about the previous experience and the capacity of the

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<sup>5</sup> In addition to the pre-contract time overruns, there were also substantial cost overruns ranging from 25%-200%. These were due to the continued retention of advisors by both the government and the private party during the negotiations. Ahadzi and Bowles (2004:971) also note that both the cost and time overruns were the lowest in the civil engineering projects, most probably because of the central procurement of these projects.

government department that deals with PPP procurement. This also explains why the private sector attaches more importance to the existence of a dedicated PPP unit.

The situation is not much different in South Africa. When the public sector wants to transfer risk in a PPP agreement in South Africa, private contractors tend to be less willing to accept risks that they are not familiar with (Dacsh 2006). In addition, the pre-contract period in South Africa sometimes lasts longer than expected if the parties involved need to obtain environmental approvals as part of the project.

## **5) Future challenges**

At an average of two PPP contracts concluded per annum since 1997, the PPP unit does not expect the pace at which contracts are concluded to increase in the foreseeable future (Dacsh 2006). This is largely due to capacity constraints within departments and provinces. One of these constraints results from the phenomenon that contract managers and staff of departments and provinces involved in the creation of a PPP contract tend to continue working on the contract after it has been concluded. Thus, valuable skills obtained during the creation and development of a PPP contract is not transferred to other contracts, implying that departments need to create capacity anew with each new contract. Thus, one way departments and provinces can deal with capacity constraints, and one that the PPP unit might be considering, is to transfer skilled staff from project to project (Dacsh 2006).

Three areas that possess significant potential for the increased use of PPPs are health, education and infrastructure development, and in particular the building and maintenance of clinics, schools and roads. However, the initiative to setup such projects rests with the relevant government departments and provinces and not with the PPP unit. Therefore, these departments and provinces need to consider seriously the potential that PPPs hold. Moreover, they should consider approaching the issue in a structured and systematic manner where they first ascertain and prioritise the needs that they must address. This must then be followed by a clear analysis of what would in

terms of value for money constitute the best method for delivering these services: the conventional procurement path or a PPP. Once this is done a department or province has compiled a portfolio of projects that are structured in terms of policy priorities and that can be procured using PPPs. Such a strategy will undercut the rather *ad hoc* manner in which departments and provinces currently undertake PPPs. In addition, in the case for schools and clinics there is scope for the creation of standardised contracts that will shorten the pre-contract period significantly.

A further development that might increase the pace at which PPPs are created, is the implementation of provincial dedicated PPP units that Finance Minister Trevor Manuel (2006:14-5) announced on 5 June 2006. As mentioned above, nine of the 12 PPPs approved are provincial PPPs, with many other in the pipeline. Currently officials of some of the provinces are trained to take up positions in such units. These units will be rolled out in provinces as they develop the necessary capacity to run such units. This also implies that not all units will be rolled out simultaneously, while some provinces might even opt for not have such units. Again the difficulty is the shortage of capacity on provincial level that might limit the ability of provinces to even implement a unit successfully (not to mention the need for skilled PPP managers in provincial departments such as health and education that ultimately need to initiate and manage PPP contract). Hence, given that it requires less skilled peoplepower it is also foreseen that provincial units will mostly be dealing with issuing Treasury Approvals. The national treasury PPP unit (in cooperation with the provincial units) will then still be the predominant centre of technical assistance, even in the case of provincial PPP agreements.

Municipal PPPs are a case apart. Not only do they fall under a separate legislative framework, but unlike provinces that are for more than 90% of their revenue dependent on central government transfers, municipal authorities raise most of their own revenue (through the sale of water and electricity and the levying of municipal rates and taxes). This relative financial independence also leaves municipalities more scope to approve their own PPPs. However,

both the national and provincial PPP units can provide technical assistance to municipal authorities given that the skills shortage is even starker on local government level.

An issue that the national PPP unit will need to deal with concerns the maintenance of competitive pressure on private operators, particularly in long-term contracts. Currently, the PPP unit considers competition as a crucial element in ensuring value for money. Bidders compete against each other, thereby minimising the cost to government or, as mentioned above, in the absence of multiple bidders a single bidder competes with the PSC, also to minimise the cost to government. However, competitiveness becomes more of a problematic issue during the contract or project period. Often the service rendered through the PPP is not available on an open and well-developed market. This means that once a contract is awarded to a bidder, the unsuccessful bidders disappear altogether or conduct business in markets for services other than the ones delivered through the PPP. Thus, the competition of the successful bidder disappears and in the worst-case scenario the market becomes uncontested (i.e. there are not even any potential entrants to the market). Therefore, the private operator becomes a monopolist supplier to government. Particularly during long-term contracts such operators can place undue pressure on government to renegotiate terms of the contract to ensure more favourable terms to the private operator. This will undermine the value for money aspect of the PPP arrangement.

## **6) Conclusion**

From the above it can be concluded that the role of the dedicated PPP unit comprises the authority to approve PPP agreements (and changes to concluded agreements) and the rendering of technical assistance in the creation and maintenance of PPPs. However, the initiative, ultimate management and accountability regarding PPP agreements originates and rests with individual government departments and provinces.

Currently capacity and skills shortages in government departments and provinces tend to constrain the pace at which the South African government is able to roll out PPPs. The intended creation of provincial PPP units might alleviate some of this pressure. Unfortunately, the ability of provincial governments to operate provincial PPP units might be constrained even more than the ability of national government by the shortage of skills and capacity. This means that government will need to pay special attention to the creation of skills within government to deal with PPPs, not only within PPP units, but also within government departments.

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