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Public Private Partnerships in South Africa

Presenter:

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“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.”

Finance Minister, Trevor Manuel, August 2004



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SANParks concessions





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The South African context

- South Africa became a constitutional democracy in 1994
- Inherited severe disparities in citizens' rights, wealth, skills
- Has enacted over 800 new laws in last 10 years
- Multi-ethnic population: 44 million, growing at 1.9%
- Road, rail, airports, ports, electricity, telecoms, water - expanding
- Strong financial markets, competitive commerce and industry
- Inter-governmental system. 3 spheres: national, provincial, local
- Over 200 days of sunshine a year!



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2. Economic indicators



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Economic indicators as at September 2005

- Country credit rating S&P: BBB+
- GDP 2005: US\$ 237b
- Real GDP growth for 2005: 3.79%
- Budget deficit 2005/6: 3.1% of GDP
- Exchange rate: R6.60 to US\$1 and R7.94 to €1
- CPI year-on-year: 3.29%
- Reserve bank lending rate: 7.0%
- Reserve bank net open forward position: US\$ 16.1 surplus



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3. Regulatory environment for PPPs



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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.”



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Regulatory environment for PPPs

- from 1997: decentralised budgeting by each sphere of government
- from 1998: 3-year rolling spending plans and 7-year forecasts
- 1999: Public Finance Management Act:
 - Reduced micro budget management by Treasury
 - National and provincial departments accountable for value-for-money decisions and delivery
 - National Treasury maintains tight budget oversight and guidance
- **2000: Treasury Regulation for PPPs, PPP Unit established**
- 2003: Municipal Finance Management Act:
 - Consistent financial accountability system for local authorities
 - Provides for municipal PPPs and Treasury view on feasibility



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Legal definition of 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



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degree of risk transfer to private party

Outsource

- Capitalisation is for government account
- Government buys specific services but retains risk
- Fixed and movable assets typically belong to government

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Private party:

- Finances (whole or most)
- Designs
- Builds
- Operates

Government purchases complete service and/or enables business

Fixed assets belong to government

Privatise

- State assets sold
- State liabilities sold
- Government has regulatory function only

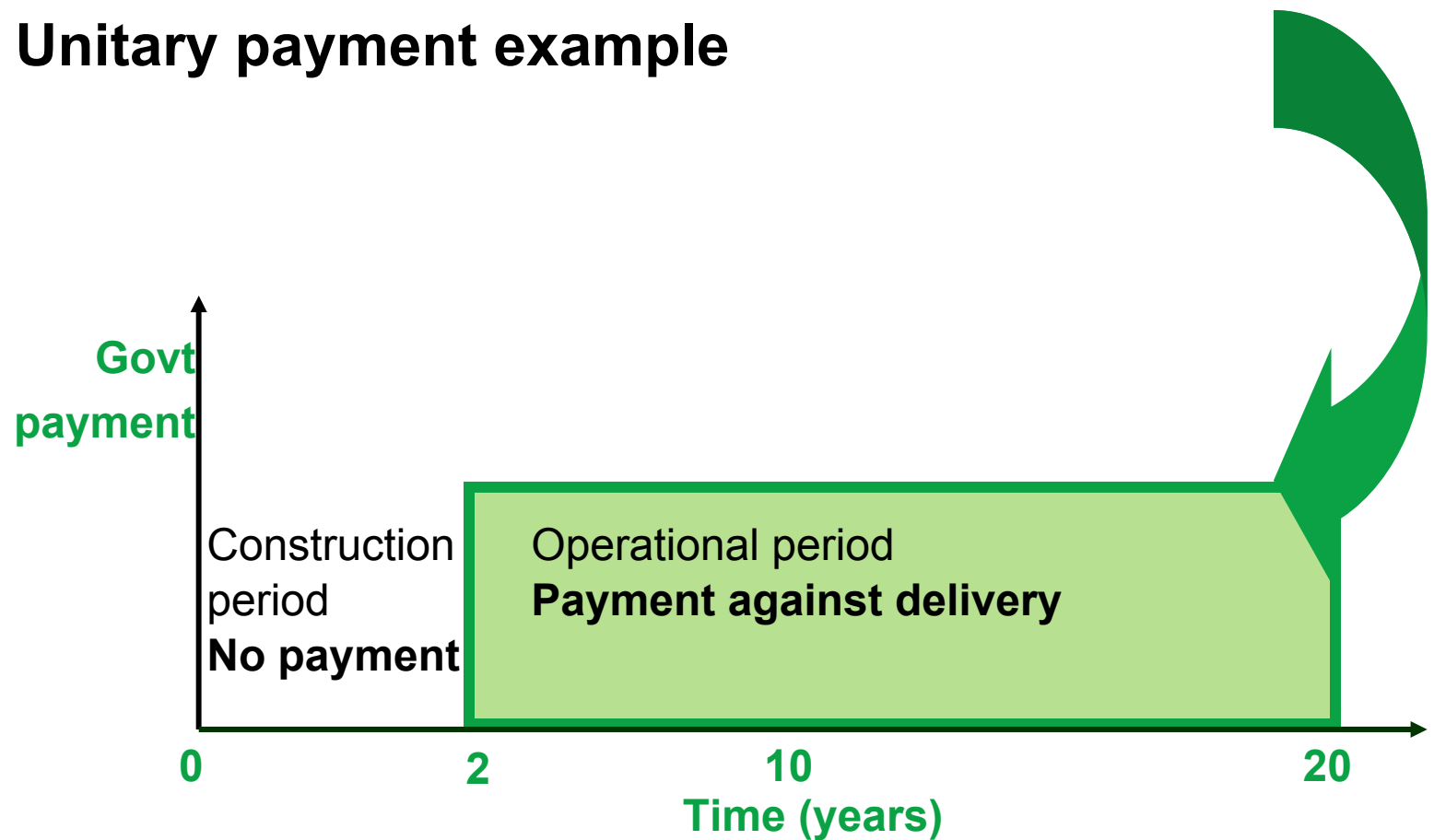


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What is a PPP?

Unitary payment example



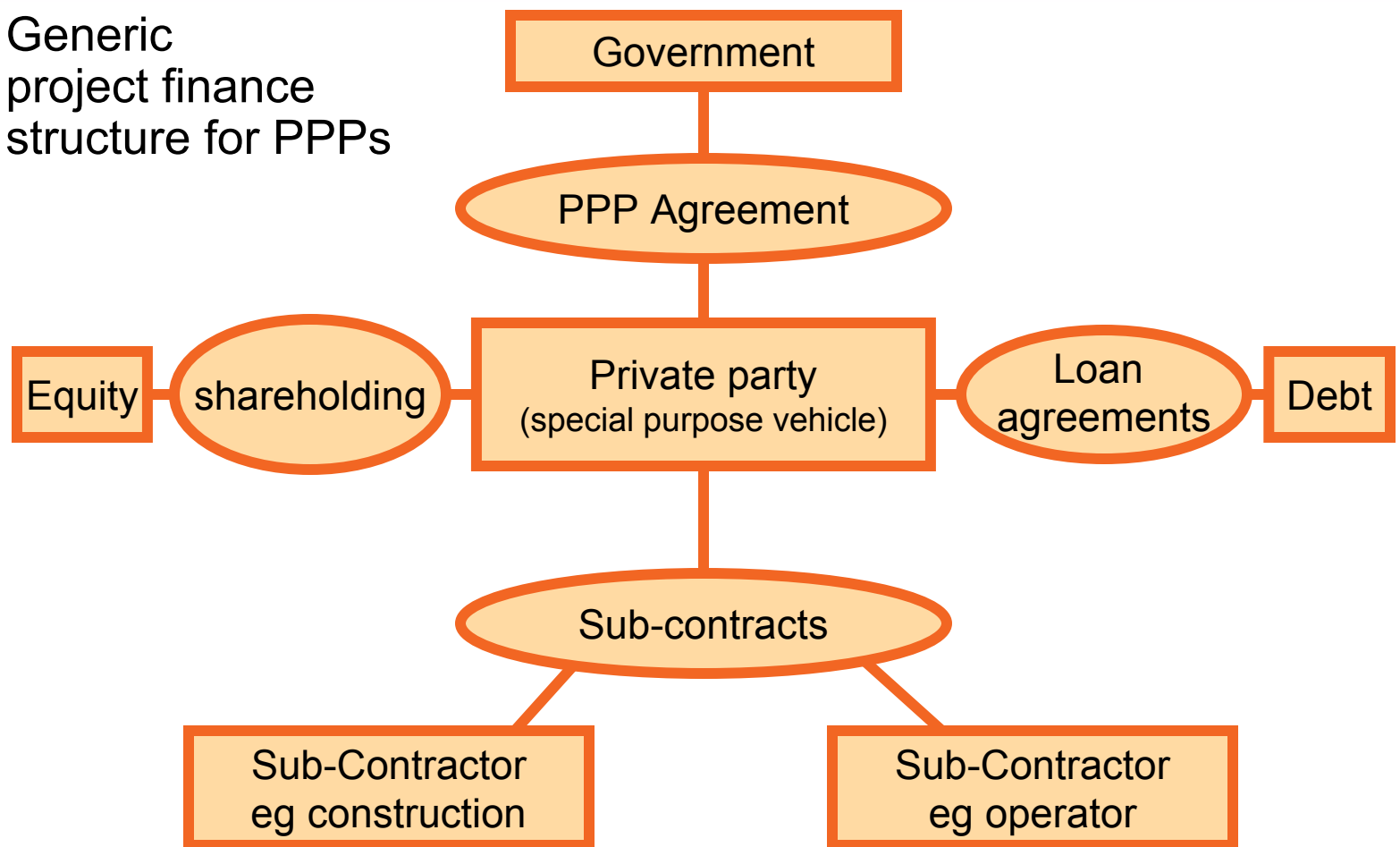


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What is a PPP?

Generic
project finance
structure for PPPs





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Key PPP regulatory features

Three tests for a PPP:

- Affordability
- Value for money
- Appropriate risk transfer

Applied with Treasury approvals in set PPP project cycle:

- Inception
- Feasibility
- Procurement
- PPP agreement management

PPP PROJECT CYCLE

Reflecting Treasury Regulation 16 to the
Public Finance Management Act, 1999





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Black economic empowerment in PPPs

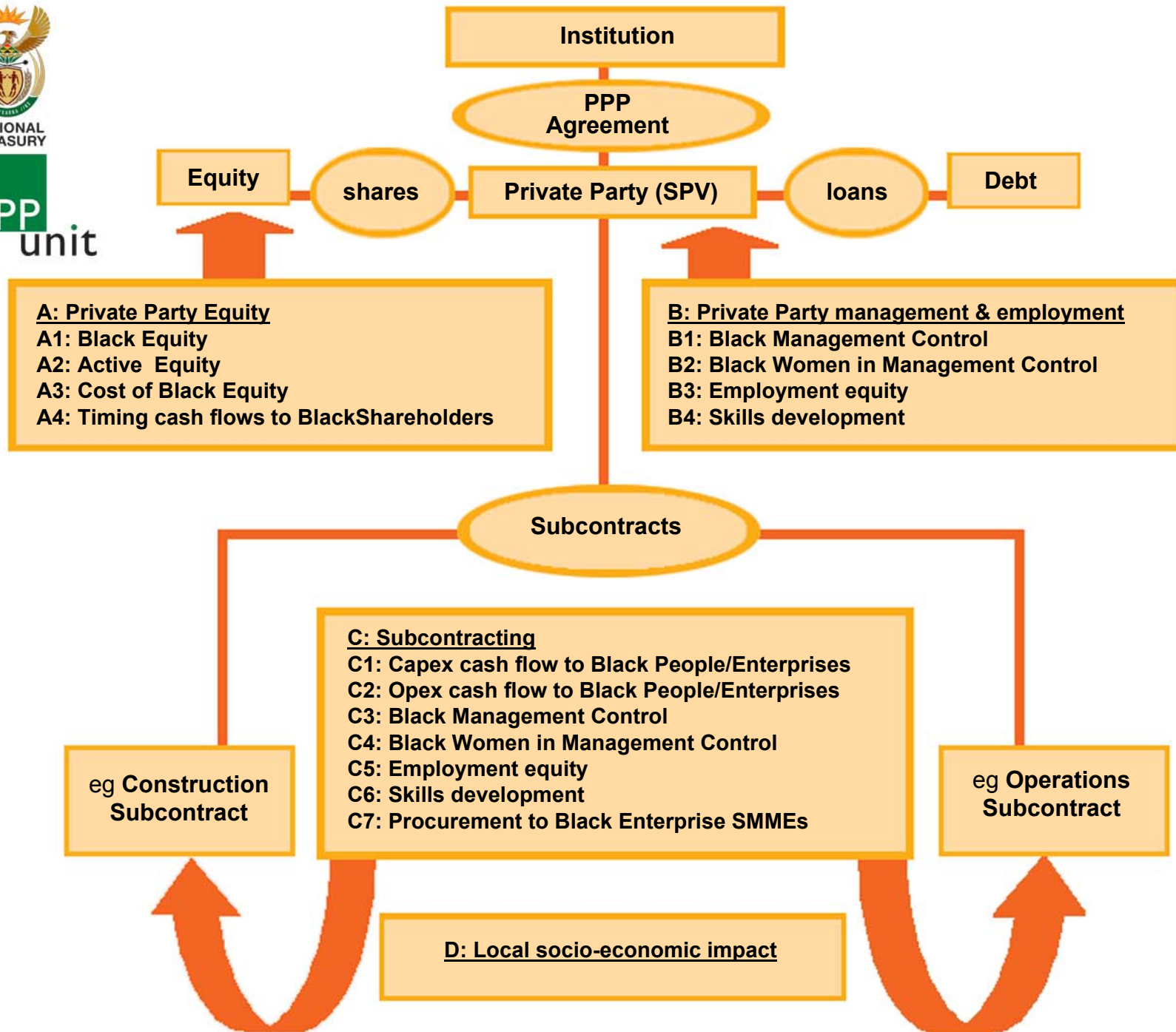
BEE scorecard in each project, with targets for BEE in private party's

- Equity
- Management and employment
- Subcontracting
- Local socio-economic impact



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STANDARDISED
PUBLIC PRIVATE PARTNERSHIP
PROVISIONS



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PUBLIC PRIVATE PARTNERSHIP
MANUAL

Contents of *National Treasury's PPP Manual*

- 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



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4. PPP projects in progress

- Closed deals
- Projects in preparation



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Inkosi Albert Luthuli Hospital

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





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Chapman's Peak Drive 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%



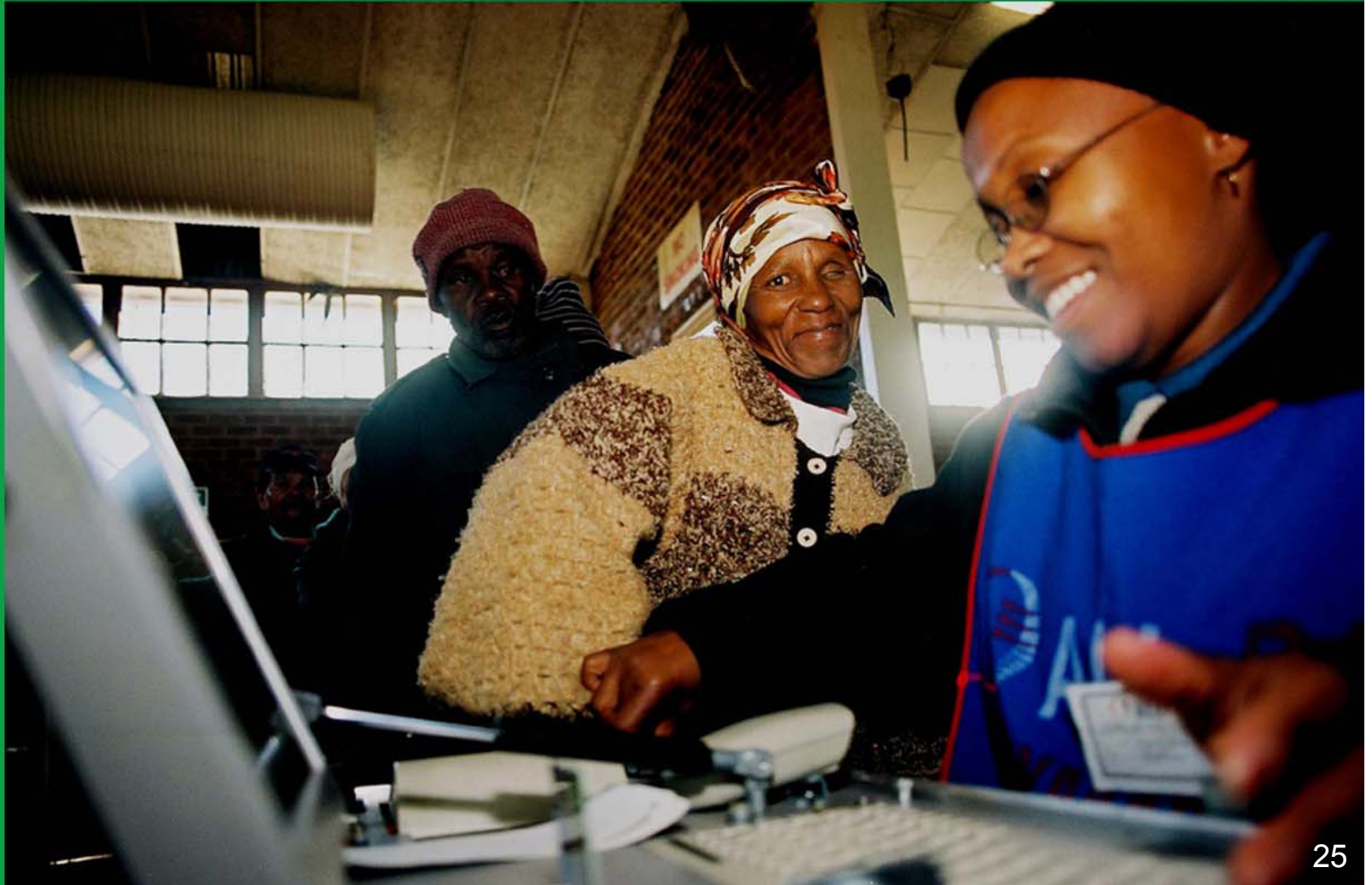


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Free State social grants

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





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Department of Trade & Industry campus

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





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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





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Department of Labour IT

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





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Universitas and Pelonomi Hospitals

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





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SANParks 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

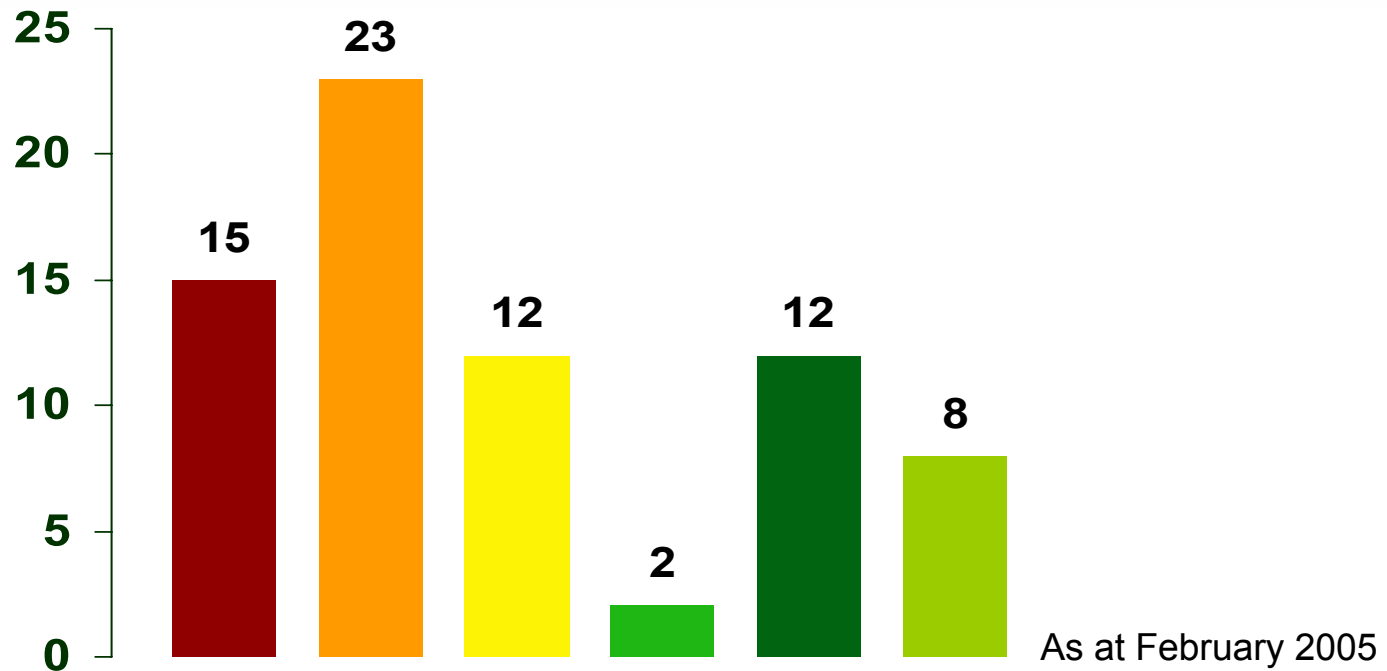




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PPP projects in progress per PPP project cycle phase



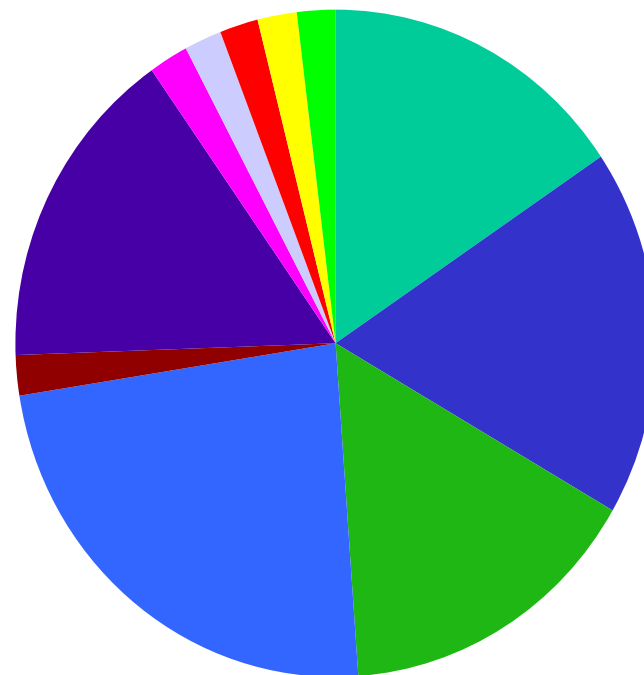
- Inception: 15
- Feasibility: 23
- Procurement: 12
- Negotiations: 2
- Closed deals since Treasury PPP Regs in May 2000: 12
- 8 closed PPP deals prior to Treasury PPP Regs:
(N3 and N4 toll roads, two prisons, SANParks)



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Registered projects in preparation per sector (excl. closed deals)



- 8 ■ Government accommodation
- 9 ■ Transport (rail, airports, fleet, bus)
- 8 ■ Eco-tourism, conservation
- 12 ■ Health
- 1 ■ Education
- 8 ■ IT
- 1 ■ Defence
- 1 ■ Housing
- 1 ■ Prisons
- 1 ■ Labour
- 1 ■ Electricity

As at February 2005



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5. Successes and challenges



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Successes and challenges

Success factors

- Political commitment
- Independent judiciary
- Clear PPP law, process, standard terms
- PPP Unit in strong National Treasury
- Early good projects, training, communication
- Black economic empowerment impact
- Strong financial markets, competitive private sector
- Extensive communication

Challenges

- Deal flow
- Public sector capacity
- Municipal PPPs
- Black economic empowerment



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