

PROPRIETARY & CONFIDENTIAL

# Public Private Partnerships

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# Why PPP's

Questions and statements that contribute to the slow development of the alternative service delivery mechanisms in South Africa

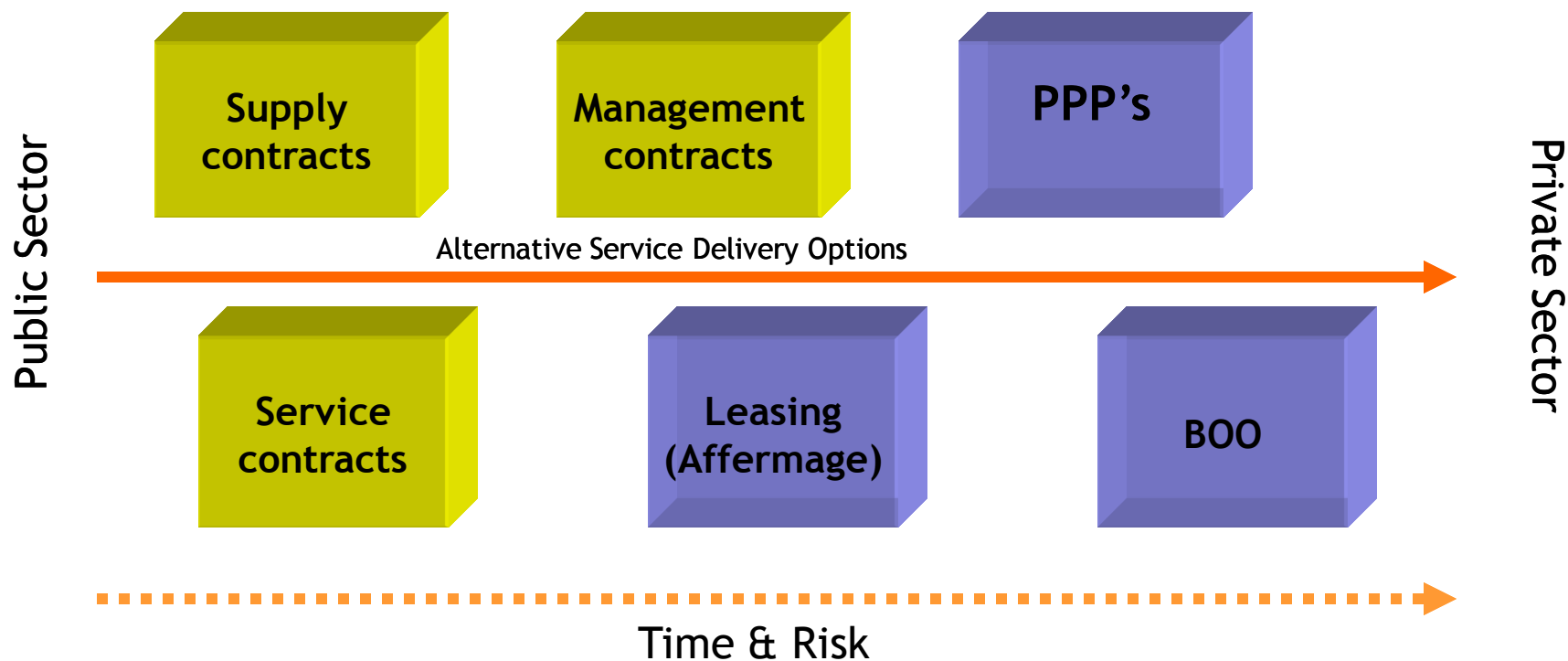
- PPP's is as relevant in developing countries than in developed countries? ✓
- PPP's is hugely expensive and time consuming ✗
- PPP's is an alternative procurement mechanism for major capital intensive projects that exclude (no it includes) service delivery projects
- Consumers are not protected in a PPP and the private sector profit motive will definitely be to the disadvantage of these consumers ✗
- PPP's is a political tool used by liberal and or conservative governments? ✗

# Centre for Development Enterprise

Findings made as a result of study done under auspices of the  
Wits University

- 80% of development in municipalities depends on the private sector
- Failure to consider ASD arrangements
- Capex being directed to new infrastructure whilst maintenance of existing assets, income generating and other are neglected
- The challenge is in understanding the real nature of economic growth and its drivers, as well as the long-term nature and the effect of infrastructure assets

# PPP's the only option? No



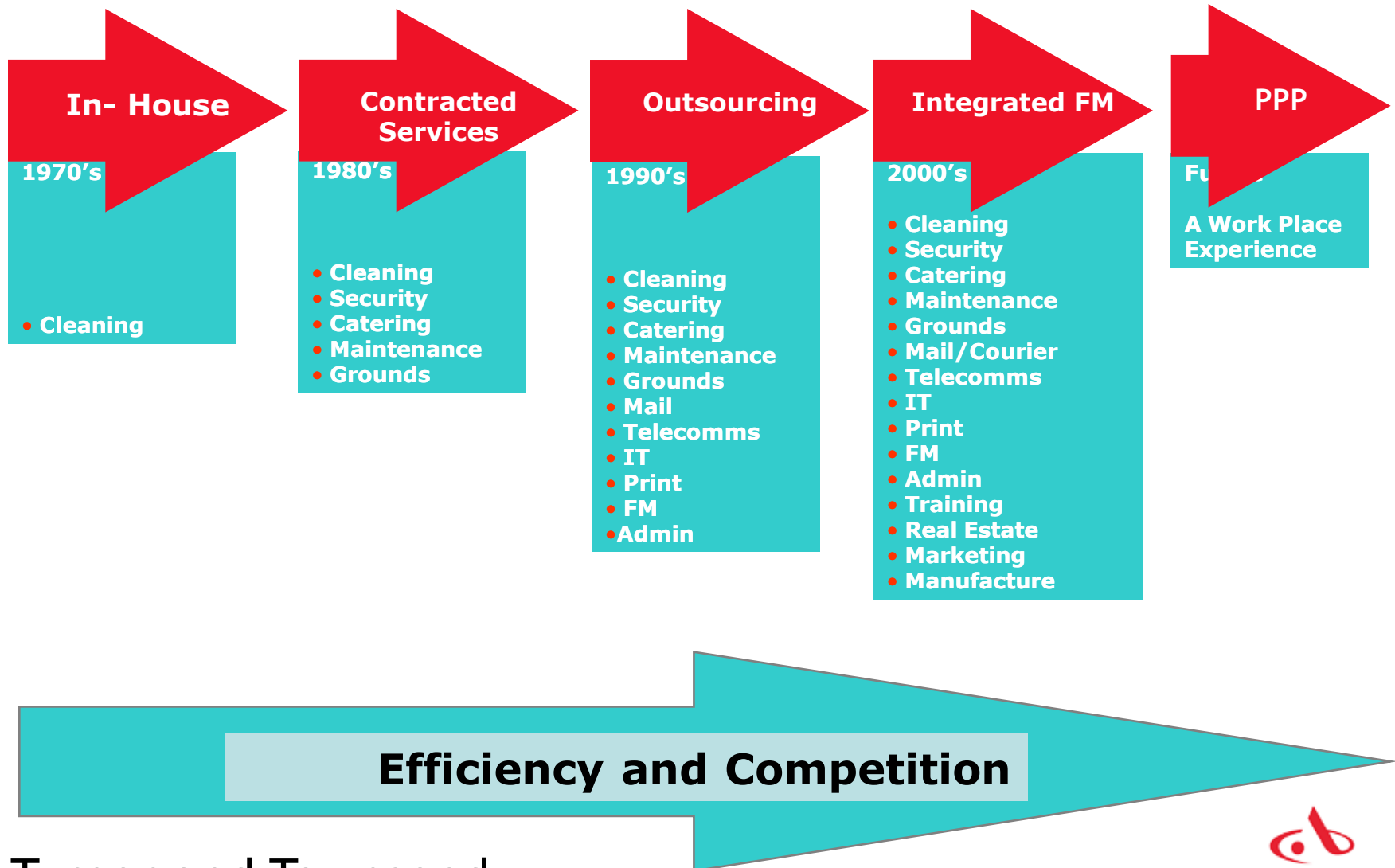
# Rationale for PPP'S

- Scarce capital and resources versus infrastructure backlogs - the most significant change in Public Policy that modernised procurement methodology
- Move away from dependency on the tax base alone & use this base to leverage private sector investment
- Public Sector monitor & regulate
- Private Sector deliver services per outcomes based specification

# South Africa

- **National PPP Unit**
  - Regulate process, National - Provincial Gov. since 2000 and Municipal Gov. since 2006
  - Average project life cycle 24 months
- **Provincial PPP units**
- **Public Finance Management Act + regulations**
- **Municipal Finance Management Act + regulations**

# Service Provision Trends \*(T&T)

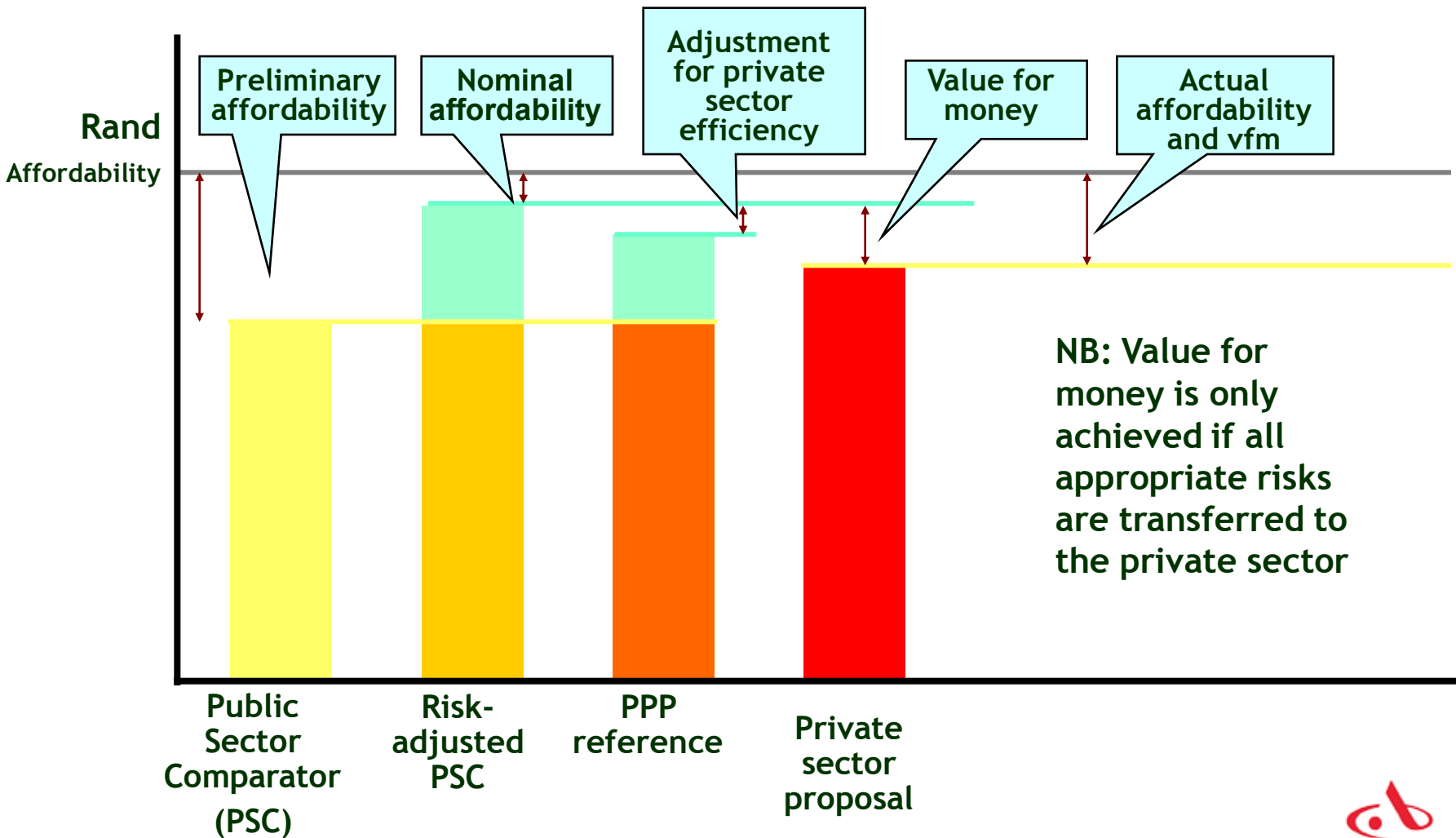


\* Turner and Townsend

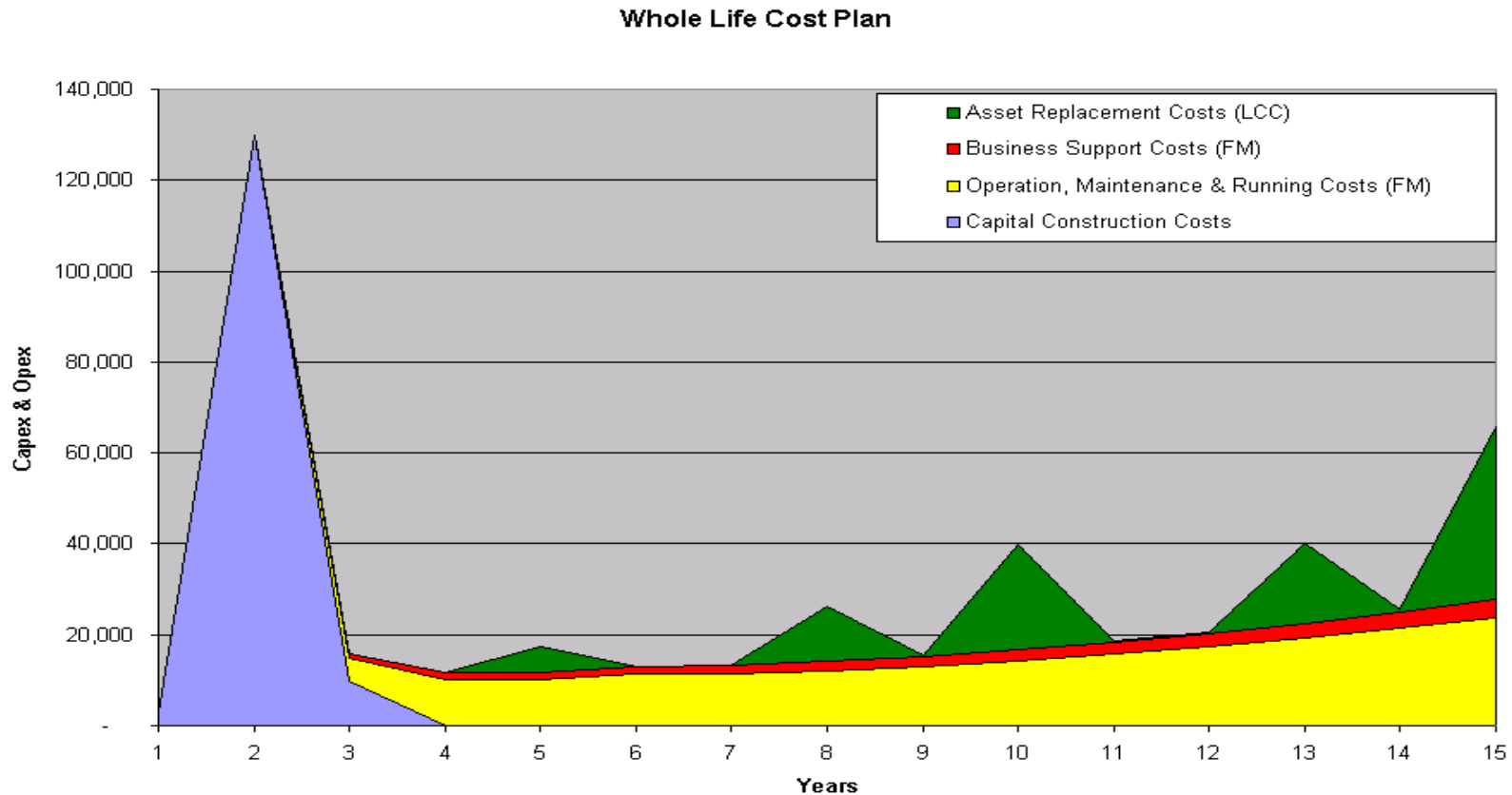
# Guiding Principles for PPP's

- Affordability - budgetary constraints medium term
- Value for money (Vfm)
- Substantial risk transfer to partner best suited

# PPP Project Life Cycle



# Project Life Cycle Costs \*(ECH)



\*EC Harris

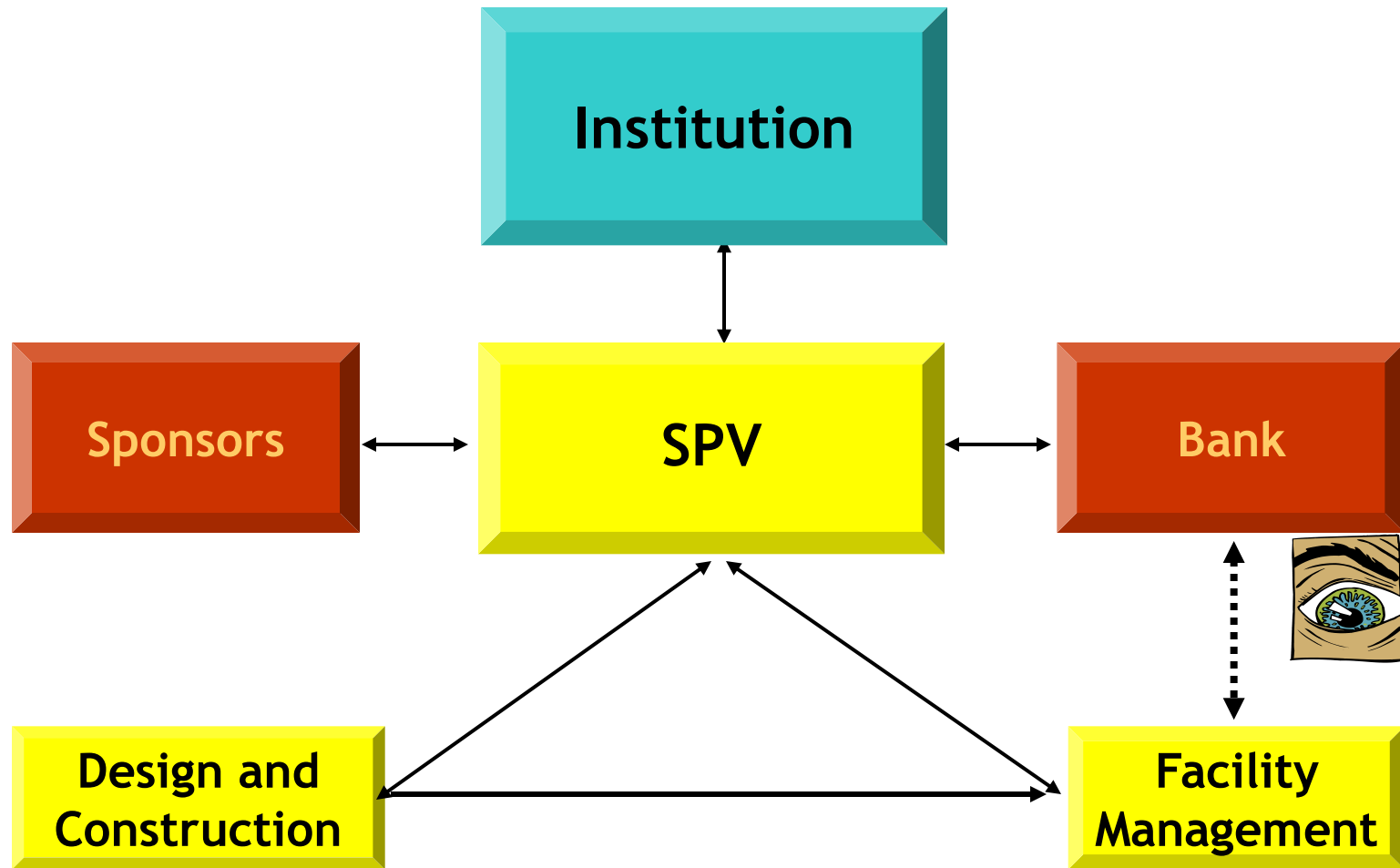
# Risk and PPP's

- Live structures and one can expect changing conditions to have to be accommodated
- Risk capacity of role-players depend on
  - balance sheet & tax objectives
  - institutional capacity
  - technical capability
- Assess the impact of risks on cash flow and debt repayment capability - this enables trade-off to be made among risks, sponsors and funders

# “Payment Risk” Issues

- Payment mechanisms
  - Unitary payments / lease payments
  - User fees
  - Combination of the above
- Does the “unitary payment” risk profile differ? Yes
  - National
  - Provincial
  - Local government

# Typical Transaction Structure



# Relevant Role - Players

- **Private sector** - sponsors and service providers(BEE)
  - insurance companies
- **Consultants** - sector specific e.g. finance, property
  - institutional structuring
- **Government department** - sector specialists
- **Credit Rating agencies** - rating projects
- **Insurance companies** - covering project risks

# Investor Criteria

- Technical capacity & financial status of Sponsor
- Internal capacity (monitoring)of the Department
- Project fundamentals and economics
- Mitigation of project risks transferred to the Private sector

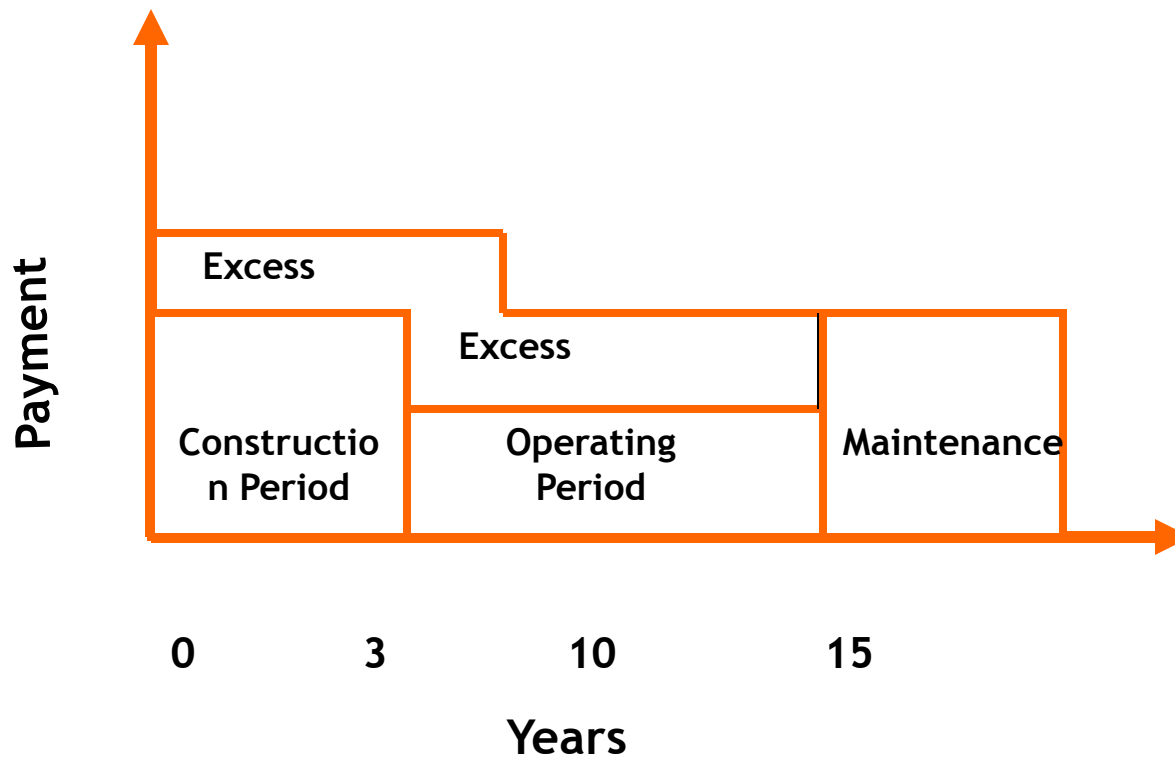
# Sectoral PPP's

- **Accommodation** - Offices, hostels, schools, prisons
- **Low Cost Housing** - social, bonded
- **Power** - transmission and distribution
- **Water** - supply, sanitation & waste management
- **Transport** - roads, vehicle fleets
- **ICT** - shared services
- **Health** - Clinics, Hospitals & logistics

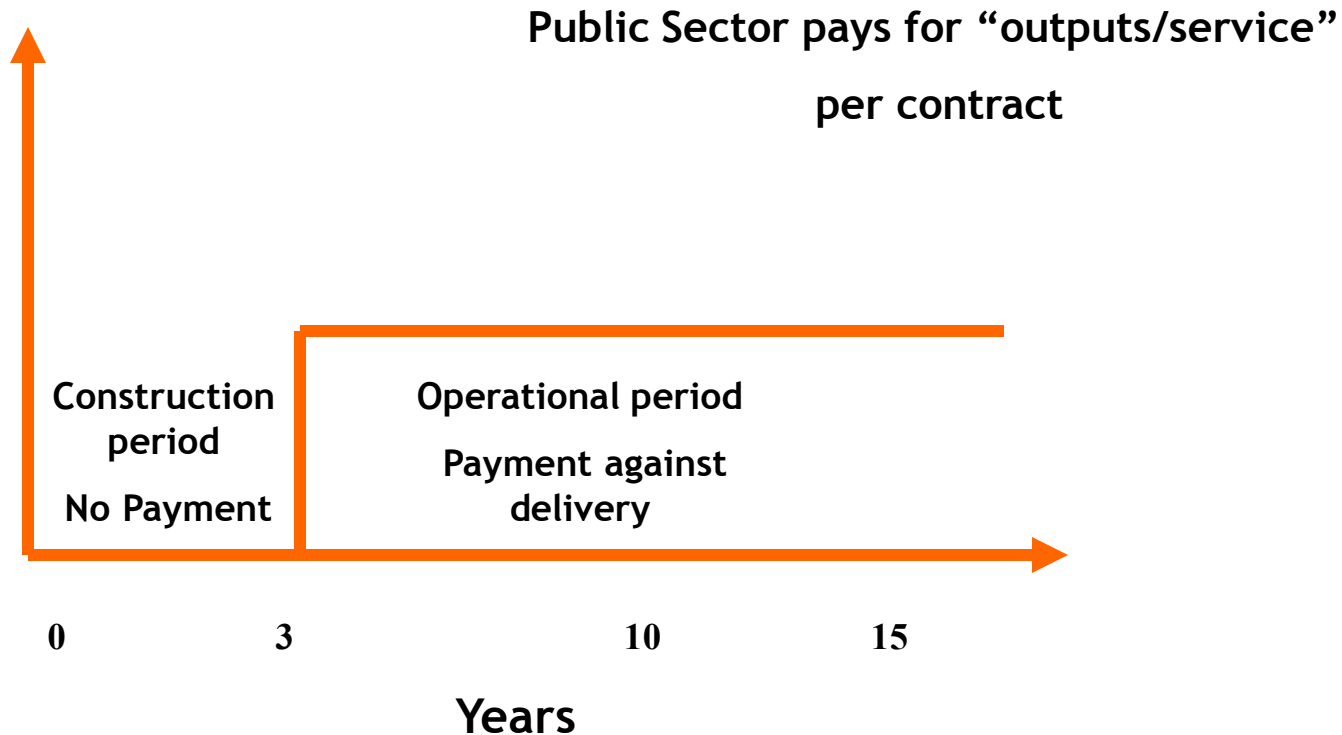
# Private Sector Skills Required

- Typical professional skills & experience necessary
  - Project management
  - Project finance
  - Contract & administrative law
  - Integration of empowerment equity & skills
  - Facility management
  - Technical disciplines I.e. logistics management
  - Education specialist
  - Risk management & risk finance (insurance)

# Traditional Payment Mechanism



# PPP Payment Mechanism



# PPP's Successful ?

- VFM (UK) of approximately 15 -20%
- Important to scope projects carefully
- Provide additional capacity and assist with better service delivery
- Any difference in PPP's success between the different spheres of government?

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