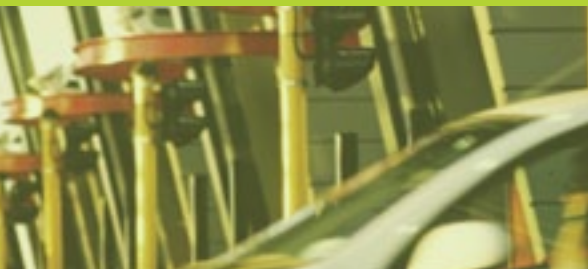




Introducing Public Private Partnerships in South Africa



unit



minister's foreword

Since 1999, public private partnerships (PPPs) in South Africa have been regulated under the PFMA, providing a clear and transparent framework for government and its private sector partners to enter into mutually beneficial commercial transactions, for the public good.

Over the past seven years, we have progressively increased the number of PPP transactions covering a wide range of sectors, including transport, office accommodation, healthcare, eco-tourism, social development and correctional services. By 2007, there were 20 PPP projects in active implementation with no fewer than six projects reaching financial close during 2006/07.

The increased number of projects attests to the growing body of experience related to PPPs, both within government and across the private sector. There have been some key lessons over the years, and some of these are captured in this document. It has taken repeated interactions between government institutions and the private sector to better understand each other's needs. Ultimately, the objective of good PPP projects is to achieve win-win outcomes.

Such outcomes are best achieved when government institutions have a very clear idea of what type of infrastructure and services are required to meet the needs of the public in a given sector. By communicating these needs precisely to the market, private sector players can come together in consortia that offer the best mix of skills to devise creative solutions through cost-effective designs.

Although PPPs are but one avenue for procuring capital projects, the process followed is characterised by diligent planning and transparent bidding – features that should be encouraged for all procurement methods. Moreover, the pressing service delivery challenges across all spheres of government suggest that PPPs could play an even greater role in South Africa.

This publication makes a strong case for stepping up the application of PPPs in those sectors that lend themselves to private sector participation through effective risk transfer.

Trevor A. Manuel, MP
Minister of Finance
October 2007

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1. What are PPPs?

Traditional procurement vs PPPs

PPPs or public private partnerships are long-term contracts between the public and private sector. The main objective of PPPs all over the world is to ensure the delivery of well maintained, cost-effective public infrastructure or services, by leveraging private sector expertise and transferring risk to the private sector.

In traditional procurement of public services or infrastructure, government pays for capital and operating costs and carries the risks associated with cost overruns and late delivery. While the expertise and experience of a private company may be procured for the design and construction of infrastructure, once the asset is delivered the private company is paid and then leaves. The public sector is then responsible for staffing, maintenance, and operation.

In PPP procurement on the other hand, the public sector buys a full set of services, including infrastructure and other services, from the private sector. It pays for these over the term of the PPP agreement, based on successful delivery. The private sector typically puts its own capital at risk, funding its investment in the project with debt and shareholder equity. Because of the financial risk the private sector takes, it is motivated to provide a high level of service, as good returns on equity will depend on the quality of services it delivers.

Some PPPs, where fees are generated on a user-pay basis, derive income from which government departments or municipalities can share benefits.

PPPs are also a good vehicle for other social objectives, such as economic empowerment, through aligning the incentives of the private party with those objectives.

Some definitions of PPPs

Internationally:

“....A PPP is any medium to long-term relationship between the public and private sectors, involving the sharing of risks and rewards of multisector skills, expertise and finance to deliver desired policy outcomes.”
(Standard & Poor)

“PPPs are long-term partnerships to deliver assets and services underpinning public services and community outcomes. Optimal structuring links private sector profitability to sustained performance over the long term, yielding robust and attractive cash flows for investors in return for delivering better value for money for the taxpayer.”
(John Laing plc)

A PPP is defined in South African law as:

A contract between a government institution and private party, where:

- the private party performs an institutional function and/or uses state property in terms of output specifications
- substantial project risk (financial, technical, operational) is transferred to the private party
- the private party benefits through: unitary payments from government budgets and/or user fees.

Three basic tests for PPPs

There are three internationally applied standard tests to determine whether a PPP is the appropriate vehicle for procuring a public asset or service:

- Can substantial **risk** be transferred to the private sector?
- Is the project **affordable** to the procuring institution?
- Does a PPP procurement option show **value for money**?

Risk

The public sector does not always manage risk well. For example, if an institution is building infrastructure, construction may be completed late and budgets may be overspent. This is not in the public interest. A key characteristic of PPPs is the transfer of risk from the public sector to the private sector. If the private sector does not complete construction on time and within budget, it will not be paid by the procuring institution. This principle also applies to the provision of services. If the agreed upon services are not available or do not meet the agreed upon standards, the private party faces financial penalties.

However, it is important to understand that the institution does not transfer all the risks to the private sector. Only those risks that the private party is best able to manage are transferred.

Affordability

One of the most important tests for a PPP is whether the procuring institution can afford it, given its available budgets.

Sometimes, institutions have not budgeted adequately for their infrastructure and service delivery needs. Budgets may need to be reviewed once proper business cases have been prepared and evaluated.

Value for money

To decide whether or not to procure infrastructure through a normal tender process or through a PPP, a value-for-money test needs to be applied. How much will it cost for the institution to provide infrastructure and services itself compared to the costs of providing the same infrastructure and services through a PPP? If the comparison shows that a PPP is more cost-effective, the difference in cost between the two scenarios is known as value for money. If the value-for-money test shows that the traditional procurement method is more cost-effective, the PPP option will not be pursued.

Characteristics of PPPs

- A PPP is a clearly defined project, where the procuring institution carefully defines its objectives.
- The contractual relationship spans a set length of time, which may range from 5 to 30 years.

- The private party plays a key role at each stage of the project: funding, development, design, completion and implementation.
- The funding structures of a PPP sometimes combine public and private funds.
- Payment arrangements in PPPs are based on outputs, related to the provision of services and/or infrastructure and services.
- PPPs are not a way of avoiding payment for capital projects. They allow the procuring institution to spread payments for large projects over the project's lifetime.
- Direct user charges, like road tolls or water fees, may also contribute to a project's revenue.
- Risks are allocated to the party most able to carry them. This means mitigating their impact and/or being able to absorb the consequences.
- Fixed and operational assets are adequately maintained over the project's lifetime.

A PPP is *not*:

The way that a PPP is defined in Treasury Regulation 16 makes it clear that:

- A PPP is not a simple outsourcing of functions - it is a long-term contract involving substantial risk transfer
- A PPP is not a donation by a private party for a public good.
- A PPP is not the privatisation of state assets and/or liabilities.

PPPs in South Africa

The government of South Africa is committed to delivering quality infrastructure and related services in line with its commitment to ensuring a better life for all.

Alongside traditional procurement methods, PPPs play a central role in delivery, and government is committed to PPPs for projects with significant scope for private sector participation. Cabinet mandated the Minister of Finance to set the PPP process in motion, after which a coherent legislative and regulatory framework had to be developed.

The legislation

The main legislation governing PPPs at the national and provincial levels of government is the Public Finance Management Act (1999) (PFMA) and Treasury Regulation 16. Municipal PPPs are governed under the Municipal Finance Management Act (2003) (MFMA) and its regulations, and the Municipal Systems Act (2003) (MSA). All this legislation supports and reflects government's policy objectives for delivering infrastructure and public services, in line with its constitutional mandate. As a means of procuring and delivering infrastructure services, PPPs are in line with the intent of both the PFMA and MFMA. Both acts focus on delivering outputs through value-for-money solutions.

Types of PPPs

Treasury Regulation 16 defines two types of PPPs:

- where the private party performs an institutional function
- where the private party acquires the use of state property for its own commercial purposes.

A PPP may also be a hybrid of these types.

Payment in any scenario involves one of three mechanisms:

- the institution paying the private party for the delivery of the services, or
- the private party collecting fees or charges from users of the service, or
- a combination of these.

Treasury Regulation 16 also allows PPPs to be developed with a range of different characteristics. These all involve transferring risk to the private party for designing, financing, building, and operating infrastructure and services.

There are PPPs in many sectors of the South African economy, including health, transport, IT, head office accommodation, tourism, toll roads, fleet management, and education. It is appropriate that PPPs are developed in the sectors where more people require service delivery. (Section 6 of this booklet looks at some examples of the different types of PPP projects in South Africa.)

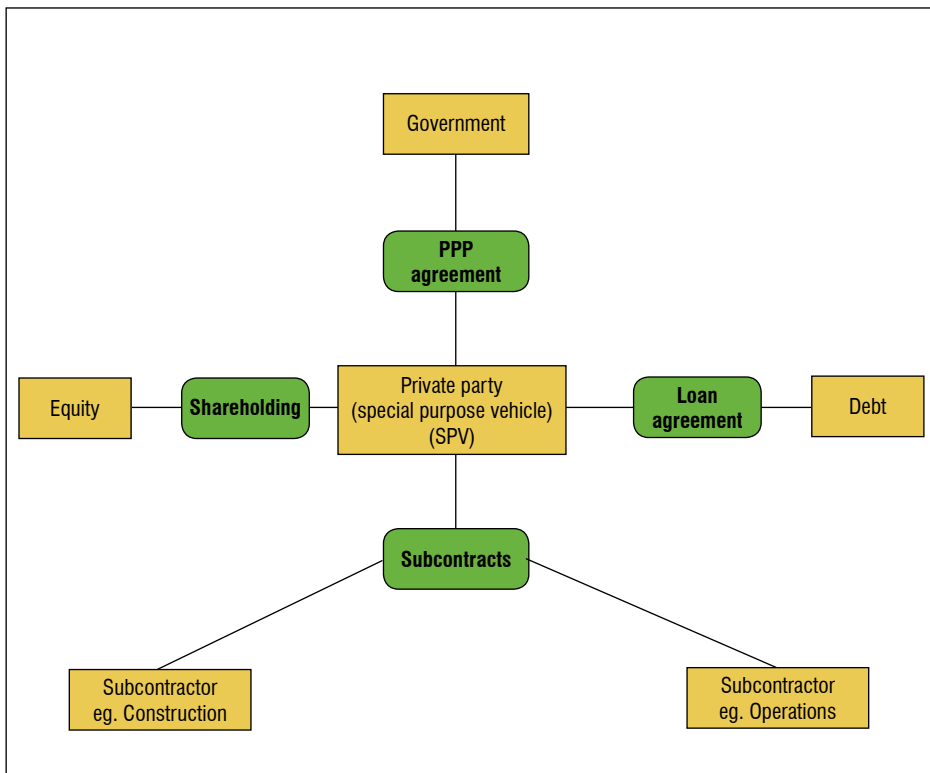
Financing PPPs

Treasury Regulation 16 is not prescriptive about the financing structure of a PPP. It is assumed that this will vary widely from project to project and sector to sector, and will be closely linked to the funding sources that can be secured for each deal.

However, PPPs usually involve the private party raising both debt and equity to finance the project. In most PPPs, a dedicated business entity is set up by the private party. This is called the special purpose vehicle (SPV), whose sole purpose is to deliver the project. The typical structure of an SPV is shown in the diagram below, together with the financing structure. National Treasury’s PPP Manual and Standardised PPP Provisions have been developed for this typical PPP structure and provide the mechanism for soliciting sources of funding.

PPPs may involve some capital contribution by the institution to the initial costs of the project. Some PPP projects do not involve debt finance at all, being initially funded either wholly through corporate finance or by a combination of government funds and private equity. In end-user-pay projects, there may also be some government funding for either or both the capital and operating costs of the project.

Typical SPV structure for PPPs



2. Why do we use PPPs?

The main reason for using PPPs is that they can deliver better value for money than traditional procurement. When weighing up the pros and cons of whether to go the PPP route, value for money should be the main objective.

Indeed, PPP procurement is only one of a number of options for procuring infrastructure and associated services. Managers must carefully consider whether the delivery of a project is suited to a PPP. Before considering a PPP as a delivery mechanism, managers need to ensure that project planning takes place within an enabling environment, including political support and buy-in from key stakeholders.

PPPs in South Africa are an important service delivery mechanism because they can facilitate rapid infrastructure delivery as envisaged under the Accelerated and Shared Growth Initiative for South Africa (Asgi-SA). In the South African context, the promotion of black economic empowerment (BEE) is another consideration for pursuing PPP procurement options. South African PPPs are structured to advance BEE, which is a key criterion in evaluating a private party's bid. Once the preferred bidder has been chosen and the project is under way, the private party has to meet the agreed BEE targets or risk paying harsh penalties. (Section 3 of this booklet looks at PPPs and BEE.)

Some good reasons for choosing a PPP

- **PPPs leverage private party capital to fund infrastructure**

In the most common form of a PPP, the private party will use its own money to build infrastructure on behalf of the procuring institution. Because the private party usually secures a loan, it is incentivised to complete the infrastructure on time and within budget. But the absence of a capital budget on the part of the procuring institution should not be the sole reason for entering into a PPP, as the infrastructure will still have to be paid for over the period of the PPP. One reason that an institution may require a private party to use its own funds is to

ensure that there is a strong financial incentive to complete construction on time and within budget, as the private party will be keen to start servicing its debt.

- **PPPs leverage private sector skills**

In handing over certain responsibilities for a project, the procuring institution is using a range of skills offered by the private party. These include all the skills required in the development or upgrading of infrastructure, project management skills, contract management skills, and, if a service is being procured, particular service skills. Because of the acute skills shortage in South Africa, this is a particularly important criterion for choosing a PPP. The procuring institution needs to reflect honestly on its own track record of project delivery. Has it been able to deliver services on time and in budget? Does it have the necessary project management skills? If the institution is procuring a project requiring specialist skills, the private party which has these skills could supplement the institution's existing in-house skills. Where the institution does not yet have the skills, the PPP can contribute to skills transfer and capacity building. Part of the PPP contract should also involve the private party transferring appropriate skills to the procuring institution.

- **PPPs can be good for project planning**

The PPP regulations require managers to go through a careful planning process centered around the project feasibility study. So PPPs are a good way for government institutions to plan projects, aligning them with their strategic delivery responsibilities using well developed business plans.

- **The private sector takes financial risk over the lifecycle of the project**

Sometimes the private party's pricing structures in a PPP may seem more expensive than traditional procurement. A reason for this is that in calculating and designing its pricing, the private party is including the cost of the risks that it will be managing for the entire duration of the project. In some traditional procurement, not all the risks and their associated cost are reflected in a contractor/service provider's upfront pricing. Rather, the procuring institution will be responsible for any unforeseen delays or hindrances and for any failure on its part to deliver the anticipated services, and it will be penalised accordingly.

- **Risks are allocated to the party best able to manage a particular risk**

PPPs are designed so that risks are allocated to the party best able to manage them. For example, if the private party has the right skills to manage a project over the long term and the procuring institution does not, it makes sense for the private party to take on the risks associated with project delivery.

- **PPPs deliver budgetary certainty**

When the PPP agreement is signed, the future cost of a PPP project is clear: the procuring institution will receive specific outputs at specific costs and will budget accordingly. In traditional procurement on the other hand, the costs of completing the project and maintaining the assets in the future are not certain, and are the responsibility of the procuring institution. Also, many institutions do not budget appropriately for the maintenance and operating costs of their assets.
- **The public sector pays only when services are delivered**

In a PPP, the procuring institution pays only when the private party starts to deliver the services. For example, if the private party is late, the institution does not pay, which means that the taxpayer does not carry the cost for a service that is not happening. The method of payment is carefully linked to the quality of services being provided. If services are not being delivered to the institution's satisfaction and in line with the PPP agreement, the private party may also be liable to pay penalties. So it is in the private party's interest to deliver quality services on time, which in turn benefits the end-user.
- **PPPs force the public sector to focus on outputs and benefits from the start**

When the procuring institution is working out what it needs to deliver and is considering a PPP as a possible vehicle, it has to specify the outputs of a service, and not concentrate so much on how the service is going to be delivered. The institution therefore focuses on service levels and the successful private party bidder is responsible for designing the details of the project.
- **The quality of service has to be maintained for the duration of the PPP**

The private party has to maintain the same standard of service delivery for the duration of the contract. This can contrast strongly with traditional procurement, when the condition of an asset declines as the asset gets older and so the service levels decline over time.
- **Specialist skills are developed and transferred to the public sector**

In a competitive environment, it is in the interests of the private sector to proactively develop skills that will benefit the project and the procuring institution. The PPP contract will specifically require skills to be transferred to the public sector.
- **PPPs encourage the injection of private sector capital**

The use of borrowed private sector capital for a project means that the lenders of the capital will apply rigorous measures to make sure that a project is viable and stays on track. These include a due diligence, and rigorous monitoring

and control mechanisms throughout the project. In addition, returns on debt and equity are only secured if a project is successfully completed and operating properly. This provides an incentive to the private party to implement and manage the project well.

The tests for a PPP in South Africa

Whatever the PPP type, structure, payment mechanism or sources of funding, all South African PPPs, governed by Treasury Regulation 16, are subjected to three strict tests:

- Is substantial technical, operational and financial **risk** transferred to the private party?
- Can the institution **afford** the envisaged fee?
- Is it a **value-for-money** solution?

Before deciding whether to pursue a PPP, the procuring institution needs to carefully reflect on a number of important issues related to the tests of risk, affordability and value for money.

Does the private party have sufficient capacity and expertise?

The private bidders must be able to clearly demonstrate that they have the capacity, skills and capability to deliver the project, and to do so more efficiently than other parties.

Does the procuring institution have sufficient capacity and expertise?

This is a question that can easily be overlooked, or answered too superficially. A PPP does not allow an institution to 'pass the buck' to an outside party to do the job. This means the transaction advisor, during the inception, feasibility and procurement phases, and then the successful bidder once the contract has been awarded. All the phases of a PPP involve a high level of engagement from the procuring institution.

What types of projects are suitable for PPP procurement?

Apart from the issue of capacity, the characteristics of the project itself will suggest whether PPP procurement is suitable. Typically, the project should involve the development of a very large infrastructure asset and there should be ample scope to allocate clearly identifiable risks to the private party.

PPPs under different spheres of government

PPPs may be procured by the national, provincial and municipal spheres of government. PPPs procured at the national level would usually be for government head office accommodation and prisons; PPPs in health, tourism and education are normally procured at the provincial level; and at the municipal level, PPPs would be procured for municipal services and infrastructure.

The potential of PPPs for delivering basic services

Generally, the reasons to do PPPs at the municipal level are the same as for PPPs under national and provincial departments. In fact, PPPs can be even more valuable to municipalities because municipalities are charged with some of the most important levels of service delivery, such as the provision of clean drinking water, solid waste disposal, the provision of social and low-cost housing, and electrification. The provision of these types of services directly impacts on the quality of life of poor South Africans. PPPs, along with traditional procurement methods, can play a significant role in reducing the backlogs in municipal service delivery.

PPPs can be appropriate mechanisms in every area of responsibility for a municipality. To date, municipalities have investigated PPPs in:

- water services
- sanitation
- property development
- solid waste management
- head office accommodation
- land fill gas
- social housing.

3. PPPs and BEE

Black economic empowerment (BEE) is a national policy objective, and PPPs are seen as a good vehicle for promoting and developing it. This has been formalised in the Code of Good Practice for BEE in PPPs, which was issued in 2004 under the PFMA¹. BEE thresholds are built into the bidding and evaluation processes for PPPs.

PPPs offer valuable opportunities for strong and sustainable BEE. The entire PPP process, from the appointment of the transaction advisor to the final procurement of the private party, ensures that BEE targets are consistently set and met. PPP BEE policy has been devised to achieve a broad-based and sustainable BEE outcome in every PPP project.

In each PPP project there is a BEE scorecard with targets for the private party in relation to:

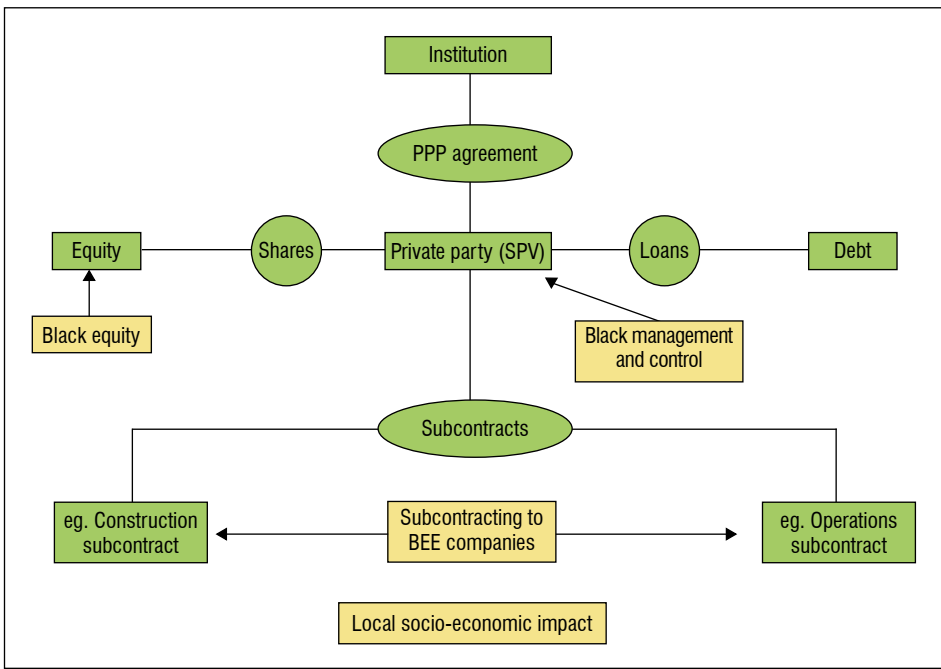
- **Equity:** to achieve meaningful and beneficial direct ownership of substantial equity interests by black people, black women and black enterprises
- **Management and employment:** to achieve effective participation in the management control of the private party and its subcontractors by black people and black women
- **Subcontracting:** to ensure that the private party contracts a significant proportion of its subcontracting and procurement to black people, black women and black enterprises
- **Local socio-economic impact:** to promote positive local socio-economic impact from the project to the benefit of SMMEs, the disabled, the youth and non-governmental organisations within a targeted area of the project's operations.

Why PPPs are good for BEE

As discussed earlier, for every PPP providing a service or infrastructure a single business entity is created in the form of a private party special purpose vehicle (SPV). The different elements of BEE are included within the SPV, as the following diagram shows.

¹ The PPP BEE Code of Good Practice is gazetted under the Broad-based Black Economic Employment Act, together with other industry charters.

BEE in an SPV



Every aspect of BEE is carefully considered within the PPP ownership and management structure. For example, to achieve meaningful equity participation in the SPV, it is important that both the percentage of ownership of black partners and the specific strategic role they will play in implementing the project are monitored .

In addition, the PPP process is structured to reduce the costs associated with black partners borrowing to purchase equity in the SPV and to shorten the time it takes for them to receive dividends from the project. All other aspects of BEE are continuously evaluated. These include the number of black managers and black female managers, as well as employment equity plans, and skills development programmes for developing black staff. The amount spent on black owned SMME subcontractors is also monitored, to ensure that they benefit from the implementation of the PPP.

Features of BEE within the SPV:

- The private party SPV is a long-term business, making it possible to grow black equity and management over time.
- There is broad-based BEE impact: PPPs reach big and small entrepreneurs.

- Risk is clearly identified and costed: Financial institutions will be more likely to lend funds to the SPV.
- Cash flows are secure where government is the buyer of the service, providing business certainty to BEE equity partners.
- PPPs create jobs and develop skills for BEE partners.
- PPPs create significant subcontracting opportunities for black SMMEs.
- PPPs have created a strong demand for black professionals as transaction advisors to both institutions and private parties.

A PPP BEE equity facility

The commitment to BEE through PPP procurement is so strong that National Treasury has worked with the Development Bank of Southern Africa (DBSA) to create a PPP BEE equity facility to fund BEE equity in PPP deals. This financial instrument not only funds equity at preferential rates but also provides legal and financial technical assistance to BEE partners. This allows BEE equity holders to structure their participation in a PPP favourably.



Inkosi Albert Luthuli Hospital

4. The PPP process

PPPs are by their nature complex contractual and operational arrangements. As they involve a number of players from different sectors, representing a variety of interests, the partnership needs to be formalised and processes need to be followed in a systematic and transparent way.

To ensure that these complexities are dealt with appropriately, detailed documentation needs to be prepared at all phases of a PPP project. It is important to note that PPPs can take a long time to procure if these processes are not carefully followed.

At all phases of a project's development, the inputs of both the procuring institution and the private party need to be assessed in terms of their compliance with the legislation, the regulations and the process and its components, including with the bidding process, the BEE component, and the formation of the special purpose vehicle (SPV).

National Treasury's PPP Unit is the main source of support and regulation for ensuring this compliance, supported by the provincial treasuries.

Key decision points in the PPP project cycle

National Treasury's PPP Unit has designed a generic PPP project cycle to ensure that PPPs are carried out rigorously. The project cycle and the instructions in the PPP Manual are designed to facilitate parties' understanding of the PPP process and avoid idiosyncratic responses, including incomplete documentation. National Treasury's PPP Unit is aware that PPPs are all different and is reasonably flexible about intelligent deviations, but only where appropriate.



NATIONAL
TREASURY
PPP

unit

PPP project cycle

Reflecting Treasury Regulation 16 in terms of
the Public Finance Management Act, 1999



- Inception:** The procuring institution registers the project with National Treasury's PPP Unit.
- Feasibility study:** The procuring institution appoints private sector advisors to do a feasibility study on the most appropriate mechanism for procuring the project.
- Procurement:** If the feasibility study shows that a PPP is a viable option, the procuring institution invites the market to submit bids for the infrastructure and/or service provision project.
- Implementation:** The project is implemented once a suitable bidder has been chosen.

Documentation to guide and support the PPP process

- The enabling and regulatory legislation for national, provincial and municipal PPPs includes: the PFMA, Treasury Regulation 16, the MFMA, the MSA, the municipal PPP regulations, the municipal supply chain management (SCM) regulations, and the Code of Good Practice for BEE in PPPs.
- National Treasury's *Standardised PPP Provisions* provide a comprehensive, standardised contract for PPPs in South Africa.
- National Treasury's *PPP Manual*² leads national and provincial PPP practitioners through the project cycle. National Treasury's *Municipal Services and PPP Guidelines* provides similar detailed instruction for municipal PPP practitioners. The objective of these manuals is to help procuring institutions and the private sector follow the processes systematically. National Treasury's *PPP Toolkit for Tourism* distinguishes between large cap and small cap PPPs, which is reflected in the project cycle. Small cap PPPs are particularly appropriate to the tourism sector, where many projects are carried out by SMMEs.
- The *PPP Manual* and the *Municipal Services and PPP Guidelines* summarise the project cycle: the different phases of the project, during the preparation period and the project term, from inception to exit.

What role does National Treasury's PPP Unit play in PPPs?

National Treasury's PPP Unit, established in 2000, is the lead government agency for PPPs in South Africa. Apart from its regulatory function, the unit plays a crucial role in the development of the South African PPP market.

The PPP Unit:

- develops, formulates and promotes PPP policy
- has developed systems and documentation to formalise and standardise PPP processes
- provides direct technical assistance to national and provincial departments, and municipalities, in preparing and procuring value-for-money PPPs
- ensures that international best practice for PPPs is followed in the South African context

² National Treasury is aware that different sectors have particular characteristics, which need to be factored into PPPs. For this reason it has developed a separate manual for PPPs in the tourism sector (the *PPP Toolkit for Tourism*), and is aiming to develop toolkits for other sectors, like health and transport.

- provides quarterly PPP training for both the public and private sectors
- produces and distributes the PPP Quarterly and is the PPP knowledge management centre for the country
- is in touch with international PPP bodies to ensure that South African PPPs keep up with international best practice
- works with provincial treasuries to oversee provincial PPPs.

What other roleplayers are involved in PPPs?

While small, simple PPPs may require less specialised skills than large, complex PPPs, all projects require a certain level of skill and competence at every stage, in both the procuring institution and the private party. These include financial and legal skills, as well as the particular technical and project management skills for projects in different sectors.

Other stakeholders usually include environmental organisations, trade unions and community based organisations. These stakeholders are often consulted and give input into the PPP process, to promote transparency and broad based support.



Gautrain Rapid Rail Link

5. What makes a good PPP?

The most important factor in ensuring the success of a PPP, or a conducive PPP environment generally, is that government and the private sector share a strategic long-term vision that sees PPPs as valuable contributors to economic growth, employment and nation-building.

Factors contributing to a PPP's success

- The institution knows exactly what it wants as outcomes of the PPP.
- The PPP process has a dedicated champion in the institution.
- The PPP process has clear support from the politicians and the top public officials.
- There are good transaction advisors who understand the procuring institution's requirements and service delivery mandates.
- A thorough and rigorous feasibility study is conducted.
- Appropriate risk is transferred to the private sector to ensure value-for-money outcomes.
- The institution has strong management skills.
- The institution has strong relationship and communication skills.
- A proper monitoring and evaluation model is necessary for ensuring continuous value-for-money outcomes.
- Coherent legislation and regulations for procuring PPPs at the national, provincial and municipal levels are in place.

- The processes for procuring lower value PPPs are adapted and streamlined so that they can be implemented faster³.
- The PPP Unit proactively promotes and facilitates PPPs.
- The public sector has clear and articulate policy goals.
- There are clear rules for comparing PPP procurement and traditional public procurement.
- The private sector is incentivised to transfer skills.

Some challenges to PPPs in South Africa

As the PPP market grows in South Africa, it is clear that the public sector needs to improve its understanding of PPPs and in which sectors they should be pursued to complement traditional procurement practices.

There are capacity constraints in both the public and private sectors in the delivery of PPPs in South Africa. The public sector needs to increase its capacity to implement and manage PPPs. The private sector needs to contribute to developing the PPP market by improving the quality of its advisory services to institutions, and by striving to offer better value for money.

In addition, more competition must be created in the PPP market, particularly in the funding of projects by financial institutions.

It is imperative that the public and private sectors move towards a greater shared vision of the role that PPPs can play in delivering infrastructure and services in South Africa. The onus is on both parties to make PPPs viable through a genuine spirit of co-operation that engenders trust.

³ National Treasury's *PPP Toolkit for Tourism* distinguishes between large cap and small cap PPPs, which is reflected in the project cycle. Small cap PPPs are particularly appropriate to the tourism sector, where many projects are carried out by SMMEs. The small cap route is a streamlined and thus quicker process.

6. A snapshot of some South African PPPs

Some successfully implemented PPPs in South Africa are featured below.

Projects in operation

- **Inkosi Albert Luthuli Hospital**

This is one of the few paperless hospitals in the world. The private party is responsible for the provision and regular upgrading of state-of-the-art medical equipment, facility management and an IT system. The integrated IT system allows for the diagnosis and treatment of patients from anywhere in the hospital: all patient information is available electronically to all medical staff at any time.

- **Free State social grants**

This project allows pensions and other social grants to be provided to the rural poor using state-of-the-art wireless technologies. The distribution method, which uses the electronic fingerprint recognition system, has created greater efficiencies and resulted in a massive reduction in fraud. Emergency healthcare is also provided to elderly pensioners waiting in a queue.

- **IT for the Department of Labour**

This PPP provides complete IT services and up-to-date, state-of-the-art equipment to the Department of Labour, including LANs, WANs and industry-specific labour software. The project has enabled the department to set up a website for registering domestic workers for social services such as pensions and unemployment benefits.

- **The DTI Campus**

This project, which provides new head office accommodation for the Department of Trade and Industry and all its entities, was the first PPP head office project.

The building incorporates innovative designs for using space and light and the IT system is fully integrated across the campus. The operation and management of all aspects of the infrastructure is outsourced to the private party.

- **SanPark concessions**

The SanPark concessions for tourism have been particularly important for establishing new SMMEs, which in turn created significant and sustainable job opportunities in the tourism sector. The experience of the SanPark concessions is captured in the first sector-specific PPP toolkit (for tourism).

Recently closed deals

- **Gautrain Rapid Rail Link**

With a value of R25 billion (at financial close), Gautrain is the largest infrastructure project in Africa delivered through a PPP. It has transferred significant construction, operational and financial risk to the private sector. Gautrain has shown that there can be a successful mix of public and private capital to achieve a strategic public infrastructure goal. Gautrain will also be key to the success of the 2010 World Cup operations by transporting large volumes of people to key nodes. It is part of an integrated strategy to upgrade transport infrastructure nationally.

Financial closure⁴: January 2007

- **Fleet management**

The most recent national fleet management deal involves seven national departments, including the Office of the President. The fleet requirements of the departments are completely managed by the private party.

Financial closure: October 2006

- **Western Cape Rehabilitation Centre and Lentegeur Hospital**

The Western Cape Rehabilitation Centre is a physical rehabilitation facility and Lentegeur Hospital is a psychiatric facility. The private party provides hard and soft facilities management to both hospitals. A feature of the PPP

⁴ Financial closure means that all the financial aspects of the deal have been agreed, the financing documents have been signed and project implementation can proceed.

agreement is that the provincial health department knows upfront the financial implications of the potential vacancy rates at the facilities, which is conducive to improved value for money. Another feature is that the BEE targets include sourcing a certain percentage of the labour from the local Mitchell's Plain communities. The project became operational in March 2007.

Commercial closure⁵: November 2006

- **Polokwane Hospital renal dialysis service**

This is the first health PPP in South Africa in which the private party provides 100 per cent of the clinical services. The private party delivers all services related to renal dialysis, including the provision of specialists and pathologists. Having taken over the function from the provincial health department, the private party is phasing in the service. Before this project, patients had to go to Garankuwa for renal dialysis. Now they have access to medical care at standards that have been benchmarked with the private sector. This PPP could be used as a model for other projects.

Financial closure: November 2006

- **Port Alfred and Settlers hospital**

In this co-location project⁶ in Eastern Cape, the private party provides infrastructure and facilities management. The arrangement also has the private sector providing some clinical services to the public sector, and public sector staff providing some clinical services in the private facilities. There are a number of retired medical professionals in Grahamstown, where the Settlers Hospital is located, and under the private party they are able to provide some specialist care at the hospital.

Financial closure: May 2007

⁵ Commercial closure means that the legal contracts and commercial structure of the PPP have been finalised. Commercial closure comes before financial closure.

⁶ In a co-location hospital project, the hospital has separate facilities for public patients and for private patients, but also has some shared services. The private party is responsible for running the entire hospital and for ensuring high quality services to all patients.



Inkosi Albert Luthuli Hospital



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