“Driving Financial Sustainability through Innovation and Reform”

Public-Private Partnerships (PPPs): Practical implementation lessons for infrastructure and service delivery

Public Sector Finance Seminar
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Chartered Institute of
Government Finance, Audit & Risk Officers

KWAZULU-NATAL PROVINCE
COOPERATIVE GOVERNANCE AND
TRADITIONAL AFFAIRS
REPUBLIC OF SOUTH AFRICA

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PPP Definition

- A contract between a public-sector institution and a private party, where the private party performs a function that is usually provided by the public-sector and/or uses state property in terms of the PPP agreement.
- Most of the project risk (technical, financial and operational) is transferred to the private party.
- The public sector pays for a full set of services, including new infrastructure, maintenance and facilities management, through monthly or annual payments.
- In a traditional government project, the public sector pays for the capital and operating costs, and carries the risks of cost overruns and late delivery.

Regulatory Framework

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National and Provincial PPPs

- **Treasury Regulation 16**. These regulations are designed to ensure that the project delivers **value for money**, guarantees the **affordability** of the project to the state, and transfers **substantial project risk** to the private party. Recent amendments introduced a simplified approval framework designed to fast-track smaller projects.
  - **Projects under R2 billion:** Exempted from the cumbersome *Treasury Approval IIA* (procurement documentation) and *Treasury Approval IIB* (preferred bidder appointment), empowering accounting officers to authorize documents locally.
  - **Projects over R2 billion:** Follow the full NT PPP Manual cycle, requiring rigorous feasibility studies and multi-stage Treasury approvals.

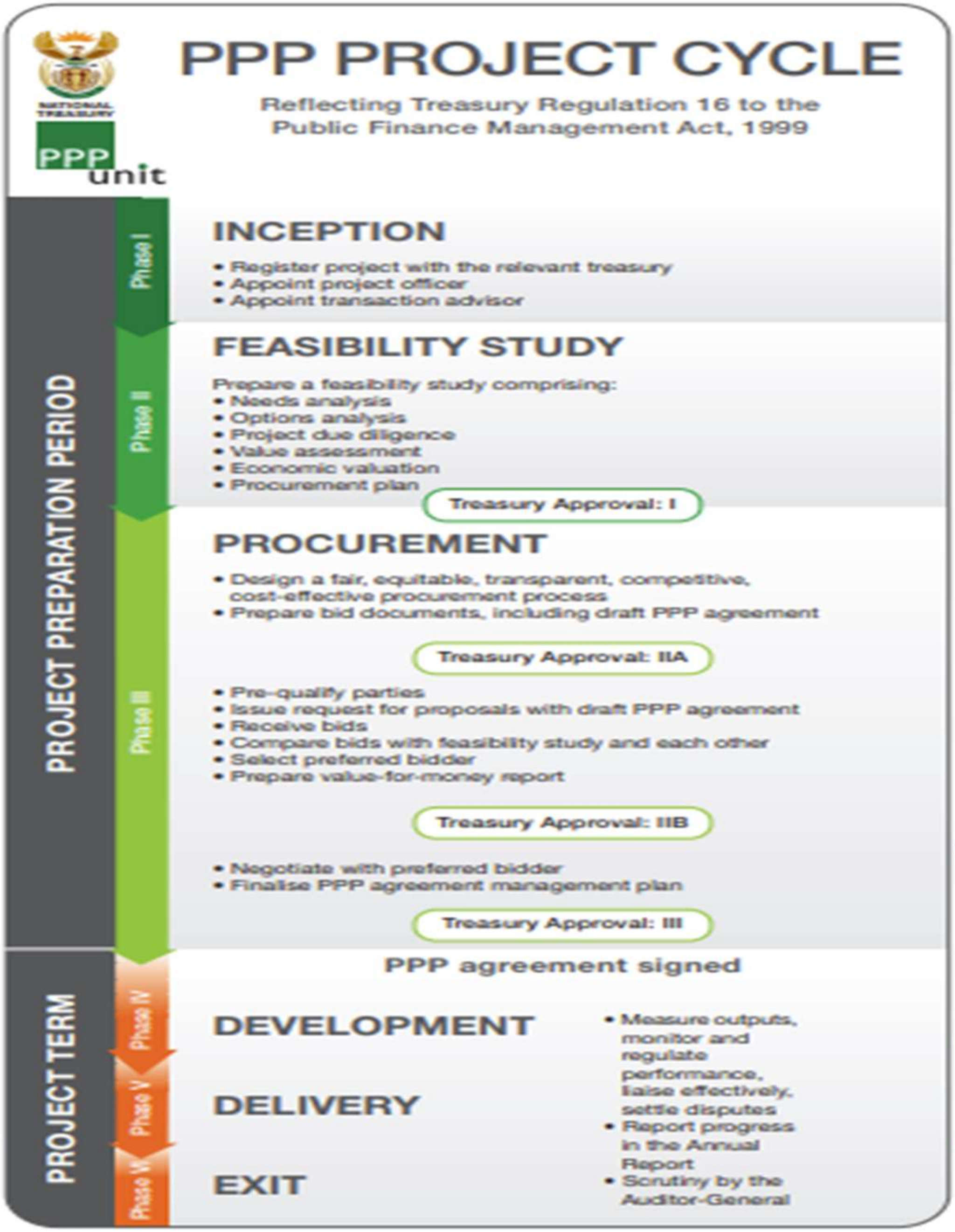
Municipal PPPs

- **Municipal Systems Act (2000)** and the **Municipal Finance Management Act (2003)**
- **Municipal Public-Private Partnership Regulations**. Unlike national projects, the primary approval authority for municipal PPPs lies with the local elected **municipal council**, while the National Treasury generally provides advisory views and recommendations.

Cross-Cutting Procurement Legislation

- **Preferential Procurement Policy Framework Act (PPPFA)** to ensure economic transformation and preferential procurement.
- **Broad-Based Black Economic Empowerment (B-BBEE) Act** to guarantee equitable black economic participation in the infrastructure or service delivery.

Regulatory Framework



Compare the Project Preparation Period and the Project Term…

https://www.gtac.gov.za/resource/gtacs-public-private-partnership-manual/

PPP Contract Types

Based on **Contractual arrangements**:

- ❑Design, finance, build, operate and transfer (DFBOT) projects
- ❑Design, finance and operate (DFO) projects
- ❑Design, build, operate and transfer (DBOT) projects
- ❑Equity partnership projects
- ❑Facilities management projects

PPP Building Blocks to compare

- Contract forms: **DFBOT**, **DFO**, **DBOT**, **Equity partnerships**, **Facilities management.**
- Payment mechanisms: **Demand-based (user charges)** vs **Availability-based (unitary payments/service fees)**; some hybrids include **minimum revenue/patronage guarantees**.
- Financing sources: **Commercial debt**, **Private equity**, **Government capital contributions (capex grants)**; or **DFIs** to diversify funding.
- Risk allocation: Construction/operating risk typically with the private party; **demand risk** varies by sector and mechanism. Government support (capex grants/ guarantees) adjusts risk and bankability.

Sector Opportunities

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- **ENERGY:** From solar and wind to hydropower and grid expansion, Africa's energy story is gaining real momentum. As demand grows, so do the opportunities to deliver reliable, sustainable power that fuels industries, businesses, and everyday life.
- **TRANSPORTATION:** Roads, rail, ports, and airports are redefining how Africa moves. New corridors and logistics networks are opening up trade routes, connecting markets, and making it easier for goods—and people—to flow across borders.
- **WATER & SANITATION:** Clean water and efficient sanitation systems are at the core of healthy, resilient communities. Across the continent, projects are stepping up to meet rising demand while building smarter, more sustainable systems for the future.
- **INDUSTRIALISATION:** Africa's industrial growth is taking shape through new manufacturing hubs, industrial parks, and special economic zones. With the right infrastructure in place, countries are unlocking value, creating jobs, and strengthening regional supply chains.
- **URBAN & SOCIAL INFRASTRUCTURE:** Africa's cities are growing fast—and evolving just as quickly. From housing and healthcare to smarter urban systems, infrastructure is shaping how people live, work, and thrive in the cities of tomorrow.

Challenges

- **Complex Risk Allocation and Management** PPPs transfer most technical, financial, and operational risk to the private sector. However, managing these risks—especially in large, multi-year projects—can be complex.
- **Lengthy and Complicated Procurement Processes** Decline in PPP transactions due to delays and cancelled projects, particularly in the health and security sectors. The need for multiple approvals and feasibility studies slows down project initiation and implementation.
- **Financial Exposure and Contingent Liabilities** PPPs create fiscal obligations for government, especially when minimum revenue guarantees or unitary payments are involved. If a project underperforms or is terminated, the government may face large, unplanned payouts.
- **Funding and Financing Challenges** While PPPs are intended to leverage private capital, some projects still require significant government contributions or guarantees. The diversity of financing structures (debt, equity, government capital) can complicate negotiations and increase the risk of cost overruns or funding gaps.

Challenges Cont/d.

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- **Sector-Specific and Regulatory Barriers** Certain sectors (like health and security) have experienced more delays and cancellations, possibly due to stricter regulatory requirements, complex stakeholder environments, or difficulties in defining service standards.
- **Pipeline and Project Preparation Issues** Need to streamline PPP implementation and reduce the time required for project planning. A lack of well-prepared, bankable projects can limit the pipeline and discourage private-sector participation.
- **Stakeholder Coordination and Accountability** PPPs require close coordination between public and private partners, as well as clear accountability for performance. Misalignment of objectives or poor contract management can lead to disputes, delays, or suboptimal outcomes.

These challenges highlight the importance of robust project preparation, clear risk-sharing arrangements, streamlined regulatory processes, and strong contract management to ensure successful PPP implementation

Strategic Importance, Financial Impact & Risk

- **PPPs Are Essential for Infrastructure Growth** The National Development Plan required infrastructure investment to rise from 21% of GDP in 2015 to 30% by 2030. PPPs are highlighted as a critical mechanism for achieving this, enabling collaboration between the public and private sectors to fund and build infrastructure.
- **PPPs Transfer Risk and Improve Accountability** Unlike traditional government projects, PPPs transfer most technical, financial, and operational risk to the private sector. This structure encourages better decision-making, discipline, and accountability in infrastructure planning and delivery.
- **Significant Financial Commitment and Project Diversity** Between 1998 and 2017, 31 PPP projects were concluded in South Africa, with a total value of R65.3 billion.
- **PPPs Represent a Small but Strategic Portion of Public Infrastructure Spending** Of the R947.2 billion planned for public-sector infrastructure over the 2017 MTEF, PPPs accounted for R16.5 billion (1.7%).
- **Contingent Liabilities and Future Pipeline** PPPs create contingent liabilities for government, especially if contracts are terminated early. In 2016/17, government exposure due to potential termination reached R10.9 billion.

(NT 2017 Budget Review)

Role of DFIs

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- **Development Finance Institution (DFI)** are government-backed or multilateral organizations that provide funding for high-risk economic, social, and infrastructure projects in developing regions. They bridge the gap between public development goals and private commercial investments.
- **Key Functions of DFIs**
  - **Risk Mitigation:** DFIs absorb risks that traditional commercial banks cannot take, financing projects in frontier or emerging markets.
  - **Financial Instruments:** They provide debt, equity investments, and guarantees designed to foster job creation and sustainable growth.
  - **Catalytic Effect:** By stepping in, DFIs prove to the private sector that certain high-risk markets and industries are viable, helping to crowd in future commercial capital.
- **Examples of DFIs:** Development Bank of Southern Africa, Industrial Development Corporation

Optimal Funding Models by Sector

Sector	Recommended contract + payment	Typical financing mix (from deals)	Risk allocation rationale	When to adjust
Transport – Toll roads	DFBOT + demand-based user charges	Debt ~80% / Equity ~20%	Private takes construction/ operating and demand risk on mature corridors	Add limited gov capex or guarantees if traffic uncertainty is high or for ramp-up
Transport – Urban rail/ mega transit	DFBOT + availability or hybrid (user + patronage guarantee)	Large gov capex (e.g., 80%+), small private debt/equity	Demand risk too high for full farebox; public support improves bankability	Increase availability share or capex grants if affordability is a priority
Water & sanitation (municipal)	DFBOT + user charges (regulated tariffs) with gov capex grants	Blends with gov capex (e.g., 29–61%), plus debt/equity	Private manages delivery; tariff risk moderated by regulation; grants protect affordability	Increase grant share where income levels are low or network rehab is heavy
Health (hospitals/ services)	DFBOT/DBOT + availability (unitary)	Debt-heavy (70–90%) or equity for niche services; occasional gov capex ~10%	Government retains demand/clinical risk; private handles facilities/ operations	Use gov capex to de-risk integration, reduce long-run unitary charges
Correctional services	DFBOT + availability (unitary)	Debt ~88% / Equity ~12%	No demand risk; performance standards drive payments	Consider capex grants if fiscal space is available to lower annual unitary
Office accommodation	DFBOT + availability (unitary)	Debt 49–90%, Equity 8–19%, Gov capex 12–37% in some	Private handles design/FM; availability aligns with occupancy needs	Increase gov capex for budget smoothing and to reduce lifecycle cost
Tourism & eco-tourism	DFBOT/DBOT + user charges; selective gov capex for enablers	Often Equity 100% (private), or gov funds capex and private funds opex	Private holds demand risk; upside from visitation	Add public capex where public-good elements dominate or to catalyze investment

Example: Ilembe Siza Water PPP

https://saiia.org.za/toolkits/sadc-business-barriers/sadc-ppp-case-studies/

❑ Background

- Siza Water Company (Pty) Ltd. provides water and wastewater services to residents in the Dolphin Coast region of South Africa.
- In 1999, the Borough of Dolphin Coast (BODC), in the Ilembe District of KwaZulu-Natal, entered into a PPP arrangement via the management vehicle of a 30-year concession arrangement with Siza Water company to “oversee manage and implement the provision of water and sanitation services within the theMunicipal boundary”.
- The concession encompasses some 55,000 – 60,000 users, who vary greatly, from the poorest to the wealthiest, from urban to rural, from residential to commercial and light industrial.
- The model used by the Siza Water PPP is that in the early years, they invested in water and sanitation infrastructure and maintained this; they do not own water supplies, but buy in bulk from Umgeni Water. In recent years, with the new developments that have been built in the area, the property developers have built their own infrastructure, thus reducing the obligation on the PPP to invest in infrastructure expansion.
- Until 2005/6, the performance of the concession was mixed, with performance in the wealthier areas far outweighing those in the poorer areas. Different models were used in different areas. Significant water charge increases have challenged Siza Water to deliver on contract at various times, but there is a general consensus that it has more or less achieved its obligations over the years, and that the overall impact has resulted in improvements in levels of water loss, water quality, faults and maintenance.

Example: Ilembe Siza Water PPP

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❑ Barriers encountered by Private Sector Partners

- A historical legacy of underinvestment. Poor condition of existing infrastructure and need to invest in new and expanded infrastructure placed massive pressure on the PPP in the early days, resulting in a situation where Siza Water declared no profits until about 2004/05. At the time of entering into the arrangement, the local government structures were deemed unable to fund the requirements of the borough's water and sanitation needs, and in fact had not invested in water & sanitation infrastructure for several years prior to the signing of the PPP.
- Profitability only improved after 13 years, from a difficult and non-profitable start, to one that is working well and turning a profit for the private sector partner and delivering a reasonably good service on behalf of the public sector partner.
- The boom period of the 2005-2008 saw a marked change, with a significant influx of both residential and business to the area, increasing the demand for services from the Siza Water PPP. The relocation of the Durban international airport further sparked interest in the Ilembe area, and prospects for the Siza Water PPP improved.
- Over and above legacy issues and profitability, the barriers identified by the private sector partner in this PPP have declined in magnitude as the partners negotiated a working relationship with a win-win outcome.

Example: Ilembe Siza Water PPP

❑ Common Challenges

- Capacity constraints within the public sector partner, resulting from lack of administrative and technical know-how, compounded by high staff turnover. No training in PPPs and the concept was actually new to them. They had to learn "in the job", and this caused serious frustration;
- Poor data collection and storage in relation to all aspects of utility provision and management including; databases of residents in all areas, but in particular poor records were in place for poorer communities;
- Lack of consistent policy in regard to water concessions, and areas of water concession, and this included an unprofitably small concession area. Often there was no understanding that a sustainable business needed a minimum number of consumers;
- Insufficient and ineffective communication structures with consumers of the services. The agreement was that the municipality would play a key role in communication with consumers, but this sometimes did not take place effectively, resulting in consumer dissatisfaction.
- Since about 2006 the early barriers are somewhat managed to the point where the private sector is optimistic, and indeed, shareholders are much satisfied. The following residual barriers have been identified:
  - ✓ The fact that they are bound to purchase water from Umgeni Water (a State owned Entity) and therefore are beholden to them for reliability of supply;
  - ✓ A remaining and seemingly systemic problem is that of high staff turnover in the public sector department responsible for contract management;
  - ✓ The turnaround time on permit authorization by public sector partner; and
  - ✓ Economic climate factors, which affect expansion prospects.

Example: Ilembe Siza Water PPP

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❑Impact of Barriers and Outcome of Firm Response

- The early barriers led to unpredictable, and often poor, service delivery, and much frustration on the part of the private sector partner which was also felt by communities who were not receiving improved basic services.
- Recent barriers are not seen as prohibitive of business, but rather require ongoing and proactive management.
- The net result of the way in which Siza Water has managed the relationship with their public sector partner, is the turnaround of the PPP from one that was battling to deliver and to make profits into one that is both profitable and effective.

Example: Ilembe Siza Water PPP

- **Firm Response to Barriers including Interaction with Policymakers**
  - Siza Water systematically worked out an approach to manage the major impacts relating to capacity and cooperation with the public sector partner, by building a close relationship with Ilembe District Municipality. The relationship management leverages strengths of both parties.
  - Private Sector partner accepted that high staff turnover in the public service is systemic, and were prepared to spend time building capacity and enhancing institutional memory by working with a wider spread of employees.
  - Extensive planning sessions were held with partners that ensure that Siza takes responsibility where possible for aspects of delivery that are likely to result in delays if done by Ilembe, that meticulous records are kept, that contractual obligations are met, and that financial planning is conducted with a long term view.
  - Siza Water acceded that it is beneficial to the relationship to accord the good publicity that flows from efficient service delivery to their public sector partners.
  - Siza Water embarked on a negotiated expansion strategy to ensure a sustainable business with an optimal number of consumers.
  - The company took greater responsibility for communication with consumers and supported the municipality in its communication efforts.
  - All interaction with the policy body, Department of Water Affairs, is mediated through Ilembe District Council. This was not the case at the outset with no precedent for water concessioning.
  - Interactions with Ilembe District is extensive, particularly as much of the service delivery hinges on acquiring permits that need to be authorized, on good communication between consumers and local government (who is still seen as the provider of water), and on access to reliable delivery of bulk water.

ESKOM DAA Arrangements, A PPP?

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- Is the ESKOM Distribution Agency Agreement not a PPP? Although Public - Public?
- NT playing a Financing Role?
- Are MSA Section 78 Assessments required for compliance not risky?
- DFBOT to municipality after some time?
- Financing on a demand driven/unitary payment system still to be determined.
- Does ESKOM have the capacity?

Conclusion

- Whilst onerous and despite challenges, PPPs are still a fundamental instrument to drive infrastructure investment and improve service delivery.
- Government cannot fund the demand for infrastructure and services.
- Government MUST build internal capacity to negotiate and manage PPP arrangements and projects
- DFIs can play a role to assist in packaging and funding bankable projects
- Government cannot achieve developmental objectives without the private sector
- Citizens are becoming increasingly impatient for service delivery and PPPs must be explored sooner rather than later

Thank You!

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