

# **Development Bank of Southern Africa**

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***PRESENTATION TO  
THE SADC SESSION OF ATC:  
CSIR, Pretoria  
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# **SOUTH AFRICAN EXPERIENCE IN PPP's**

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**Over the past ten years, there has been a significant international trend towards privatisation and public-private partnerships in the infrastructure sectors**

- **Since 1994, infrastructure companies worth US \$357 billion have been privatised world wide**
- **In 1995, almost 600 new projects, worth US \$308 billion, were underway in 82 countries**
- **In developing countries, total financings of new private infrastructure projects increased from US \$17 billion in 1992, to over US \$37 billion in 1995**

# PRESENTATION OUTLINE

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- ◆ **What are PPP's**
- ◆ **Pre-requisites for success**
- ◆ **Status in emerging markets**
- ◆ **Challenges, from South African experience**
- ◆ **How do we overcome the challenges?**

# WHAT DOES PPP MEAN?

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- ◆ **Public Private Partnerships**
- ◆ **Financing by the private sector AND public sector, with management by the private sector**
- ◆ **With regulation by the public sector (far more important than we perceive. Ideally jointly?)**
- ◆ **Can take various forms**

# OPTIONS FOR PPPs

	<b>MANAGEMENT CONTRACTS</b>	<b>LEASING (AFFERMAGE)</b>	<b>CONCESSIONS (e.g., BOTs)</b>
<b>Financing Fixed Assets</b>	<b>Public Sector</b>	<b>Public Sector</b>	<b>Private Sector</b>
<b>Financing Working Capital</b>	<b>Public Sector</b>	<b>Private Sector</b>	<b>Private Sector</b>
<b>Management</b>	<b>Private Sector</b>	<b>Private Sector</b>	<b>Private Sector</b>

**EXTENT OF PRIVATE SECTOR PARTICIPATION**

LOW

HIGH

# WHY PURSUE PPP PROJECTS?

- ◆ **Governments can no longer meet all demands, or have more worthy demands**
- ◆ **Donor funds are reducing and are influenced by the position of the donor (and its electorate)**
- ◆ **Source of investment capital**
- ◆ **Investors will take risks - risk and return**
- ◆ **Gains in efficiency, especially financial**

# PRIVATE SECTOR INFRASTRUCTURE FUNDING IN EMERGING MARKETS

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<b>REGION</b>	<b>No OF PROJECTS</b>	<b>COST US\$m</b>	<b>%</b>
Latin America	38	5 980	48%
Asia	20	4 947	40%
Europe	7	1 007	8%
Sub-Saharan Africa	3	102	<1%
Central Asia, Middle East and North Africa	2	323	3%
		<u>12 360</u>	<u>100%</u>

**SOURCE:** International Finance Corporation -Financing  
Private Infrastructure Projects, September 1994

# REQUIREMENTS FOR SUSTAINABLE SUCCESS

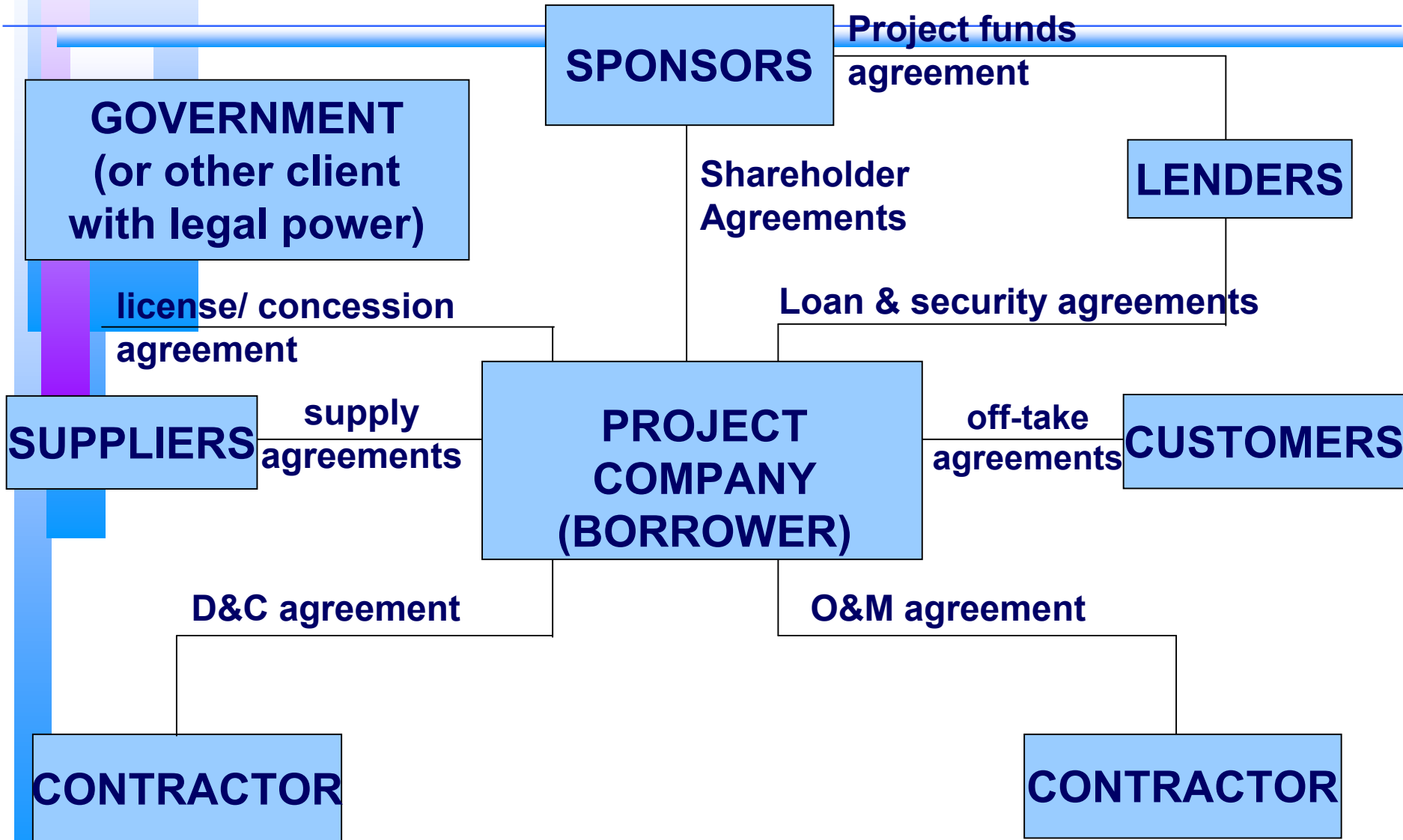
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- ◆ **Political commitment**
- ◆ **Conducive policy and regulatory framework**
- ◆ **Private sector reporting systems and control, governed by companies acts**
- ◆ **Commercial viability and competitiveness over long term (decades rather than years)**
- ◆ **Equitable sharing of risk and reward**
- ◆ **Access to long-term debt**



# SIMPLIFIED CONTRACTUAL STRUCTURE

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# ROLE OF PROJECT FINANCE

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- **PPP/PFI projects well suited for limited recourse project finance**
- **Provided revenue streams can be defined and secured**
- **Benefits of project finance**
  - **risk sharing, i.e. reduction of overall risk for major participants**
  - **increase availability of finance (tranches of different risk/reward to suit risk appetite)**

## ➤ **Market Risk**

- difference between government as off-taker (DBFO) and user-pays (concession)

## ➤ **Lenders may be faced with;**

- weaknesses in regulatory framework
- gaps in security
- other imperfections

## ➤ **Deal with by means of robust financial structuring, judgment & pricing**

- fair risk/reward sharing

# FOCUS ON INFRASTRUCTURE

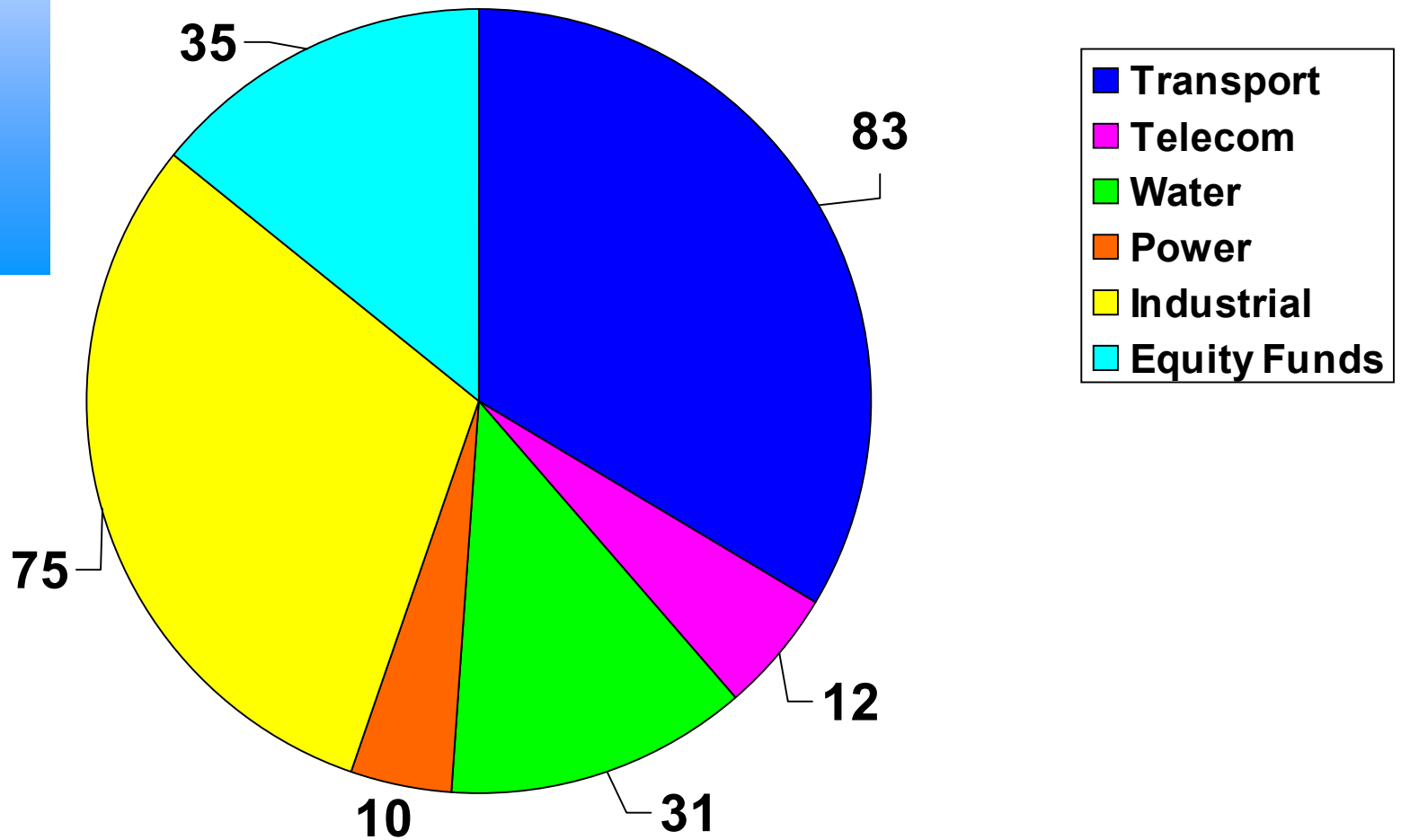
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## 3 broad groups:

- ◆ **basic infrastructure services to the community (e.g. water and sanitation)**
- ◆ **“enabling” infrastructure (e.g. telecoms, toll roads, rail)**
- ◆ **industrial/agribusiness projects with infrastructure components**

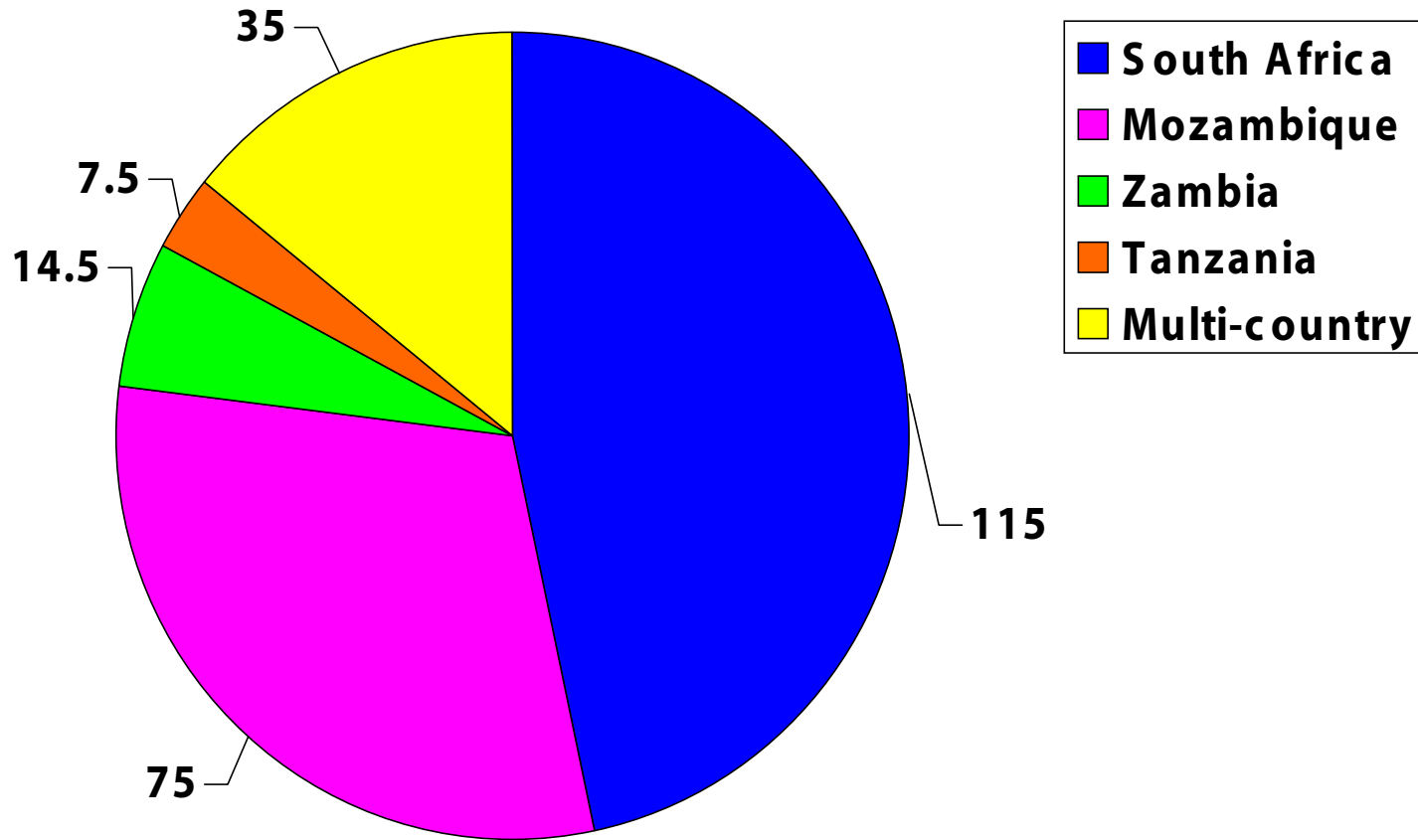
# DBSA PSI PORTFOLIO BY SECTOR (US \$ MILLION)

1



# DBSA PSI PORTFOLIO BY COUNTRY (US \$ MILLION)

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## ■ Examples

- ◆ already financed
- ◆ under consideration

## ■ Role of Project Finance

## ■ Project Finance Market in South Africa

## ■ Alternatives to Project Finance

## ■ E-commerce Opportunities in Project Finance

# 1 EXAMPLES OF PPP/ PFI PROJECTS FINANCED

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## ■ Correctional Services

- Prisons - Louis Trichardt
- Bloemfontein

## ■ Transportation

- Toll roads - N4 Maputo
- N3 Durban

## ■ Water & sanitation

- Durban Water Recycling (Pty) Ltd
- Nelspruit Water & Sanitation Concession
- Dolphin Coast Water & Sanitation Concession



# 1 EXAMPLES OF PPP/PFI PROJECTS UNDER CONSIDERATION

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## ■ Health

- Albert Luthuli Hospital
- Pietersburg Hospital
- Free State Provincial Health Department (2 hospitals)

## ■ Tourism

- 13 lodge sites in National Parks
- 14 sites in Greater St. Lucia Wetland Park

# EXAMPLES OF PPP/PFI PROJECTS UNDER CONSIDERATION (cont'd)

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## ■ Transportation

- 19 toll road projects
- Portnet restructuring (Port Authority & Port Operations)
- Rail concessions
- Regional airports

## ■ Power/Energy

- Kelvin Power Station
- Eskom restructuring
- Pande & Temane gasfields – Gas pipeline between Mozambique and South Africa

## ■ Telecommunications

- 3<sup>rd</sup> cellular licence

# GENERAL IMPLEMENTATION CHALLENGES

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- **Strong political commitment required**
- **Initial emphasis on securing broad stakeholder support**
- **Refocusing of public sector role from service provider to enabler and regulator**
  - **Capacity building requirements**
  - **Regulatory requirements**
- **A step-by-step approach**

# CHALLENGES PECULIAR TO THE SOUTH AFRICAN ENVIRONMENT

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- ◆ **mixed commitment**
  - **approach not co-ordinated**
  - **progress varies amongst government departments**
  - **confusing signals**
- ◆ **the need to redress imbalances (both spatially and in opportunities)**
- ◆ **only an emerging local project finance market**

# PERCEPTIONS

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- **Capitalism vs Socialism**
- **Exploitation of poor by the rich**
- **Debt traps and 'Working for the Mine'**
- **Selling off the family silver**
- **People don't want to pay (both attitude and inconvenience)**
- **Mind set towards change**
- **People are prepared to pay fair value for what they can see**

# RISKS FOR TRANSPORT

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- ◆ **Unequal competition from state-owned facilities**
- ◆ **Unrealistic market expectations**
- ◆ **Lack of hinterland or feeder services**
- ◆ **Tolls/fares mispriced (too low/too high)**
- ◆ **Dependence on public sector support**
- ◆ **Inadequate regulation**
- ◆ **Fixed investment requirements**

# IMPLEMENTATION CONSIDERATIONS

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- ◆ **Traffic volumes and toll revenues are often not adequate to render BOT models financially viable**
- ◆ **Capital contributions/ subsidies by the state/legal entity are often required**
- ◆ **A reminder of Public Private PARTNERSHIPS**
- ◆ **Transparency essential and the Market WILL Prevail**

# HAZARDS FOR UTILITIES

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- ◆ **Inefficiency in the public network**
- ◆ **Unbalanced tariffs and cross subsidies**
- ◆ **Unmitigated municipal risk**
- ◆ **Inadequate regulation**
- ◆ **Uncertainty in historic records and systems**
- ◆ **Lack of perceived uniformly consistent regulation**



# HOW DO WE OVERCOME THE CHALLENGES

- ◆ find ways of sharing risk - equitable structures
- ◆ robust financial structure
- ◆ reach closure on achievable transactions “success breeds success”
- ◆ lenders may need to live with:
  - incomplete regulatory framework
  - gaps in security
  - Uncertainty
- Governments/Clients also
- But we must then accept the credence of risk and reward
- Transparency, and the Market, ensures that this happens

# OVERCOMING THE CHALLENGES

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- **First convince yourself**
- **Second convince the decision makers**
- **Third convince the stakeholders**
- **Fourth convince the investors**
- **Remember that Projects are inherently simple**

# OVERCOMING THE CHALLENGES

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- **We have information. Use it.**
- **Remember risk and reward**
- **Remember the end user**
- **Put as much on to the Sponsor as you want (e.g Maputo Toll Road called for 30% to emergent entities)**
- **Remember your obligations**

# Overcoming the Challenges

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- **Develop credibility**
- **Keep stakeholders (Investors, unions and users) on your side**
- **Recognise the International Audience**
- **Start with something that everyone wants**

# Overcoming the challenges

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- **Know that it will be a period of learning**
- **Keep the faith**
- **Keep on negotiating**
- **If necessary MAKE it work, recognising the markets**
- **Nothing succeeds like success**

# Overcoming the Challenges

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- **Start small but keeping an eye on the bigger picture**
- **Know that, in South Africa:**
  - **Equity investors want 20%pa ZAR returns and their horizon is 5 years;**
  - **Commercial Banks want 16% with a horizon of 8 years;**
  - **The Pension Funds want 15% per annum with a 12 year horizon;**
  - **DFI's want 12% per annum with a 20 year horizon**

# Overcoming the Challenges

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- Know that these are international expectations that the project can do nothing to change
- In the fullness of time, as credibility grows, costs will fall
- Total costs of project preparation to the Client (15% to 20% of project cost), do not differ materially from conventional contracts
- Jury is still out on the South African projects, but they appear to be working and others are being proceeded with

# A QUANTIFICATION

- Maputo Toll Road Concession is costing ZAR 1 440 000 000 over thirty years
- For 544 km, this represents ZAR 88 500 per km per annum, in today's terms
- That is value for money
- SADC's Member States are spatially small on a map of the World
- Perhaps it is necessary to put together regional projects to be attractive to the international investment community
- From a personal perspective, this seems to be a way to go
- With a Regional Transport Regulator keeping an eye on particularly road and rail tariffs
- Compare South Africa's current ZAR 0,50 cents per km with the current SADC US\$10 per 100km



# THE CONCEPT OF PARTNERSHIP

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- **A relationship which is collaborative, supportive and mutually beneficial**
- **In the infrastructure sectors, normally a long term commitment**
- **Risks and rewards need to be equitably distributed**
- **The Public Sector retains accountability for service delivery**
- **The Private Sector requires an acceptable return on investment**
- **The interests of other stakeholders must be served**

# MAKING PARTNERSHIPS WORK

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- **Consultation**
- **Procurement processes**
- **Risk sharing**
- **Policy and regulatory environment**
- **Economic and political stability**
- **Long term debt**
- **Acts of faith and trust**

# PROJECT FINANCE MARKET IN SOUTH AFRICA

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- Do not have efficient project finance market in S.A.
  - ◆ length of time to financial closure
  - ◆ advisor costs and limits of exposure (R100 m)
- Issues related to financial structure and risk allocation
- Need to identify risks & structure incentives so as to achieve efficiency
  - ◆ under which events who pays what, when and to who (the certainty of the Concession)
- Example: Project completion undertakings by Sponsor(s)

# E-COMMERCE OPPORTUNITIES IN PROJECT FINANCE

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- Access to transaction & project information
- “Virtual Deal Rooms”
- Negotiation by video and telephone conferencing
- Vertical hubs/portals  
e.g. [infrastructure world.com](http://infrastructureworld.com)
- Elect for Globalization or not
- Crucial for SADC

# ALTERNATIVES TO PROJECT FINANCE

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- **Balance sheet**
  - ◆ typically only for small projects
- **Revenue Bonds**
  - ◆ international trend shows increased use of revenue bonds (e.g. UK PFI projects)
  - ◆ issues/obstacles specific to SA market
- ◆ **Preference Shares**
- **Others?**
  - ◆ scope for innovation
  - ◆ Ultimate full and transparent disclosure and exchange

# CONCLUSION

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- Governments alone cannot address the challenges of providing Southern Africa's infrastructure needs
- Indeed government shouldn't
- Appropriately structured PPPs can bring about enhanced efficiency, speed of delivery and quality of services
- Opportunity for Southern Africa to benefit from extensive international experience
- The DBSA, as other financial institutions are committed to providing technical assistance and finance to support SADC institutions in meeting their development objectives

# ROLE OF DBSA

- **Capital market development**
- **Encourage competition**
  - ◆ **international banks**
  - ◆ **explore financing options**
- ◆ **Mobilization of private sector resources for infrastructure development**

# ROLE OF DBSA (cont)

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- ◆ **DBSA seeks to act as a catalyst for private sector investment:**
  - **not in competition with private sector banks**
  - **not in projects which can be financed efficiently from private sector sources**
  - **development impact of key importance**



# THE PRIVATE SECTOR UNIT OF THE DBSA

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- Private sector clients
- Infrastructure focus, SADC Region
- Products: debt, equity, credit enhancement
- Portfolio
  - ◆ R2,1 billion in approved projects
  - ◆ Sectors: Transport,telecommunications, water and sanitation; industrial infrastructure; energy; private equity funds; agri-business

# PSI UNIT'S ROLE IN DEVELOPMENT

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- ◆ **To promote economic development within SADC by encouraging the growth of productive enterprise and efficient capital markets, with a focus on infrastructure**

# PSI's ACTIVITIES AND PRODUCTS

- ◆ **Direct financing of private sector projects**
  - equity investments
  - quasi-equity instruments (e.g. subordinated loans, convertible loans, income-participating instruments, etc.)
  - long-term senior loans (fixed or variable rates)
- ◆ **Credit enhancement**
  - guarantee instruments
- ◆ **Commercially priced products**

# REQUIREMENTS FOR PSI FUNDING

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**To be eligible for PSI financing, projects must;**

- ◆ **be commercially viable and profitable for investors,**
- ◆ **have appropriate sponsor support,**
- ◆ **be technically sound,**
- ◆ **benefit the economy of the host country,**
- ◆ **comply with stringent environmental criteria and social guidelines (e.g. economic empowerment)**

# CONCLUSION

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- ◆ **PPPs offer great potential**
- ◆ **Significant progress has been made in a short period**
  - **Political commitment**
  - **Pilot projects**
  - **Willingness of Private Sector to invest**
- ◆ **Southern Africa can benefit from international experience**

# **SOUTH AFRICAN EXPERIENCE IN PPP'S**

Peter Copley

Transport Specialist Development Bank of Southern Africa

Peter Copley stated his early career in roads in KwaZulu Natal. Thereafter he worked in the Urban Transport Branch of the National Department of Transport, together with a two-year secondment to the CSIR to undertake research into the impact of transport on both economic and social development.

He has been employed at the Development Bank in a variety of capacities since 1985, all relating in some way or the other to transport. Recent activities have been to advise DBSA on its involvement in transport infrastructure, as well as advising clients on future trends and scenarios in the transport infrastructure industry.

He is a UCT trained civil engineer with transport qualifications from Wits and an MBL from UNISA.