PUBLIC PRIVATE PARTNERSHIP PROJECTS
THE SOUTH AFRICAN STORY

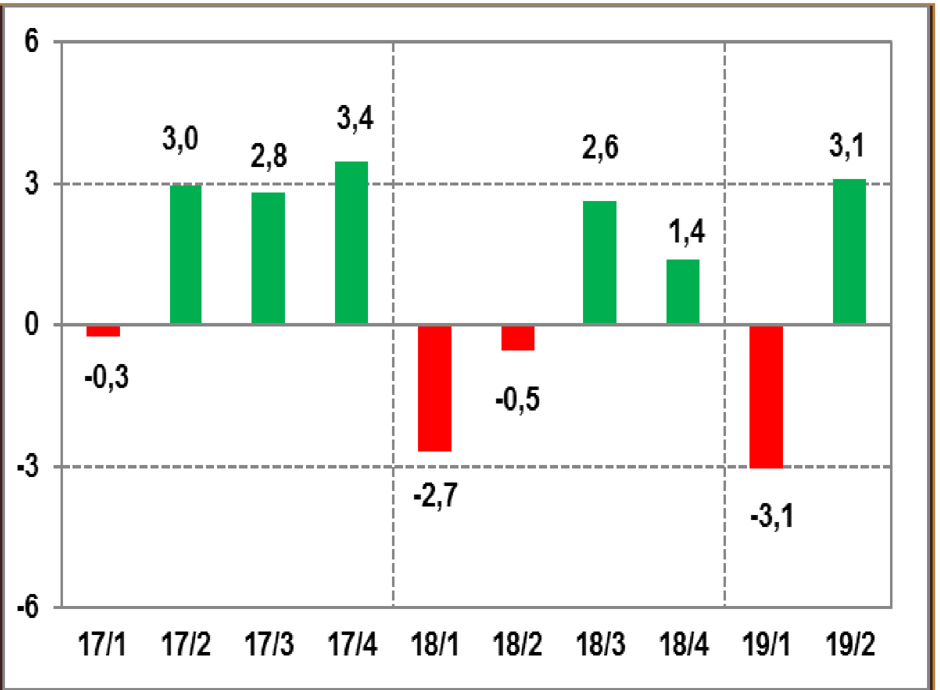
DBSA
DEVELOPMENT BANK OF SOUTHERN AFRICA
Building Africa's Prosperity

CONTENTS

MONEY ISN’T THE PROBLEM

SOCIAL & MACRO INDICATORS

- Sovereign rating – Baa3 (Moody's; stable outlook)
- Sovereign debt/GDP ratio – circa 60%
- SA Population – 58,78m (2019 mid-year estimates)
- GDP – USD 370bn
- GDP growth forecast (Moody's) –
  - 2019 – 0,7%
  - 2020 – 1,5%
- Unemployment rate – 29%
- CPI – 4,0%
- Central bank rate – 6,5%
- 10-year Government bond – 8,09%
- USD: ZAR – 14,5560
- Euro: ZAR – 16,1295
- Sterling: ZAR – 18,0444



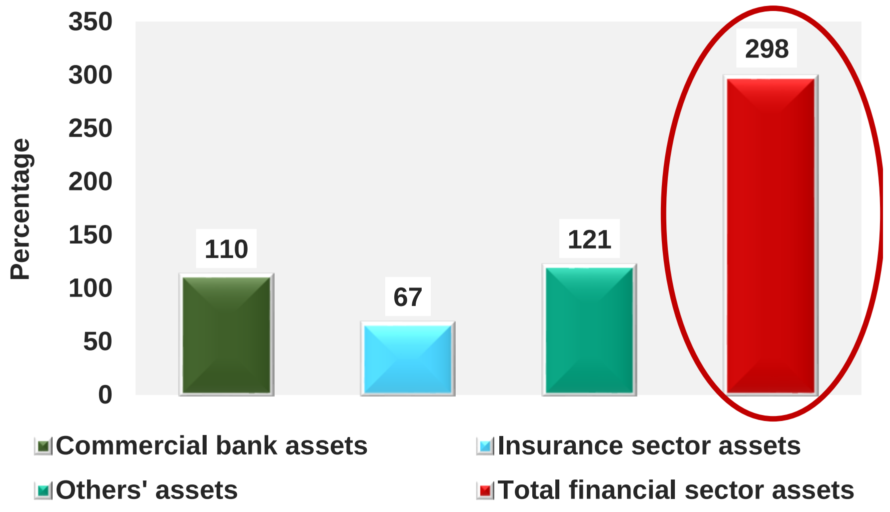
FINANCIAL SECTOR ASSETS

Financial sector assets

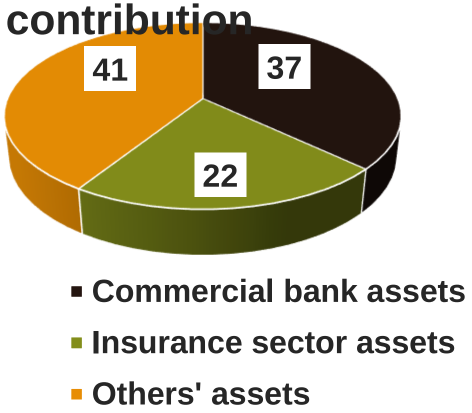
Service	Nominal value (USD bn)
Commercial bank assets	351
Insurance sector assets	215
Other assets	389
Total	955

Source: SARB, IMF, DBSA calc's

Financial sector assets as a % of GDP



Financial sector assets % contribution



Source: SARB, IMF, DBSA calc's

South Africa's well developed financial services sector can finance **bankable PPPs** and then some..

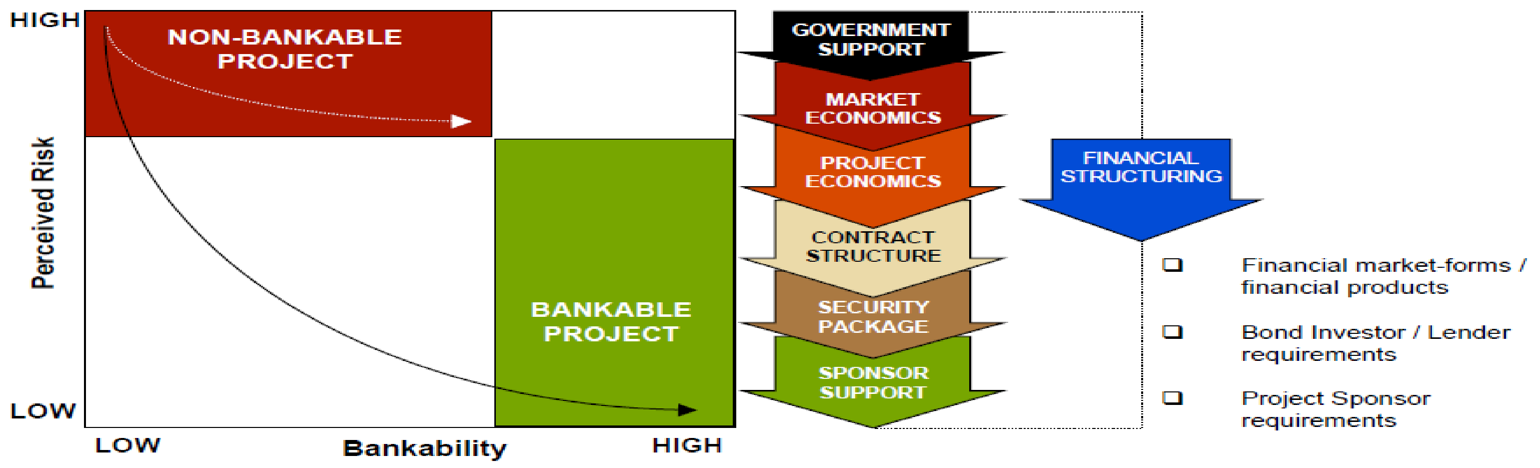
- Banks well capitalised with excess liquidity
- Strong institutional market with diversified products & tenors
- Tradeable securities markets
- Well regulated PPP sector
- Project finance has been the cornerstone of the REIPPP

Source: SARB, IMF, DBSA calc's

WHAT THEN IS THE PROBLEM: SHORTAGE OF BANKABLE PROJECTS MEETING STAKEHOLDER REQUIREMENTS

BANKABILITY DEPENDS ON NATURE OF PROJECT

The General Project Finance Feasibility Matrix



- Energy, Water & Sanitation, Transport projects' economics different
- Government support very important – regulations, financial support,
- Market economics – market growth, competitive landscape
- Project economics – service/product price, capital costs, O & M costs, cashflows
- Contract structure – all parties protected?
- Security package – are lenders protected?
- Sponsor support – how deep are sponsor's pockets in case of delay, lower market demand or higher cost?

MEETING STAKEHOLDER REQUIREMENTS

- **Public sector requirements:**
  - ✓ Risk Transfer –
    - On time & within budget completion
    - Performance to highest minimum operating standards
    - Failure results in private sector bearing the excess costs including penalties
  - ✓ Affordability – can the procuring institution pay for PPP within its budget
  - ✓ Value for money – cost of own provision v/s provision through PPP

Source: National Treasury 2018 Budget Review

STAKEHOLDERS REQUIREMENTS CONTINUED

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- **Private sector requirements:**
  - ✓ Less complex & cumbersome legislation
  - ✓ Transparency in procurement
  - ✓ International procurement framework
  - ✓ Bankable projects
  - ✓ Creditworthy municipalities/other organs of state/ as off-takers
  - ✓ Cashflows – grants flows, municipal/government contribution, project cashflows
  - ✓ Fair return on investment commensurate with risk

- **Community requirements:**
  - ✓ Impact on employees – minimise unemployment
  - ✓ Adequate consultation
  - ✓ Transparency in procurement
  - ✓ Absence of corruption
  - ✓ Elimination of fronting in BBBEE transactions

POLICY REQUIREMENTS FOR SUCCESSFUL PPPS (SA PASSES WITH FLYING COLOURS)

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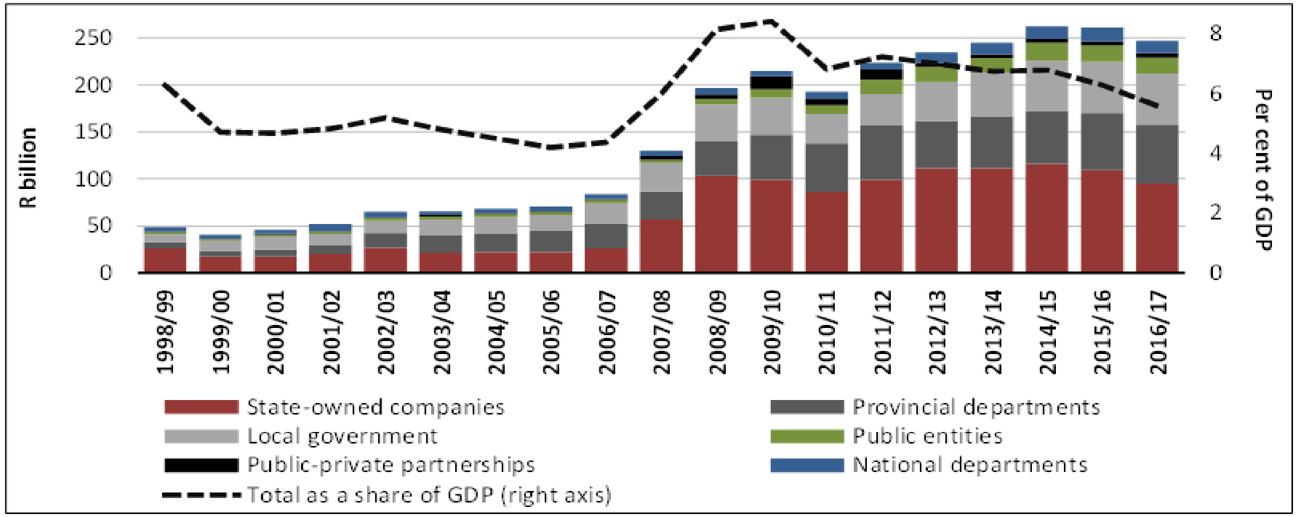
- **Detailed legislative framework**
  - ✓ Public Finance Management Act
  - ✓ Municipal Finance Management Act
  - ✓ Municipal Systems Act
  - ✓ Municipal Structures Act
  - ✓ Municipal PPP regulations
- **An enabling PPP framework**
  - ✓ PPP Manual
  - ✓ Standardized PPP provisions
  - ✓ Municipal Service Delivery and PPP guidelines
- **A well functioning & independent judicial system**
- **A capable PPP civil service**
- **Private Sector interest**

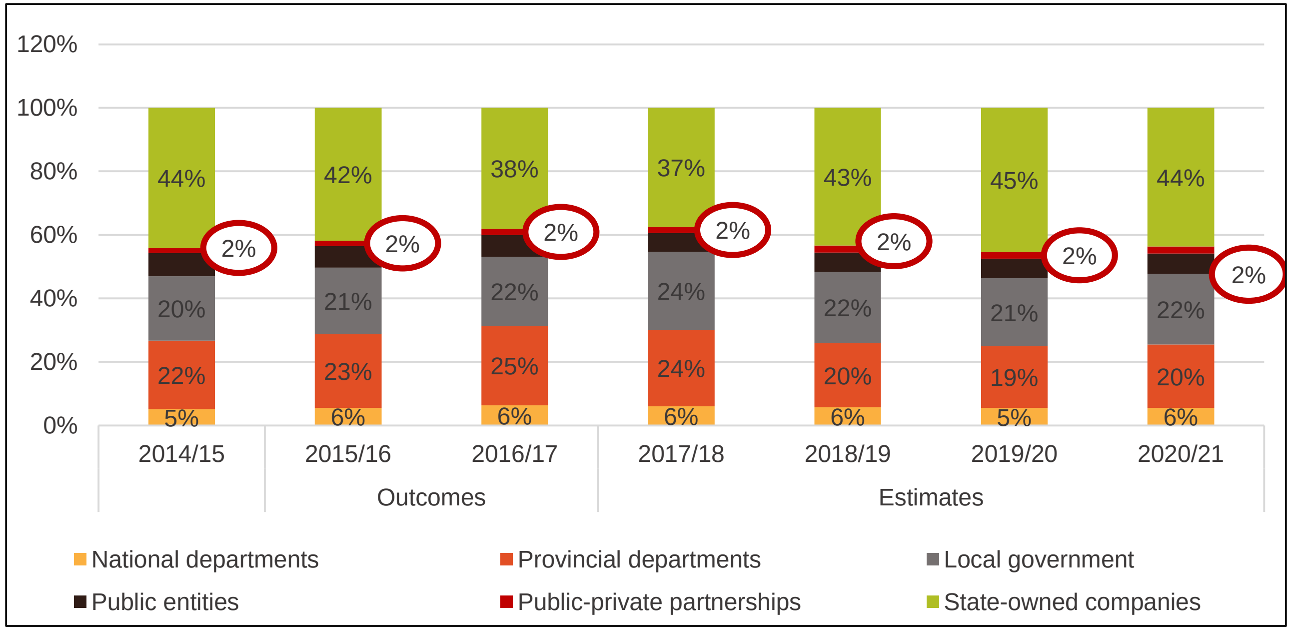
POLICY REQUIREMENTS FOR SUCCESSFUL PPPS (CONTENTS OF NATIONAL TREASURY PPP MANUAL)

- **National Treasury PPP manual**
  - ✓ Module1: South African Regulations of PPP
  - ✓ Module 2: Code of Black Economic Empowerment in PPPs
  - ✓ Module 3: PPP Inception
  - ✓ Module 4: PPP Feasibility Study
  - ✓ Module 5: PPP Procurement
  - ✓ Module 6: Managing PPP Agreement
  - ✓ Module 7: Auditing PPP
  - ✓ Module 8: Accounting treatment PPP
  - ✓ Module 9: Introduction to project finance

DESPITE GOOD PPP FRAMEWORK SOUTH AFRICA LAGGING BEHIND EMERGING MARKETS AND DEVELOPING ECONOMIES

PUBLIC-SECTOR INFRASTRUCTURE SPENDING



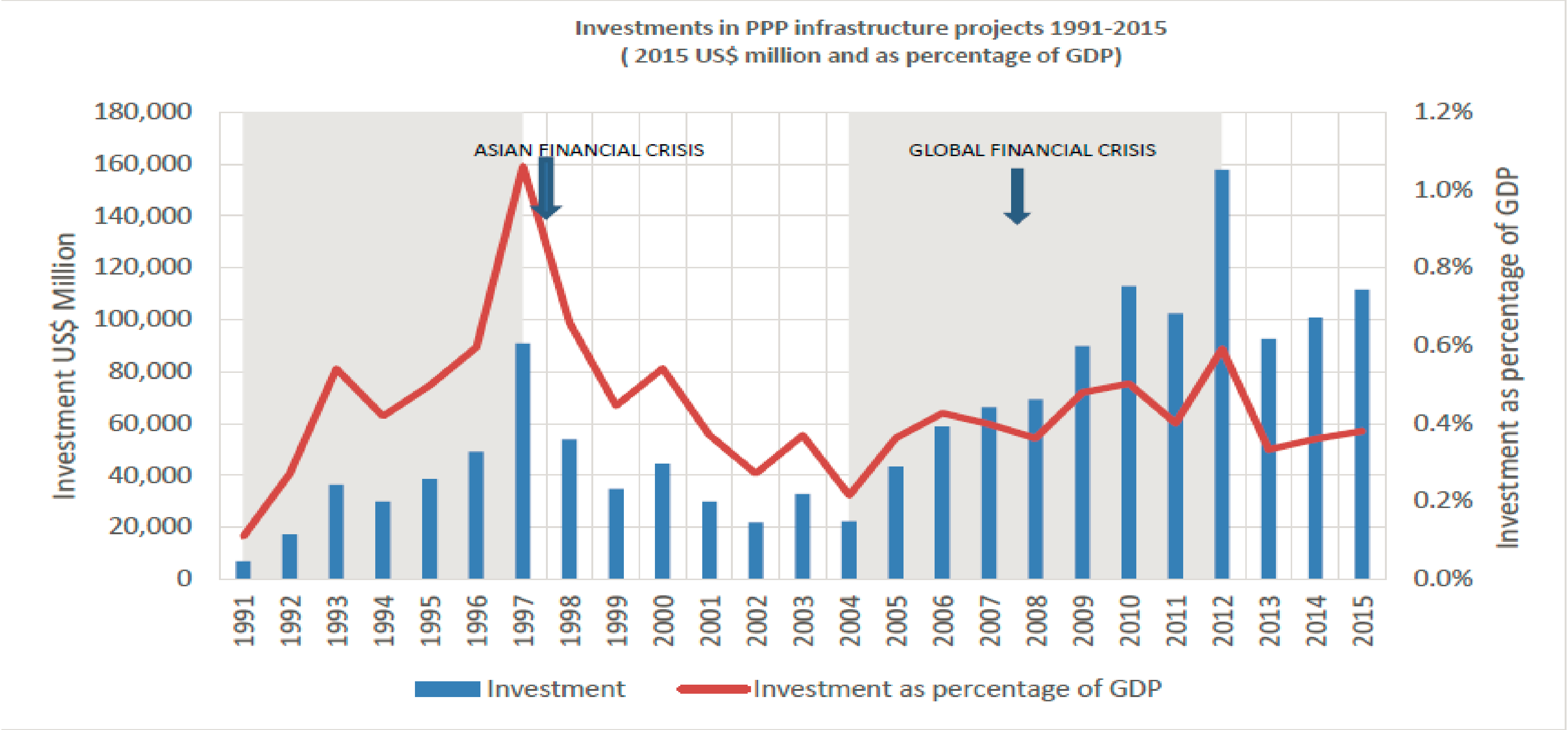


- Public Infrastructure investment spend 6% of GDP
- SOC's account for 44% of Public Expenditure
- Local government 22% of spend (MTEF:USD 12,64bn)
- PPP's 2% of total public spend (MTEF:USD 1,27bn)
- Water sector 14% of total spend (MTEF: USD 8,1bn)
- Municipal water PPP's 0.36% of all PPP's

Source: National Treasury 2018 Budget Review DBSA calculations

GLOBAL EMDE PPP (1991-2015)

Figure 1.1 Investments in PPP infrastructure projects, 1991-2015



Source: PPI Database, World Bank, as of November 2015.

- Average South African spending on PPP's less than 0.1% of GDP
- Emerging Markets & Developing Economies spending grew from 0.1% in 1991 to 1.1% in 1997
- Post 1997, global PPP's fell to 0.2% before rising again to peak at 0.6%

EMDE PPP INVESTMENTS (2006 – 2015)

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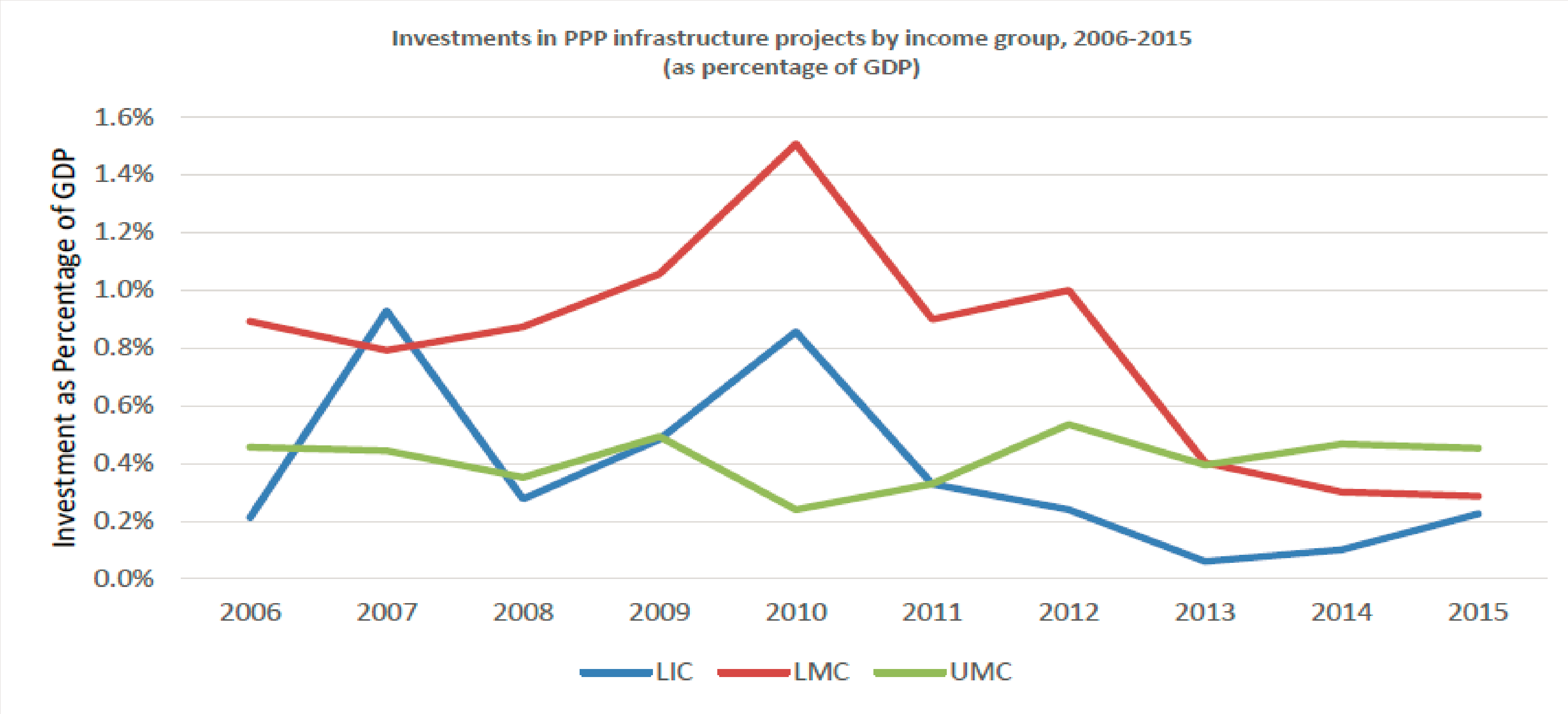
Figure 1.2 Investments in PPP infrastructure projects by income group, 2006-2015



Source: PPI Database, World Bank, as of November 2015.

- At 2% of Public Sector Infrastructure Spend, South African PPP's less than even Low Income Countries (0.2% of GDP)
- Between 1991 & 2015, Top 5 Emerging Markets, including three BRICS countries, account for US$909bn (60%) of PPP's investment
- US$1.5tr invested in 5000 PPP's in 121 low-to-middle income countries

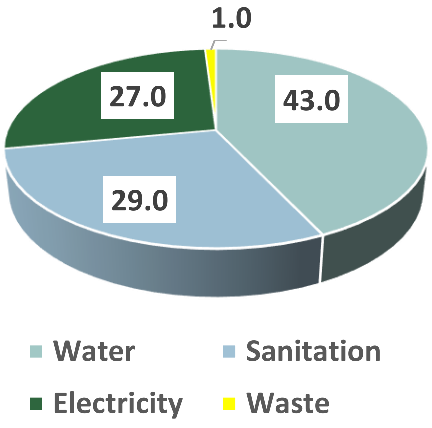
SA MUNICIPAL INFRASTRUCTURE REQUIREMENTS & FINANCING

INVESTMENT REQUIREMENTS PER SECTOR

Service	10 Yr capital investment (US bn) – 2016F
Water	19,6
Sanitation	12,9
Electricity	12,0
Solid waste	0,6
Total	45,2

Source: Ian Palmer & Others

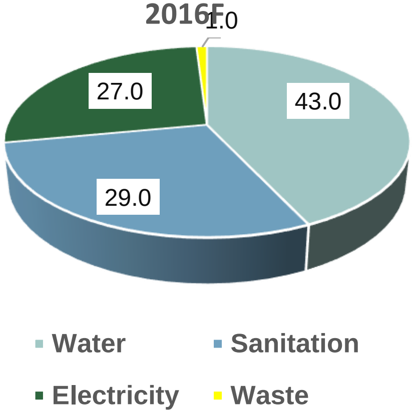
10 Yr Capital investment % contribution (USD bn) – 2016F



Service	Ave annual capital investment (USD'bn) – 2016F
Water	1,96
Sanitation	1,29
Electricity	1,20
Solid waste	0,06
Total	4,52

Source: Ian Palmer & Others

Ave annual capital investment % contribution (USD bn) – 2016F



Infrastructure required to address backlogs

Service	Backlogs	Growth	Rehabilitation	Total
Water	9%	57%	34%	100%
Sanitation	13%	54%	33%	100%
Electricity	15%	42%	43%	100%
Solid waste	1%	75%	24%	100%

Source: Ian Palmer & Others;
USD:ZAR – 14,556

CAPITAL EXPENDITURE, NEW BORROWING AND OUTSTANDING DEBT

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USD bn	2010/11 Actual	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Forecast
Capital expenditure	2,1	2,3	2,9	3,3	3,7	3,8	3,7	4,0	5,0
New borrowing	0,44	0,43	0,45	0,,52	0,64	0,63	0,53	0,60	0,8
New borrowing as a % of CAPEX	21%	19%	16%	16%	18%	17%	15%	15%	17%
Outstanding debt	3,0	3,1	3,3	3,5	3,7	4,2	4,3	4,3	4,6

Source: NT Municipal Borrowing Bulletin;
USD:ZAR – 14,556

SA MUNICIPAL LONG TERM DEBT LANDSCAPE

Muni category	Metros	Total Debt Q3 2018/19 USD bn	Share of total debt	Actual revenue 2018/19* USD bn	Debt to revenue ratio
A	BUF	0,29	1%	0,45	6%
	NMA	0,80	2%	0,71	11%
	MAN	0,70	2%	0,45	15%
	EKU	0,38	9%	2,49	15%
	JHB	1, 34	31%	3, 59	37%
	TSH	0,71	17%	2,35	31%
	ETH	0,58	14%	2,43	24%
	CPT	0,46	11%	2,78	17%
	Total Metros	**3,65**	**86%**	**15,17**	**24%**
B	Other Muni's	0,57	13%	12 ,01	5%
C	Districts	0,45	1%	1,47	3%
	Total all muni's	**4,3**		**28, 65**	**15%**

Source: NT Municipal Borrowing Bulletin

- Excluding capital transfers
- USD:ZAR – 14,556

SA MUNICIPAL PPP’S STILL TO TAKE OFF

MUNICIPAL WATER PPP PROJECTS

Project name	Government institution	Type	Date of close	Duration	Financing structure	Project value USD m	Form of payment
Water and sanitation							
Dolphin Coast water and sanitation concession	Kwa-Dukuza Local Municipality	DFBOT	Jan-1999	30 years	Debt: 21% Equity: 18% Govt: 61%	8,93	User charges
Mbombela water and sanitation concession	Mbombela Local Municipality	DFBOT	Dec-1999	30 years	Debt: 40% Equity: 31% Govt: 29%	12,98	User charges

Source: National Treasury 2018 Budget Review

Source: National Treasury 2018 Budget Review

- 257 municipalities in South Africa – 8 Metros; 44 Districts; & 205 local municipalities
- Varied governance & financial management capabilities
- Most municipal water & sanitation projects financed on balance sheet
- Balance sheets of some large metros constrained
- Potential for further balance sheet borrowing in Category B municipalities but…

DOLPHIN COAST: A CASE STUDY

- Dolphin Coast concession was initiated because the municipality had inadequate funds for
  - Rehabilitation, upgrading and expansion of water & sanitation service (WSS) infrastructure
- 30-year (1999) concession requiring private entity to
  - Oversee, manage & implement the provision of WSS within the boundary of Dolphin Coast municipality
  - Population of 45 000 characterised by wealth and poverty

DOLPHIN COAST: A CASE STUDY (CONT.)

- Positives of the PPP included
  - Investment in CAPEX and O&M by the concessionaire
  - Improved quality of WSS
  - Reduction in water losses in supply area
  - Fewer leaks
  - Fewer faulty water meters

DOLPHIN COAST: A CASE STUDY (CONT.)

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- **Unanticipated increases in raw water tariffs leading to**
  - contract renegotiation and
  - reduced investment by the concessionaire
- **Higher increases in end-user tariffs**
  - Level 4 users (water borne sewers) experienced 119% increase in tariffs
  - Level 2 users (VIP) suffered an 80% increase in tariffs

SA MUNICIPAL PPP'S: LESSONS FOR THE FUTURE

LESSONS FROM MUNICIPAL PPP'S

- Protect low income consumers
- Have a capable civil service to negotiate contracts
- Ensure enough revenue for O&M and regular reinvestment
- Greater transparency by concessionaire and the public entity/state regarding tariffs to engender consumer buy-in and trust
- Size matters for economies of scale
- Look out for national policy changes like municipal boundaries
    - Could increase costs for municipality & ultimately ratepayers

THE IMPACT OF POLICY AND RISK IN UTILITY-SCALE PROJECTS

POLICY & RISKS FOR PPPS

- Tariffs must reflect economic cost
- Supply chain regulations must protect the state but be attractive to private
- supply chain practices must engender private sector confidence
- A predictable & supportive state subsidy/grant framework consistent with long term infrastructure financing requirements essential
- Transparent & enforceable legislative framework critical

CONCLUSION

Elements of successful PPP's include

- **Well regulated global PPP environment essential**
  - ✓ To attract domestic & foreign capital in a constrained fiscal environment
- **Find balance between consumer protection and sustainable investment**
  - ✓ Too low a tariff discourages private investment due to risk-return incongruence
  - ✓ Results in under investment in both CAPEX & maintenance
  - ✓ Too high tariffs hurt vulnerable members of society

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Elements of successful PPP's include

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- **Generate pipeline of bankable projects by tapping into project preparation facilities of continental & global DFI's and ODA**
  - ✓ Invest in feasibility studies to determine viability & determine potential funding sources
- **Triple bottom line important in determining project viability (ESG)**
  - ✓ Profit
  - ✓ Planet
  - ✓ People
- **Strong institutions – well trained civil service with the requisite experience & skills**
- **A well functioning & independent judicial system**

THANK YOU

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