Benefits of PPP's and how to use them as an investment tool

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Recipe for Success

- Strong legal framework
- PPP enabling institutions
- Political commitment and leadership

What are PPP's?

- Long-term contracts between public & private sector
- Main objective: ensure delivery of well maintained, cost effective public infrastructure or services by the private sector
  - Private sector expertise
  - Transfer of risk

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  - Deliver value for money
  - Affordability

What are PPP's?

Definition:

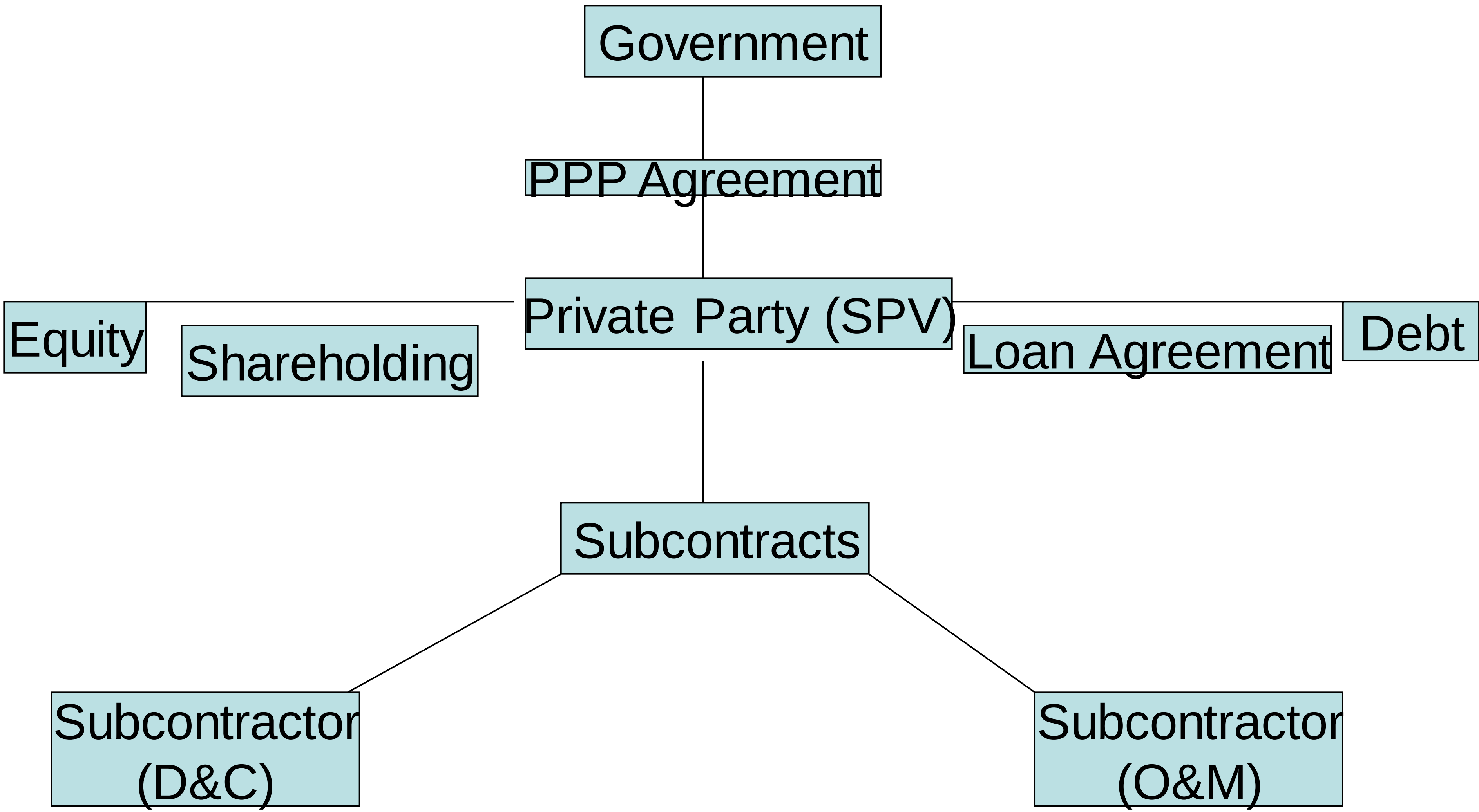
A contract between a government institution & private party where:

- Private party performs an institutional function and/or uses state property ito output specs
- Project risk transfer (financial, technical & operational) to the private party
- Private party benefits – unitary payments and/or user fees

Funding Structure

- Ideally a PPP is a clearly defined project, where government carefully defines its objectives
- The funding structure sometimes combines public and private funds
- The most successful PPP’s are those where the private and the public party have a partnership mindset

Funding Structure



Funding Structure

- The project is capitalised with equity contributions in addition

  AND
- The Project Company borrows debt finance from the lenders
- The lenders look to the projected future revenue stream generated by the project, unitary payment or user fees and the Project Company's assets to repay all the loans
- The lenders take security over the assets of the Project Company including future revenues and termination payments

Benefits of PPP’s

<u>Traditional Procurement versus PPP’s</u>

- Traditionally, development relied on aid or economic growth.
- PPP’s are an effective rapid response tool. Relying on economic growth time intensive whilst PPP’s offer effective medium to long term tool for the development of infrastructure and public services.

Benefits of PPP’s

- PPP’s deliver budgetary certainty
- The private sector takes financial risk over the project’s lifetime
- Risks are allocated to the party best able to manage them
- PPP’s can be good for infrastructure planning
- The public sector pays only when services are delivered
- PPP’s force the public sector to focus on outputs and benefits from the start

Benefits of PPP’s

- The quality of service has to be maintained for the duration of the PPP
- Specialist skills are developed and transferred to the public sector
- PPP’s leverage private party capital to fund infrastructure
- PPP’s allow government to initiate investment in advance of requiring expenditure for that investment

Problems with PPP's

- Complex and Overlapping Legal Requirements:
  - Municipal PPP's - Municipal Finance Management Act ("MFMA") and the Municipal Systems Act ("MSA")
  - National Environmental Management Act (NEMA) requires an Environmental Impact Assessment prior to the implementation of the Project
  - Zoning regulations provide further complexity
  - Levels of legislative 'hoops'- Constitutional, National, Provincial and Local legislation create further risk for the private sector

Problems with PPP’s

- Public and Political Mistrust:
  - PPP’s can be perceived as a form of privatisation of state-owned assets;
  - PPP’s are complex instruments which require capacity and skills to be present in government;
  - Lack of political commitment;
  - Labour unions oppose PPP’s and argue that they are a threat to job creation; and
  - General corruption and misappropriation of public funding
- Cumbersome process to create a PPP - public sector commitment and planning is critical to success

STRONG LEGAL FRAMEWORK

PPP Legislation

National & Constitutional:

- The Constitution
- The Public Finance Management Act (“PFMA”)
- Treasury Regulation 16
- Sections 213 and 215 to 219 of The Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996)

Municipal:

- Municipal Finance Management Act (“MFMA”)
- Municipal PPP Regulations
- Municipal Systems Act (“MSA”)

Treasury Regulation 16: Approvals

Treasury Approval I:

- Feasibility Study

Treasury Approval IIA:

- Procurement Documents

Treasury Approval IIB:

- Report on achievement of risk transfer, affordability

Treasury Approval III:

- Sign off on requirements of risk transfer and affordability etc
- Management plan

PPP ENABLING INSTITUTIONS

PPP Unit

- In April 1997, the South African Cabinet approved the appointment of an inter-departmental task team to develop a package of policy, legislative and institutional reforms to create an enabling environment for PPP's
- A Strategic Framework for PPP's was endorsed by Cabinet in December 1999, and in April 2000, Treasury Regulations for PPP's were first issued in terms of the PFMA

PPP Unit

- By mid-2000, with technical assistance funding from USAID, GTZ and DIFID, the PPP Unit was established in National Treasury with five professional staff drawn from both the public and private sectors

POLITICAL COMMITMENT AND LEADERSHIP

Key features

- There needs to be institutional capacity;
- Decisions at political level should be resolved;
- Policy and political leadership must integrate;
- Political commitment is essential; and
- PPP’s should only be undertaken if they represent value for money and are affordable

Questions?