

Can the Private Sector add value to public sector infrastructure development?

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Options for Private Sector Participation

- Understand the value chain in any sector i.e. health, accommodation
- Design, Finance, Build, Operate, Transfer
- Any combination of the above
- Key issue is value for money and risk
- Every project has its social, economic and political drivers (current and historical) and this will help determine the combination



Options for Private Sector Involvement

Degree of Risk Transfer

Outsourcing

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

PPPs

- Private Party:
 - Finances (whole or most)
 - Designs
 - Builds
 - Operates
- Government purchases complete service and/or enables business
- Fixed assets belong to Government

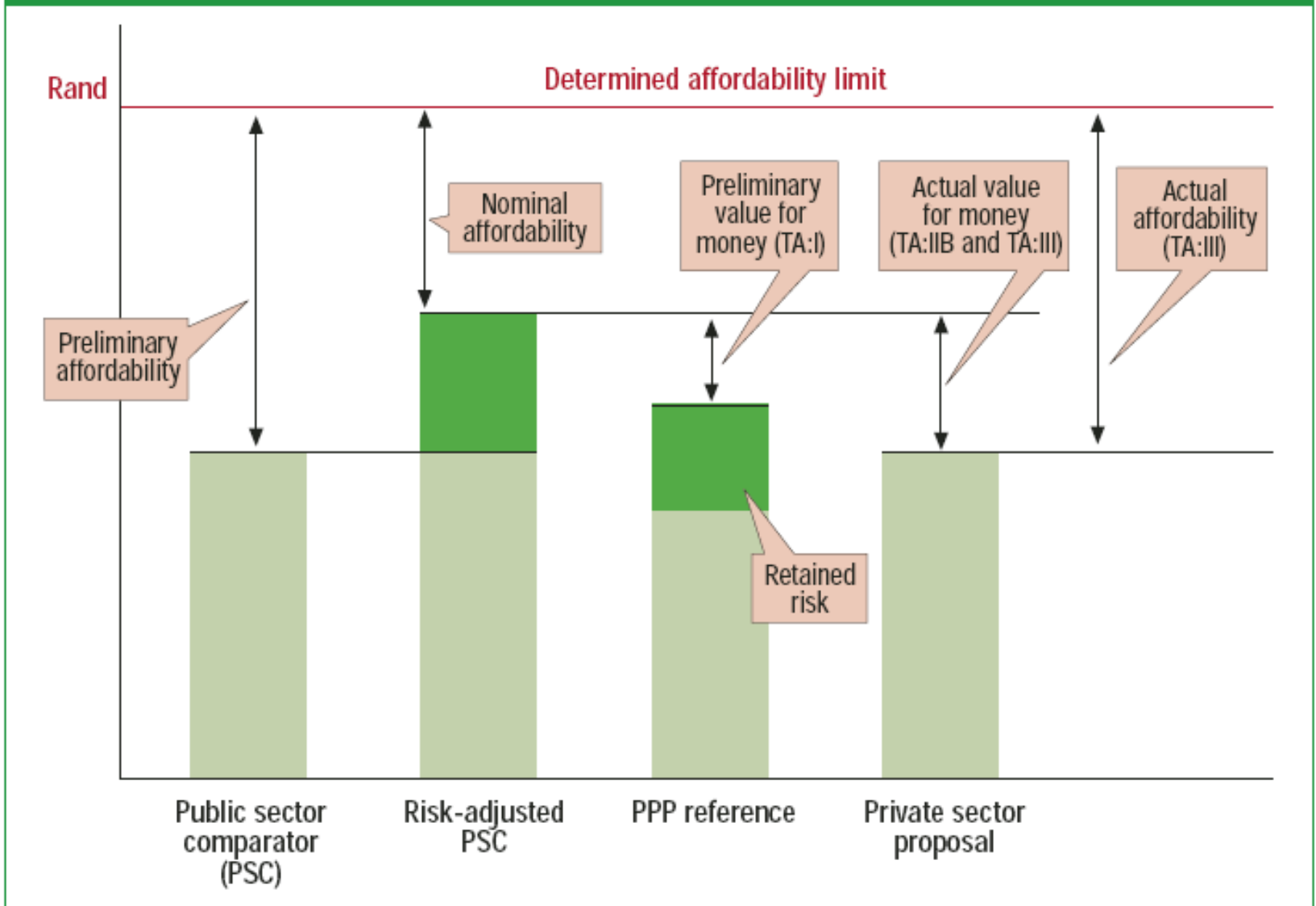
Privatisation

- State assets sold
- State liabilities dispensed
- Government has Regulatory function only

Project Preparation

- Projects identified through budget bidding process
- Important that Projects fit within National or Sector priorities
- Preparation of feasibility studies to answer questions about scope of project, affordability, value for money and risk transfer
- Intergenerational integrity
- Important for process and content to be documented and codified

Figure 4.2: Affordability and value for money^a



Procurement

- Commences following good results from Feasibility study
- Open and competitive process
- Clear bid documentation with clear instructions
- Pre-qualification (Stage 1)
- Request for proposal (Stage 2)
- Fairness and transparency important for private sector
- It is an expensive but critical process for all parties

Procurement

- Sound evaluation process to arrive at preferred bidder
- Maintain linkages to the feasibility study and original objectives
- Value for Money as a combination of design, funding terms and risk positions by the private sector
- Avoid beauty contest – most beautiful design might be from the bidder offering government no value for money

Institutional arrangements

- Leadership and political support critical at macro and project level
- Speed of decision making
- Contract in technical, financial and legal expertise to match private sector capacity during preparation, procurement and negotiation
- Match external capacity with internal resources
- Always helps for Government to have PPP Units for capacity support and oversight

Project Implementation

- Contract management capacity must be in place by the time contract is signed
- Change management (Training and communication)
- Broaden ownership from project team to all users/beneficiaries
- Performance measurement of contract by internal stakeholders
- Periodic external reviews

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