

A Treasury View on South Africa's PPP Programme



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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 (then) Minister of Finance, Trevor Manuel, August 2004



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Introduction

While PPPs have been around here in South Africa for ten years, they are not universally known and understood

- So, before talking about National Treasury's views on PPPs, It's helpful to provide an introduction to PPPs generally and to the PPP Unit specifically
- Beginning with the PPP Unit, it was established within the Budget Office at National Treasury by Cabinet Memorandum in 2001
- USAID and GTZ provided funding and technical expertise early on
- Starting with four professionals and one admin staff, the PPP Unit today has 13 professionals, 6 admin staff and an office manager



What is a PPP?

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



What is a PPP?



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

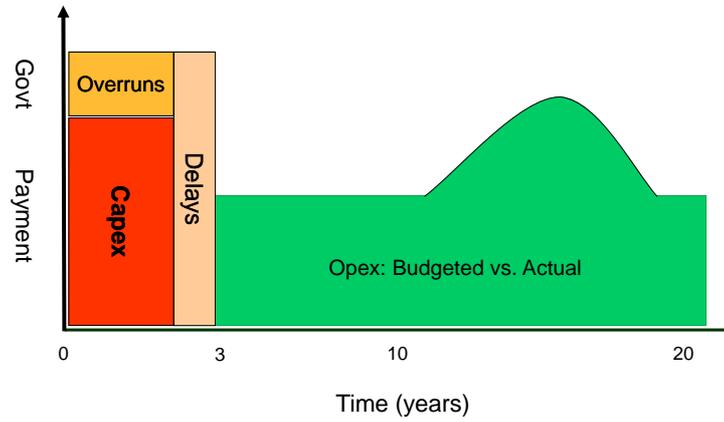
Privatisation

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



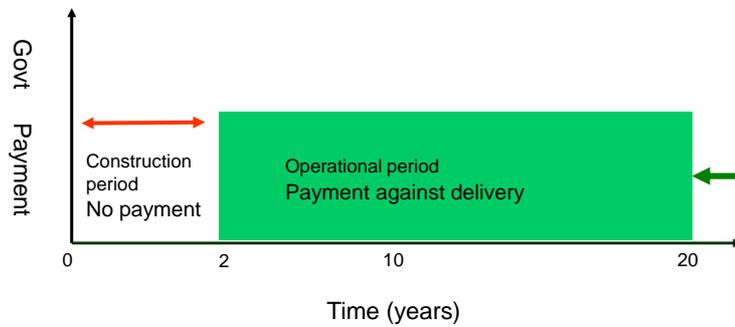
What is a PPP?

Conventional Government procurement and maintenance of a building



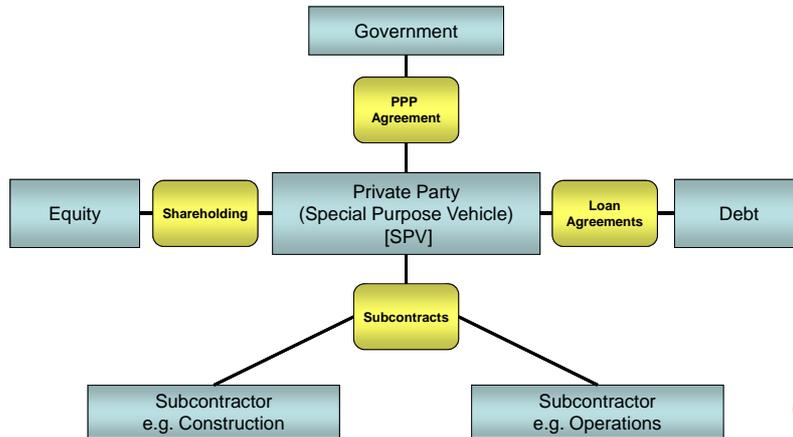
What is a PPP?

Unitary Payment example:



What is a PPP?

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



What is a PPP?

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



What is a PPP?

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



What is a PPP?

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
- And Transaction Advisors and Bidders for PPPs
- 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
- Municipal Finance Management 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."



South African Regulatory Framework for PPPs



- Module 1: South African Regulations for PPPs
- Module 2: Code for BEE in PPPs
- Module 3: PPP Inception
- Module 4: PPP Feasibility Study
- Module 5: PPP Procurement
- Module 6: Managing the PPP Agreement
- Module 7: Auditing PPPs
- Module 8: Accounting Treatment for PPPs
- Module 9: Introduction to Project Finance



South African Regulatory Framework for PPPs

Similar contents in the Municipal Service Delivery and PPP Guidelines

EXCEPT

- Had to rationalise and interpret two Acts of Parliament
- Took opportunity to streamline processes required by both Acts

Toolkits for Tourism PPPs and for Private Sector use of State Lands also provide step-by-step guidance for specialised PPPs



PPP Unit in South Africa

- Informed by the Partnerships UK model
- Head of the PPP Unit is a Chief Director
- Reports through the Deputy Director-General: Budget Office to the Director-General and the Minister of Finance
- Current Head was first “non-acting” appointee & spent two years with World Bank spreading South Africa’s version of the PPP doctrine around the globe

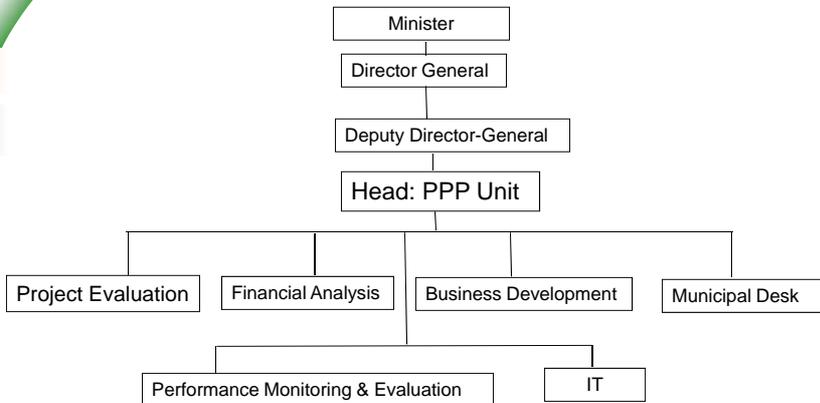


PPP Unit in South Africa, cont'd

- Has both *Technical Assistance* and *Regulatory* Roles
- 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 Current staffing, cont'd

- There are six Desks in the Unit
 - Project Evaluation – overall evaluation of national & provincial projects
 - Financial Analysis – review of PSC, value-for-money in all projects
 - Business Development – media, publications, presentations
 - Municipal Desk – overall evaluation of municipal projects
 - IT – overall evaluation of IT component in all projects
 - Performance Monitoring and Evaluation – contract management in all projects



PPP Unit in South Africa Current Staffing, cont'd

- The total staff complement is twenty (20)
 - Thirteen (13) professionals
 - Six (6) support staff and
 - One (1) office manager
- Project Evaluation has two professionals
- Financial Analysis: three professionals
- Business Development: two professionals
- Municipal Desk: three professionals
- IT: one
- Performance Monitoring & Evaluation: two professionals

In practice, is significant cross-over and team formation



PPP Unit in South Africa Challenges – staffing and otherwise

- Staffing challenges
 - PPPs require a host of different disciplines
 - Project management
 - Financial analysis
 - Sectoral technical expertise
 - Legislative and regulatory knowledge
 - Communications
 - Legal
 - Human resources
 - Insurance
 - Black Economic Empowerment (BEE)
 - South Africa is an expanding developing country, with significant skills shortages in all of the above disciplines



PPP Unit in South Africa Challenges, staffing and otherwise

- The current disciplines possessed of PPP Unit staff include:
 - Financial – gleaned from development banking and Big Four consulting experience
 - Technical – obtained via obtaining an Engineering degree and significant on-the-job expertise
 - Legal – via obtaining a legal degree and engaged in the practice of law
 - Legislative and regulatory – by working with/for other governmental and quasi-governmental entities engaged in infrastructure provision
 - BEE – through previously obtained experience in both the public sector and private sector
 - IT, through years of experience obtained as a senior executive for an IT services provider



PPP Unit in South Africa Challenges, staffing and otherwise

- Obtaining persons possessed of some – or many of these disciplines is difficult because:
 - The private sector provides better wages and career ladders than government
 - BEE policies encourage Historically Disadvantaged Individuals to rapidly move up their career ladder
 - With the preparation for the Football World Cup in 2010, there was a great demand for persons with these professional credentials
- PPP Unit has thus taken a decision to rather seek to attract bright young recent university graduates and provide significant, robust on-the-job training



PPP Unit in South Africa Challenges, staffing and otherwise

- Other challenges:

- The PPP Unit has developed Guidance documents that have legal significance for local, provincial and national PPPs, including:
 - The Public Private Partnership Manual, applicable to provincial and national PPPs
 - Standardised Public Private Partnership Provisions – standard PPP agreement provisions applicable to all PPPs
 - Public Private Partnership Toolkit for Tourism PPPs
 - Municipal Service Delivery and PPP Guidelines for municipal PPPs
- All of the foregoing are regulatory tools that empower the PPP Unit to provide the technical and regulatory advice required for successful PPPs
- All are “living documents” that require periodic updating and revision
- Currently, the Standardised PPP Agreement provisions are undergoing revision
- The Municipal PPP Guidance was issued in January of 2008



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
 - 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
 - The DBSA and Industrial Development Corporation – both DFIs – with which have concluded two recent Memos of co-operation
 - 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 and Environmental Affairs (water services and solid waste)
 - Department of Cooperative Governance and Traditional Affairs (local government service delivery, generally)
- With the nine (9) provinces—
 - Provinces have principal responsibility for health and education services
 - Some of our largest PPPs are with the Provinces – i.e. Gautrain



PPP Unit in South Africa Interfaces with other stakeholders, cont'd

- With the 240 units of local government
 - Are three kinds of local government –
 - Metropolitan Municipalities – of which there are six
 - District Municipalities – that contain local municipalities
 - Local Municipalities
 - Local government has the primary responsibility for most public services –
 - Potable water treatment and reticulation
 - Waste water treatment, reticulation and disposal
 - Solid waste collection, transport and disposal
 - Electricity distribution (some Metros also generate electricity)
 - Streets, roads, storm water systems
 - Planning and zoning



PPP Unit in South Africa Interfaces with other stakeholders, cont'd

- With the South African financial community
 - There are four or five major banks in South Africa
 - They are extremely risk averse
 - They syndicate virtually all financing among themselves
 - They have expressed continued interest in PPPs in spite of recent world-wide economic conditions
- With organised labour
 - South African Labour Law applies to PPPs where public sector employees are taken over by the private party
 - Organised labour is opposed to PPPs, calling them “privatisation”
 - Less of a problem at the provincial and national level
 - Major problem at the local government level



PPP Unit in South Africa Challenges going forward

- As just noted, at the local government level, finding a middle ground with organised labour is biggest challenge
 - Many local government council persons are members of organised labour
 - The South African Municipal Workers Union is unalterably opposed to PPPs
 - One consequence is that there have been no new local government PPPs for key municipal services – water, sanitation, solid waste collection and disposal – for nine years
 - Deteriorating state of this infrastructure must lead to a resolution of this impasse in the near future
 - With the current state of flux in South African politics, road ahead is not positive



PPP Unit in South Africa Challenges going forward

- Dealing with the South African financial community is also a major challenge
 - Recent financial turmoil has not had a significant adverse effect at this time
 - We regularly consult with UK counterparts
 - We are implementing a debt bidding competition
 - We are also approaching development banks, insurance and pension funds to interest them in providing equity to challenge the banks
 - National Treasury is also considering providing a significant capital grant to public sector PPP sponsors to reduce the amount of debt that must be accessed
 - No clear understanding of how this will be resolved at this time



PPP Unit in South Africa Challenges going forward

- Dealing with the lack of capacity within South African governmental entities to undertake PPPs
 - There is a massive skills shortage in South Africa which affects governmental entities as well
 - Lack of capacity is particularly acute in terms of the appointment of a Project Officer
 - National Treasury maintains a Project Development Facility which provides funding for the procurement of a Project Officer
 - That same fund may be used to procure Transaction Advisors as well
- Dealing with the lack of reliable information possessed by governmental entities necessary for conducting a feasibility study
- Dealing with governmental entity staff turn-over and changes in the political structure of a governmental entity
- All of which delays the project assessment and procurement processes



PPP Unit in South Africa Prospects for the future

- Having recently issued the local government PPP Guidelines, entered into co-operative memos with the DBSA and IDC and nearing completion of the review of the Standardised PPP Agreement provisions, we view the prospects as promising
- There will be municipal elections in South Africa next year, which could affect the way forward
- Recovery from the current world-wide recession seems to be having a positive effect, albeit slower than we would like
- There will be an increased focus on health care PPPs for the next few years, including clinical services delivery
- IPPs, though not “pure” PPPs will also receive significant focus



PPP Project History to Date

- By the end of 2009, the South African PPP Unit had closed 20 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
 - 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



PPP Project History to Date, cont'd

- By the end of 2009, 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
 - Private sector use of state land for commercial purposes
 - Municipal solid waste management
 - Municipal water services



Conclusion

- For the last ten years, the PPP Unit at South Africa's National Treasury has been an important driver for the development of government services infrastructure
- The success has been possible because of an enabling legislative and regulatory environment, together with robust support from our Minister of Finance
- Staffing, and maintaining our staffing with capacitated professionals has been, and will continue to be a challenge
- However, the PPP Unit brand is universally recognised in South Africa and makes our job much easier



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