

PAPER 8

## HOW PUBLIC-PRIVATE PARTNERSHIPS CAN HELP UNLOCK PUBLIC INFRASTRUCTURE DEVELOPMENT

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### ABSTRACT

A Public-Private Partnership (PPP) is a contract between a public-sector institution and a private party where the private party performs a function that would normally be undertaken by the public sector. The private party could also be required to provide funding for the development of infrastructure within a PPP arrangement. PPPs are thus seen as viable business models to bridge the capital funding gap that currently exists within the South African Infrastructure landscape.

PPPs are well suited to large, complex and costly projects with long periods to fund, implement and maintain. These projects are usually highly geared and both the private and public parties are usually required to provide a certain level of guarantees in order to ensure successful implementation of projects. An additional benefit of PPPs is that it provides budget certainty for the public party, as well as, unlocks current capital funding streams to be redirected towards other projects.

In South Africa PPPs are regulated through policy frameworks at national government level, through National Treasury. While the PPP regulatory and legislative framework is generally cumbersome, especially in the municipal environment, PPPs in certain sectors can be less cumbersome – for example, a university may enter into a PPP arrangement with a private sector developer to construct a student accommodation through a simple build-operate-own-transfer (BOOT) arrangement. A desalination or railway PPP project on the other hand can be very cumbersome, given the complexity and (high) costs of these type of projects.

In the municipal environment, with limited funding resources, and limited institutional capacity for project development, PPPs can play a major role to reduce infrastructure backlogs, especially in water and energy projects. Properly structured PPPs can result in benefits such as: cost and time savings, transfer of project risks, access to private sector, promote innovation and the transfer of skills to municipalities.

### 1. INTRODUCTION

#### 1.1 State of public infrastructure funding in South Africa

Public infrastructure development plays a key role in South Africa's economy, and the economies of many other nations across the globe. Public infrastructure is without doubt one of the most important tools used by governments to drive key priorities such as economic growth, job creation, and promote private sector participation in infrastructure development.

Public infrastructure is infrastructure that is owned by the public or is for public use. It is generally distinguishable from private or generic infrastructure in terms of policy, financing, and purpose. Public infrastructure is conventionally funded through the fiscus and implemented by national, provincial or regional and local governments and their agencies.

South Africa is a developing country with many pressing socio-economic needs. However, the financial resources available to government are not adequate to meet government's public infrastructure financing requirements. These resources comprise taxes collected and borrowings sourced

by government from the capital markets. This challenge is not only prone to developing countries – the financing requirements of current and prospective infrastructure needs far outstrip resources available in developed countries as well.

South Africa has serious public infrastructure backlogs across all economic sectors, due in part to the inadequacy of public funding sources (other reasons being institutional capacity, etc.). Tables 1 and 2 below depict an overview of the 2018/19 government fiscal framework as presented by the Minister of Finance during the 2018 Budget Speech.

**Table 1: Consolidated Government Fiscal Framework, 2017/18 – 2020/21**

	2017/18	2018/19	2019/20	2020/21
<b>R billion</b>	Revised Estimates	Medium Term Estimates		
<b>Revenue</b>	1 353.6	1 490.7	1 609.7	1 736.9
<b>Public expenditure</b>	1 558.0	1 671.2	1 803.0	1 941.9
<b>Budget Deficit</b>	-204.3	-180.5	-193.3	-205.0
<b>GDP</b>	4 699.4	5 025.4	5 390.1	5 808.3
<b>Budget deficit as a % of GDP</b>	-4.3%	-3.6%	-3.6%	-3.5%

Source: National Treasury (2018)

A budget deficit implies the need to raise additional funding streams to complement government's resources. The public expenditure in Table 1 can be further disaggregated into national, provincial and municipal expenditure, or broken down by function.

Table 2 below provides a breakdown of the current medium-term framework.

**Table 2: Local Government Budget Allocation, 2017/18 – 2020/21**

	2017/18	2018/19	2019/20	2020/21
<b>R billion</b>	Revised estimates	Medium term estimates		
<b>Allocation to local government</b>	110.7	118.5	126.9	137.5
<b>Local govt / total expenditure %</b>	7.11%	7.09%	7.04%	7.08%
<b>Allocation to provincial government</b>	538.2	571.0	611.8	657.5
<b>Provincial govt / total expenditure %</b>	34.54%	34.17%	33.93%	33.86%
<b>Allocation to national departments</b>	599.9	628.6	685.9	736.6
<b>National depts. / total expenditure %</b>	38.50%	37.61%	38.04%	37.93%
<b>Debt service costs</b>	163.2	180.1	197.7	213.9
<b>Debt service costs / total expenditure %</b>	10.47%	10.78%	10.97%	11.01%
<b>Contingency reserves &amp; adjustments</b>	146.0	173.0	180.7	196.4
<b>Contingency / total expenditure %</b>	9.37%	10.35%	10.02%	10.11%
<b>Total public expenditure</b>	1 558.0	1 671.2	1 803.0	1 941.9

Source: National Treasury (2018)

Table 2 highlights the fact that municipalities receive the lowest share of

budget allocations, approx. 7% of total public expenditure, compared to national and provincial departments which collectively account for approximately 72% of total public expenditure.

It should be noted that budget allocations are typically the main financial resources available to national and provincial departments to fulfil their mandates, as they are restricted from incurring direct borrowings and have little scope to collect revenue.

Municipalities and their agencies on the other hand can access additional sources of funding as:

- They are empowered by the regulatory framework to incur borrowings to fund public infrastructure, and
- They collect revenue from the provision of municipal services within their municipal demarcation areas.

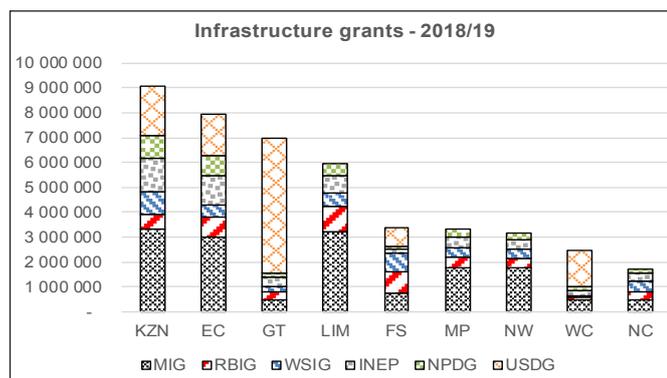
## 1.2 Overview of municipal infrastructure funding

Municipalities are funded by a combination of a capital budget and an operating budget.

The **capital budget** comprises the following sources of funding:

- Infrastructure capital grants (MIG, INEP, RBIG, WSIG, NPDG, USDG),
- Debt (loans and bonds), and
- Surpluses generated from the provision of services (water, sanitation, electricity, waste collection).

Figure 1 below provides the allocation of Municipal Infrastructure Grants per province for the 2018/19 fiscal year.



**Figure 1: Provincial allocation of municipal infrastructure grants**

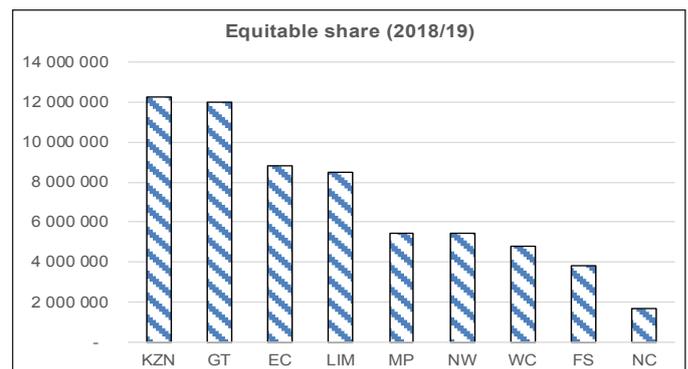
Source: Division of Revenue Bill (2018)

The grants depicted in Figure 1, allocated through government expenditure, are all meant for the development of infrastructure at municipal level.

The **operating budget** of a municipality is funded through a combination of the following:

- Property rates and taxes,
- Revenue received from tariffs,
- Other allocations from national government (including equitable share), and
- Other income sources.

Figure 2 below provides an indication of the aggregated municipal equitable share allocation per province for the 2018/19 fiscal year.



**Figure 2: Provincial allocation of municipal equitable share**

Source: Division of Revenue Bill (2018)

While municipalities in South Africa receive various capital and operating grant allocations from the fiscus, these grants are insufficient to meet their funding needs.

As an example, the Department of Water and Sanitation (DWS) has estimated the water services infrastructure funding gap at approx. R30 billion per annum (African News Agency, 2017).

## 1.3 Municipal borrowing capacity

Given the inadequacy of fiscal allocations to fund municipal infrastructure needs, the obvious and natural solution would be for municipalities to borrow to reduce their funding gaps. However, many South African municipalities do not have adequate capacity to take up debt. In some instances, this could be attributed to their balance sheets already being highly geared or having reached their maximum borrowing limits.

National Treasury has set the maximum borrowing limit for municipalities to a maximum of 45% of their total operating revenue (National Treasury, 2014). In other instances, municipalities are unable to borrow challenges associated with inefficiencies in corporate governance, adverse/qualified audit opinions and liquidity challenges.

Generally, only metropolitan municipalities, secondary cities and some district municipalities are able to borrow and manage debt comfortably in South Africa. The rest of the nearly 300 municipalities, especially those located in rural provinces, are under-resourced and have little or no borrowing capacity at all, thus leading to poor infrastructure development and service delivery challenges.

Furthermore, most municipalities in South Africa, are characterised by inefficiencies in collecting revenue for the provision of municipal services – and incur budget deficits rather than surpluses on their municipal services. This includes metropolitan municipalities, which have higher income bases due to their higher economic activities.

These budget deficits can be traced down to factors such as non-payment for services in municipalities, and inefficiencies (e.g. poor collection of electricity, non-revenue water, etc.). As an example, at the time of the writing of this paper, it was estimated that South African municipalities owed Eskom about R13.8 billion, up from R9.5 billion in 2016 (Presence, 2018).

These deficits create the need for municipalities to identify additional funding models that can be unlocked to enhance the delivery of services. Public-private partnerships are an innovative infrastructure (financing) solution and model that could attract additional funding to municipal infrastructure development, and improve efficiencies for service delivery at local government.

## 2. THE CASE FOR PUBLIC-PRIVATE PARTNERSHIPS

### 2.1 What is a public-private partnership?

A Public-private partnership (PPP) is a contract between a public-sector institution and a private party where the private party performs a function that would normally be undertaken by the public sector. While this is not always the case, the private party is usually also required to provide funding for the development of the infrastructure within a PPP arrangement.

PPPs are thus seen as viable business models to bridge the capital funding gap that currently exists within the South African infrastructure landscape. In the context of this paper, a PPP is any long-term concession arrangement that enables a private sector entity to finance, design, build, operate and maintain the infrastructure before transferring the infrastructure back to the public sector at the end of the concession period.

PPPs are well suited to large, complex and costly projects with long periods to fund, implement and maintain. These projects are usually highly geared and both the private and public parties may be required to provide a certain level of guarantees to ensure successful implementation of projects.

### 2.2 Typical structure of a public-private partnership

PPP structures include several role players. Figure 3 below depicts the different role players that would be required in a typical PPP project.

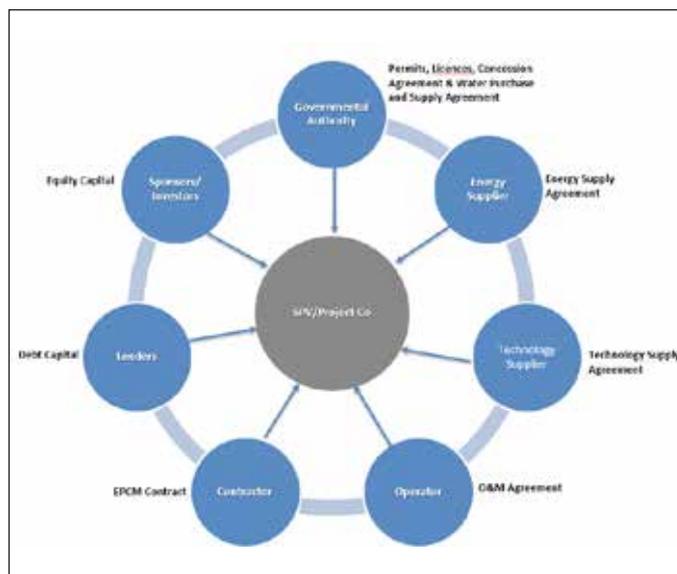


Figure 3: Indicative structure of a PPP

The structure indicated above shows several role players associated with PPPs, through interdependent relationships. These relationships are established by means of a suite of contractual agreements entered into by and between the PPP implementing agent, usually a special purpose vehicle established solely to execute the PPP project, and each of the key parties to the PPP.

The above is a simplified structure of PPPs, presented for discussion purposes. In reality PPPs involve a significant number of parties, leading to multiple contractual agreements and high transaction costs, especially legal fees.

The contractual arrangements in Figure 3 can be summarised as follows:

Table 3: Typical contractual arrangements in PPPs

<b>1. Compliance and regulatory agreements</b>	Permits, licences, concession agreement, service purchase and supply agreement. These are typically concluded between the implementing agent, the Government Authority and the project sponsors or investor. Concession agreements are important documents and of great significance to lenders in PPPs.
<b>2. Funding agreements</b>	Funding agreements include the sponsor's equity investment into the project, debt funding agreements, security agreements, hedging agreements, and public-sector contributions of government or the Governmental Authority (including grants, guarantees, and other incentives with a monetary value).
<b>3. Supply agreements</b>	These agreements are often concluded where the project entails equipment and technology supply, and are usually required by funders to mitigate the performance risk associated with equipment and technology supply.
<b>4. Contractor agreements</b>	These agreements are entered into by and between the implementing agent and the contractors, and often cover aspects such as procurement, completion risk, construction cost fluctuations, and such other similar risks.
<b>5. Operation and maintenance agreements</b>	These agreements are concerned with the operation of the infrastructure created, and often include – though not always, the responsibility for revenue collection and maintenance of the infrastructure for a specified period, the expected condition of the infrastructure at the time of transfer back to the Governmental Authority.

While the benefits of entering into a PPP are many, as stated in the next section, they can be extremely complex to execute as:

- They involve many parties; therefore, it is important to ensure that the different interests are well aligned,
- They take time to implement, due to rigorous regulatory and legal frameworks,
- There is perceived loss/lack of control over the infrastructure developed, especially if it is off-balance sheet, and
- The upfront transaction costs to structure the PPP, including procurement costs and legal fees can be quite high.

These complexities may deter the public sector to pursue this route when considering alternatives for funding public infrastructure.

However, PPPs need not be that complex, and can be implemented with much ease in the municipal space without incorporating all aspects traditionally associated with PPPs, such as operation and maintenance of the asset. Because local municipalities receive substantial infrastructure grants for infrastructure funding, a light PPP model can be adopted to implement projects with much ease. For example, a municipality can appoint a private sector party to fund and build municipal infrastructure funded through multi-year infrastructure grants, through bridging finance.

The private sector party could build the asset in one year, and receive repayment for the bridging finance provided plus a return, over the next three years in the medium-term expenditure framework (MTEF). Once the asset is created it can be operated by the municipality where expertise exists, or transferred to another private sector party to operate and maintain. Such an asset would be recorded on the municipality's balance sheet, with the private sector party being recorded as a creditor.

### 2.3 Benefits associated with the PPP model

According to the International Project Finance Association (IPFA), budgetary constraints, and an acknowledgement of private sector efficiencies and technical expertise are amongst the principal reasons why governments around the world are taking the economic and political decision to accelerate the use

of private sector finance and adopt PPP models to deliver infrastructure projects which would have otherwise been built by the public sector using public sector finance. Some of the benefits of PPPs are:

**Table 4: Benefits associated with PPP models**

<b>1. Significant cost savings</b>	PPPs allow for construction to be completed to plan and to budget (in both cost and time), delivering wide social benefits and better value for money compared with that of an equivalent asset procured conventionally.
<b>2. Shorten project delivery time</b>	By providing access to immediately available private funding sources, PPPs can accelerate the construction of projects that might otherwise be delayed for years or not be built at all, and produce cost savings.
<b>3. Transfer of key risks</b>	PPP models allow for the transfer of project risks to the party that is best placed to mitigate them. Risks relating to performance, investment and funding are transferred to the private sector. The concession structure often prescribes that the private sector party will only realise its investment if the asset performs according to the contractual obligations. As the private sector will not receive payment until the facility is available for use, the PPP structure encourages efficient completion of projects, on budget and without defects.
<b>4. Accelerate public infrastructure development</b>	Infrastructure created through PPPs can improve the quality and quantity of public infrastructure, such as the provision and treatment of water, energy supply and transportation and a variety of other public services such as hospitals, schools, prisons, etc.
<b>5. Access to private sector capital</b>	The use of private sector capital to fund public infrastructure helps to reduce government debt and to free up public funding streams to be redirected towards other government services and priorities, thus doing more with less.
<b>6. Quality design and construction</b>	PPPs are perceived to deliver better quality in design and construction of projects as they focus on life-cycle costs (and not simply on its initial construction cost) in the design and construction phase of an asset which often leads to delivery of a higher quality project than under traditional procurement methods.
<b>7. Better asset management</b>	Because in a PPP repairs and maintenance is planned at the outset, assets and services are maintained at a pre-determined standard over the full length of the concession.
<b>8. Promote innovation</b>	The expertise and experience of the private sector in PPPs encourages innovation, resulting in shorter delivery times and improvements in the construction and facility management processes – thus leading to best practice.
<b>9. Promote skills transfer to public sector</b>	PPPs can be structured to incorporate skills transfer, for example, as part of the technology supply arrangements, the technology supplier may train public sector technical staff on the use of the new technology at no cost to the public sector, enabling them to operate the technology post the transfer of the asset to the public-sector entity.
<b>10. Better project risks analysis</b>	The PPP process requires a full analysis of projects risks at the outset by both the government and lenders, which leads to more robust cost estimates, ensuring that investment decisions are based on better information.
<b>11. Better relationships</b>	PPPs can create efficient and productive working relationships between the public and private sector participants.
<b>12. Strategic</b>	PPPs help the public sector develop a more disciplined and commercial approach to infrastructure development and operation whilst allowing them to retain strategic control of the overall project and service.
<b>13. Promote BBBEE</b>	PPPs can also be structured to incorporate BBBEE equity ownership or participation, either in the ownership structure of the private sector party, or in downstream procurement, e.g. sub-contracting.

## 2.4 Regulatory frameworks of public-private partnerships

The greatest constraint to using PPP models is the requirement to comply with the regulatory and legislative framework, which is quite cumbersome. National Treasury has established a regulatory framework for municipal PPPs, in the Municipal Financial Management Act (MFMA) (Act No. 56 of 2003), and the Municipal Systems Act (MSA) (Act No. 32 of 2000) to guide municipalities in developing infrastructure through PPPs.

The guidelines for the execution of municipal PPPs, in terms of the MFMA and the MSA, are indicated in the diagram below:



**Figure 4: Municipal PPP Project Cycle**  
Source: National Treasury PPP Unit (2007)

As can be seen from Figure 4, the process for implementing municipal PPPs is quite stringent and cumbersome, which can be discouraging for (especially smaller) municipalities to undertake. The process requires up to four interactions with National Treasury, and multiple public participation engagements, before a municipal PPP can be implemented, making this process quite a lengthy exercise.

However, PPPs can be less cumbersome in certain sectors – for example, a university wishing to enter into a PPP arrangement with a private sector developer to construct a student accommodation facility may do so by concluding a simple BOOT contract, which must be approved by the Minister of Higher Education. On the other hand, PPPs in a desalination or railway project can be very cumbersome given the complexity of the organisational structures, the complexity of the projects, and (high) cost of these types of projects.

### 2.5 Typical risks to be mitigated

There are various risks that PPPs can help mitigate in project development, and some of these risks are specific to the type of asset to be developed, the nature of the public-sector entity, and the availability of a regulatory framework and legislation to enable the development of the specific infrastructure. For example, to develop a water infrastructure project through a PPP in a municipality would require compliance with both the MFMA and the Water Services Act (No. 108 of 1997) if the private sector party is to act as a water services provider (WSSP) or authority (WSA) – that is if the private sector party is to build, own and operate and maintain the asset.

In a municipal context, the typical risks to be mitigated by a PPP could include:

**Table 5: Typical risks to be mitigated in a municipal PPP**

<b>1. Leverage on private sector funding</b>	As has been already indicated, municipalities do not have unlimited funding streams to develop their infrastructure, and with limited capacity to borrow, they can definitely benefit from entering into PPP arrangements.
<b>2. Reduction of infrastructure backlogs</b>	Municipalities face huge infrastructure development backlogs across all municipal infrastructure segments (water, sanitation, electricity, waste, municipal roads, etc.), mainly due to funding constraints. PPPs can help reduce these backlogs and improve service delivery.
<b>3. Leverage on institutional capacity</b>	Generally, municipalities, especially in rural areas, do not have adequate institutional capacity to implement projects, i.e. technical professionals such as engineers, project managers, quantity surveyors – resulting in poorly developed infrastructure. PPPs can bring in the required expertise for project development and operation and maintenance.
<b>4. Leverage on budgeting for operation and maintenance</b>	PPPs allow for estimation and budgeting of all life-cycle costs, which include operating costs during the life time of the infrastructure. It is a known fact that South African municipalities not only need funding for new infrastructure, but also for operation and maintenance of existing infrastructure, most of which is old and dilapidated.
<b>5. Address non-revenue water</b>	Non-revenue water warrants special mention, as it is responsible for millions of rands in losses to municipalities. Both physical losses and apparent losses (faulty meters and theft) are detrimental to the financial viability of water utilities, as well to the quality of water itself. In a PPP the cost funding non-revenue water can be transferred to the private sector party.

<b>6. Revenue collection</b>	Perhaps the most important benefit in a municipal PPP would be revenue collection. In a PPP structure the concession can continue long after the private sector party has realised its investment in developing the asset, as is often the case in toll roads concessions, thus enabling the private sector investor to collect revenue, and operate and maintain the infrastructure on behalf of the public-sector entity.
<b>7. Technology risk</b>	Municipal PPPs can assist identify technology risks, through a use of a pilot to be completed before an all-out rollout of the infrastructure.

### 2.6 Types and examples of Public-Private Partnerships

PPPs are not a new phenomenon in South Africa. PPPs can, and have been implemented in various sectors where the regulatory and legislative frameworks permit.

Below is a list of few non-municipal PPP projects implemented in South Africa in recent years:

- **Railway and port concessions:** e.g. Grindrod Freight Services operates the Maputo Port concession in Maputo, on a 25-year concession.
- **Toll road concessions:** South Africa has a number of national road concessions on all major national roads, e.g. the N3 toll concession which operates the N3 between Durban and Johannesburg, on a 30-year concession.
- **Provincial concessions:** For example, the Bombela concession which funded and implemented the Gautrain in Gauteng.
- **Student housing concessions:** For example, the Kovacs UWC student residence concession at the University of the Western Cape which is a 15-year BOOT of a 2000-bed capacity modern student residence developed in 2009.
- **Independent power producers:** Various concessions implemented by the Department of Energy, Eskom and various private sector participants.

Municipal PPPs are also not something new in South Africa. A number of municipalities have developed municipal infrastructure through PPPs, examples of which include the following municipal *design-finance-build-operate-transfer* concessions:

**Table 6: Examples of municipal PPP projects**

Project name	Additional information
<b>1. Dolphin Coast Water and Sanitation</b>	30-year concession with Kwa-Dukuza Local Municipality.
<b>2. Mbombela Water and Sanitation Concession</b>	30-year concession with Mbombela Local Municipality.
<b>3. Head Office Accommodation</b>	25-year concession with City of Tshwane.

Source: National Treasury (2018)

According to National Treasury (2018) there has been a decline in the number of new PPP projects implemented in South Africa over the past few years, with transactions decreasing from R10.7 billion in 2011/12 to R5 billion in 2017/18. This is expected to increase with transactions expected to increase slightly to R6.4 billion by 2020/21.

### 2.7 Other models and sources to enhance infrastructure funding in municipalities

Municipal grants remain the main source of funding for municipal infrastructure in South Africa, complemented to an extent by surpluses realised

from the provision of services. Apart from PPPs, the following are additional models and sources of funding for municipal infrastructure in South Africa:

**Table 7: Alternative funding streams for municipal infrastructure development**

<b>1. Regional infrastructure grants</b>	The Regional Bulk Infrastructure Grant (RBIG) is administered through provincial departments (e.g. Provincial departments of Water and Sanitation), to fund the implementation of infrastructure at municipal level, thus also mitigating project implementation risks, in addition to funding risks.
<b>2. Borrowings (bank loans)</b>	Those municipalities that have stronger balance sheets can access funding for infrastructure through the bank loans and development finance institutions, of which the DBSA is the main funder of municipal infrastructure projects.  The DBSA has particularly funded all the municipal segments (metros, districts, secondary cities, and municipalities known as “under-sourced municipalities”, which is another term for small or rural), but over the years has built a significant non-performing loan book in its “under-resourced” segment.
<b>3. Borrowings (bond issues)</b>	A further option to increase capital funding in municipalities is to issue bonds to enhance funding for capital projects. Bonds are administratively complex to manage and can only really be issued by a select few municipalities, notably metros, due to their large sizes and strong balance sheets.  Bonds traditionally attract lower interest rates than bank loans, interest rates can be fixed, and bonds give municipalities significantly greater freedom to operate as they see fit - free from the restrictions that are often attached to bank loans.
<b>4. Borrowings (pledging of conditional grants)</b>	In 2009/10 Circular 51 “Pledging of conditional Grant Transfers” was promulgated, allowing municipalities to pledge a substantial portion of their multi-year conditional grants (i.e. MIG, INEP) by raising bridging finance of up to 75% of the relevant MTEF allocations in order to fast-track municipal infrastructure development.  However, this Circular requires National Treasury to approve each pledging application, and delayed approval rendered the programme inefficient as some municipalities were receiving all their grant allocations while still waiting for National Treasury to approve their pledging applications. However, the DBSA still implemented this programme on a number of municipalities, and had approved approx. R3 billion in bridging finance loans under the MIG and INEP programmes by 2014.
<b>5. Utility companies</b>	Municipal entities, such as water and power utilities (e.g. City Power in Johannesburg) also provide an alternative model for funding of municipal infrastructure. Utilities are wholly-owned special purpose vehicles of municipalities, charged with the authority to fund (including power to incur borrowings), develop, operate and maintain infrastructure.

### 3. CONCLUSION

PPP projects account for R18.5 billion of the R834 billion planned for public infrastructure spending over the next three years (National Treasury, 2018). This represents 2.2% of the planned budget spend and indicates that whilst the PPP model is attractive, public sector infrastructure projects continue to be largely funded in the traditional manner, that is, through government allocations.

PPPs are suitable to large projects that require skills that may be outside the traditional skills sets of municipalities. Whilst they have high

transaction costs and a somewhat cumbersome regulatory and legislative framework, which may be seen as deterrents, and hence the low uptake, PPPs are a viable mechanism to increase private sector investment in the public sector whilst ensuring that the investment is secured as the asset is optimally operated and maintained.

PPPs are innovative infrastructure solutions in that, in addition to leveraging additional capital to augment municipal allocations, they bring in cooperation and strengthen the relationship between the public and private sectors, promote innovation, and lead to better risk mitigation.

### 4. RECOMMENDATIONS

A word of caution: PPPs do not provide a one-size-fits-all solution for municipal infrastructure funding and there are instances where PPPs are not adequate. Municipal PPPs can be an effective way of funding for large scale, multi-year, revenue generating municipal infrastructure projects in metros, secondary cities and district municipalities, but may not be appropriate for small projects, especially in small rural municipalities.

In such instances, it may be necessary to group several smaller municipalities with similar infrastructure challenges within a District Municipality into a single programme (that is, a programmatic approach) to implement the required infrastructure at District Municipality level – the District can then either complement the available public resources with borrowings or enter into a PPP arrangement.

The private sector should lobby government (National Treasury) to enhance the use of municipal PPPs by reviewing the current regulatory and legislative framework, which is partly responsible for the high transaction costs due to its cumbersome processes. It is inconceivable that the entire process requires National Treasury to review one application four times, and undertake a public engagement process twice. We acknowledge that this process was put in place to provide a level of oversight, however the process could be streamlined to two reviews of the PPP application by National Treasury, and one public engagement. This would fast track the approval of new infrastructure, thereby reducing backlogs.

In addition to PPPs, borrowings (loans, bond, and the pledging of conditional grants) present an opportunity for municipalities, subject to borrowing capacity, to increase their funding sources, thereby improving service delivery. The appropriate funding model should be determined on a case-by-case basis.

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