# Public Private Partnerships in SA


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# Public Private Partnerships Defined

- PPPs are long-term contracts between the public and private sector to improve service delivery and promote well maintained infrastructure

- The main objective of a public private partnership is to ensure the delivery of public infrastructure or public services **cost-effectively**, by leveraging private sector expertise and innovation

- PPPs are a form of procurement, where public sector buys a full set of services, including infrastructure. It pays for these over the long term, based on the successful delivery of services

- Where there is poor performance against the **Service Level Agreement**, private party gets penalised or is not paid in full

- There are different types of PPP structures such as where private party Designs, Builds, Operates, and Transfers infrastructure back to government (DBOT model or BOT).

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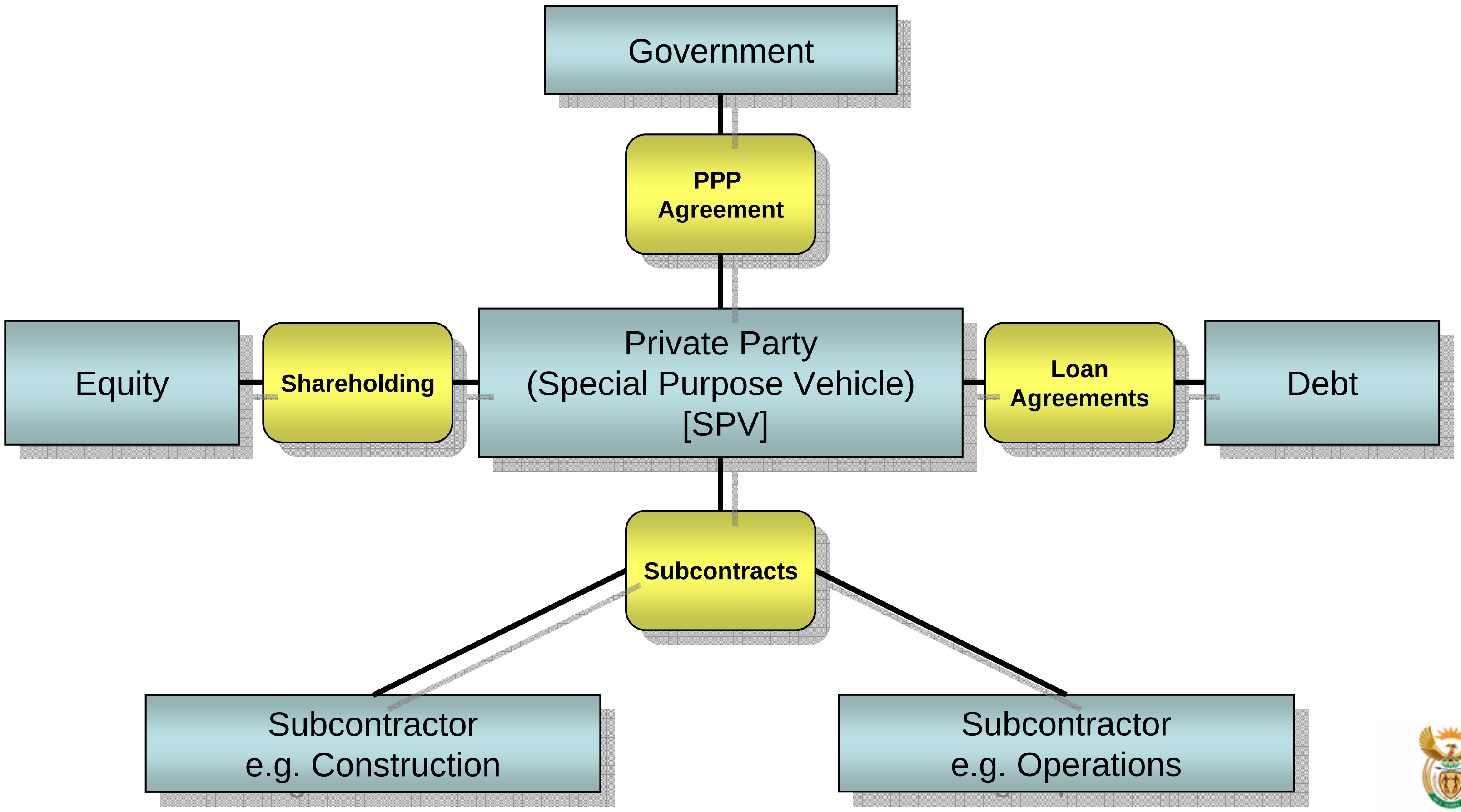
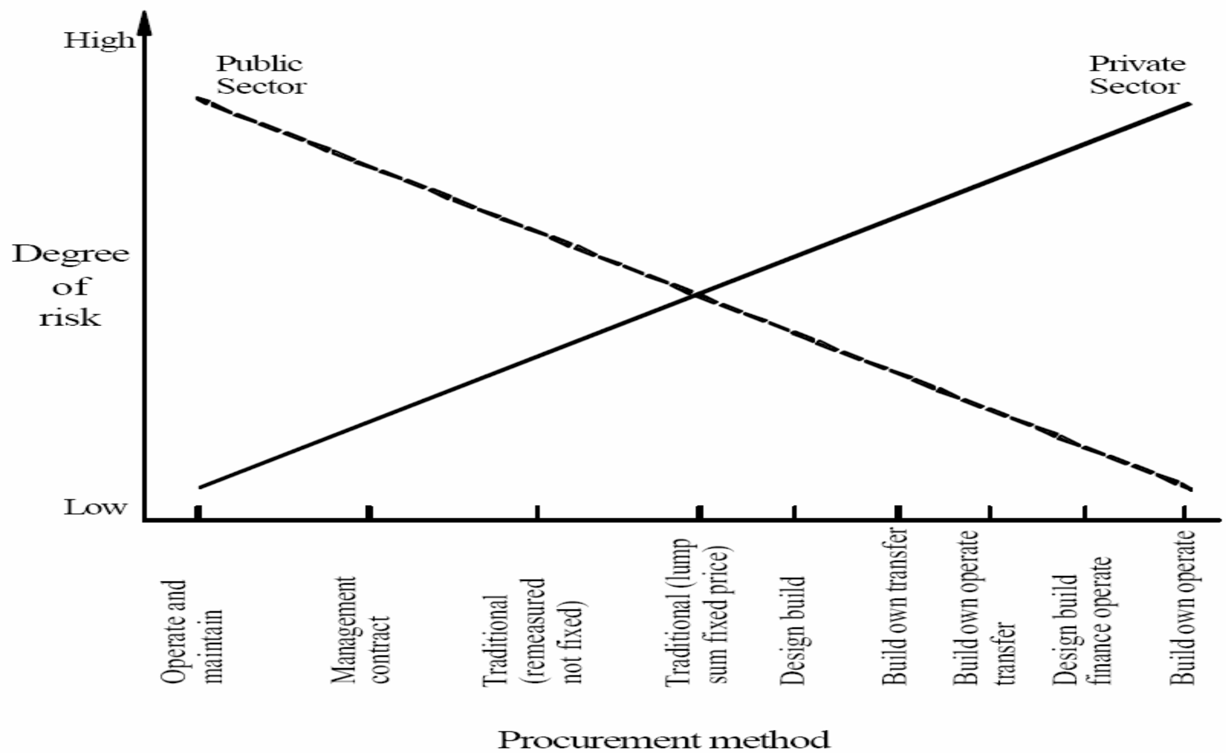
# Typical PPP structure

Generic Project Finance Structure for PPPs



# Different Procurement Options



# Appropriate Risk Transfer

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
- 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

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# Benefits of PPP procurement

- Most important benefit is better value for money. PPPs can improve service delivery both in terms of quality and consistency of service.
- The PPP process is highly competitive and transparent helping to drive best value for government, for a chosen solution.
- Strengthens planning processes for capital projects ensuring that both capital portion and maintenance are fully funded over long term
- Typical PPP structure supports skills transfer within the private sector consortium (from main contractor to BEE subcontractors) but also from private sector to public sector
- There is an explicit and careful management of the multiple risks which characterise all infrastructure projects
- Government has the option to leverage private sector finance.

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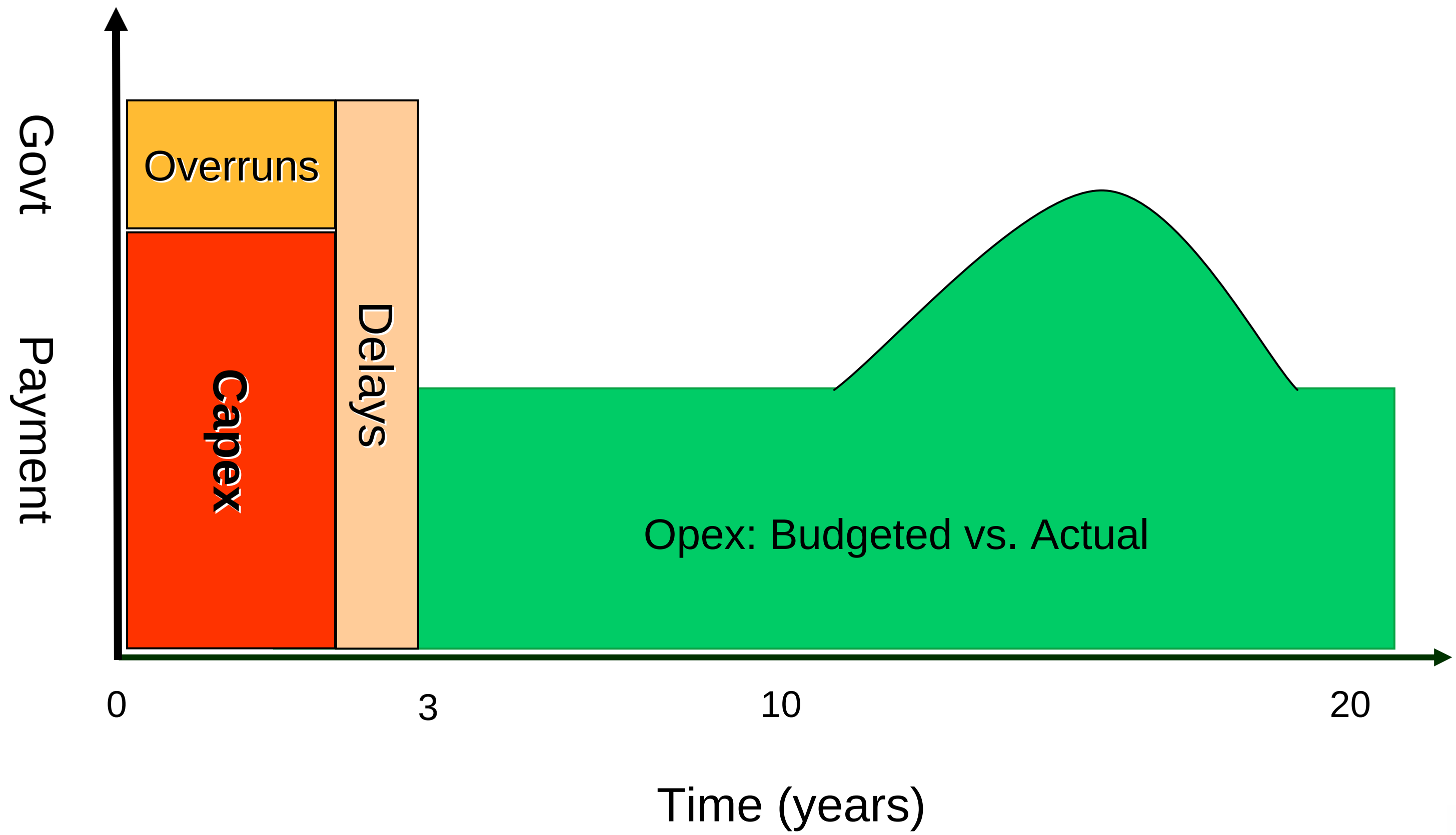
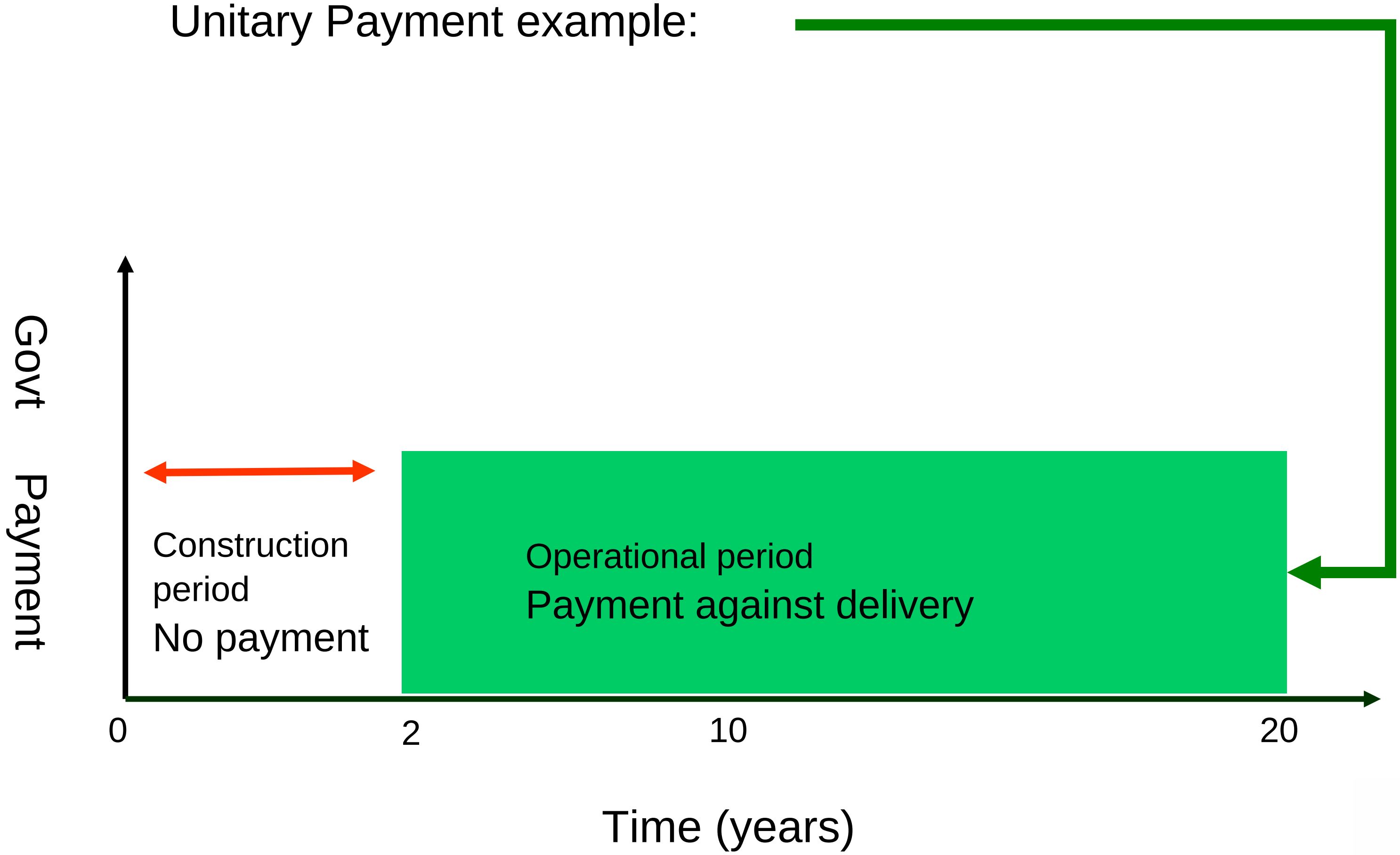
Conventional Government procurement and maintenance of a building



Unitary Payment example:

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# SA Projects in Progress

## Inkosi Albert Luthuli Hospital

- Value to Government: R4.5 billion
- Signed: Dec 2001
- Term: 15 years
- BEE: equity 40%; subcontracting 40%

## Free State Social Grants

- Value to Government: R260 million
- Signed: April 2004
- Term: 3 years
- BEE: equity 40%; subcontracting first year 30%, second year 35%, third year 45%

## Labour IT PPP

- Value to government: R1.5 billion
- Signed: Dec 2002
- Term: 10 years
- BEE: equity 30%; subcontracting 25%

## Chapman's Peak Toll Road

- Benefit to Government: R450 million in capex and operations
- Signed: May 2003
- Term: 30 years
- BEE: equity 30%; construction subcontract 10%; ops and maintain subcontract 50%

## Toll Roads: N3, N4 East, N4 West

- Term: 30 years each
- N3 signed: May 1999; value: R3.5bn
- N4 east signed: Dec 1997; value: R3.0bn
- N4 west signed: Aug 2001; value: R 3.2bn

## Universitas and Pelonomi Hospitals

- Term: 16,5 years
- Signed: Nov 2002
- BEE: equity 40%; subcontracting 40%

## dti Campus

- Value to Government: R870 million
- Signed: Aug 2003
- Term: 25 years
- BEE: equity 55%; construction subcontract 43%; facilities management 50%

## SANPark Concessions

- Eleven concessions in four national parks
- Signed: 2001 to 2002
- Terms: 20 years each
- Value: R270 million in fixed capital assets; NPV concession fees R253 million
- BEE: equity 20% plus; subcontracting 30% plus; 620 new jobs

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# Characteristics of Good PPPs

- There is a major capital investment programme, requiring effective management of risks associated with construction and delivery
- Private sector has the expertise to deliver and there is good reason to think it will offer value for money
- Scope for significant operational, financial, or technical risk transfer
- Planning horizons are long-term, with assets intended to be used over long periods into the future
- The technology and other aspects of the sector are stable, and not susceptible to fast-paced change
- Robust incentives on the private sector to perform can be set

Adapted from HMT Review of PFI (March 2006)

# Enabling Conditions

- Political commitment in the targeted sector
- Clear PPP law, robust project cycle
- Strong feasibility study standards
- Clear  terms for PPP agreements
- Early good projects, training, communication
- Strong financial markets, competitive private sector

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# Regional Railway Concession

- In 1993, one regional government assisted by donors, undertook major program of restructuring local railway operations
- Major problems faced:
  - No detailed feasibility study undertaken to establish financial viability
  - Bidding documents/ process were incomplete and inconsistent
  - Legal environment was inadequate with no suitable PPP legislation or policy
  - No dedicated PPP capacity in government at that time
- An independent study in December 2006 concludes that the PPP has not, thus far, made a significant difference to the Railways
- It now appears necessary to re-negotiate the concession to put it back on a growth track
- A major constraint that remains is the institutional capacity and absence of an appropriate legal environment and a contractual framework

# Conclusion

- PPPs offer governments opportunity to accelerate delivery of economic and social infrastructure

- However, governments must have:
  - Good technical, financial, and legal advisors
  - Capacity to manage contracts during implementation
  - Genuine commitment and willingness to work with private sector

- In the absence of the above, PPPs are unlikely to deliver value and simple outsourcing/ contract management may be preferred

- There are numerous examples of failed deals both in developing countries as well as in OECD

- In SA, 7 years worth of experience has shown that an initial period of experimentation is necessary, and that increasing deal flow will yield best value through attendant rise in competition

- One challenge is on how closely to regulate PPPs as excessive regulation could stifle deal flow and creativity.

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Discussion