



NATIONAL  
TREASURY

PPP  
unit

## **PUBLIC PRIVATE PARTNERSHIP MANUAL**

National Treasury PPP Practice Notes issued in terms of the  
Public Finance Management Act

## PREFACE

South Africa is proudly amongst the leading countries in the world in the law, policy and systems we have established for public private partnerships. Our public service delivery record has been enriched through PPPs in recent years, and our PPP project pipeline continues to grow, both in numbers and in the innovative value-for-money solutions it contains.

*National Treasury's PPP Manual* is indeed a world first. It systematically guides public and private parties through the phases of the regulated PPP project cycle for national and provincial government, unpacking policy and providing procedural clarity as it does so. It draws on South African project experience to date and on best international practice, without infringing on the authority of accounting officers and authorities. It sets rigorous risk-assessment standards by which government will make affordable project choices that best leverage private investment for quality public services. Importantly, the *PPP Manual* contains a code that will go a long way to achieving broad-based black economic empowerment in PPPs, not only in the equity and management of the contracted private parties, but in their subcontracting and in the projects' local socio-economic impacts.

Together with *Standardised PPP Provisions*, the *PPP Manual* is a powerful tool in South Africa's ongoing quest to tackle poverty and grow our economy. Where the transfer of financial and operating risk to a private partner through a PPP gives us an affordable, cost-effective solution for a service, we will pursue it. We will continue to learn as we go forward, mindful of the opportunities that PPPs present to galvanise the commitment that drives such a wide range of South Africans to play a meaningful role in our unique development agenda.



**Trevor A Manuel, MP**  
**Minister of Finance**



# CONTENTS

## ABOUT THE PPP MANUAL

### MODULE 1: SOUTH AFRICAN REGULATIONS FOR PPPs

Introduction	1
Understanding Treasury Regulation 16	3
Annexure	15

### MODULE 2: CODE OF GOOD PRACTICE FOR BEE IN PPPs

Definitions	1
Preamble	4
Part I	5
1. Policy on BEE in PPPs	5
2. Legal basis for PPP BEE policy	7
3. Why PPPs are good for BEE	7
4. Challenges for BEE in PPPs	8
Part II: How to apply PPP BEE policy in the typical structure of a PPP	9
Part III: How to apply PPP BEE policy in each phase of the PPP project cycle	16
Part IV: The PPP BEE Balanced Scorecards	27
Part V: Government's further commitments to taking BEE in PPPs forward	28

### MODULE 3: PPP INCEPTION

First steps	2
Attracting the transaction advisor	9
Receiving and evaluating bids	24
Finalising and signing the contract	31
Funding for transaction advisors through the PDF	32
Annexures	43

### MODULE 4: PPP FEASIBILITY STUDY

Introduction	1
Stage 1: The needs analysis	3
Stage 2: The solution options analysis	9
Stage 3: Project due diligence	14
Stage 4: Value assessment	17
Stage 5: Economic valuation	40

Stage 6: Procurement plan	41
Stage 7: Submit the feasibility study report	42
Stage 8: Revisiting the feasibility study	45
Annexures	47
<b>MODULE 5: PPP PROCUREMENT</b>	
Introduction	1
Links to the feasibility study	4
Critical considerations in the procurement phase	9
Stage 1: The RFQ	19
Stage 2: The RFP	26
Stage 3: Choose the preferred bidder	42
Stage 4: Negotiations	59
Stage 5: TA:III	62
Stage 6: Close-out report and case study	65
Annexures	71
<b>MODULE 6: MANAGING THE PPP AGREEMENT</b>	
Section 1: What is PPP agreement management?	1
Section 2: The institution's roles and responsibilities	6
Section 3: The approach to PPP agreement management	11
Section 4: Partnership management	13
Section 5: Service delivery management	20
Section 6: PPP agreement administration	29
Section 7: Key challenges and tasks of PPP agreement management	33
Section 8: The PPP agreement management plan and the PPP agreement management manual	37
<b>MODULE 7: AUDITING PPPs</b>	
Introduction	1
The Auditor-General	2
Internal Audit	9
Annexures	11
<b>MODULE 8: ACCOUNTING TREATMENT FOR PPPs</b>	
(To be inserted)	
<b>MODULE 9: AN INTRODUCTION TO PROJECT FINANCE</b>	
(To be inserted)	

# ABOUT THE PPP MANUAL

The South African *National Treasury's PPP Manual* is a best practice guide for PPP practitioners. Each module of the *PPP Manual* is issued as a National Treasury PPP Practice Note in terms of the Public Finance Management Act, 1999 (PFMA). It should be read with *Standardised PPP Provisions*, issued as National Treasury PPP Practice Note Number 01 of 2004.

## The PPP project cycle

The PPP project cycle is the roadmap for the PPP process and the Manual. The project cycle covers the two main periods of a PPP: the Preparation Period and the Project Term. The PPP Preparation Period spans phases I to III of the project cycle: Inception, Feasibility Study and Procurement, and concludes with the signing of the PPP agreement. The Project Term spans phases IV to VI: Development, Delivery and Exit.

*National Treasury's PPP Manual* is chiefly concerned with the Project Preparation period, during which treasury approvals I, IIA, IIB and III are granted. The PPP project cycle clearly indicates when these approvals are required and which modules of the *PPP Manual* are relevant for the distinct phases.

The *PPP Manual* also gives guidance on managing a PPP agreement, auditing PPPs, accounting treatment for PPPs, and project finance.

## The modules

### **Module 1: South African Regulations for PPPs**

(issued as National Treasury PPP Practice Note Number 02 of 2004)

Regulation 16 to the Public Finance Management Act, 1999 (PFMA) is the regulation governing PPPs in South Africa. This module takes the user through the components of the regulation and explains how they apply to the distinct phases of the PPP project cycle, from inception to the management of the PPP agreement. Regulation 16 is reproduced in Annexure 1. The relevant section of the regulation is also included at the beginning of each module.

### **Module 2: Code of Good Practice for BEE in PPPs**

(issued as National Treasury PPP Practice Note Number 03 of 2004)

This module is an exact reproduction of the *Code*, National Treasury's official framework for black economic empowerment (BEE) in PPPs, to be issued in terms of the Broad-based Black Economic Empowerment Act, 2003 (BBBEE

Act). The *Code* is relevant in all phases of a PPP. It describes the policy framework, how to apply BEE policy in the typical structure of a PPP and how to apply PPP BEE policy in each phase of the PPP project cycle. The *Code* includes the PPP BEE Balanced Scorecard.

## Project preparation period

### Phase I

#### **Module 3: PPP Inception**

(issued as National Treasury PPP Practice Note Number 04 of 2004)

Inception is the first phase of the PPP project cycle. This module details the stages of inception, which involve the institution registering the project with the relevant treasury, appointing a project officer, attracting a transaction advisor, receiving and evaluating transaction advisor bids, and finalising and signing the contract with the transaction advisor. The module outlines the procurement steps which need to be followed and explains how to apply the *Code of Good Practice for BEE in PPPs* in procuring the transaction advisor. The annexures include additional resource documents, templates and examples of the necessary documentation.

### Phase II

#### **Module 4: PPP Feasibility Study**

(issued as National Treasury PPP Practice Note Number 05 of 2004)

The feasibility study is the second phase of the PPP project cycle. The feasibility study is undertaken to help the institution determine whether conventional public sector procurement or a PPP is the best choice for the proposed project. The module presents and explains the core concepts of affordability, risk and value for money. Users are taken through the following stages of the feasibility study process.

- Needs analysis
- Options analysis
- Project due diligence
- Value assessment
- Economic valuation
- Procurement plan
- Feasibility study report for TA:I
- Revisiting feasibility study for TA:III

The second phase of the PPP project cycle concludes with Treasury Approval: I (TA:I) being granted for the successful completion of the feasibility study.

## **Phase III**

### ***Module 5: PPP Procurement***

(issued as National Treasury PPP Practice Note Number 06 of 2004)

Covering the third phase of the PPP project cycle, this module details the procurement processes of a PPP, which include the following distinct stages:

- pre-qualification
- request for proposals
- best and final offer, where appropriate
- negotiations
- financial closure.

The module establishes best practice as it has been developed in National Treasury-regulated PPPs to date. Users are given guidance on how to produce documentation necessary for the three treasury approvals of this phase: Treasury approvals IIA, IIB and III (TA:IIA, TA:IIB and TA:III).

## **Project term**

## **Phase IV**

### ***Module 6: Managing the PPP Agreement***

(issued as National Treasury PPP Practice Note Number 07 of 2004)

The fourth phase of the PPP project cycle continues throughout the project term. This module is intended to help the institution put effective mechanisms in place to manage the implementation of the PPP agreement, once it is signed. The module is primarily aimed at the project officer, who will be responsible for preparing and implementing the PPP management plan. The module details key aspects of PPP agreement management, which include:

- the institution's roles and responsibilities
- the approach to PPP agreement management
- partnership management
- service delivery management
- PPP agreement administration
- key challenges and tasks of PPP agreement management
- the PPP agreement management plan and the PPP agreement management manual.

### **Module 7: Auditing PPPs**

(issued as National Treasury PPP Practice Note Number 08 of 2004)

This module describes the powers and functions of the Auditor-General, and the scope of financial, performance and forensic audits. It explains how this applies to PPPs, particularly in relation to the management of the PPP agreement. It also outlines the role of the institution's internal audit in PPP projects.

### **Module 8: Accounting Treatment for PPPs**

(issued as National Treasury PPP Practice Note Number 09 of 2004)

This module will be available in 2004. Go to [www.treasury.gov.za](http://www.treasury.gov.za) to download or to order a printed insert to the file.

### **Module 9: An Introduction to Project Finance**

(issued as National Treasury PPP Practice Note Number 10 of 2004)

This module will be available in 2004. Go to [www.treasury.gov.za](http://www.treasury.gov.za) to download or to order a printed insert to the file.

#### **Take note**

The *PPP Manual* and *Standardised PPP Provisions* are National Treasury's founding PPP guidance documents. Building on these, the National Treasury's PPP Unit is developing specialised *Sectoral Toolkits for PPPs* which will tailor the founding guidance to particular sectoral conditions, based on PPP experience to date. Watch [www.treasury.gov.za](http://www.treasury.gov.za)